UNIVERSITY OF CAPE COAST

CREDIT FINANCING AND PERFORMANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN JUABOSO DISTRICT

CHRISTIAN ABABIO

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BY

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DECLARATION

Candidate's Declaration

I therefore declare that this dissertation is the result of my own independent work and that no portion of it was submitted for another degree to this university or elsewhere.

Candidate's Signature ……Date ……..

Name: Christian Ababio

Supervisor's Declaration

I therefore declare that, in accordance with the guidelines set out by the University of Cape Coast for the supervision of the dissertation, the preparation and presentation of the dissertation have been supervised.

Supervisor's Signature …… Date …….

Name: Dr. Edward Nii Amar Amarteifio

ABSTRACT

Given the importance and contribution of small and medium enterprises to the economy, multiple empirical studies show that the majority of small business fail to expand, with some closing their doors within the first few years of existence. According to the literature, different parts of credit financing may have varying effects on businesses depending on the nature of the company, necessitating the need to examine the effect of credit financing on specific enterprises. The study looked at factors affecting small and medium sized enterprises, ease of small and medium sized enterprises credit financing, credit financing as a percent of firm assets and the relationship between credit financing and small and medium sized enterprises performance. The study discussed the credit rationing theory, information asymmetry theory, accelerator theory, and the concept of credit financing and small business performance evaluation as part of the theoretical and conceptual analysis. The thesis adopted the descriptive design discussed in a quantitative analysis. In all, 100 small and medium sized enterprises in the Juaboso District were included in the study and the research employed a questionnaire to elicit the required data for the study. The study employed frequency tables, diagrams and regression analysis to examine the level of credit financing between small and medium sized enterprises in Juaboso District. The study found that credit financing had positive effect on performance of small and medium sized enterprises in Juaboso District with a coefficient of correlation of 0.6029. The research recommended that financial lending institutions to establish less stringent collateral requirements to increase small enterprises access to credit finance.

KEYWORDS

Credit Financing

Organisational Performance

Small and Medium Sized Enterprises

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DEDICATION

To my family

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LIST OF ACRONYMS

ANOVA	Analysis of Variance
EU	European Union
FSD	Financial Deepening Sector
GDP	Gross Domestic Product
GoK	Government of Kenya
KAM	Kenya Association of Manufacturers
OECD	The Organization for Economic Co-operation and Development
ROA	Return on Assets
ROA	Return on Assets
SMEs	Small and Medium Sized Enterprises
SPSS	Statistical Package for Social Science

CHAPTER ONE

INTRODUCTION

This study aimed to access credit financing and performance of small and medium sized enterprise (SMEs). Small and Medium Sized Enterprise (SMEs) in Juaboso were selected for this study. The contribution of small and medium sized enterprise (SMEs) on the economy cannot be taken lightly because they provide employment to citizens and generate income to both the government and their employees. However, small and medium sized enterprise (SMEs) fail or underperform after their first years of operation. One of the reasons accounting to this drawback in these small and medium sized enterprise (SMEs) is their lack to access credit financing. It is from this assertion this study draws motivation to identify the relationship between credit financing and organisational performance of small and medium sized enterprise in Juaboso District.

Background to the Study

Small and Medium Sized Enterprises (SMEs) are recognized as one of Ghana's core growth pillars in achieving the country's long-term national development strategy (Ghana Enterprises Agency, 2020). Access to credit financing has been identified as essential for SMEs to succeed in their drive to build productive capacity, compete and contribute to poverty alleviation in developing countries (Steijvers, 2018). Without finance, SMEs may not have capacity to acquire and absorb new technologies or expand to compete in global markets. Further, without finances SMEs may not have capacity to strike business

linkages with larger firms (Alexander & Hall, 2013). As a result, lending institutions must improve their ability to provide financial services to SMEs through commercial mechanisms that lower costs and minimise their risk exposure. Only in this way, will lending institutions find lending to SMEs profitable, and thus be encouraged to construct lending programmes targeted at SMEs (Hussain, 2017).

Small and Medium Sized Enterprises ability to easily access finance to expand business is restricted by collateral requirements and unexplained bank charges (Garikai, 2018). This means that a majority of SMEs are not able to access finance to enable them grow. Collateral, interest rates, extra bank charges, inability to evaluate financial proposals and lack of financial management skills also hinder the growth of SMEs (Stiglitz & Weiss, 2018). Informal sources of credit though with high interest rates, constitute very substantial contributions to business start-ups in developing countries (Mwangi & Garikai, 2019).

Interest rates, according to early economists view was not seen as hindering access to financing but to serve other roles such as screening the quality of investments. Low interest rates lead to excess demand for credit inevitably leading to credit rationing (Karlan & Morduch, 2019). Goldsmith (2019) posited that interest rate caps undermine the average quality of investment, yielding financial repression. McKinnon (2019) and Shaw (2017) who propounded that interest rate caps reduce returns on saving which ultimately reduce both the quality and quantity of investment extended the notion of financial repression. SMEs must overcome the financing hurdle in order to set up and stay in business.

This can be overcome with access to external capital (Otieno & Njae, 2016). SMEs can obtain credit from finance lending institutions or from their suppliers. Internal sources of funding such as retained earnings are a more convenient source of financing for SMEs (Hallberg, 2018; Agyeman, 2019).

However, with the high costs of living due to inflation, retained earnings may simply remain a dream since whatever one earns is used to meet the more urgent physiological needs such as food, shelter and clothing as proposed by Maslow's hierarchy of needs (Enos, 2016). Commercial banks and Micro Finance Institutions are the most significant source of external financing to SMEs hence can exert considerable influence on them. When lending to SMEs, credit-lending institutions consider the quality of management among other factors in deciding whether to extend credit or not (Mwangi et al., 2013: Agyei, 2018). Credit lending institutions can tailor products in a manner to reduce obstacles that SMEs come across in accessing credit (Garikai, 2011).

Lending policies have been cited as one of the limiting factors for SMEs to access credit. Schiantarelli (2016) further argues that the type of financial institution's lending policy will often determine SMEs accessibility to credit facilities. Where credit duration, terms of payment, required security and the provision of supplementary services do not fit the needs of the target group, potential borrowers will not apply for credit even where it exists and when they do, they are denied access.

Financing is an essential element for performance of a business enterprise irrespective of its size or industry where it operates (Stierwald, 2019). Financing

facilitates the primary economic functions of production and distribution. Financing ensures that a firm is liquid enough to meet working capital needs. With availability of financial resources, industrial development is initiated since it is possible to take advantage of new investment opportunities as they arise (Karlan & Morduch, 2019). Debt and Equity are the formal sources of finance for investment. Informal financing for entrepreneurs involves accessing their own savings and those of family, friends, and even neighbours. Entrepreneurs seek informal 'angel' investors who provide financial capital as well as business expertise for running a firm. Business owners who seek financing face a fundamental choice: should they borrow funds or take in new equity capital?

In Ghana, Small and Medium Sized Enterprises (SMEs) are commonly believed to have limited access to deposits, credit facilities and other financial support services provided by Formal Financial Institutions (Yeboah, 2017; Boakye, 2019; Baah, 2020). This is because most SMEs cannot provide the necessary collateral security demanded by these formal lending institutions. Further, stringent requirements and bureaucratic lending procedures by the formal lending institutions compel most SMEs to resort to informal lenders such as traditional money lenders, friends and relatives. In addition to this, the associated risks involved in lending to SMEs make it unattractive to the banks to deal with Small enterprises (World Bank, 2017). Statistically, small enterprises are reported to have high failure rates making it difficult for lenders to assess accurately the viability of their enterprises, the abilities of the entrepreneur, and the likelihood of repayment.

The performance of SMEs can be measured in various forms. Performance indicators can be grouped under two broad categories, namely financial indicators and non-financial indicators. The financial indicators also known as objective indicators measure the state of the company. However, SMEs are usual assessed using financial indicator known as profitability. Profitability is positively related to growth and has over time been used as an indicator of firm's growth. The rationale is that a profitable firm is able to achieve growth in market share, number of products, employees and assets base (Ansoff, 2015). However, if a firm (SME) is able to access enough credit facilities, they will have adequate funds to invest in the business. This will influence the firm's performance directly or indirectly.

It is unlikely that firm growth can be sustained without profits being available for reinvestment in the firm. Enterprise growth is a multidimensional construct operationalised by a variety of growth measures which include sales, value of net assets, profit, number of workers, and market share among others. In addition, factors such as overall satisfaction and non-financial goals of the owners are also very important in evaluating performance, especially among privately held firms (Ngugi, 2018). This is consistent with the view of Zahra (2017) that both financial and nonfinancial measures should be used to assess organisational performance. This study ignored the factors affecting SMEs' credit access, the ease of SMEs credit financing and the relationship between credit financing and SMEs' assets.

Firms that are informational opaque or have a low credit standing require close monitoring by a financial intermediary hence may not have direct access to the credit markets (Karlan & Morduch, 2019). On the other hand, large, highly rated firms can directly access public credit markets by issuing instruments such as commercial papers. SMEs access to credit finance is constrained by in-availability of information on their credit worthiness. Public and private credit registries exist to improve the information available on borrowing in an effort to ease financing constraints (OECD, 2012). Advancing credit can be vitiated by adverse selection, explaining part of the difficulties encountered by SMEs in access to credit.

Statement of the Problem

The effect of access to credit financing on performance is not clear and has been a source of discussion with some authors arguing that access to credit financing enhances performance while others argue the cost of financing nets off the benefits thereof. From an economic view, expanding credit financing access holds the promise of increasing performance by spurring investment in under-funded enterprise, following the logic of Gurley and Shaw (2015) and McKinnon (2016). However, some authors have provided contrary evidence where they have found borrowing to be welfare enhancing and not always output-increasing or enhancing SMEs performance contrary to economic view of credit access (Karlan & Morduch, 2019).

Stiglitz and Weiss (2017) argue that there is a trade-off between cost of financing and performance, which may cloud out the benefits of access to credit

financing. Karlan and Morduch (2019) in their study concluded that financial access will not, on its own, be enough to spur SMEs growth since there are other perennial challenges hindering their growth. Lack of credit finance access has been identified as one of constraints hindering performance and growth of SMEs (Oketch, 2010; Mwangi et al., 2018). The Government of Ghana has been taking measures to ensure that SMEs have access to financing through introduction of products such as National Youth Enterprise Fund, Women Enterprise Fund and COVID-19 fund.

This preferential treatment for SMEs by Government of Ghana is meant to develop the SME sector and Ghana's economy as a whole. According to World Bank, SMEs contribute up to 45% of employment in developing economies (World Bank survey, 2019). According to Ghana Enterprises Agency (2020), SMEs contributed 70% of Ghana's GDP in 2019. On the same survey, out of the total new jobs created in 2020, SME sector contributed up to 79.8%. As a result, Ghana's development plan recognizes SMEs as a pillar to achieving middle-income status in 2030. Despite SMEs significance, past statistics indicate that three out of five businesses fail within two years of operation (Ghana Enterprises Agency, 2020). Survival, success and growth of SMEs have been of interest to researchers for many years and have thus become the subject of a lot of analysis. Researchers have shown interest in uncovering the primary determinants of new venture success or failure with no much attention to the effect of credit financing on SMEs growth.

Most studies carried out in Ghana on SMEs financing, have sought to determine the ease of credit access in Ghana and the challenges facing SMEs. Bowen, Morara, and Mureithi, (2019) studied the management of business challenges among Small and micro enterprises in Accra and found that the key challenge that faced SMEs was lack of credit access. Nyagah (2018) studied the non-financial constraints hindering growth of SMEs in Ghana and found that lack of financial access was a main challenge facing SMEs among other non-financial challenges. Could lack of credit financing be the cause of high SMEs mortality rates? It remains unknown to what extent-increased credit financing access from the government efforts has contributed to SMEs performance in Ghana.

The 2021 population and census conducted in Ghana revealed that the SMEs in the Central Region (Atti-Morkwa, Juaboso and Swedru) perform badly. Survey from Ghana Enterprise Agency (GEA) in 2021 stated in their report that, most of the SMEs in the various Metropolitans, Municipalities and District assemblies lack adequate funds to invest in the business. Hence, the introduction of SMEs loans and COVID-19 relief funds to help boost the performance of SMEs in Juaboso District. Juaboso District was chosen for this study because, the majority of residents in the district are employed into small enterprise and the recent performance of these SMEs are nothing to write home about. Therefore, there is availability of SMEs which is a variable for this study, the need to assess why SMEs are underperforming in the District. Hence, the need for this study.

The purpose of this study therefore was to examine the effect of credit financing on the performance of Small and Medium Sized Enterprises in Juaboso

Disrrict. It sought to bridge the gap that exists on access to credit financing and its effect of SMEs profitability.

Purpose of the Study

The aim of this research was to assess the credit financing and performance of SMEs in Juaboso District.

Research Objectives

1. To identify the factors affecting SMEs' credit access in Juaboso District.
2. To assess the ease of SMEs credit financing in Juaboso District.
3. To evaluate the relationship between credit financing and SMEs' assets in Juaboso District.
4. To determine the relationship between credit financing and the performance of SMEs in Juaboso District.

