

**ACCESSIBILITY, UTILIZATION AND LOAN REPAYMENT PERFORMANCE BY
SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) IN SUAME MUNICIPAL.**

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DECLARATION

This is to certify that this work is mine, to my best of knowledge it is not a copy of any material published nor any material that have been accepted for the award of a university certificate, except where due acknowledgement has been made in the text.

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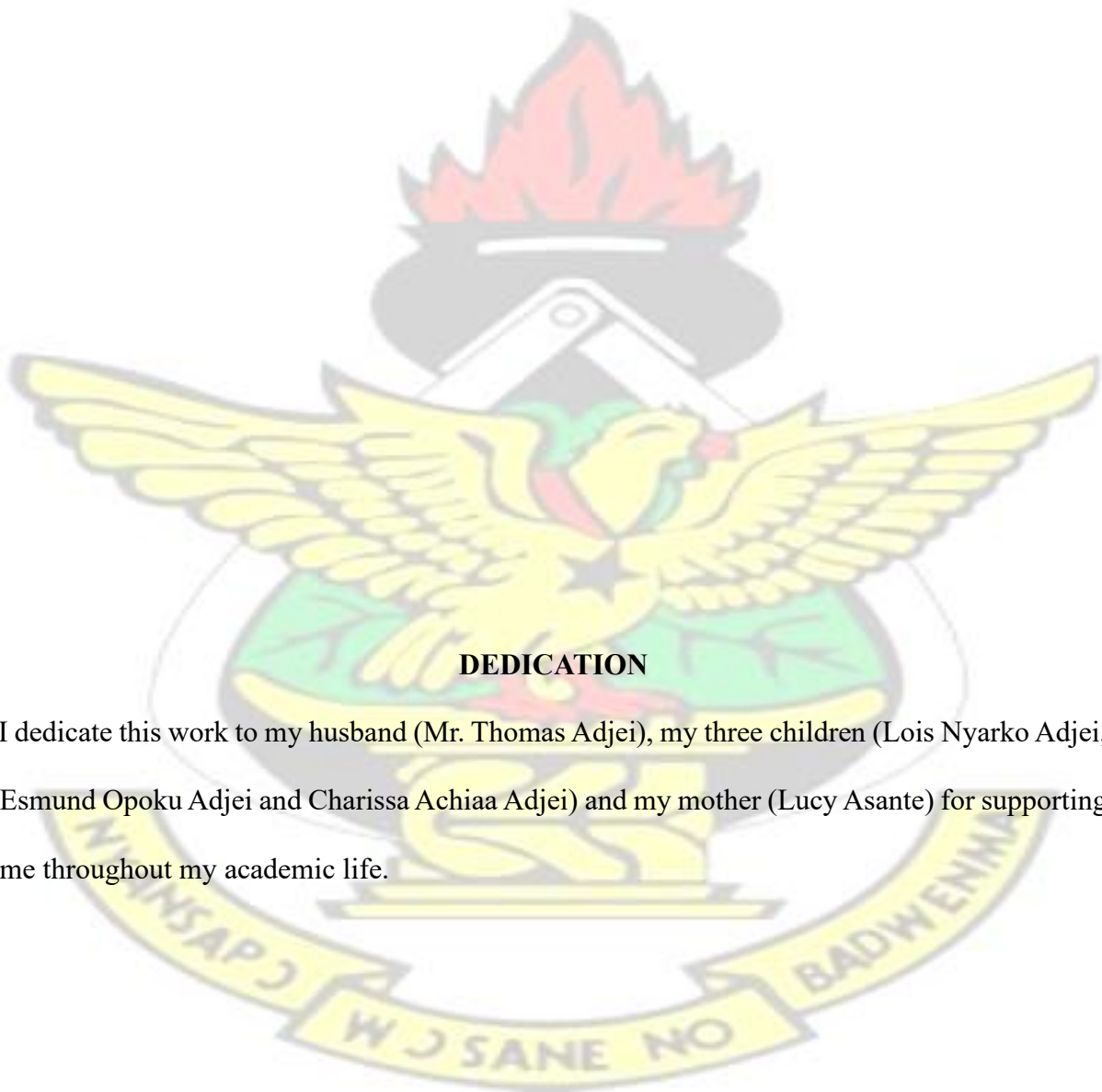
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I express my profound gratitude to the Almighty God for the abundant grace showered on me to be able to do this work.

