GOVERNANCE AND ACCESS TO FINANCE

FLORENTINA MELNIC*, DANIEL JURAVLE**

Abstract: *This paper reviews the literature on institutional quality and corporate governance and it assesses the impact of the two levels of governance on firms' access to finance. The literature sustains that both institutional quality and corporate governance are important drivers of bank lending activity and equity financing. Among the institutional quality indicators that proved to be most effective are creditor rights, transparency and contract enforcement. The corporate governance attributes that manifest important effects on firms' financing are the board size, ownership and monitoring of managerial decisions that reduces agency costs. The legal institutional framework and firms' corporate governance influences the level of a country's financial development a complementary manner.*

Keywords: *access to finance, institutional quality, corporate governance, firm performance*

JEL Classification: *E44, E61, G18, G24, G28, G32*

1. ACCESS TO FINANCE IMPORTANCE

Access to finance has been a subject of great interest for both policymakers and researchers, as they have the responsibility to eliminate or diminish the constraints faced by the companies in achieving the necessary financial resources. Despite their efforts, expanding access to finance remains an important challenge in many countries (Demirgüç-Kunt, et al., 2008).

Companies worldwide are confronting with several constrains that hamper them to acquire the necessary funds for their operational transactions, long-term investments, research and innovation preventing them from reaching higher levels of sustainable growth and taking advantages of opportunities in their sector (IFC, 2013). This situation affects mainly the small and medium-sized enterprises, an important sector from developed and developing countries (Beck & Demirguc-Kunt, 2006). Kumar and Franciso (2005) studied empirically the relationship

* Florentina MELNIC, Alexandru Ioan Cuza University of Iasi, Romania

** Daniel JURAVLE, Alexandru Ioan Cuza University of Iasi, Romania

between access to finance and firm size, concluding that firm size is more important than the firm performance in accessing finance.

The constraints faced by the companies arise both from supply-side and demand-side (IFC, 2013). Supply-side constraints are relevant due to market imperfections, including here information quality and availability as less developed countries might not have well-established and functioning systems and, additionally, small firms might not be registered or might lack credit history. Another obstacle for the SME finance is the lack of effective collateral regimes, as small and young companies usually have higher proportions of movable assets compared to immovable assets. Administrative and risk management costs are another important constraint in providing loans to SME, as these companies have lower survival rates, higher revenue volatility, low risk diversification and greater vulnerability to crises. Other constraints refer to restrictive bank regulatory framework, lack of bank competition, government intervention and corruption. On the other side, there are demand-side constraints when firms voluntarily limit their demand for credit if they are uncertain that they will be profitable enough to support lending costs.

The companies' possibility to access financial resources has important implications in terms of financial development (Aghion, et al., 2007; Klapper, et al., 2006; Demirgüç-Kunt, et al., 2008), employment (Fowowe, 2017; Rahaman, 2011; Dinh, et al., 2010), poverty reduction (Hasan, et al., 2020) and economic growth (Buter, 2011).

Improved access to finance creates an environment conducive to new firm entry, innovation and growth enhancing the financial development (Demirgüç-Kunt, et al., 2008). The importance of financial access for firm entry is highlighted by several papers. The results obtained by Klapper et al. (2006) for 21 European countries suggest that new firm entry creation depends on access to start-up capital. These results are confirmed by Aghion et al. (2007) for a sample of 16 European countries, demonstrating that higher financial development enhances new firm entry and post-entry growth of firms in sectors that depend more heavily upon external finance. Moreover, it has been proved that access to finance enhances firms' innovative activities (Efthyvoulou and Vahter, 2016), firms' productivity (Giang et al., 2019; Butler and Cornaggia, 2011) and their sales (Rahaman, 2011).

More developed financial systems improve overall efficiency and promote growth and employment (Demirgüç-Kunt, et al., 2008). Improving access to finance has positive effects on employment as it creates a suitable environment for new firm creation and it sustains the growth of the existing ones (IFC, 2013). The beneficial

effects of developed financial systems on employment are highlighted by Dinh et al. (2010), Dao and Liu (2017), Rahaman (2011) and Fowowe (2017). Firms that have a loan or an overdrafts facility increases the growth in a firm's number of permanent employees by 3.1 percent (Dinh et al., 2010). This result is confirmed by Dao and Liu (2017), who sustain that relaxing financial constraint faced by a firm increases its employment growth and the effects are larger the smaller the firm and the more labor-intensive its production structure. Furthermore, the literature sustains that job creation from both developing and developed countries are affected by financial frictions. The results obtained by Fowowe (2017) have shown that inadequate finance has an inhibiting effect on employment of African firms. For UK and Ireland firms, Rahaman (2011) found that an increase in external finance availability determines firms to rely less on internal funds and switch to external finance with quantitatively more important effects on employment.