Research Questions

1. What are the factors affecting SMEs' access to credit in Juaboso District?
2. What is the level of ease of SMEs credit financing in Juaboso District?
3. What is the relationship between credit financing and SMEs' assets in Juaboso District?
4. What is the relationship between credit financing and the performance of SMEs in Juaboso District?

Significance of the Study

Growth of SMEs depends on a number of actors and factors. As the Government of Ghana and other sector actors lay measures to enhance credit access for SMEs in Ghana, the impact of credit financing in promoting SMEs growth needs to be ascertained. This study is of importance to SMEs Management in addressing the influence credit financing has in attaining sustainable growth for SMEs. To Government of Ghana, the findings of this study have brought light to various policy measures that would alleviate challenges SMEs encounter in accessing credit finance. The study is also of importance to actors of Capital Markets Authority (CMA) by providing information that CMA may use to develop guidelines that will make it possible for SMEs to access external financing through the capital market.

To policy makers, the study findings have brought into light policies, which are detrimental to the profitability of SMEs in Ghana. The findings of this study are a source of reference material for researchers and academicians to enhance further studies on factors determining growth of SMEs.

Delimitation of the Study

Because of the district's high levels of inequality, unemployment, and poverty, despite its growth, the study was limited to Small and Medium Sized Enterprises (SMEs), which operates in Juaboso District. In addition, because it is one of Ghana's agricultural hubs, this district is distinct from the rest of the country. Because its hubs a lot of Small and Medium Sized Enterprises (SMEs)

and has readily available data, the study was limited to Small and Medium Sized Enterprises (SMEs), which operates in Juaboso District.

Limitations of the Study

The current study was limited by a number of problems, including the possibility that some respondents were biased or dishonest in their responses, based on what they were all remarking on their employer. More respondents would have been necessary to complete the portrait of respondents in this study and to make a better assessment of the data's consistency. Regardless of the aforementioned roadblocks, the findings presented in this research have critical organisational implications.

Financial and time resources are essential to execute any study endeavour successfully and objectively. The study did not cover all Small and Medium Sized Enterprises (SMEs) in Juaboso District due to time and expense constraints, which slightly affected the report's completeness. Furthermore, acquiring information on the effect of credit financing from Small and Medium Sized Enterprises (SMEs) managers/employees was a little difficult, potentially jeopardizing the study's result.

Organisation of the Study

This research was structured into five sections. Chapter one, which is the introductory chapter, encompasses the study of the background, statement of the problem, objectives of the study, as well as the significance, delimitation of the study and limitation of the study. The concept of credit financing and SME

performance started with Chapter Two and proceeded to review both theoretical and empirical literature applicable to the thesis. The methodology employed in conducting the analysis was presented in Chapter Three. Chapter Four described the conclusions and discussions with reference to related literature based on the study. Based on the study findings, the Final chapter, Chapter Five, presents the review, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This section presented the theoretical review, conceptual review, empirical review and conceptual framework of literature pertinent to the study. As part of the theoretical and conceptual assessment, the study reviewed the credit rationing theory, information asymmetry theory, accelerator theory, the notion of credit financing and measurement of SMEs performance. Chapter Two ends with the chapter summary.

Theoretical Review

A theoretical framework refers to collection of interrelated ideas based on theories. It is a set of prepositions, which are derived and supported by data or evidence. A theoretical framework accounts for or explains a phenomenon. A number of theories that have been developed to explain the concept of financial access and performance of SMEs will guide the study.

Credit Rationing Theory

Credit rationing theory, propounded by Stiglitz and Weiss (1981), provides a framework for analysing financial market inefficiencies that affect credit financing. It asserts that, information asymmetry is the main cause of financial market malfunctioning in developing countries that hinders credit allocation and leads to credit rationing. Lending institutions that advance credit to economic agents are not only interested in the interest they receive on credit

facilities, but also the risks of such facilities. The interest that banks charge on loans have the tendency to affect the risks of a pool of loans by either sorting potential borrowers (adverse selection effect) or affecting the behaviour of borrowers (moral hazard effect).

Relating this theory to the study variables, the theory posits that credit financing has positive effect on profitability and therefore efforts should be undertaken to enhance it. However, the process of availing credit to users is faced by limitations which ration the amount available to the borrowers. As a result, lending institutions try to resolve the problem by resorting to various screening mechanisms to identify potential borrowers who are more likely to pay back credit advanced to them, since expected return on such credit depends crucially on the probability of repayment. One of the methods of screening suggested by Stiglitz and Weiss (1981) is the interest rate that an individual is willing to pay. This is because, given the efficient financial markets hypothesis, individuals who are willing to pay high interest rates may on the average not pay back credit advanced and banks are mostly discouraged to give loans to such borrowers.

On the other hand, low risk borrowers, faced with high interest rates, ceteris paribus, will be expecting negative returns and hence will not go for such loans. Therefore, in our world today where people can easily get all the information they need, banks could precisely predict all actions by borrowers but may not be able to control such actions. Terms of lending are thus designed by lending institutions in a manner that induces borrowers to take actions in the institutions' interest. Stiglitz and Weiss (1981) posited that adverse selection and

credit rationing can occur if lending institutions require collateral for credit advanced. They argue that since low-risk borrowers expect a lower rate of return if the rate of inflation is high, they are on the average less wealthy than high-risk borrowers and unable to provide more collateral for extra credit.

Thus, as the collateral requirements for loans by banks increase, adverse selection is inevitable as in the case for high interest rates. Altogether, low risk borrowers are eliminated from the stream of potential borrowers and banks may not be interested in granting loans to them. The most important conclusion from Stiglitz and Weiss argument is that information asymmetry results to adverse selection and moral hazard. This is a source of market inefficiency in developing countries and leads to low risk borrowers such as SMEs being side-lined or even excluded from the stream of potential borrowers.

Informational Asymmetry Theory

Akerlof (1970) first proposed the concept of Information Asymmetry. His basic argument was that in many markets the buyer uses some market statistic to measure the value of a class of goods. Thus, the buyer sees the average of the whole market while the seller has more intimate knowledge of a specific item. Akerlof (1970) argues that this information asymmetry gives the seller an incentive to sell goods of less than the average market quality. In contract theory, information asymmetry deals with the study of decisions in transactions where one party has more or better information than the other. This creates an imbalance of power in transactions, which can sometimes cause the transactions to go awry.

Examples of this problem are adverse selection, moral hazard, and information monopoly.

In relation to credit financing and performance, the theory view credit financing as having positive impact on performance. However, availing the credit is affected by information asymmetry, which implies that there will be some proposals on which lending institutions will not have perfect information therefore limiting the access to credit facilities for such propositions. This includes new and technology-based propositions for which market intelligence would be limited. At an early stage for most SMEs, information about them is limited (Hall et al., 2000). At this stage, assets are often knowledge based exclusively associated with the founding entrepreneur.

More so with manufacturing or technology-based firms in which entrepreneurs may be reluctant to provide full information about the opportunity because of concerns that disclosure may make it easier for others to exploit (Shane & Cable, 2003). In addition, there may be asymmetries arising from location as well as sector the SME operates in. For example, owners of SMEs in rural environments may face difficulties with access to credit facilities from Commercial banks whose network is based in urban centres (OECD, 2012). The theory concludes that some SMEs will not be able to access credit financing irrespective of the infrastructure put in place to enhance credit access due to information gap between the borrowers (SMEs included) and finance lending institutions.

Accelerator Theory

Clark (1917) first suggested the accelerator theory. It is an economic theory that suggests that as demand or income increases in an economy so does investments made by firms. The theory proposes that most firms choose to increase production in order to increase their profits. The theory also suggests that such increase in production attracts more investors, which enhance performance. According to Edgmand (1979), the accelerator theory of investment is based on the fact that a particular amount of capital stock is necessary to produce a given output. This therefore means that for SMEs to increase output and performance, an additional amount of financing is required. The theory supports the notion that credit financing leads to accelerated SMEs performance.

Small and Medium Sized Enterprises (SMEs) in Ghana

The criteria for classifying firms into small, medium and large-scale businesses varies from country to country, author to author and by institution. In some countries, classification of firms is based on total number of employees whiles other countries use the monetary value of total fixed assert. In Ghana, two definitions are prolific in empirical literature-one by the Ghana statistical service and the other by the Ghana Enterprises Agency.

Companies with fewer than 10 workers are categorized as small, according to the Ghana Statistical Service (GSS), while companies with 10 or more workers are considered medium and large-scale enterprises. However, the Ghana Enterprises Agency provides an alternate definition for SMEs. SMEs are classified as companies with no more than 9 (nine) workers and machinery and

equipment with no more than 10 million Ghanaian employees. There is little doubt, irrespective of the concept adopted, that SMEs play a significant part in the economy of Ghana. According to the largest figures from the Ghana statistical service, close to 50 percent of companies in Ghana are SMEs.

These companies cut across all the sectors of the economy, from the manufacturing sector to the service industry and provide employment for Ghana's youthful population and urban and rural areas. In the urban areas, most SMEs are into retailing, with registered offices, others also operate in open spaces, and temporary wooden structures. In the rural areas, most SMEs are into manufacturing. According to Alliance for Action (2019), most of the SMEs in Ghana are owned by people with little heights of educational attainment where labour force of these firms consists of family members and apprentices who work for no or minimal pay. Other particular attribute of SMEs in Ghana is their affinity with women. Females own most of the SMEs in Ghana (Alliance for Action, 2019).

Despite their eminence importance to the country, SMEs in Ghana face several challenges that hamper their performance. The access to finance is among the problems facing SMEs in Ghana. Most SMEs operate as small informal businesses and are in no position to meet the collateral requirements of the formal banks (Binks et al., 1992). Faced with no other alternative, SMEs are therefore forced to accept loans from informal institutions at very high interest rates.

In a study by Abor and Quartey, (2010) that examined the constraints faced by SMEs in Ghana, lack of adequate managerial competence was

mentioned as the second largest problem facing SMEs. The majority of small and medium-sized businesses are owned and run by people with low levels of education and managerial experience. This affects their ability to properly manage their operations of the business. There is also the additional problem of restricted access to international markets. Synonymous with most SMEs in Africa, the produce/output of most SMEs do most not meet the strict requirements of developed countries thereby restricting their access to the market of developed countries (Abor, & Quartey, 2010).

Conceptual Review

Concept of Credit Financing

SME financing plays a crucial role on firm's performance and lack of credit financing limits firms' activities. Although it is difficult to construct the measures for firm performance in the SME sector, many studies have attempted to do this and found that greater sales and profits are associated with greater access to credit financing. In addition, firms with increasing sales and increasing sales turnover ratios would be expected to have less credit constraints (Peria, 2019). Guffey (2018) recognizes the importance of financing on SMEs arguing that unless SME owners can count on the finance banking of their relatives, they will need finances such sources like bank loans or venture capital. There are various ways the business owners can finance the growth of their firms but the fundamental decision is whether or not to accept external equity finance return for part ownership of the business. If owners allow external equity finance, they

choose to relinquish part of their control to either a financial institution or other individuals.

SMEs perceive access to credit financing as a major stumbling block to the performance of their operations. Credit financing constraints are particularly severe in start-up enterprises and relatively young firms (three years old or less) smaller firms have lesser assets to offer as collateral. In order to reduce the anticipated risk and moral hazard associated with lending, the banks use collateral as one of the instruments. The collateral is an assurance to the bank in case of default and it also ensures the borrowers commitment to the loan repayments. In addition, smaller and younger firms are more likely to face higher cost of financing and they are required to offer collateral (Peria, 2019).

Constraint in Credit Accessibility

One of the most serious issues that SMEs face in their operations is credit availability. Most businesses in these categories had a hard time getting financial help to keep their operations afloat (Barney, 2016). If these enterprises had been able to secure such facilities, they may have increased their operations and improved their revenue production capability and standard of living (Atieno, 2018). The availability of finance to SMEs might help the private sector contribute a 2% growth rate to the GDP (Carpio & Honohon, 2019). As a result, a lack of these facilities for SMEs could result in a considerable drop-in company activity (Melzer, 2017). In research, Aryeetey (2018) found that 38% of SMEs said they could not get loans.

Daniels and Ngwira (2015) in Malawi identified all barriers to knowledge, local and international issues, a high-risk perception rate, increased intermediation costs, and limited access to markets in research. According to Tagoe (2015), most financial institutions' current credit policies discourage businesses from applying, and even those that do are occasionally denied access to the facility. Before issuing credit, financial intermediary institutions, according to Abor and Quartey (2010), rely on the reliable assets of businesses as collateral. Banks, on the other hand, demand working capital as collateral for short-term loans and fixed assets like machinery and equipment as collateral for long-term loans.