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I am again greatly indebted to my husband, Mr. Thomas Adjei and my family for their assistance and encouragement.

KNUST



DEDICATION

I dedicate this work to my husband (Mr. Thomas Adjei), my three children (Lois Nyarko Adjei, Esmund Opoku Adjei and Charissa Achiaa Adjei) and my mother (Lucy Asante) for supporting me throughout my academic life.

KNUST

The logo of Kenya National University of Science and Technology (KNUST) is centered in the background. It features a yellow eagle with spread wings, a red and black shield on its chest, and a red flame above its head. The eagle is perched on a yellow banner with black text. The entire logo is set against a light gray background.

ABSTRACT

The study assesses the accessibility, utilization and repayment of loans by SMEs in Suame Municipality. Data obtained from the field was analyzed based on the specific objectives that were to assess the access to credit by SMEs, examine the utilization of credits obtained by SMEs, assess the determinants of loan utilization and determine loan repayment performance by SMEs in Suame Municipality. The point biserial and chi squared tests were used to measure and evaluate the relationships between these determinants and whether the loan was used for its purpose of collection. Both the direction and degree of relationship were determined using these tests. Chi squared test was also used to measure and evaluate the relationship between the location of business and whether loan was used for its purpose as well as profit level of business and whether loan was used for its purpose. They were electronically computed using

SPSS. Data analysis proved that accessing credit from financial institutions by SMEs in Suame Municipality was challenging due to the inability of SME owners and managers to provide the exact collateral, required guarantors or make special deposits. The study also revealed that most SMEs in Suame Municipality did not use the credit they obtained from the financial institutions for the purpose for which collected them. All the determinants measured had positive relationships with loan utilization with the exception of the number of employees. The study revealed that most SMEs in Suame Municipality had problem in repaying their loans or credits and this was due to factors, which included the loan characteristics, financial institution characteristics and business characteristics.