Increased access to finance has an impact on poverty, as it creates job opportunities, reduces inequality and reaches self-employment individuals through microfinance (IFC, 2013). According to Brei et al. (2018) more finance reduces income inequality, the effects being more visible in bank-based markets compared with capital markets. Hasan et al. (2020) studied various determinants of wealth inequality, capturing economic, financial, political, institutional and geographic indicators, and concluded that access to finance plays an important role in reducing inequality.

Furthermore, developed and well-functioning financial systems are essential for economic development (Demirgüç-Kunt, et al., 2008). Financial development that makes external finance accessible for firms should promote the growth of firms, and by extension, aggregate growth. (Popov, 2017). However, the empirical research reveals different results, the impact on economic growth depending on the level of financial depth (Arcand, et al., 2012), institutions quality (Demetriades and Law, 2006), bank supervision and regulation (Arcand, et al., 2012), inflation (Rousseau and Wachtel, 2002). Arcand et al. (2012) found that financial depth and economic growth were positively related till the ratio of private credit to GDP reached levels of 60-70 percent, above ratios of 80-100 percent the impact was negative. This might be an explanation on why developing countries benefit most of increased access to finance. Furthermore, in countries with high institutional quality and strong bank supervision financial depth has a positive and significant effect on economic growth when credit to the private sector is below 20% and 55%, respectively (Arcand et al., 2012).

2. GOVERNANCE AND FINANCE NEXUS

We delimited the governance impact of finance based on the level of governance and its objective. Therefore, we considered worldwide governance and corporate governance. The World Bank governance indicators reflect the worldwide thrust toward political and economic liberalization (Islam, 2014), while corporate governance is the system of rules, practices and process by which a firm is directed and controlled (Chen, 2020).

2.1. World Governance Indicators and finance

World Bank defines governance as the traditions and institutions by which authority in a country is exercised. These institutions refer to legal, political and supervisory bodies that provide cohesion and order in business activities (Manasseh, et al., 2017).

The Worldwide Governance Indicators report six broad dimensions of governance: Voice and accountability, Political stability and absence of violence, Government effectiveness, regulatory quality, Rule of law, Control of corruption. Voice and accountability and Political stability and absence of violence refer to the process by which governments are selected, monitored and replaced. Government effectiveness and regulatory quality refer to the capacity of the government to effectively formulate and implement sound policies. The last two dimensions, Rule of law and Control of corruption, focus on the respect of citizens and the state for the institutions that govern economic and social interactions among them.

World Bank defines voice and accountability as perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. Political stability and absence of violence/terrorism measures perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism. Governance effectiveness captures perceptions of the quality of public services, the quality of the civil services and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Regulatory quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Rule of law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Control of corruption captures perceptions of the extent to which public

power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests.

La Porta et al. (1997) highlighted that in a sound and efficient judicial system, companies rely on external finance to fund their investments and this leads to the development of the financial markets. In the next sections we will discuss the impact of institutional quality on the most important sources of financing – bank lending and stock markets.

2.1.1 Impact of institutional quality on bank lending activity

Banking system represents an important source of financing for households and companies. To be able to perform its functions properly the institutional environment in which banks activate should be of high quality. High quality institutions reduce the cost of external financing, the main mechanism through which an adequate legal framework favors financial development (Arias, et al., 2019).

Djankov et al. (2005) studied the effects of creditor rights, referring here to how easily creditors can force repayment, grab collateral or even gain control of the firm legally and the effects of information transparency, as if lenders know more about borrower they will extend credit offer. The sample used consist of 129 developed and developing countries analyzed during 1978-2003. The results suggest that both better creditor rights and higher information transparency are associated with a higher ratio of private credit to GDP, with creditor rights particularly important in developed countries and information transparency in developing countries. These results are confirmed by Galindo and Micco (2016) who find that better creditor protection and the development of information-sharing mechanisms increase the bank credit availability for small and medium-sized enterprises, reducing the financing gap between small and large firms.