Bad Attitude and Methods Employed by Banks

Ofei (2018) points out; SMEs are unable to obtain loan facilities due to the constraints imposed by banking rules. Collateral, feasibility studies, record of accomplishment, and minimum deposits are some of the bank requirements that must be completed by the applicant, which have been divided into formal and informal bank procedures (Maarten, 2019). Informal banking requirements, such as personal connections, family, and knowledge of business relationships, can be a barrier for small businesses. Again, the fear of losing a business prevents SMEs from obtaining credit (Maarten, 2019).

High Cost of Transaction

According to Cuevas (2016), most SMEs are discouraged from seeking financing because of the significant transaction costs that come with it. Aryeetey (2014), who stated that knowledge asymmetry could be a hindrance, preventing

SMEs from obtaining a loan, corroborated this assumption. Lenders may refuse to provide credit to smaller or less well-known clientele or impose rigorous collateral requirements, making it harder for these applicants to obtain credit. Steel and Webster (2018) identified a number of issues that SMEs face in their operations, including the difficulty of absorbing large fixed costs, a lack of strategic factors of production (economies of scale and scope), and higher unit costs associated with providing certain services to smaller businesses.

Again, lack of technical innovation, insufficient human training capacity, inefficient institutional policies within these farms, as well as weak rules and regulations, all stumbling blocks for SMEs in Ghana when it comes to obtaining loan facilities. Financing SMEs, according to Green (2012), is crucial because it is considered as the glue that holds all of the other parts of small business operations together.

In their hunt for funding, the majority of SMEs in Ghana face funding shortfalls. The funding gap can be characterized as a disparity between SMEs' requests for funds and their ability to get them. Because of their distinctive characteristics and market inefficiencies in the supply chain, SMEs have difficulty accessing funding (Park, 2018). Financial institutions and investors are faced with the decision of whether or not to lend to SMEs, as well as how much to lend (Chen & Chivakul, 2018). Again, the small and medium businesses that require financial and non-financial institution facilities are unable to obtain what they require in order to expand or invest in their businesses.

This was summarised by Ruiz-Tagle (2017), who stated that in this case, the desired loan level is less than or more than the amount supplied by the partners, resulting in a credit setback. When a company cannot get as much money as it wants at the current market availability rate, it has said to be credit restricted (Banerjee & Duflo, 2018). The following are some more types of credit acquisition constraints:

Information Asymmetry

According to Stiglitz and Weiss (2019), information asymmetry occurs as a result of an increase in credit demand, which causes an imbalance when the credit demand curve swings to the right, indicating that demand exceeds supply. As a result, credit interest rates rise, causing a drop in demand or an increase in supply of both, allowing the equilibrium curve to be reinvented at a higher interest rate. When there is a distortion, the elasticity of the interest rate upwards or downwards is meant to remove the excess demand for credit, to reinvent the equilibrium in order to remove the current credit limits. In most cases, businesses have better access to internal organizational information than outside lenders (Asymmetric information).

Newcomers to the field

This disparity in formation has an impact on SMEs. According to Deakins (2018), the owner of the business suppresses the required informational needs concerning assets and other critical documents, if any, about these new entrants at the start of their activities. This is a regular occurrence in industrial or technology-based businesses, as most owners are hesitant to make full disclosure about their

business opportunities owing to concerns about being abused by others if such information is made public. Some business owners, particularly young entrepreneurs and those operating in underdeveloped areas, are concerned about their security if the information is disclosed. Those who operate their businesses in underdeveloped areas face similar difficulties in obtaining bank loans.

Moral Hazard

As a result of asymmetric information, enterprises are unable to be properly discriminated based on their market credit worthiness. Moral hazard is a circumstance in which a borrower's wrong behaviour causes the lender to lose money in the form of a return or payment on what was borrowed. It typically occurs when the parties involved in the process have disparate and unusual interests that do not bode well for mutual benefit. The lender may not be able to scrutinise the borrower's behaviour. As a result, the quality of loan applications suffers, and others' prospects of obtaining credit are harmed. Some businesses may misapply and reroute the loan they have been awarded, resulting in a loss and the inability to repay the loan. To solve these difficulties, banks could implement mechanisms such as a promise of loan renewal and a penalty.

Growth

Another type of gap arises as a result of most SMEs' uncertainties about their growth prospects. As a result, banking institutions tighten their qualification requirements before issuing a loan to SMEs. The unsustainable nature of these SMEs does not prevent these particular smaller businesses from obtaining a loan to strengthen their operations.

Gender and Race

Gender and race may also be proportions with discrepancies. According to the International Finance Corporation (IFC), race is one of the barriers to financial access in South Africa. Male business owners in Ghana are more likely to have simple access to loans than their female counterparts, who are sometimes required to provide other crucial paperwork before receiving such a loan. Race and gender differences operate against black women who have a low educational and financial level in society.

Risk factors

Risk factors linked with enterprises could be used to explain how financial institutions portray loan rationing. Total risk results in a long period of time, resulting in uncertainty about the return on the enterprise's assets. When this occurs, the business must assume responsibility for the facility's upkeep. If the company is unable to meet its obligations, including interest and principal payments, liquidation may be the result. If the amount obtained by the company is large, there is a greater chance of the company being unable to pay due to interest payments. Because most SMEs rely on outside financing, financial risk is higher in the SME sector (Correia, 2017).

Despite the fact that banks have used scoring models and other technologies to distinguish between high-risk and low-risk borrowers, (Park, 2019), the strategy has not been able to successfully overcome the challenges connected with the information asymmetry gap.

Types of Credit Available to SMEs

There are two basic types of financing SMEs, according to Harris (2018) and Holm (2014). Equity and debt finance are two of these options.

Debt Financing

According to Hisrich and Peters (2018) and Anderson and Dunkelberg (2019), debt financing is money credited to a borrower and resettled at a later date with an added interest rate on the principal amount. The principal and interest on the credit facility must be paid within the specified time frame. Because a debtor's default usually results in the payment of a penalty, the facility should be settled according to the terms of the agreement rather than when the facility generates profits.

Equity Financing

The contribution or finance received from partners or individuals who wish to become owners or shareholders in the organisation is referred to as equity financing. These contributions are linked to the profit generated by the company as a result of its operations. As a result, if the company fails to earn a profit or break even, the owner or shareholder loses out on the rewards on their contribution or investment. It should be emphasised that equity financing is long-term, but debt financing is usually short to medium or long-term.

Applying Equity or Debt Financing in SMEs Operations

When it comes to financing SMEs, the decision to employ debt or equity is usually based on the goals for which the funds are intended. Long-term funds

should never be used for short-term projects because it is never a wise investment. Again, short-term debts should not be used to fund long-term projects because the facility must be resettled within the specified time to avoid unnecessary default. Short-term debt is better for short-term initiatives, according to Wert and Henderson (2019), while funds acquired for long-term purposes should be used for equipment or new plant building, a circumstance known as "matching maturities" (Brealey & Myers, 2016).

Leverage and Owner's Equity

Borrowing frequently results in financial leverage because interest payments are known to lead to excessive financing costs. As a result, a proportionate increase in an enterprise's revenue before interest and taxes leads to a proportionate increase in the institution's net revenue. This arrangement will benefit the owner because it will result in larger equity increases. The owner ownership could be eroded in the same situation if there is a significant drop in income before interest and taxes, resulting in a commensurate drop in net earnings. The insecurity of debt financing does not bode well for business financing (Brealey & Myers, 2016; Wert & Henderson, 2019).

Riskiness

Aside from the increased risk to earnings and equity, debt financing also comes with its own set of risks. A company may be in such a hazardous financial position that it is unable to meet its financial obligations in terms of debt repayment. When a company's debt-to-equity ratio increases, the company may be in financial trouble. The best approach to deal with this is for businesses to

eliminate excessive borrowing or debt, as this is a costly condition to be in. Typically, financial difficulty causes a business to lose commercial possibilities because investors will avoid investing in those firms, the firm's reputation will decrease, suppliers may take unusual positions against the firm, and the firm may face bankruptcy (Wert & Henderson, 2019).

Flexibility

According to Wert and Henderson (2019), enterprises must be flexible enough to avoid an unfavourable financial scenario by maintaining a strong capital mix balance. More debt will eventually result in an extremely high interest rate as the company's credit rating would be reduced. As a result, it is critical for the company to be flexible in its operations in order to respond to changing conditions in the business environment.

Financial Institutions

Financial institutions provide financial services to its customers and the broader public, as well as acting as financial middlemen in the financial market. The following are some of the institutions that provide financial help to the Ghanaian business environment. Financial institutions responsible for accepting and managing deposits, conducting financial transactions, extending credit, and finally providing sound financial policies. Commercial banks, rural banks, building societies, credit unions, trust companies, and mortgage loan organizations are some of these institutions. Insurance companies and pension funds. Brokers, underwriters and investment funds.

These financial institutions help with tasks like accepting deposits, providing commercial loans, real estate loans, mortgage loans, and issuing stock certificates. As a result, they are in charge of transferring cash from investors to enterprises in need of those funds, ensuring that money flows freely throughout the economy (Siklos, 2019). Commercial banks in Ghana include GCB, NIB, ADB, SG-SSB, Ecobank Ghana, Barclays Bank, and Unibank, to name a few. In addition to Credit Unions, Savings and Loans Companies on the Ghanaian financial markets, a number of rural banks provide comparable services in communities around the country.

Alternative Sources of Funding for the SMEs

Some of the sources of finance that are available to SMEs are the following:

Family Members, Friends and Personal Resources

Credit and contributions from relatives and acquaintances are two potential sources of capital for SMEs. This sort of financing is typically interest-free and is a major source of capital for new firms in Ghana. Beneficiaries of this facility should exercise caution, as some of these contributors may desire to exert control over the business as a result of their contributions. Personal savings or contributions from the individual owner and partners of the business, according to Longenecker (2014), could be a substantial financial outlet to assist the firm at the start of its operation.

From Commercial Banks

Commercial banks are the most sought for financial institution among SMEs, according to Hisrich and Peters (2015) and Longenecker (2014). The funding provided to these SMEs is primarily in the form of a short-term loan and, on occasion, a long-term loan. As stated by Kuriloff (2013), these banks provide assurance of ability to resettle the facility, sometimes on collateral.

Business Suppliers/ Trade Credit

Business Suppliers can also help these SMEs by providing trade credit in the form of goods, services, equipment loans, or leases, which must be paid on a set schedule, which can range from a few days to many days (Broom, 2013). The amount of trade credit that suppliers are ready to grant can be extended at any time as the volume of a company's purchases grows, which is ideal for providing working capital for SMEs fixed assets.

Equipment Loans and Leases

Equipment loans and leases are another type of finance that may be beneficial to SMEs. Many of these businesses couldn't afford to buy all of their fixed assets at once. As a result, special arrangements may be made for this machinery to be purchased in instalments over a set period of time. According to Longenecker (2014), a 25% to 30% initial payment might guarantee these assets, with the remaining amortized over 3 to 5 years.

Venture Capital

According to Stevenson (2019), venture capital, also known as an investment firm, provides assistance and support to SMEs. These firms are pools

of equity capital made possible by well-grounded rich and influential people, limited partners, and professions who oversee the firm's setup on a fee basis and according to an agreed process. Financial assistance is provided anytime the company in which they invested faces financial difficulties in its future operations (Maarten, 2019). This new business is given sound financial information to help them run their operations. In Ghana, the government and other development partners to assist start-up businesses in getting off the ground have established venture trust funds.

This facility dates back to 1991, when USAID and the Centres for Disease Control and Prevention (CDC) assisted in the establishment of this avenue as a means of providing financial services to satisfy the needs of businesses in the country (Mensah, 2014). As a result, there is venture capital financing available for SMEs in the country. Other financing from MASLOC, venture capital, and other micro institutions could be considered by SMEs. Many SMEs prefer to work with MFIs because their trade finance terms and conditions are simpler and more accessible, but the rates at which they provide loans are still excessively high and come with a lot of risk.

Again, SMEs in Ghana could rely on venture capital, which has proven to be of tremendous assistance, particularly to newly founded SMEs, in surviving the marketing climate (Fatiregon, 2014). Above all, the MASLOC has fulfilled its financial commitment of assisting in the sustainability of its influence in assisting in the alleviation of poverty through the provision of loan facilities for the

development of SMEs, since they are in a position to also assist the poor in acquiring loans (Gostello, 2019).

Joint Venture

SMEs could potentially form a joint venture to pool their resources and improve their ability to act as a unit in order to grow their operations. If well-formed, this alliance can help them be more effective in their operations. Skills, resources, and other capital could be strategically pooled according to a predetermined principle and formula to assist the company establish itself and acquire a competitive advantage over its competitors (Maarten, 2019). Smaller businesses typically profit greatly when they form alliances with larger businesses to some extent. More chances may arise, and SMEs should explore this as a possible source of financial help for their businesses.

Bridging Gaps in Access to Credit

According to Malhotra (2017), MFIs' experience in the industry indicates that adopting innovative lending practices could help narrow the gap between demand and supply in terms of credit accessibility. According to Holtmann (2010), the following strategies, when used, could help lower the incidence:

- Rather than looking at collateral, a loan application should be scrutinized based on the applicant's ability to pay, or cash flow. To reduce the time, it takes to approve a loan, the process should be standardised.
- A borrower follow-up procedure should be implemented. Officers should be aware of their clients' debt obligations. If implemented, the control system could assist in addressing any unforeseen conditions that may

develop during the payment of loan facilities. To ensure the management and administration of credit facilities, new technical advances should be implemented.