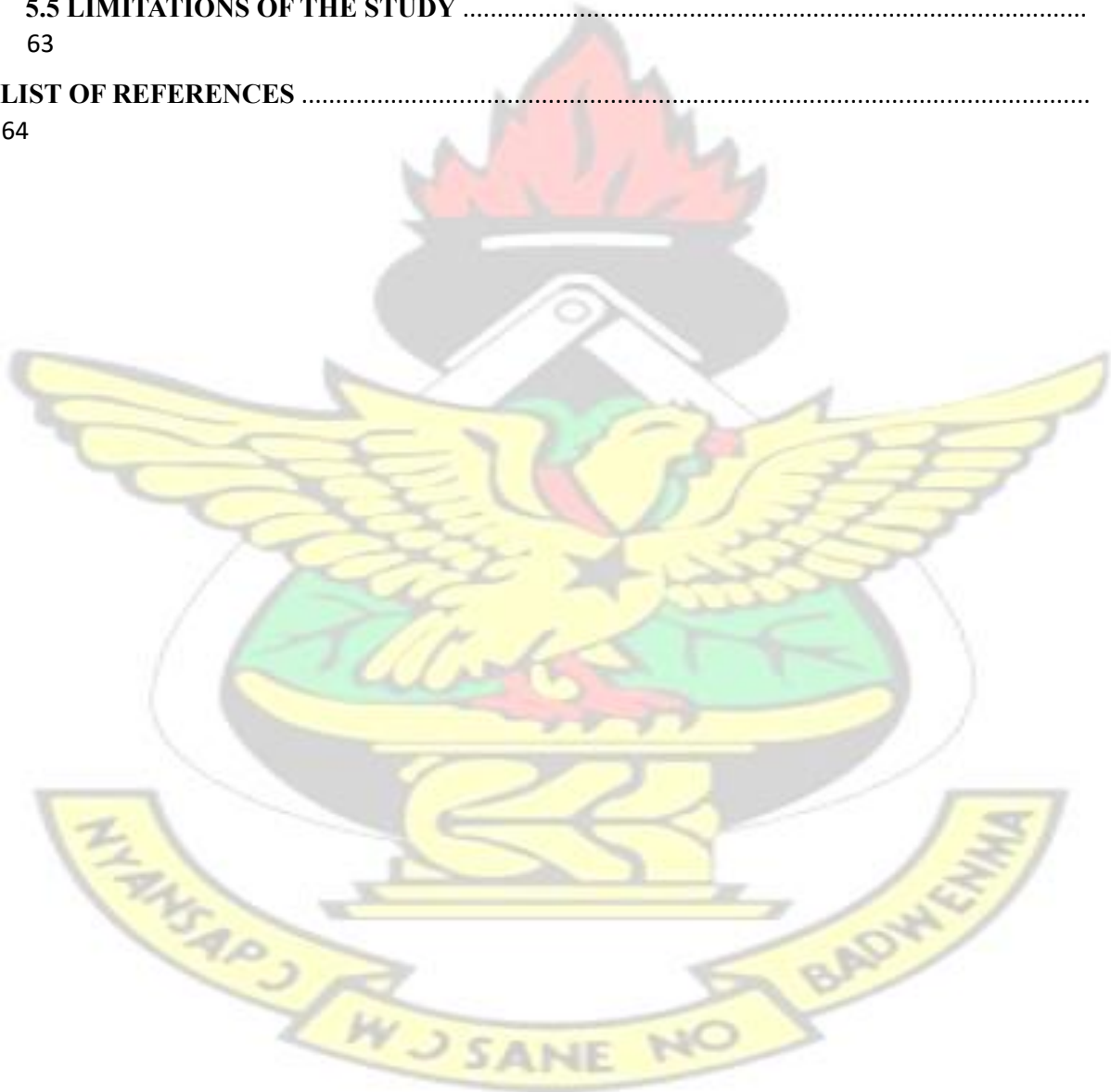
TABLE OF CONTENTS

DECLARATION.....	1
ACKNOWLEDGEMENT	1
DEDICATION.....	2
ABSTRACT	3
CHAPTER ONE	1
INTRODUCTION	1
1.1 BACKGROUND OF THE STUDY	1
1.2 STATEMENT OF THE PROBLEM	2
1.3 RESEARCH QUESTIONS	4
1.4 OBJECTIVES OF THE STUDY	4

1.5 SIGNIFICANCE OF THE STUDY	5
1.6 SCOPE OF THE STUDY	5
1.7 ORGANIZATION OF THE STUDY	5
CHAPTER TWO	7
LITERATURE REVIEW	7
2.1 INTRODUCTION	7
2.2 THEORETICAL LITERATURE REVIEW	7
2.2.1 Information Asymmetry Theory	7
2.2.2 Information Sharing Theory	10
2.3 CONCEPTUAL REVIEW	11
2.3.1 Definition of SMEs	11
2.3.2 Characteristics of SMEs in Ghana	12
2.3.3 Sources of Credit available to SMEs	13
2.3.4 Challenges facing SMEs	15
2.3.5 SMEs Contribution to Socio - Economic Development and Growth	19
2.3.6 Determinant of loan repayment	20
2.3.7 Credit Utilization.....	24
2.4 REVIEW OF EMPIRICAL LITERATURE	24
2.4.1 Accessibility of Credit	25
2.4.2 Utilization of Credit	26