Creditors' rights and contract enforcement have been studied by Bae and Goyal (2009) for 48 countries during 1994-2003. The results show that better enforceability of contracts increases loan size, lengthens loan maturity, and reduces loan spreads. The average loan amount will increase by about \$57 million if a borrower moves from a country in a sample with the weakest enforcement to a country with the strongest enforcement, all else equal. For these countries, the creditor rights manifest a weak impact, often statistically insignificant. Safavian and Sharma (2007) concluded that creditor rights and contract enforcement are strong complements, as firms have more access to bank credit in countries with better creditor rights and efficient courts, capable to enforce contracts. The study covers 27 European countries from 2002 to 2005.

Furthermore, in a study on 66 global countries during 2000-2015, Kapounek (2017) show that economic freedom, openness and globalization manifest negative effects on lending activity of government banks, while low regulations increase lending activity of private banks.

There are several studies in the literature that focus only on developing countries, whose institutional quality is lower with poor enforcement laws and inconclusive impact on bank lending activity. Qian et al. (2017) investigated the impact of legal protection and law enforcement on bank lending for 25 developing countries from Europe and Asia. Their results suggest that legal protection reduces the volume of banks' loans as banks require more collateral, while law enforcement determines an increase in bank loans.

Hourani and Mondello (2019) studied 231 commercial banks from MENA countries, representing 53% of the commercial banks operating in this region, during 2000-2016. They analyzed the impact of political stability and lack of violence, government effectiveness, regulatory quality, control of corruption and financial freedom on banks credit supply. Using the fixed effects panel method to estimate the results, they found that institutional quality variables are an important determinant of credit supply growth. Regulatory quality and political stability encourages foreign, domestic and private banks to improve their credit supply. On the other hand, financial freedom and government effectiveness impact negatively the growth of banks' credit supply. This might be explained by the poor institutional quality of MENA countries, that behave cautiously by reducing their credit supply and credit risks to increase the quality of their portfolios. The negative and significant effects of government effectiveness on bank lending were also highlighted by Gani and Al-Muharrami (2016) for four countries from the Gulf Cooperation Council Countries. They have also included in their study the impact of rule of law, regulatory quality, contract enforcement and Sharia Islamic principles. While rule of law, regulatory quality and contract enforcement manifest a negative impact on bank lending, the Sharia Islamic principles manifest a positive and significant impact, suggesting that these countries give a greater importance to Islamic sharia law upon which the Islamic way of life and social justice is formulated.

Corruption is another important issue faced by the developing countries, as they have lapses in the rule of law, inefficient judicial system, weak prudential regulation and weak development of institutions crucial for good governance (Anaere, 2014). For African countries, it has been proved that corruption impede bank lending (Anaere, 2014). The same results have been obtained for Russia, where the authors found that corruption reduces loans granted to households and

firms and an opposite effect for loans granted to government (Weill, 2008). Developed countries also face corruption issues, where institutional quality is considered higher. Public corruption decreases bank lending activity of US commercial banks for the 1995-2013 period (Bermpei, et al., 2019). The authors also provide evidence that proxies for relationship lending and monitoring weaken the negative relationship between public corruption and lending activity. For 11 Euro area countries, corruption limits the demand for bank loans of small and medium-sized enterprises (Galli, et al., 2017).

Profitability, stability and efficiency are important determinants of banks' willing to lending to small business (Shaban, et al., 2014). The environment and the institutional quality from the countries where they activate influence these characteristics adding additional conditions on banks' lending. Using a sample of 52 developed and developing countries covering the 2005-2014 period, Arias et al. (2019) demonstrated that a greater degree of legal protection, law enforcement and regulatory quality positively affects banking sector performance expressed through return of assets. On the other hand, a greater degree of information sharing and a better control of corruption does not influence baking industry performance of these countries. Furthermore, the literature shows the positive effects of high quality institutions on bank stability (Bermpei, et al., 2018) and bank efficiency (Lensink and Meesters, 2012).