Government Contribution to the SMEs

Need for Governmental Intervention

According to the PwC Ghana Banking Survey (2013), SMEs account for around 90% of all firms in Ghana. Because of their labour-intensive character and limited capital resources base, direct government assistance for SMEs is critical in enhancing Ghana's socio-economic growth. According to Hellberg (2012), third-world countries should focus on the growth of SMEs because they account for a larger share of enterprises in those countries.

SMEs, according to Young (2014), are valuable because they are a significant source of job creation, efficiency, growth, and economic emancipation at all levels of the economy. These businesses, according to Berry (2017), are both suppliers and consumers, as they provide input to other industrial sectors while simultaneously consuming the output of other enterprises. Since a result of their considerable purchasing power, SMEs' need for goods and services will end up governing the operations of these providers, as their customers' will govern theirs wants. This will almost certainly result in sustainable economic growth and development.

Support of the Government of Ghana in Solving SMEs Problems

Ghana's government has formed organizations to oversee the activities of small and medium-sized businesses. Since the year 2000, the government has

formed different institutions such as the NBSSI, GVCTF, and MASLOC to oversee the goals of establishing SMEs. The following are some of the responsibilities that these agencies play in assisting SMEs with their problems:

- To assist in the provision of some fundamental and basic financial services to individuals on the lower rungs of society's economic ladder.
- To provide sufficient outlets in terms of policy in the fields of savings and investment to some financial entities and individuals who are unable to obtain loans from traditional banks. The majority of the SMEs chosen for this study are located in areas where selling and buying activities predominate, which also happens to be the most common occupation among residents in the Asunafo North Municipal, where commerce employs about 71 percent of the population, so government assistance in the form of reduced tax incentives on products could be very beneficial.

Improved Access to Loans Facilities

Despite the fact that most SMEs obtain credit from MFIs and other financial institutions, the Ghanaian government has been able to assist in this direction by facilitating access to these facilities. Most SMEs that previously were unable to obtain credit from the financial market now have the opportunity to obtain loans through the agency that has been established. In the event of a fire or other natural disaster, the Ghanaian government may provide financial assistance in the form of short-term loans to help these businesses get back on their feet. Because individuals in the micro-operational stage and those who are new to the

industry demand small loans, the government aided these businesses by making the loan application process easier.

Business, Financial and Management Training

The government has provided SMEs with capacity-building support services in order to better position them in their operations. The government of Ghana has had a progressive impact on the various business outfits of SMEs through the Bank of Ghana (BOG) and other mini-banks.

The government, through the Bank of Ghana, has built an appealing platform that allows all micro-entrepreneurs to save as much as they can on a daily basis and receive more interest at a cheaper rate from various financial and non-financial entities. These serve as a foundation for gaining access to financing. As a result, the attitude toward saving has vastly improved.

Concept of SME Performance

An examination of empirical literature indicates that measurement of performance defies one single uniform approach. The varied approaches in measuring performance reflect the broad nature of the concept itself. Firm performance connotes the extent to which both monetary and non- monetary objectives of a firm are accomplished through the execution of tactics, marketing and strategy. The varied approaches in measuring performance are also in part from the difficulty in obtaining firm level data. One firm are either unwilling to voluntary give data about their financial firms whereas others, particularly SMEs are noted for poor data records.

Performance indicators can be grouped under two broad categories, namely financial indicators and non-financial indicators. The financial indicators also known as objective indicators measure the state of the company. Benefit, growth, profit margins, cash flow, and return on assets are among these indicators. The non- monetary or subjective measures of performance on the other hand usually reflect the perceptions of management or workers about the state of the firm. It includes indicators such as customer satisfaction (Vij, & Bedi, 2016) and employee participation (Moriarty, 2010), increase in self-sufficiency (Dzei, 2008). Although this mode of measuring performance has a number of advantages, they are several drawbacks to it.

However, in this study, the financial indicator was used to assess performance of SMEs in Juaboso District. The financial indicator was geared toward profitability which settle on Return on Asset (ROA) as the performance indicator for this study.

Determinants of SMEs Performance

Industry

Industry factors significantly determine SMEs performance whereby a number of studies carried out to identify the influence of a firm's industry on the profitability of the firm concur that there are significant differences between sectors in terms of the typical profitability of the firms. Only a few studies show sector variables not to be significant (Barkham, 2016). Some industries are known to have higher firms' profitability than others mostly depending on capital

required to be invested in assets and the level of sales. The degree of concentration in an industry also determines firm profitability.

A higher concentration enables collusion between firms, which can lead to higher profits. Industry effect models argue that differences in industry-level characteristics, such as efficiency level, industry structure or quality of top management firms and specific industry regulations cause differences in profitability (Stierwald, 2009). In addition, sectors that require more capital investment in equipment, machinery, buildings, labour and raw materials have fewer finances hence are less profitable.

Age

The age of the SME is an important factor influencing the performance of the firm (Barkham, 2016). Age of a firm helps in determining the competitive advantage of the firm over other firm and it also help the firm to design its competitive strategies. Age of the firm also leads to the creation of firm image in the eyes of customer, which leads to increased sales for the firm, and firm increased profit. An SME that has been in existence for long also has a large market share which plays a key role in identification of firm profitability. In addition, its position in the industry and is also able to identify the level of competition and the way to form all lever of strategies (corporate level, business level and product level) to counter that competition (Raza, Farooq & Khan, 2011).

Legal Composition

Theoretically, a firm constituted such that the owner/managers enjoy limited liability has been said to have a greater incentive to pursue risky projects

and therefore expects higher profits than other firms (Stiglitz & Weiss, 1981) expect. Further, firms with limited liability, owned by more than one person are usually well structured, professionally managed and operated, and therefore have high, stable and consistent profitability growth. Foreman (2016) found that the positive effect of partnership on profitability was twice as large as that of the sole trader, taking limited liability and subsidiaries as the base case; this was explained by interpret the effects as risk tolerance and division between many individuals.

Empirical Review

This section covers the empirical section of the study. Adverse selection has been found to be a key hindrance to SMEs access to credit financing. Adverse selection occurs because lenders assess borrowers' capability to repay their loans since lenders expected returns depend on the probability of repayment. In an attempt to identify borrowers with high probability of repayment, lenders are likely to use interest rates that an individual is willing to pay as a screening device.

Stiglitz and Weiss (1981) concluded from their study that interest rates charged by a credit lending institution are seen as having a dual role of sorting potential borrowers and affecting the actions of borrowers. Both effects are seen as a result of the imperfect information inherent in credit markets. Stiglitz and Weiss (1981) further propounded that high credit interest rates induce firms to undertake projects with higher payoffs. Since credit-lending institutions are not able to control all actions of borrowers, they formulate borrowing terms to induce

borrowers to take actions in the institutions' interest and to attract low risk borrowers.

Oketch (2017) conducted a study on sixteen financial lending institutions to determine demand and supply of credit to the SMEs sector in Kenya. The study revealed that the demand and supply for credit has been on the rise since 2015. It also revealed that only 16% of the demand had been met. The study further revealed that although financial institutions lend to prime borrowers with collateral security, there is need for these institutions to increase their lending to SMEs.

Researchers have postulated that credit information sharing institutions have a positive effect on SME credit access. Jappelli and Marco (2017) in their study on Information sharing, lending and defaults, found that strong credit information sharing institutions are positively related to the size of the credit market and that credit information sharing between lenders is associated with increased and cheaper credit in transition countries in Eastern Europe. Further, they found that bank lending is higher and credit risk is lower in countries where lenders share information, regardless of the private or public nature of the information sharing mechanism. They also concluded that public intervention is more likely where private arrangements have not arisen spontaneously and creditor rights are poorly protected. This implies that establishment of credit referencing bureaus and sharing of credit information is likely to promote SMEs credit financing by addressing the adverse selection problem.

Miller (2018) demonstrated how such financial institutions that shared credit information increased the quantity of small business loans in the United States and more importantly, served to expand credit to riskier and marginal borrowers. Miller (2008) posited that incomplete borrower information generates a possibility of loan default that eventually leads to credit rationing. Credit rationing refers to a situation where lenders limit the supply of additional credit to borrowers, even if the latter are willing to pay higher interest rates. The role of risk in allocation of credit therefore becomes important in credit markets. Lenders will want to minimize their risk exposure by advancing credit to borrowers who exhibit a low risk of default.

Garikai (2019) studying the growth of small and medium sized in developing nations identified constraints that hinder new business start-ups in Kenya. The study identifies the constraints to include limited access to credit finance, limited market opportunities, and lack of business enabling environment, market information and managerial skills. Other factors also identified as affecting enterprise growth are poor management skills, financial constraints, poor marketing skills and limited laws to regulate SMEs. The study recommended that measures to enhance credit financing for SMEs to be put in place to ensure accelerated SMEs start-ups and growth.

Nkuah and Gaeten (2018) undertook a study on challenges and determinants in accessing bank credit by SMEs in Ghana. Their findings were that as part of the entrepreneurs' characteristics, male entrepreneurs were most favoured by financial institutions than their female counterparts in credit

accessibility. However, general credit accessibility between both genders was very low. The study also revealed that entrepreneurs within the age category of 31years to 40 years as well as 41 years to 50 years were considered worthier of credit than the other age groups. Interestingly, financial institutions in the Wa Municipality did not consider the level of education of entrepreneurs before they advanced them access to credits. With regards to a firm's peculiar characteristics and credit accessibility, the study revealed that firms in the service sector were most favoured than those in the production and agricultural sectors due to the volatility of the latter sector and the resultant high tendency of loan default.

Further, SMEs with a smaller number of employees were considered for credit more than SMEs with more than seven employees. Most SMEs could not readily measure their monthly average returns from the business yet, financial institutions found them worthy of credit. Financial institutions in the Wa Municipality did not also discriminate against the sole ownership of a business in credit accessibility. However, there was generally a low level of credit uptake in the metropolis. The study further found that there was no significant relationship between the location of a business and access to credit though most of the sampled SMEs were operating within the central business area of the Wa Municipality. The study also showed that lack of collateral, inadequacy of managerial competence and lack of a clear repayment plan were some of the reasons for which most entrepreneurs in the Wa Municipality could not access bank credits for their businesses. Nkuah and Gaeten (2013) concluded that some

characteristics or attributes of a firm significantly enhanced their credit accessibility.

Mwangi (2018) carried out an evaluation of Financing and Development of SMEs in Mombasa, Kenya using descriptive research design. The study deduced that the performance of most SMEs was curtailed by poor economic conditions, high operating prices, high inflation rate and frequent increases in prices of basic commodities. SMEs cited loyal and reliable customer base as a reason for their survival. Age of an enterprise was found to dictate the level of borrowing from financial institutions.

SMEs cited lack of information on finance to expand the businesses, taxation, unfriendly laws, lack of insurance, increased fuel prices and political instability as some of the reasons that inhibited their growth. Among those who were using credit facilities, 74 percent found the facility. Government support through facilities such as Women Enterprise Fund SMEs was cited as one of the reasons of business success. The findings further revealed that two thirds of all respondents were willing to take extra credit in order to expand. Based on the findings, bank loans as sources of start-up capital contributed to only 6 percent of respondents as compared to 70 percent contributed by own savings.

Conceptual Framework

The conceptual model of Swierczek and Ha (2003) was adopted by this analysis. There are three parts to the model. The first part offers the independent variable, which is, the credit financing measurements made up of debt financing and equity financing. Whereas the second section of the model offers the control

variables used in this study. Adding control variables to our model is crucial, as it will help correct for any confounding effect that may be inherent in the model. The third component of the model is the SME performance indicators (i.e., return on asset) which makes up the dependent variable. The framework shows how the variables of credit financing directly affect the variables of SMEs performance. In addition, how the control variables have an effect on the performance of SMEs.