2.4.3 Repayment of Loan	27
2.5 CONCEPTUAL FRAMEWORK	30
CHAPTER THREE	32
METHODOLOGY	32
3.1 INTRODUCTION	32
3.2 RESEARCH DESIGN	32
3.3 POPULATION OF THE STUDY	33
3.4 SAMPLE AND SAMPLING TECHNIQUE	33
3.6 VALIDITY AND RELIABILITY	35
3.7 DATA ANALYSIS	35
CHAPTER 4	36
ANALYSIS, FINDINGS AND DISCUSSION	36
4.1. INTRODUCTION	36
4.2. SOCIO-DEMOGRAPHIC CHARACTERISTICS OF SMES	36
4.2.1. The Access to Credit or Loan by SMES.....	38
4.3. UTILIZATION OF CREDIT OR LOAN OBTAINED BY SMES	42
4.4. ASSESSING THE DETERMINANTS OF LOAN UTILIZATION	45
4.4.1. Assessing the Amount of Time Taken For Loan Approval as a Determinant of Loan Utilization	46
4.4.2. Assessing Inflation as a Determinant of Loan Utilization	48
4.4.3. Assessing Location of Business as a Determinant of Loan Utilization	50
4.5. LOAN REPAYMENT PERFORMANCE BY SMES	56
CHAPTER 5	59

SUMMARY, CONCLUSION AND RECOMMENDATIONS	59
5.1 INTRODUCTION	59
5.2 SUMMARY	59
5.3 CONCLUSION	61
5.4 RECOMMENDATIONS	62
5.5 LIMITATIONS OF THE STUDY	63
LIST OF REFERENCES	64



CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The favorable effects of expanded access to microcredit on the lives of underprivileged entrepreneurs, especially women, are becoming increasingly recognized among development professionals (Alhassan & Akudugu, 2012). The timeliness with which small and medium-sized enterprises (SMEs) unlock their complete capabilities has a significant impact on the economic prosperity of any nation. Nearly 90% of all privately held businesses globally are SMEs, with the majority of them being found in developing countries (World Bank Group, 2018). According to academic and developmental studies, SMEs are the main drivers of most economies and have a considerable impact on most of them. According to Cingano et al. (2016), SMEs play a pivotal role in fostering the expansion of economies globally by establishing emerging sectors, thereby generating a significant portion of employment opportunities in developing countries. Private entrepreneurial companies, constituting approximately 90% of job creators, are responsible for employing about 52% of the workforce in majority of nations in sub-Saharan Africa (Agbola & Amoah, 2019). For instance, small businesses in the UK are responsible for 47% of private sector turnover and 60% of all jobs (FSB, 2019). As per Amoah's findings in 2018, SMEs comprise 92% of all officially registered businesses in Ghana and contribute to 85% of the country's workforce, as well as accounting for 75% of its GDP before the commencement of oil production. Globally, there is sufficient data to confirm that SMEs have trouble getting loans (Wang, 2016). Despite these admissions, SMEs still have trouble getting funding from banks since they generally work in the unorganized sector and lack the necessary knowledge, which increases their risk of financing.

This is a result of rising transactional costs for the banks and credit risk (Beck et al., 2015). Other factors cited as contributing to banks' unwillingness to lend to SMEs include the

owner/managers' lack of capacity or experience, an unfavorable setting for conducting business (Peci et al., 2012), and the actual effects of the global financial crisis of 2006–2009 on various nations' economies (Cingano et al., 2016). Contrarily, the current discussion has concentrated on issues including the accessibility of credit data and bank lending practices (Beck et al., 2018). According to the PwC Ghana Banking Survey from 2019, the shortage of funding for SMEs in Ghana is a problem that is widespread. According to an article by the African Development Bank on Ghana's economic prospects, the slow expansion of the country's economic activity can be attributed to SME enterprises' limited access to financing (IDEV, 2019). The fact that most SMEs in Ghana operate informally and are unable to offer quantitative data that is regarded as more dependable as a result of the inclusion of credit referencing into the financial architecture has been blamed for their inability to acquire financing (BOG, 2019). Loan repayment performance refers to a borrower's ability to meet their loan obligations promptly as specified in the loan agreement. Imbuga (2014) argues that gauging repayment performance involves assessing the extent of overdue payments and measuring the total loans paid on time, as stipulated in the loan contract. Organizations, including banks, offering creditbased products and services can evaluate an applicant's creditworthiness by examining their credit history, as highlighted by Triki & Gajigo (2014). When an applicant's credit history demonstrates a consistent and timely payment record for bills and financial responsibilities, it increases the likelihood of their credit application being approved by a lender. Banks can enhance their borrower assessment, selection, and monitoring processes by accessing credit reference information more affordably. This becomes particularly beneficial for expanding the availability of credit, especially during periods of economic growth, as noted by Loaba & Zohonogo (2019).

