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Lack of access to external finance and SME labor productivity: does project quality matter?

Published: 04 August 2018

Volume 54, pages 119–134 (2020) [Cite this article](#)[Save article](#)[View saved research](#) >



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Abstract

Small and medium-sized enterprises (SMEs) are the main engine of local economic development. However, SME growth remains an issue as labor productivity is low in emerging economies. Due to information asymmetries, constraints in access to external finance prevent a larger participation in the economy, hindering SMEs from expanding their business operations. In the absence of collateral requirements, small and medium-sized firms may rely on exporting activities to signal lenders project quality since this may indicate that firms have good projects to invest. The main purpose of this study was to investigate the impact of project quality on both SME labor productivity and on the relationship between lack of

adequate access to external finance and labor productivity. Our results indicate a positive relationship between project quality and labor productivity. We also found that SMEs that applied for bank loans but were rejected have lower levels of labor productivity than SMEs that obtained financing. In addition, constrained SMEs that export internationally were found to have higher labor productivity than constrained firms with lower access to export markets, although the role of project quality in explaining labor productivity for constrained SMEs may be due to direct export sales in most part.

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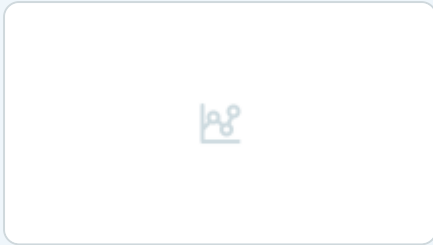
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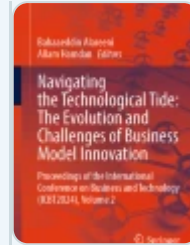
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Author information

Authors and Affiliations

**Business Administration School of São Paulo, Getulio Vargas Foundation,
Av. 9 de Julho, 2029, São Paulo, SP, 01313-902, Brazil**

Victor Motta

Corresponding author

Correspondence to [Victor Motta](#).

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Cite this article

Motta, V. Lack of access to external finance and SME labor productivity: does project quality matter?. *Small Bus Econ* 54, 119–134 (2020). <https://doi.org/10.1007/s11187-018-0082-9>

Accepted

25 July 2018

Issue date

January 2020

Published

04 August 2018

Version of record

04 August 2018

Keywords

[Project quality](#)[Sales exports](#)[Access to capital](#)[Labor productivity](#)[SMEs](#)

JEL classification

[G20](#)[L25](#)[M21](#)[L26](#)

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