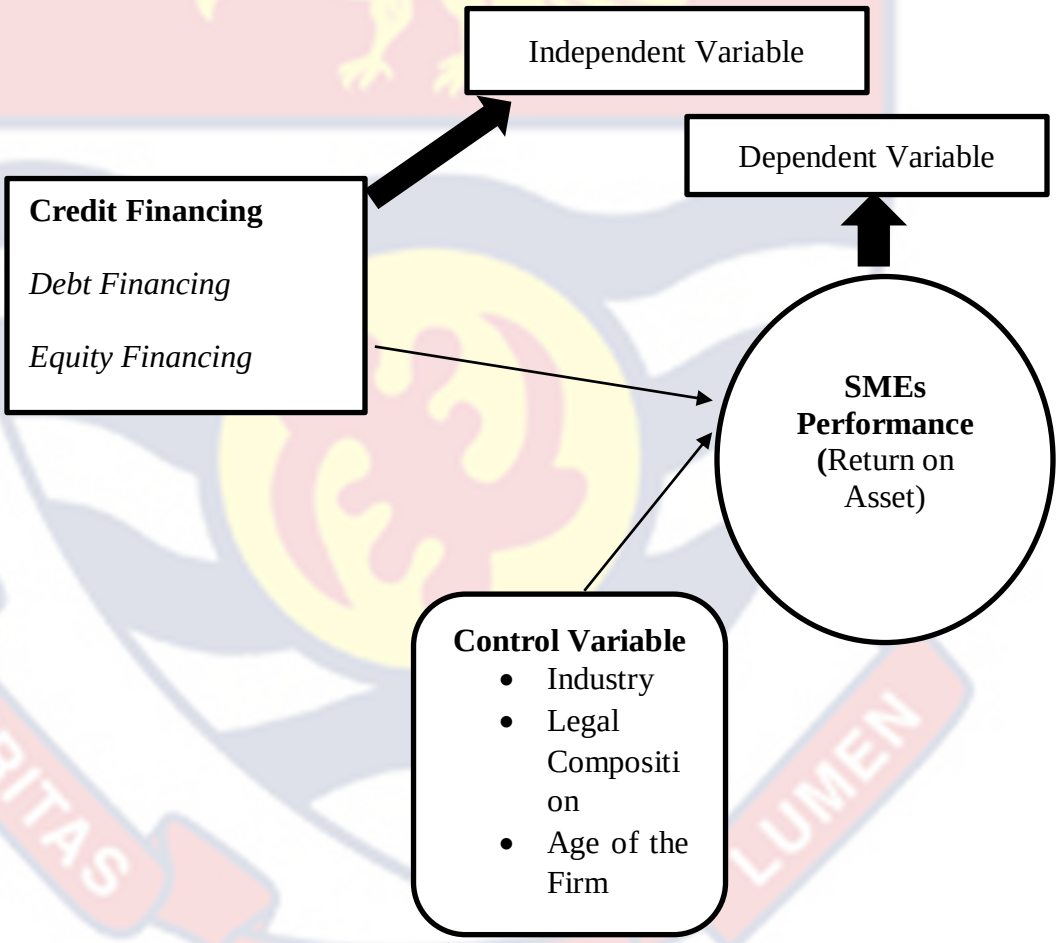

Figure 1: Conceptual Framework

Source: Adapted from Swierczek and Ha (2003).

Chapter Summary

This section offered the literature review of this research. This study's literature review was structured under four headings, namely theoretical review, conceptual review, empirical review, and conceptual framework. Theoretical review explained the theoretical foundation of this study. This included credit rationing, information asymmetry theory and the accelerator theory. The conceptual review defined and explained the various concepts used in the context of this study. This chapter reviewed literature on credit financing and SME performance. It also presents an overview of the SME sector in Ghana, theories, and conceptual issues. The chapter further delineate the proxies chosen in respect of the dependent, independent and control variables. The chapter finally presented and discussed the conceptual framework, which explains how the various variables used in this study are linked.

CHAPTER THREE

RESEARCH METHODS

Introduction

This section explained the approach used in the research. Explicitly, it stretches a comprehensive explanation of the study design and method, sampling technique, model description, definition and measurement of variables used in the model, and finally, the estimation techniques employed for the data processing and analysis.

Research Design

The research philosophy underpinning this study is positivism philosophy. The positivists hold the view that authenticity is steady and can be detected, described and measured objectively without prying with the spectacles being premeditated (Saunders, Lewis & Thornhill, 2016). In doing so, the positivist school rules out the fact that knowledge and theories can be developed from multiple sources, including personal experiences and beliefs (Rubin & Rubin, 2012). Instead of focusing on these philosophies, with pragmatism, investigators highlighted the study problem and use all tactics available to comprehend the problematic (Creswell & Creswell, 2018). Pragmatists argue for the use of quantitative techniques in studying a phenomenon instead of adhering to just one way (Creswell, 2009; Moon & Blackman, 2014).

A study design agreeing to Plonsky (2017), is the general approach that the researcher uses to answer and elicit responses to the study's research questions. The success of any study would depend on the type of research design

adopted, so it is exactly vital to determine the type of data, the method of collection of data and the type of sampling to be used in a study. In an attempt to estimate these sizes in the general population, the researchers adopted a descriptive design to discuss the consequence of credit financing on performance of SMEs.

The research design employed in this work was the explanatory research design. The explanatory research is used since the study looks at how other variables predict another. That is, how independent(s) (one or more variables) predict the dependent in a model developed. Explanatory research design is deployed in this study because of the study objectives.

Research Approach

In the conduct of scientific research, one of the critical components to consider is the research approach. This research adopts the approach of quantitative research. According to Bell and Bryman (2017), comparative research involves collecting absolute data, such as numerical data, in order to be examined as unbiased as possible (Mason & Bramble, 1997). Quantitative research eliminates the investigator's bias, thus ensuring that assumptions can be made in relation to the study's conclusions. In addition, because of the way information is collected and analysed, quantitative analysis will be used. Almost all the data that will be used in this study are quantitative hence, the quantitative method is employed.

Study Area

The Juaboso District is one of the 261 Metropolitan, Municipal and District Assemblies (MMDAs) in Ghana and forms part of the 9 MMDAs in the Western North Region. Juaboso District is located between Latitude 6° 6N and 7 °' N, and Longitude 2 ° 40' W and 3 °, 15 W. The Juaboso district has a land area of 1,291 square kilometers. The Juaboso District administrative capital Juaboso is located 360km to the north-west of Sekondi Takoradi Metropolitan, the regional capital and a distance of 225km from Kumasi, the Ashanti Regional capital. The district shares borders with Bia East and West Districts and Asunafo North Municipal in the north, Asunafo South District and Bodi District to the east, Suaman District to the south and La Cote d'lvoire to the west. The population of the District according to 2021 population and housing census stands at 88,814 with 45,722 males and 43,092 females.

The dominant form of employment within the region is the service industry. It employs over 35 percent of the total population. This is followed by the craft and trade industry, which also employees over 13 percent of the total work force in the district. Most of the populace in the district run their own personal business (GSS, 2021).

Population

A study population has been described as "including all elements within the reach of this survey and from which the study selects a representative sample (Cooper & Schindler, 2011; Dadi-Klutse, 2016; Kazerooni, 2001). In terms of some combination of geography and demography, a research population is

sometimes specified (Babin & Anderson, 2010; Kumar, 2008; Saunders et al, 2007). The population is the community of individuals, activities, or things of interest for which the researcher wants to draw inferences, according to Sekaran and Bougie (2016). The study population consists of all SMEs registered under the Ghana Enterprises Agency and some other known SMEs yet to gain formal registration with the Ghana Enterprises Agency: barbing and hair salons, carpentry, plumbing, artisan etc. in the Juaboso District. The total number of SMEs with the Ghana Enterprises Agency in Juaboso District was 140. This population was chosen because the researcher believes that most of these firms are in the informal area, which constitute a major part of the Ghanaian economy.

Sampling Size and Procedure

According to Merrriam et al., (2009), the method used in selecting a sample for a study is known as the sampling procedure. On behalf of this research, the researcher adopted a non-probability sampling method known as the convenience sampling technique. Convenience sampling technique is a sampling procedure where researchers use the subjects that are nearest and available to participate in the study, hence, proprietors, directors and employees of SMEs that were willing to fill the questionnaires were contacted for the study. Again, this technique was used in the study because of time and cost involved in reaching these SMEs. However, the study included a reasonable stratum to reflect even participation of the various craft SMEs in the metropolis. In all, the analysis included one hundred and three (103) SMEs in the Cape Coast Metropolis.

$$n = \frac{N}{1+N(e)2}$$

Where:

n = sample size

N = Population size

e = Allowable errors

Therefore:

N = 140

$1 + 140\ (0.05)^2 = 1+140\ (0.0025) = 1 + 0.35$

$= 1.35$

$n = \frac{140}{1.35} = 103.70$

Based on above calculation, the sample size is 103. This implies that the study was based on one hundred and three (103) respondents derived as the research sample size.

Data Collection Instrument

Information was gathered using primary data collection methodologies. Primary data was gathered through structured surveys and interviews. Furthermore, the researcher used a combination of official questionnaires and interviews. The questionnaire was the primary data collection technique. The information needed for the inquiry was gathered through questionnaires. The decision to use a questionnaire for this study was made because it can be used to collect both qualitative and quantitative data from respondents, and it can be self-administered or delivered in an interview format.

Questionnaires were used to gather the information needed for the investigation. The decision to employ a questionnaire for this study was based on the fact that it can be used to collect both qualitative and quantitative data from respondents and can be self-administered or provided in an interview format. The questionnaire featured both open-ended and closed-ended questions because it was a standardized series of questions for acquiring sensitive information from respondents.

The questionnaire was divided into three sections. The sections were labelled from A to C. Section A looked at the demographic information of respondents whereas Section B captured SMEs' credit financing. Section C captured the variable used to measure SMEs' performance. A Five-Likert scale measurement was used to measure each respective construct for this study. The scales were 1-5 where 5= Very great extent; 4 Great extent; 3= Moderate extent; 2= Low extent and 1=Very low extent. Additionally, 1-5 where 5= Very great extent; 4 Great extent; 3= Moderate extent; 2= Low extent and 1=Very low extent Tick as appropriate.

Data Collection Procedure

The questionnaires were taken to the location of the various SMEs. The study's intent was clarified to the respondents. Through the use of a self-administered questionnaire to ensure a high response rate, the study's data was collected. There were the same set of questions for all the respondents. In order to fix possible errors and to sort out misconceptions and misunderstandings to ensure the research's credibility, the researcher picked up the filled questionnaires

personally. The entire duration for the administration and collection of questionnaires was 14 days. Returned questionnaires were edited in order to arrange information in a way that was suitable and used to perform the necessary analysis.

Reliability and Validity

When evaluating the quality of a research instrument, reliability and validity are two important factors to consider. According to, the degree to which a measuring instrument gives reliable, consistent results is defined as reliability, whereas validity examines the amount to which an instrument measures what it was intended to measure. To that goal, the researcher conducted a thorough empirical assessment of the questionnaire's many constructs. The Cronbach's alpha coefficient and the Reliability composite index were also calculated to determine the measuring instrument's validity. The Cronbach's alpha coefficient test requires that the coefficient be at least 0.7.

Reliability Test

The questionnaire's internal consistency was tested using a reliability test. An internally consistent study questionnaire was defined as having a Cronbach's Alpha co-efficient of 0.7 or above. The results of the reliability test was shown in the Table 1.

Table 1: Reliability Test

	Cronbach's Alpha	Standardized Items	N of Items
Background Information	.785	.790	21
Credit Financing	.761	.773	12
SME Performance	.790	.803	1
Overall	.786	.793	34

Source: Field survey (2023)

The overall Cronbach's Alpha co-efficient for the reliability findings was 0.786. Cronbach's Alpha co-efficients of 0.785, 0.761 and 0.790, were found for all the variables, respectively. All of the variables had co-efficients greater than 0.7, indicating that the study questionnaire was internally consistent and thus reliable in achieving the research topic.

Data Processing and Analysis

Data collected from the field were processed prior to analysis, data were reviewed and incorrect data were corrected in order to ensure successful processing and analysis of data. The Statistical Package for Social Sciences (SPSS) version 24 was utilized in data coding, entry, and cleaning, which lasted for 14 days after which the researcher continues with the other data management activities in other to ensure that the variables to be used both dependent and independent are well captured and entered correctly.

Data analysis ensures that data elicited over the study period was interpreted sequentially to achieve the study objectives. The study ensured high retrieval rate and data cleaning before proceeding to actual analysis. The study made time to check for precision of responses to the questionnaire items. It was used as a means of screening data to elicit results from the field to identify missing values and outliers.

The estimation techniques that are used in this study are the frequencies and percentages, mean, standard deviation analysis, and the regression analysis. The study employed frequency tables, mean and standard to scrutinize factors affecting SMEs' credit access, ease of SMEs' credit financing and credit financing as a percentage of SMEs. The regression model was used in scrutinizing relationship between credit financing on SME performance.

Ethical Considerations

Patten and Newhart (2017) disclosed the main ethical question that needs to be considered in any research in a study. Voluntary involvement, the right to privacy, anonymity and security of information are these main ethical problems. As such, all efforts are aimed at ensuring that the questionnaire design solves all these ethical problems. With regard to voluntary participation, every respondent shall, on his/her own free will, be permitted to participate in the data collection exercise. In addition, the potential concerns of the right to privacy will be resolved by encouraging respondents to answer the questionnaires on their own and an acceptable medium will be communicated in order to resolve unanswered questions.

In addition, the issue of anonymity is resolved by preventing respondents from supplying the questionnaire with specific details about themselves in relation to names, contact numbers and personal addresses. Respondents shall also be guaranteed that none of their identities will be leaked to or used for any reason other than this analysis in the public domain. Finally, by assuring respondents that all information given will be kept confidential, the study would ensure the confidentiality of information.