1.2 STATEMENT OF THE PROBLEM

Among the thirty-eight (38) newly created districts across the country is the Suame Municipal

Assembly. According to Legislative Instrument (L.I.) 2295 of 2017, it stands out as one of the five Sub-Metropolitan District Councils previously under the jurisdiction of the Kumasi Metropolitan Assembly that has been promoted to the position of a municipality. This municipality is situated in the heart of the Ashanti Region. To its east lies the Old Tafo Municipality, to the west is the Kumasi Metropolis, and to the north, it shares its boundaries with the Afigya Kwabre South District. It is ideally placed where intra- and inter-trading operations take place, around 319 kilometers north of Accra, the nation's capital (Suamema.gov.gh.2022).

The majority of enterprises and businesses in the region consist of micro, small, and medium-sized entities. There aren't many commercial banks and microfinance organizations in the municipality. These banks and microfinance organizations (MFIs) are now a vital part of the municipality's infrastructure for the development, maintenance, and survival of SMEs.

The expansion of the SMEs sector is still difficult despite the involvement of microfinance and other financial institutions that provide credit facilities to SMEs. The issue is whether SMEs have access to these loan facilities offered by financial institutions and whether they can make use of and repay the credits they have received from those institutions. These are problems that demand investigation.

This study has received a lot of attention from authors including Bridget Boateng (2014), K. N. Gyimah (2022), M. Arthur (2016), F. Nyanzu (2017), and Neg and Hussein (2016). However, the majority of them ignored loan repayment performance, which is crucial, and instead only paid attention to the SMEs' access to and use of credit. Suame Municipal was not used as a case study in any of the research. Therefore, the performance of the SMEs in Suame Municipal's loan repayment is examined in this paper. Soon after loan disbursements, borrowers are often compelled to begin repaying their loans in scheduled installments (Sungwacha et al., 2014).

Delinquent payments are those that are late, while defaulted payments are those that have not been made (Stiglitz and Weiss, 1981). Unfavorable conditions that may impact the borrower's capacity to repay could result in default on a loan (Stiglitz and Weiss, 1981). Financial institutions' financial health is weakened by loan repayment issues since they hinder their missions and endanger their capital. This study aims to critically evaluate the SME loan repayment performance in Suame Municipal in light of this issue.

The study's conclusions and suggestions will serve as a framework for individuals who wish to do additional research in relevant fields. The study's report will also serve as literature that advances and broadens our understanding of the subject at hand.

1.3 RESEARCH QUESTIONS

The study delves into the following research queries:

1. What difficulties do small and medium-sized enterprises encounter when trying to secure credit?
2. How do the SMEs utilize the loans offered to them by the financial institutions?
3. Are the SMEs able to pay their loans obtained from these financial institutions?

1.4 OBJECTIVES OF THE STUDY

This research has the main objective of examining how Small and Medium Enterprises (SMEs) in the Suame Municipal area obtain, employ, and reimburse loans. To achieve this aim, the study aims to fulfill the subsequent specific objectives: To assess the access to credit by SMEs in Suame Municipal

1. To examine the utilization of credits obtained by SMEs
2. To determine the loan repayment performance by SMEs in Suame Municipal
3. To assess the determinants of loan utilization.