2.1.2 Impact of institutional quality on stock markets

Stock markets represent another important source of financing, although not all firms have access to it. Asgharian et al. (2014) studied individuals from 14 European countries and demonstrated that high institutional quality leads to higher levels of trust that positively influence their participation in the stock market. In a study on African countries during 1990-2010, Asongu (2012) demonstrated that the World Bank Governance Indicators manifest a positive impact on stock market performance. These finding suggest that better developed government institutions favor stock markets with higher market capitalization, better turnover ratios, higher value on shares traded and a greater number of listed companies.

Stock market performance is an important condition for the companies' access to equity financing. Better governance environments influence stock market performance by increasing investors' protection and confidence (Manasseh, et al., 2017) and reducing both transaction cost and agency costs (Hooper, et al., 2009). Bureaucratic quality, corruption control, quality of contract enforcement and property rights positively influenced the performance of Nigerian stock market

during 1985-2013 (Manasseh, et al., 2017). These results are confirmed for a sample of 50 developed and developing countries in a study that covers 1995-2002 period (Hooper, et al., 2009). The authors demonstrated that the demand for equity finance is influenced more by the quality of governance than the supply of equity finance.

While the overall impact of governance quality on stock market performance is positive and significant, Boadi and Amegbe (2017) decomposed the country sample into high income countries, upper middle income countries and lower middle income countries and found different results for different institutional characteristics. The stock market from high income countries benefits from political stability, rule of law and absence of violence, and suffers from an improvement in voice and accountability and government effectiveness. In lower middle income countries, government effectiveness and regulatory quality had a positive and significant impact on equity indices, while an increase in voice and accountability and rule of law reduces equity indices. Rule of law and control of corruption had a positive and significant impact for upper middle income countries. Therefore, it is important to consider the institutional quality characteristics from each developing area when analyzing its effects, as the rules from each country and area differ.

Chambers and Munemo (2017) used a panel dataset of 119 countries for the period of 2001-2012 to analyze the impact of institutional quality on new firm creation. The authors used the same six dimensions of governance quality and concluded that only political stability, regulatory quality and voice and accountability promote entrepreneurship, a one standard deviation increase in these measures increases new business activity by 30 to 52 percent. Superior quality institutions divert resources toward more productive activities, thereby increasing the efficiency of allocated resources.

The literature sustains also the importance of governance dimensions on financial development. Sayilir et al. (2018) studied the impact of the six dimensions of governance reported by World Bank on seven pillars of financial development during 2012 for 62 countries using structural equation modelling. The results obtained suggest a significant positive relationship between governance and financial development. Therefore, as governance is enhanced, we expect financial development to strengthen as well. The same dimensions of governance have been studied by Samadipour et al. (2017), but for a longer period 1996-2013 and only for developing countries, using dynamic panel data method in descriptive-analytical approach. They divided the sample into low income countries and high income countries. In all estimated models, the

governance dimensions manifest a positive and significant effect on financial development, with the exception of quality of legislation and the general indicator of good governance from high income developing countries.

2.3 Corporate governance and finance

Corporate governance provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure (Chen, 2020). Corporate governance establishes the relationship among various primary participants of the firm as shareholders, directors and managers and it formulates the directions and performance of the firm (OECD, 2015).

The attributes of good corporate governance include ethics, managerial discipline, board independence, protection of shareholders' rights, fairness, transparency, board responsibilities, accountability, social awareness and responsibility and environment caretaking (United Nations, 2003). The most important stakeholder of a firm with control over the governance of the firm is the board of directors and they should lead by example and ensure that good standards of behavior permeate throughout all levels of the organization (FRC, 2016). The board of directors represents the interest of a variety of stakeholder – such as the government, local communities, employees, suppliers, customers and regulators – who are directly or indirectly involved in the fortunes of the company (Ghosh, 2018).

Good corporate governance helps companies operate more efficiently, improve access to finance, mitigate risk and safeguard against mismanagement (IFC, 2019). Financial institutions and stock market investors will lean to invest in companies that offer higher levels of disclosure and transparency. By increasing the amount of information provided to the fund providers, a firm can reduce the information asymmetries and the additional costs investors would have asked in cases of less information to cover their risks undertaken (Daud, et al., 2015). Therefore, a good corporate governance increases investment opportunities of firms and can lead to more profitable outcomes.