Model Specification

Multiple regression analysis was used to determine whether the independent variable (credit financing) affects the dependent variable (Profitability). SME performance as measured by return on Assets (ROA) was regressed against the independent variables. Nkuah and Gaeten (2013) and Ngugi (2013) borrowed the model and the control variables used from the studies. The control variables used were found in literature to be the main factors affecting SMEs performance other than credit financing.

$$Ys = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Ys = SME performance as measured by ROA computed from data obtained from financial statements

β0 = Constant (coefficient of intercept)

X1 = SME annual credit finance as a percentage of total assets

X2 = SME industry, coded for analysis where 1 will be Manufacturing industry, 2 Trade and 3 Service industry

X3 = Age of the SMEs in years

X4 = Legal Composition of the SME, coded for analysis where 1 will be sole proprietorship,

2 partnership and 3 limited company β_0, β_1, β_2, β_3, β_4 is the regression coefficient of four variables ε = Error term which will be assumed to be zero for this study

Chapter Summary

The goal of this chapter was to outline the procedures employed to accomplish the study's goal. As a quantitative approach of data collection, the researcher used a structured questionnaire. Data analysis was also taken into account, with descriptive statistics generated using the Statistical Package for Social Sciences (Version 24.0), as well as the measurement's reliability and validity. The researcher filed a written document to the Heads of Department and the Office of Deans of Graduate Studies for approval before beginning data collecting, according to the study's ethical review.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This section showed and discussed the outcomes of the analysis. Beginning with the descriptive statistical outcomes, the chapter presented and discussed further, the results of the regression analysis. The regression estimation was carried out to explain the connection between credit financing and the performance of SMEs in Juaboso District. The chapter ends with the summary.

Response Rate

One hundred and three (103) semi-structured questionnaires were distributed to all selected managers/employees of SMEs in Juaboso District. Following that, a total of 100 completed questionnaires were gathered. This amounted to a response rate of 97.09 percent, which the researcher judged appropriate. According to Edwards, Clarke and Kwan (2012), a response rate of at least 80% is recommended.

Table 2: Response Rate

Response Rate	Frequency	Percentage
Filled	100	97.09
Not filled	3	2.91
Total	**103**	**100.00**

Source: Field survey (2023)

Demographic Characteristics of Managers

In this chapter, we presented the results of demographic characteristics of managers of SMEs in the Cape Coast metropolis. Specifically, the section presented the results on the respondents' age distribution, manager position, education level and the amount of decades that the business has worked.

Table 3: Demographic Characteristics of Respondents

Items	Frequency	Percent
Age (years)		
Less than 20 years	5	9.1
20-29 years	78	69.7
30-39 years	17	21.2
Others	-	-
Total	**100**	**100**
Managerial Position		
Owner	74	73.97
Others	26	26.03
Total	**100**	**100**
Education Status		
No Education	14	13.6
Primary Education	25	25
Junior High School	30	30.3
Senior High School	26	25.8
Tertiary Education	5	5.3
Others	-	-
Total	**100**	**100**
Marital Status		
Married	74	73.5
Single	25	25
Divorced	1	1.5
Widowed	-	-
Total	**100**	**100**

Source: Field survey (2023)

The age distribution of directors of sampled SMEs in the Juaboso District was shown in Table 3. According to the findings, the bulk of the managers

(69.7%, or 78/100) were between the ages of 20 and 29, while 21.2 percent (17/100) were between the ages of 30 and 39. The remaining 5 managers, accounting for 9.1% of the total, had less than 20 years of experience. None of the managers belonged to the other age groups. According to Njage (2012), this means that all SMEs' managers are in their twenties and have more life and energy to invest in their businesses.

Table 4 shows the distribution of managerial positions inside the company. It is clear that more than half of SMEs 74 (73.97 percent) are run by the firm's owner(s), whereas 26 (26.03 percent) are managed by others (employee or relatives). One probable explanation is that because the majority of SMEs are small businesses, their owners choose to manage them rather than spending the additional cost of hiring a manager. This finding is supported by research by Mbae (2015) and Uche (2017), which found that their owners due to trust concerns and the small size of the company control most SMEs in Africa.

Table 3 shows the educational attainment of SMEs in the Juaboso District's managers. A total number of 14 (13.6 percent) of the managers in the study's sampled SMEs lacked formal education. Furthermore, 25 (25.0 percent) of the managers have completed primary school, 30 (30.3 percent) have completed junior high school, and 26 (25.8%) have completed senior high school. Only 5 managers, or 5.3 percent of the respondents, had completed tertiary education. The majority of the respondents had received formal education and could read and write to a considerable extent, as can be observed. When it came to filling out the questionnaire, their level of education was crucial.

Table 3 shows the marital status of directors of SMEs in the Cape Coast city. A total number of 74 (73.5%) of the total number of SMEs managers who responded to the survey were single, 25 (25%) were married, and 1 (1.5%) were divorced. None of the people who took part in the survey had been widowed.

Demographic Characteristics of the sampled SMEs

The SME industry, SME age, SME's legal formation and SME's number of employees was presented in this section of the study.

Table 4: SME Industry

Items	Frequency	Percent
SME Industry		
Manufacturing	52	54
Trade	33	34
Service	12	12
Total	**100**	**100**
SME Age		
Less than 2 years	3	3
2-4 years	8	8
5-8 years	9	9
8-10 years	29	30
More than 10 years	48	49
Total	**100**	**100**
SME Legal Formation		
Limited Liability	81	81
Partnership	13	13
Sole Proprietorship	6	6
Total	**100**	**100**
SME Number of Employees		
Below 5	10	10
6 to 10	13	13
11 to 20	8	8
21 to 50	23	23
Over 50	46	46
Total	**100**	**100**

Source: Field survey (2023)

Industry factors significantly affect the level of SME performance. Differences in industry level characteristics, such as efficiency, industry structure and specific industry regulations cause differences in performance (Stierwald, 2019). The SMEs industries were classified into three; namely, manufacturing, trade and service. Out of the total sample, 52 (54%) of the studied SMEs were in manufacturing industry, 33 (34%) in trading business while 12 (12%) in service industry. The details are presented in the Table 4.

This part was important since the age of a firm helps in determining the competitive advantage due to the creation of firm image in the eyes of customer which leads to increased sales for the firm and firm increased profit (Barkham, 2016). As shown in Table 4, 48 (49%) of the studied SMEs were in existent for more than 10 years, 29 (30%) for 8-10 years, 9 (9%) for 5 to 8 eight years, 8 (8%) for 2 to 4 years and 3 (3%) for less than two years. So as to achieve the study objectives, five years data was obtained and analysed. Whereas, 86 (88%) of the SMEs could give the required five years data. In addition, older firms are usually providing more reliable data and their performance can be predicted with higher degree of accuracy (Ngugi, 2013).

Legal formation of a SME affects the level of credit financing used by the SME and performance. Foreman (2016) posited that positive effect of partnership on profitability was twice as large as that of the sole trader, taking limited liability and subsidiaries as the base case. As shown in Table 4, 81 (81%) of respondents SMEs limited companies, 13 (13%) partnerships and 6 (6%) sole proprietorships.

Number of employees indicate the size of a SME whether small, micro or medium enterprise. The size of a SME affects the level of firms' performance. As seen from Table 4, majority of respondent SMEs are medium sized since 46 (46%) of the SMEs have over 50 employees, 23 (23%) have 21 to 50 employees, 13 (13%) 6 to 10, 10 (10%) below 5 while 8 (8%) 11 to 50 employees.

Credit Financing and Performance

The study sought to examine the effect of credit financing on performance of SMEs operating in Juaboso District. Data collected from SMEs financial statements and questionnaires were analysed to achieve this objective.

Objective One

Factors Affecting SMEs Credit Access

This question sought to determine the factors hindering access to finance by SMEs in Juaboso District. A Likert scale was used to determine hindrances to SMEs access to credit financing using a scale of 1-5 where 5 represented limitations to a very great extent, 4 great extent, 3 moderate extent, 2 Low extent and 1 very low extent.

Table 5: Factors Affecting SMEs Credit Access

Factors hindering SMEs Credit Financing	Overall Ranking	Mean	Standard Deviation
Cost of finance (interests, legal fees, insurance)	1	5.7067	0.9385
Collateral	2	5.6933	0.8011
SME total debt level	3	4.1600	0.7024
Reputation of the SME	4	3.8533	0.4254
Size of SME	5	3.8400	0.575
Age of SME	6	1.3733	0.3858
SME legal formation	7	1.4267	0.2839

Source: Field survey (2023)

As shown in Table 5, overall, high cost of credit financing was ranked as the main hindrance to respondent SMEs credit financing access to a very great extent with a mean of 5.7067 and standard deviation of 0.9385. Whereas collateral was second with a mean of 5.6933 and standard deviation 0.8011, debt level was third with a mean of 5.16 and standard deviation of 0.7024. Reputation of the SMEs was also found to affect access to credit financing to a moderate extent with a mean of 3.8533 and standard deviation of 0.4254. Size of SMEs, age and legal formation were found to affect credit financing to a low and a very low extent respectively. Studies in Ghana found collateral requirements and high cost

of credit as major reasons restricting SMEs ability to access finance (Adjei, 2017; Yeboah, 2018).

Objective Two

Ease of Credit Finance Access

Numerous measures have been made by the Ghanaian government in attempt to deepen the financial markets and ensure SMEs access to credit. Understanding the implications of credit financing constraints on the SMEs is of first-order importance for the performance SMEs in developing countries (Alexander & Hall, 2018). Summary of the findings have been presented in Table 6.

Table 6: Ease of Credit Finance Access

Items	**Very Hard**	**Hard**	**Fair**	**Easy**	**Very Easy**	**Mean**	**SD**
Ease of credit access in 2017	40 (40.2)	23 (22.7)	15 (15.2)	17 (17.4)	5 (4.5)	*2.39*	*1.15*
Ease of credit access in 2018	25 (25.0)	17 (17.4)	41 (40.9)	10 (9.9)	7 (6.8)	*2.32*	*1.155*
Ease of credit access in 2019	21 (20.5)	12 (12.1)	22 (22.0)	44 (43.9)	1 (1.5)	*2.301*	*0.981*
Ease of credit access in 2020	11 (11.4)	14 (13.6)	17 (16.7)	47 (46.9)	11 (11.4)	*2.24*	*.968*
Ease of credit access in 2021	0 (0)	1 (1.2)	17 (17.4)	52 (51.6)	30 (29.8)	*2.50*	*.883*
Overall Mean						**2.35**	

Source: Field survey (2023)

Table 6 contains the descriptive statistics on ease of credit finance access among SMEs in Juaboso District. For the item (Question) “Ease of credit access in 2017” 4.5% (5/100) responded very easy, 17.4% (17/100) easy, 15.2% (15/100)

fair, 22.7% (23/100) hard, and 40.2% (40/10) very hard. The low mean (2.39) for this item further confirms that majority of the sampled SMEs did not have easy access to finance to improve their business in the year 2017.

For the item "Ease of credit access in 2018", 6.8% (7/100) responded very easy, 9.9% (10/100) easy, 40.9% (41/100) fair, 17.4% (17/100) hard and 25.0% (25/100) very hard. In addition, the mean value for this item, which is 2.32, is below the 2.5 threshold thus indicating that majority of the sampled SMEs were of the view that access to credit finance was relatively fair in 2018. They were indecisive weather access to finance were hard to come by or very easy. For the item "Ease of credit access in 2019", 1.5% (1/100) responded very easy, 43.9% (44/100) easy, 22.0% (22/100) fair, 12.1% (12/100) hard and 20.5% (21/10) very hard. The mean for this item is 2.43 and it indicates that less than half of the sampled SMEs in the district were of the view that access to credit financing was very hard to come by.

For the item "Ease of credit access in 2020", 11.4% (11/100) responded very easy, 46.9% (47/100) easy, 16.7% (17/100) fair, 13.6% (14/100) hard and 11.4% (11/100) very hard. The mean for this item is 2.46, which suggest that about half of the sampled SMEs believe that access to credit finance was easier in 2020. For the item "Ease of credit access in 2021", 29.8% (30/100) responded very easy, 51.6% (52/100) easy, 17.4% (17/100) fair, 1.2% (1/100) hard and 0% (0/100) very hard. In addition, the mean value for this item, which is 2.60, is above the 2.5 threshold thus indicating that majority of the sampled SMEs agreed that access to credit finance was easier in 2021. The entire disclosure mean for

ease of credit financing is 2.63, which is above the 2.5 threshold. This suggests that sampled SMEs in Juaboso District had ease in accessing credit. Overall, 68.4% (68/100) of the respondents ranked SMEs credit access to be fair, easier or very easy. This implies that ease of credit access has improved since 2017 and SMEs can fairly get access to credit financing.

These findings is in line with studies from Njae (2018) and Uche (2019) which revealed that access to credit facilities are been improved year in year out in both developed and developing countries to help boost the performance of Small and Medium Sized Enterprises.

Objective Three

Relationship between Credit Financing and SMEs Asset

The researcher sought to find out the extent to which credit is used by the SMEs to finance assets for the over five-year period between 2017 and 2021.

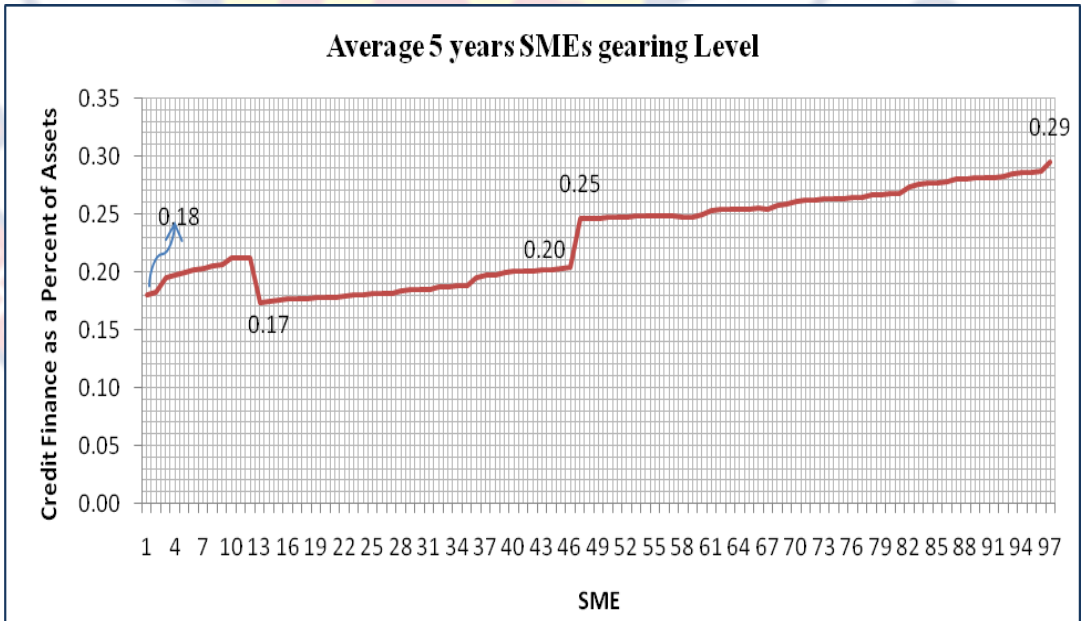

Figure 2: Credit Financing as a Percentage of Assets

Source: Field survey (2023)

As shown in Figure 2, SMEs assets were on average financed by credit finance up to a maximum of 29 percent and a minimum of 17 percent in the years 2017 and 2021. All sampled SMEs studied have a portion of their assets financed by credit signifying the importance of credit in financing SMEs assets and operations in Juaboso District. This finding confirms study by Nyagah (2017) which revealed that most of the SMEs in Kenya invested most of their credit funding into acquiring assets to run their business. However, the results also contradict findings from Nkuah and Gaeten (2019) which found out that, SMEs in Wa Municipality invest funds acquired through credit in inventories rather than assets of the business.

SMEs Performance

Performance of SMEs was measured by return on assets over a five-year period, 2017-2021. Results were presented in Figure 3.

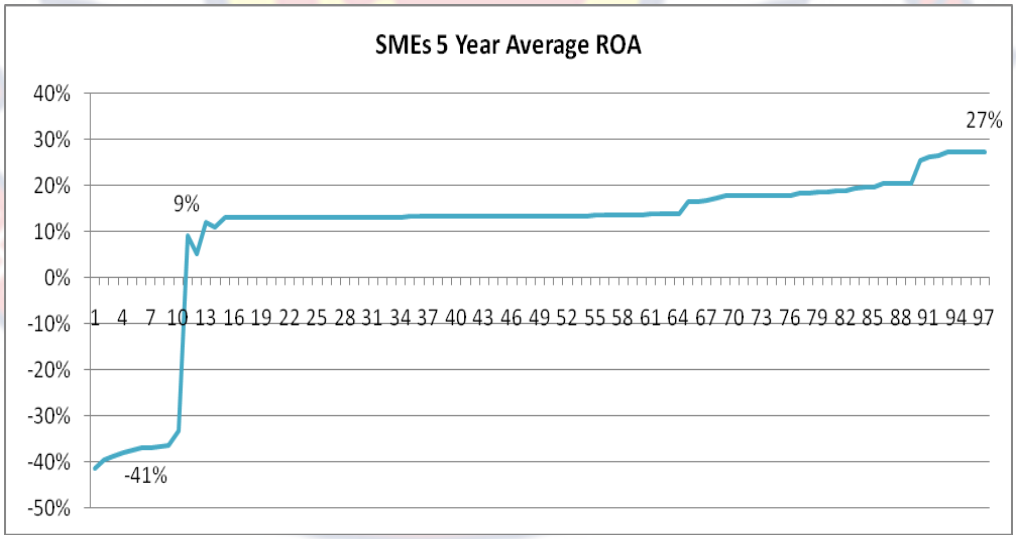

Figure 3: SMEs Performance

Source: Field survey (2023)

As shown in Figure 3, return on assets for the respondent SMEs ranged between 41% and +27%. However, 89% (87) of SME had positive return on assets with 11% (10) having negative return on assets over the five-year period. This implies that SMEs in Juaboso District are profitable with most of them generating incomes of more than 10% per cedi of assets.

Objective Four

Regression between SME Performance and Credit Financing

The linear regression analysis models the relationship between the dependent variable which is performance and independent variable which is credit financing. The coefficient of determination (R^2) and correlation coefficient (R) shows the degree of association between credit access and performance of SMEs in Juaboso District. Results from the model summary are presented in Table 7.

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.6006	0.3607	-0.0003	0.1687

a. Predictors: (Constant), Credit Financing as percentage of assets

Source: Field survey (2023)

The results of the linear regression indicate that R^2=0.3607 and R=0.6006 implying that there is a positive linear relationship between credit financing and performance of SMEs in Juaboso District. The findings are in line with those of

Peria (2019) and Guffey (2018) who found that credit financing played an important role in firms' performance.

Table 8: Analysis of Variance (ANOVA[a])

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.0276	1	0.0276	0.0971	0.0327
	Residual	2.7025	95	0.0284		
	Total	2.7302	96			

Predictors: (Constant), Credit Financing as Percentage of Assets Dependent Variable: Return on Assets

Source: Field survey (2023)

Table 8 shows the results of model summary test which reveal that credit financing has significant effect on SME performance since the actual P value is 0.0327 which is less than 5% level of significance. This implies that:

The model Y=B0+B1X1+E

Is significant where Y is the return on assets and X1 credit financing as a percentage of assets.

Table 9: Performance and Credit Financing Model Coefficients

Model		Coefficients	Std. Error	Standardized Coefficients	t	Sig.
1	(Constant)	0.0035	0.1037		0.0338	0.0097
	Credit Financing as Percentage of Assets	0.4396	0.4461	0.1006	0.9854	0.0327

a. Dependent Variable: Return on Assets

Source: Field survey (2023)

The model coefficients between return on assets (dependent variable) and credit finance (independent variable) as a percentage of total assets are shown in Table 9. The coefficients are significant at 5% confidence level.

Regression between Performance and SMEs Industry

Table 10 shows the summary of regression model result.

Table 10: Performance and SME Industry Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.2462	0.0606	0.0507	0.1643

a. Predictors: (Constant), Industry

Source: Field survey (2023)

From Table 10, the value of R and R^2 are 0.2462 and 0.0606 respectively. The R value of 0.2462 represents a positive linear relationship between SMEs industry and performance. The R^2 indicates that explanatory power of the independent variables is 6.1% meaning that about 6.1% of the variation in performance is explained by:

The model Y=β0+ β2X2+E where Y is return on assets and X2 is SMEs industry.

Stierwald (2019) found that industry effects and specific industry regulations cause differences in performance between firms.

ANOVA

Table 11 shows the results of ANOVA test.

Table 11: Performance and SME Industry Model ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.1655	1	0.1655	6.1313	0.01505
	Residual	2.5647	95	0.0270		
	Total	2.7302	96			

a. Predictors: (Constant), Industry

b. Dependent Variable: Return on assets

Source: Field survey (2023)

Table 11 shows the results of ANOVA test which reveal that SME industry has significant effect on performance since the P value is 0.015 which is

less than 5% level of significance. This implies that linear regression model Y=0.1655+0.0505X2+E where X2 is the SMEs industry and that the model was significant.

Table 12: Performance and SME Industry Model Coefficient

Model		Coefficients	Std Error	Standardized Coefficients	t	Sig.
1	(Constant)	0.0057	0.0431		0.1328	0.0890
	Industry	0.0506	0.0204	0.2462	2.4762	0.0151

Source: Field survey (2023)

Table 12 shows a positive coefficient between SMEs performance and industry. The coefficients were found significant.

Regression between Performance and SMEs Age

Model Summary

Table 13 shows the summary of regression model result.

Table 13: Performance and SME Age Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.2429	0.0590	0.0491	0.1644

a. Predictors: (Constant), Age

Source: Field survey (2023)

From Table 13, the value of R and R^2 are 0.2429 and 0.059 respectively. The R value of 0.2429 represents a positive linear relationship between SMEs age and performance. The R^2 indicates that explanatory power of the independent

variables is 5.9% meaning that about 5.9% of the variation in performance is explained by the model Y=β0+ β3X3+E where Y is return on assets and X3 is SMEs age. The findings concur with those of Raza (2017), that SMEs age determines its competitiveness and hence affecting performance.

Model ANOVA

Table 14 shows the results of ANOVA test.

Table 14: Performance and SME Age Model ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.1611	1	0.1610	5.9557	0.01652
	Residual	2.5691	95	0.0270		
	Total	2.7302	96			

a. Predictors: (Constant), Age

b. Dependent Variable: Return on Assets

Source: Field survey (2023)

Table 14 shows the results of ANOVA test that reveal that SME age has significant effect on performance since the P value of 0.0165, which is less than 5% level of significance. This implies that linear regression model Y=0.0488 +0.00644X3+E where X3 is the SMEs age and that the model was significant.

Model Coefficient

Table 15 showed the Model Coefficient for performance and SME age.

Table 15: Performance and SME Age Model Coefficient

Model		Coefficients	Std. Error	Standardized Coefficients	t	Sig.
1	(Constant)	0.048812	0.028193		1.731312	0.086642
	Age	0.00644	0.002639	0.242886	2.440444	0.016523

a. Dependent Variable: Age

Source: Field survey (2023)

The model coefficients are shown in Table 15 and all of them are significant.

Regression between Performance and Legal Composition

Table 16 shows the summary of regression model result.

Table 16: Performance and SME Legal Composition Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.4755	0.2261	0.2180	0.1491

a. Predictors: (Constant), Legal Formation

Source: Field survey (2023)

The value of R and R^2 are 0.4755 and 0.2261 respectively. The R value of 0.4755 represents a positive linear relationship between SMEs legal composition and performance. The R^2 indicates that explanatory power of the independent variables is 22.6% meaning that about 22.6% of the variation in performance is

explained by the model Y=β0+ β4X4+E where Y is return on assets and X4 is SMEs legal composition.

Model ANOVA

Table 17 shows the results of ANOVA test.

Table 17: Performance and SME Legal Composition Model ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.6173	1	0.6173	27.7549	0.0000
	Residual	2.1129	95	0.0222		
	Total	2.7302	96			

a. Predictors: (Constant), Legal formation

b. Dependent Variable: Return on assets

Source: Field survey (2023)

Table 17 shows the results of ANOVA test which reveal that SME age has significant effect on performance since the P value of 0.0000 which is less than 5% level of significance. This implies that linear regression model Y=β0+ β4X4+E where X4 is the SMEs legal composition and that the model was significant. Foreman (2016) found that the positive effect of partnership on performance was twice as large as that of the sole trader, taking limited liability and subsidiaries as the base case; this was explained by interpret the effects as risk tolerance and division between many individuals.

Model Coefficients

Table 18: Performance and SME Legal Composition Model Coefficients

Model		Coefficients	Std. Error	Standardized Coefficients	t	Sig.
1	(Constant)	-0.1882	0.0575		-3.2707	0.0015
	Legal formation	0.1182	0.0224	0.4755	5.2683	0.0000

a. Dependent Variable: return on assets

Source: Field survey (2023)

The model coefficients, which have been found to be significant, are shown in Table 18.

Overall Regression Analysis

The linear relationship between the dependent variable which is return on assets as a measure of performance and independent variables which are credit financing, industry, age and legal composition. This analysis is meant to achieve the study general objective, which was to determine the effect of credit financing on performance of small and medium sized enterprises. SME industry, age and legal composition were included in the model as control variables. The coefficient of determination (R^2) and correlation coefficient (R) were used to show the degree of association between Variables and performance of SMEs in Juaboso District.

Table 19: Overall Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.8197	0.6719	0.2383	0.1472

a. Predictors: (Constant), Credit Finance, Industry, Legal form, Age

Source: Field survey (2023)

An R of 0.8197 shows a strong positive relationship between performance, credit finance, industry, legal form and age of SMEs, according to Table 19. The model developed could account for 67.19% of changes in performance.