External investors such as banks and new shareholders assess the corporate governance structures of a firm before making a decision to invest (Mugova and Sachs, 2017). In the next sections we analysis if the attributes of a good corporate governance influence the decision of banks and investors in financing a business.

2.3.1 Impact of corporate governance on bank lending activity

The existing studies show that there is no direct relationship between firm's corporate governance and bank's financing decision (Zhu and Tang, 2016; Quin and Yeung, 2015; Detthamrong, et al., 2017). However, firms' corporate governance significantly influence firms' financial performance and expected outcomes (Vo and Nguyen, 2014; Mohan and Chandramohan, 2018; Al-ahdal et al., 2020; Ciftci et al., 2019; Rose, 2016), the main characteristics on which financial institutions rely on their lending decisions (IFC, 2013). The positive relationship between corporate governance compliance and firms' performance arises because better governed companies enhance efficiency in the monitoring of managerial activities (Akbar, et al., 2016) and reduces agency costs (Weber, 2006).

There are several papers that study the effects of corporate governance on firm performance, expressing firms' corporate governance through different attributes such as financial transparency, ownership structure, board and management structure and process and corporate responsibility (Ghosh, 2018), dual role of CEO, board's size, board independence and ownership concentration (Vo and Nguyen, 2014), firms' comply or explain disclosure (Rose, 2016), audit committee size and audit reputation (Detthamrong, et al., 2017).

Sami et al. (2011) used a composite measure of corporate governance, including ten different items that cover ownership, CEO and chairman duties, number of independent outside directors, the existence of a CEO succession plan and the existence of a relationship among the top 10 shareholders for a sample of Chinese firms during 2001-2003. The results show that the overall corporate governance manifests a positive and significant impact on firm performance, expressed by return on equity and return on assets, suggesting that better-governed firms perform better.

However, when analyzing the individual measures of corporate governance, the results are mixed. Reviewing several studies that investigate the impact of corporate governance attributes on firms from developing countries, it reveals different results due to their different levels of development and corporate governance reforms implemented. In Thailand, the corporate governance is not associated with the performance of 493 firms and their financial leverage registered during 2001-2014 (Detthamrong, et al., 2017). For India and Gulf Corporation Council countries, Al-ahdal et al. (2020) demonstrated that board accountability, audit committee, transparency and disclosure have insignificant effects on firms' performance, while in India larger boards significantly increase firms' performance (Arora and Sharma, 2016). The latter results are contradicted by Mohan and

Chandramohan (2018), who provide evidence that board size and CEO duality significantly reduce firms' performance. In Turkey's case, larger boards, concentrated ownership and foreign ownership proved to effectively improve firms' performance (Ciftci, et al., 2019). Vo and Nguyen (2014) studied the effects of corporate governance on Vietnamese firms' performance, proving evidence that duality of CEO and board ownership improves performance, while board independence and size has no significant effect on firms' performance.

For developed countries, the relationship between corporate governance and firms' performance is also inconclusive, being influenced by the laws of a country where compliance with corporate governance regulations is optional or mandatory. For United Kingdom, where corporate governance compliance is optional, Akbar et al. (2016) found no significant evidence that good corporate governance leads to improvements in firms' performance. In United States, where corporate governance compliance is required by United States corporate law, corporate governance proved beneficial for the companies' performance (Bhagat and Bolton, 2019). Bhagat and Bolton (2019) found that director stock ownership is most consistently and positively related to future corporate governance. For Danish companies, the adherence to the Danish Code of Corporate Governance increases firm performance (Rose, 2016). The comply or explain disclosure of board composition and remuneration policy adopted by Danish firms improves performance, while increasing compliance with the recommendations on risk management and internal controls has no impact on performance. Furthermore, it has been proved that good corporate governance positively influences firms' credit ratings (Weber, 2006).

2.3.2 Impact of corporate governance on stock market

The impact of firms' corporate governance on equity financing is more straightforward compared with the impact of corporate governance on bank financing. A company's corporate governance positively influences equity financing improving firm's access to finance (Haque, 2015; Sharid, 2019). Better corporate governance enhances equity financing by reducing agency costs (Haque, 2015; Moez, 2018; Yegon, et al., 2014), improving investors' confidence in a fair return on their investments (Sharid, 2019; Li, et al., 2016), reducing the cost of equity capital (Gupta, et al., 2018; Chen, et al., 2009) and improving stock liquidity (Ali, et al., 2017; Chung, et al., 2012).