Model ANOVA

Table 20: Overall Model ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.7373	4	0.1843	8.5100	0.0000
	Residual	1.9928	92	0.0217		
	Total	2.7302	96			

a. Predictors: (Constant), Credit Finance, Industry, Legal, Age

b. Dependent Variable: Return on Assets

Source: Field survey (2023)

Table 20 indicates that P value = 0.000 which is less than 5%. This shows that the overall model is significant and can be used in prediction and decision-making. This implies that credit financing, SMEs industry; age and legal composition all have significant effect on performance of SMEs in Juaboso

District. The finding that industry effects are not significant in determining firms' performance concur with those of Barkham (2016) that found that sector variables were not to be significant in determining performance of a firm.

Model Coefficient

Table 21: Overall Model Coefficient

Model		Coefficients	Std. Error	Standardized Coefficients	t	Sig.
1	(Constant)	-0.2916	0.1121		-2.6006	0.0108
	Legal Form (X4)	0.1039	0.0239	0.4178	4.3412	0.0000
	Age (X3)	0.0062	0.0027	0.2348	2.3314	0.0219
	Industry (X2)	-0.0059	0.0111	-0.0487	-0.5361	0.5932
	Credit Finance (X1)	0.4146	0.4506	0.0949	0.9202	0.0036

a. Dependent Variable: Return on Assets

Source: Field survey (2023)

Table 21 shows the overall model coefficients all of which are significant except for the SME industry. Credit financing, legal formation and age of SMEs have positive relationship with performance whereas industry has a negative relationship. Therefore, when combined with other variables, SMEs industry has an insignificant effect on performance. The model developed showing the relationship between the independent variables and performance is given as:

$Y = -0.2916 + 0.4146X_1 - 0.0059X_2 + 0.0062X_3 + 0.1039X_4$.

Discussion of the Findings

From the study findings, 88% of respondent SMEs have been in existence for more than five years. This implies that they could provide the required five years data which is more reliable and with higher degree of accuracy. The respondents composed of directors, line managers, owners or partners in the partnership SMEs. This implies that the data obtained was reliable since individuals in positions that could enable them access crucial SMEs information sought by this study provided it. Overall, high cost of credit financing was ranked as the main hindrance to respondent SMEs credit financing access, collateral second, debt level third and SME reputation fourth.

Age and legal formation were also found to affect credit financing to a low and a very low extent respectively. SMEs assets were on average financed by credit finance up to a maximum of 29% and a minimum of 17% in the years 2017 and 2021 with 100% of SMEs using debt finance. This implies the importance of credit in financing SMEs assets and operations. Return on assets for the respondent SMEs ranged between -41% and +27%. However, 89% of SME had positive return on assets with 11% having negative return on assets over the five-year period. This indicates that SMEs in Juaboso District are profitable with most of them generating incomes of more than 10% per cedi of assets.

The linear relationship between the dependent variable which is return on assets as a measure of performance and independent variables which are credit financing, industry, age and legal composition shows an R of 0.8197 which

implies a strong positive relationship between performance, credit finance, industry, legal form and age of SMEs. R^2 of 0.6719 means that the model developed could account for 67.19% of changes in performance as measured by return on assets. The P value of 0.000 on the overall model, which is less than 5%, shows that the overall model is significant and can be used in prediction and decision-making. This implies that credit financing, SMEs industry; age and legal composition all have significant effect on performance of SMEs in Juaboso District. Overall model coefficients of 0.414 on credit financing implies that a unit increase in credit finance as a percentage of assets will increase performance as measured by return on assets by 0.4146%.

Chapter Summary

This section presented the discussion of the results. It began with the explanation of the demographic features of managers of the sampled SMEs used in the study, followed by the discussion of objectives one using frequencies, means and standard deviation. The chapter then followed with the presentation and discussion of objective two to four with the multiple regression results. However, this was preceded with the discussion of the entire findings.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

In this final section, the summary and conclusions of the research were provided. In addition, the chapter proffered to policy makers and managers of SMEs, some recommendations based on the findings. The chapter finally made submissions for additional researches.

Summary of the Study

The research assessed the credit financing and performance (return on asset) of SMEs in Juaboso District. To achieve this overall objective, four specific objectives were formulated; the first objective was to identify factors affecting SMEs' credit access. The remaining three objectives also examined the ease of SMEs credit financing, credit financing as a percentage of assets and the relationship between credit financing and the performance of SMEs.

In addressing the above objectives, the research reviewed relevant theoretical and empirical literature to the research. The theoretical literature revised in the study included the credit rationing theory, informational asymmetry theory and accelerator theory. The empirical literature also included measures of performance, and various empirical; educations on the effect of credit financing on business performance. In addition, the study designed the appropriate conceptual framework, which pictured, for further understanding, the connection between entrepreneurial orientation and performance.

The research approved the quantitative research method and using both the descriptive and regression analysis, the study measured the effect of credit financing on the performance of SMEs. The study population consisted of all SMEs in the Juaboso District. In all a sample of 100 SMEs were used for the study and cross-sectional data was solicited from them using a structured questionnaire. The data was subsequently inputted and analysed using the SPSS and STATA software.

Key Findings

- As shown in Table 5, overall, high cost of credit financing was ranked as the main hindrance to respondent SMEs credit financing access to a very great extent with a mean of 5.7067 and standard deviation of 0.9385. Whereas collateral was second with a mean of 5.6933 and standard deviation 0.8011, debt level was third with a mean of 5.16 and standard deviation of 0.7024. Reputation of the SMEs was also found to affect access to credit financing to a moderate extent with a mean of 3.8533 and standard deviation of 0.4254. Size of SMEs, age and legal formation were found to affect credit financing to a low and a very low extent respectively. Studies in Ghana found collateral requirements and high cost of credit as major reasons restricting SMEs ability to access finance (Adjei, 2017; Yeboah, 2018).
- The entire disclosure mean for ease of credit financing is 2.63, which is above the 2.5 threshold. This suggests that sampled SMEs in Juaboso District had ease in accessing credit. Overall, 68.4% (68/100) of the

respondents ranked SMEs credit access to be fair, easier or very easy. This implies that ease of credit access has improved since 2017 and SMEs can fairly get access to credit financing.

- SMEs assets were on average financed by credit finance up to a maximum of 29 percent and a minimum of 17 percent in the years 2017 and 2021. All sampled SMEs studied have a portion of their assets financed by credit signifying the importance of credit in financing SMEs assets and operations in Juaboso District. Figure 3, return on assets for the respondent SMEs ranged between 41% and +27%. However, 89% (87) of SME had positive return on assets with 11% (10) having negative return on assets over the five-year period. This implies that SMEs in Juaboso District are profitable with most of them generating incomes of more than 10% per cedi of assets.
- Table 21 shows the overall model coefficients all of which are significant except for the SME industry. Credit financing, legal formation and age of SMEs have positive relationship with performance whereas industry has a negative relationship. Therefore, when combined with other variables, SMEs industry has an insignificant effect on performance.

Conclusions

Based on the findings of the study, the study concludes that;

- High cost of credit financing is the main hindrance to SMEs credit financing access to a very great extent. Followed by collateral, debt level

and reputation of the SMEs. The least hindrance are size of SMEs, age and legal formation respectively.

- Sampled SMEs in Juaboso District had ease in accessing credit. The respondents ranked SMEs credit access to be fair, easier or very easy. This implies that ease of credit access has improved since 2017 and SMEs can fairly get access to credit financing.
- SMEs assets were on average financed by credit finance. All sampled SMEs studied have a portion of their assets financed by credit signifying the importance of credit in financing SMEs assets and operations in Juaboso District. Return on assets for the respondent SMEs ranged between 41% and +27%. However, SME had positive return on assets with 11% (10) having negative return on assets over the five-year period. This implies that SMEs in Juaboso District are profitable with most of them generating incomes of more than 10% per cedi of assets.
- All of the overall model coefficients, with the exception of the SME industry, are significant. Credit finance, legal formation and age of SMEs have positive link with performance whereas industry has a negative relationship. As a result, when paired with other factors, the SMEs industry has little impact on performance.

Recommendations

Small and Medium Enterprises (SMEs) play an important role in Ghana's economy by contributing to economic growth and industrialisation. In line with

the study objective and the findings of this study, the researcher makes the following are the recommendations.

First, credit finance enhances growth by enabling SMEs to undertake profitable ventures that many a times need heavy capital investment. Financial lending institutions should consider establishing less stringent collateral requirements to make it easier for SMEs to access the same and be able to support their operations.

Secondly, among challenges hindering SMEs from accessing credit finance is the high cost of credit. Lending institutions should review credit costs such as processing fee that pushes the cost of lending high.

Finally, SMEs need to consider their legal formation by opting for limited liability companies as opposed to sole proprietorships. This is because Limited Liability companies are more structured making it favourable for lending institutions to consider them for credit as opposed to sole proprietorships.

Suggestions of Future Studies

This study focused on SMEs based in Juaboso District hence the findings by this study may not be representative of SMEs in the whole of Ghana or other counties. Further study can be done on SMEs licensed to operate in other counties and confirm the consistency of the results. In addition, further study can be done specifically on the variables used as control variables and incorporate more variables which may also be accounting for changes in profitability. It can also be important to study big companies and find out if the effect of credit financing is the same just like for SMEs.

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APPENDIX A

UNIVERSITY OF CAPE COAST
SCHOOL OF BUSINESS
DEPARTMENT FOR ENTREPRENEURSHIP AND SMALL ENTERPRISE DEVELOPMENT
STRUCTURED QUESTIONNAIRE FOR FIRM'S MANAGEMENT (OWNERS)

Hello, my name is _____and I am a student at the University of Cape Coast (UCC), and as part of my MBA studies, I are conducting a research on "credit financing and firm performance". The survey usually will take about 20 minutes to complete. The purpose of this research is purely academic and it is aimed at collecting data on the effect of credit financing on firm performance. Your utmost confidentiality is assured, and because of this please Do NOT write your name or the name of your entity on the questionnaire.

Now, do you want to ask anything about the survey? Yes [ ] No [ ]

Date : [ ][ ][ ][ ] 2 0 2 2

SECTION A: BACKGROUND INFORMATION

1. **What is your SME business sector**

1	Manufacturing	[ ]
2	Trade	[ ]
3	Service	[ ]

2. How long has your SME been in operation?

Less than 2 yrs [ ]

2–4 yrs [ ]

5-8 yrs [ ]

8-10 yrs [ ]

More than 10 yrs [ ]

Please specify the exact years as at December 2013…….....

3. What position are you holding currently?

Owner [ ]

Partner [ ]

Line Manager [ ]

Director [ ]

Other (specify).....

4. SME legal formation

1 Sole proprietorship [ ]

2 Partnership [ ]

3 Limited company [ ]

5. Current SME number of employees

Below 5 [ ]

6-10 [ ]

11-20 [ ]

21-50 [ ]

Over 50 [ ]

SECTION B: SME CREDIT FINANCING

6. To what extent do the following factors affect your ability to access credit finance? Use a scale of 1-5 where 5= Very great extent; 4 Great extent; 3= Moderate extent; 2= Low extent and 1=Very low extent. Tick as appropriate.

	1	2	3	4	5
Cost of finance (interests, legal fees, insurance)	[ ]	[ ]	[ ]	[ ]	[ ]
Reputation of the SME	[ ]	[ ]	[ ]	[ ]	[ ]
Collateral	[ ]	[ ]	[ ]	[ ]	[ ]
Size of SME	[ ]	[ ]	[ ]	[ ]	[ ]
Age of SME	[ ]	[ ]	[ ]	[ ]	[ ]
SME total debt level	[ ]	[ ]	[ ]	[ ]	[ ]
SME legal formation	[ ]	[ ]	[ ]	[ ]	[ ]

7. How easy can you rate access to credit for SMEs in Nairobi County for the last five years? Use a scale of 1-5 where 1= Very easy; 2= Easier; 3= Fair; 4= Hard and 5= Very hard.

	1	2	3	4	5
2013	[ ]	[ ]	[ ]	[ ]	[ ]
2012	[ ]	[ ]	[ ]	[ ]	[ ]
2011	[ ]	[ ]	[ ]	[ ]	[ ]
2010	[ ]	[ ]	[ ]	[ ]	[ ]
2009	[ ]	[ ]	[ ]	[ ]	[ ]

8. Please indicate the average amount of credit your SMEs has been using for the last 5 years as a percentage of total assets in the below table. Obtain total credit finance as a sum of total accounts payable, current loans payable and long term loans.

Year	2013 %	2012 %	2011 %	2010 %	2009 %
Total credit Financing as a percentage of total assets					

SECTION D: FIRM PERFORMANCE

Please indicate the financial performance of your firm over the past three (3) years based on the listed financial indicators using the following 5-point scale. Where:

1=lowest performance (Lo) 2=Low performance (LP)

3=Average performance (AP) 4=High performance (Ho)

5=Highest performance (HP)

Indicators of financial performance		Lo	LP	AP	Ho	HP
A.	Return on Assets					

END

Thank you for your time