Haque (2015) studies the effect of corporate governance on equity financing, by constructing a corporate governance index that includes ownership patterns, shareholder rights, independence and responsibility of the board and management,

financial reporting and disclosure and responsibility towards shareholders. The results suggest that for Bangladesh, better governed firms have greater access to equity finance due to reduced agency costs. For Kenya, higher director and institutional ownership, smaller sized boards, separation of CEO and chairperson duties and higher remuneration lower agency costs, while board independence increases agency costs (Yegon, et al., 2014). In France, Moez (2018), by conducting a study over 125 firms during 2000-2015, found that ownership concentration reduces agency costs by influencing managerial decisions, while higher institutional ownership and foreign ownership have no significant impact on agency costs.

Guo and Platikanov (2019) demonstrated that institutional investors prefer to invest in stocks of large and widely held firms, in firms with strong disclosure standards, in firms located near their home market and in stocks of companies with good corporate governance. Firm's corporate governance is an important basis for investors to make investment decisions when the stock information is limited (Li, et al., 2016). Their confidence is enhanced by the corporate governance regulation as it guarantees the validity of accountability mechanism, the reliability and quality of financial information and the efficiency of the capital market (Sharid, 2019). Therefore, good corporate governance transmits favorable investment information to investors and enlarge investments opportunities (Li, et al., 2016).

Another beneficial effects of a good corporate governance are the reduction of the costs of equity capital and increased stock liquidity. Gupta et al. (2018) studied 22 countries during 2003-2007 and found that firms with high corporate governance have significantly lower costs of equity capital. They also provided evidence that the country's legal institutional framework and the level of financial development influence this relationship in a complementary manner. These results are confirmed by Chen et al. (2009) in a study on emerging countries, adding that the effect of corporate governance is more pronounced in countries with poor legal protection.

As mentioned before, good corporate governance increases stock liquidity (Ali, et al., 2017; Chung, et al., 2012). Ali et al. (2017) studied a sample of 1207 Australian firms during 2001 to 2013. They found that firms' corporate governance increase stock liquidity by reducing the trading costs and price impact of trade and by increasing the trading frequency. These results are confirmed by Chung et al. (2012) for a sample of 3750 firms worldwide. Investors respond to increased information disclosure of firms and reduction of information asymmetry (Ali, et al., 2017; Chung, et al., 2012).

3. CONCLUSIONS

Access to finance varies around the world and expanding the access remains an important challenge for the authorities in developed and developing countries. The authorities are responsible to adopt policies that enhance the overall development of financial sector that will lower the costs of financial services, improve innovative capacity of the financial sector and help increase access to finance to those excluded (World Bank, 2008).

To attract investors and increase firms' opportunities to obtain resources, one country should have a sound legal, regulatory and institutional framework that market participants can rely on (OECD, 2015). To achieve this, the authorities should adopt the necessary reforms in order to assure higher levels of institutional quality, by reducing the country's corruption, increasing government effectiveness, improving the creditor rights and law enforcement (Bae & Goyal, 2009; Djankov, et al., 2005; Bermpel, et al., 2018).

Corporate governance is another important aspect for one company's access to finance, as banks or investors assess the corporate governance of a firm before making a decision to invest (Mugova and Sachs, 2017). Authorities should assure an environment in which firms could develop their corporate governance by imposing the adoption of corporate governance through law or to provide recommendations through comply or explain principle (Rose, 2016).

There are several papers that sustain that legal and regulatory environments for protecting shareholders at the country level and good corporate governance at the firm level are complementary because strong shareholder protection rights reinforce the effectiveness of corporate governance in improving access to finance (Chung, et al., 2012; Gupta, et al., 2018).

The literature provides evidence regarding the positive relationship between institutional quality or corporate governance and firms' access to finance and financial development (Arias, et al., 2019; Bae & Goyal, 2009; Asgharian, et al., 2014; Haque, 2015). This should determine policy makers and regulators develop new policies to establish a competitive legal and regulatory infrastructure to attract foreign capital (Sami, et al., 2011).

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