1.5 SIGNIFICANCE OF THE STUDY

Government initiatives that seek to remove barriers to SMEs' access to funding can be informed by the study's findings, particularly in terms of loan availability. It would be crucial to prioritize the government's and the appropriate stakeholders' efforts in improving SMEs' access to finance if we were to understand how these factors affect it.

The study's conclusions will also be used by lending organizations as a guide for minimizing risks while still providing for the financial needs of Ghanaian SMEs. Additionally, it will advise SMEs on the elements that will increase their chances of getting financial institutions' outside investment.

It will also provide information on the repayment of credits by the SMEs in Ghana.

Finally, this study will add to the current body of literature concerning the financing of SMEs.

1.6 SCOPE OF THE STUDY

Since there are so many microbusinesses across the nation, it will be very challenging to research them all. The Suame Municipality, which has a noticeable level of development and a similarly noticeable influx of SMEs and MFIs, as well as the various people and groups within the SMEs sector who make up the clientele of these credit institutions, were the main subjects of the study.

1.7 ORGANIZATION OF THE STUDY

This work is structured into five chapters, each with its specific focus:

Chapter 1 provides a comprehensive introduction to the study, encompassing the background of the study, the statement of the problem, the research questions, the study's goals, its importance, and the study's limitations.

Chapter 2 is dedicated to reviewing pertinent literature that supports and informs the study.

Chapter 3 outlines the research methodology, including details on research design, the population and sample, sampling techniques, as well as data collection methods and sources.

Chapter 4 presents the results, along with their analysis and interpretation, derived from the collected data.

Finally, Chapter 5 encompasses a summary of the findings, conclusions drawn from the study, and recommendations put forth by the researcher.



CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter consists of a review of theoretical literature, an examination of empirical literature, and a conclusion for the chapter.

2.2 THEORETICAL LITERATURE REVIEW

In this study, concepts related to the accessibility, utilization, and repayment of loans by SMEs will be explored through the analysis of information asymmetry, information theory, moral hazard theory, adverse selection theory, and theory of information sharing. Additionally, the study provides a conceptual framework along with other related concepts.

2.2.1 Information Asymmetry Theory

Akerlof's 1970 paper titled "The Market for "Lemons": Quality Uncertainty and the Market Mechanism" introduced the concept of asymmetric information theory for the first time. From the perspective of asymmetric information, it underscores that information is often uncertain, acquiring it can be costly, and there exist substantial disparities in knowledge, as highlighted by Stiglitz (2000). For banks, getting detailed information about borrowers and keeping track of their behavior is prohibitively expensive due to the information asymmetry that characterizes imperfect credit markets. When one contracting party's understanding of the counterparty's true intentions and future plans is less than that of the other side, information asymmetry occurs. Knowledge asymmetries also occur when one set of individuals has more accurate or current knowledge than other groups.

Because of the unequal distribution of information, it becomes difficult for a potential lender or insurer to ascertain whether the seller is providing an accurate representation of the anticipated probability distribution related to potential outcomes linked with a contractual commitment (Berhanu, 2005). The asymmetric information model for SMEs makes the assumption that SME managers and insiders have access to private knowledge that financial institutions rarely have about the enterprise's features, return stream, or investment opportunities. Banks are aware of how much each of their borrowers' default costs will cost

them, but they are unable to pinpoint these costs individually due to information asymmetry. Reliable borrowers have a justification for agreeing to various stipulations in credit agreements with the bank (Slazak, 2011).

Because they typically have limited capitalization and assets, small and medium-sized enterprises (SMEs) are characterized by elevated risk and a substantial likelihood of business failure. Additionally, data is rarely available to SMEs, and when it is, it is frequently unreliable, creating an information asymmetry issue. Loan defaults by SMEs have not decreased despite financial institutions' usage of collateralization to address issues brought on by asymmetric information in business and lending.

2.2.1.1 The Adverse Selection Theory

Stiglitz and Weiss' (1981) original adverse selection theory serves as the precursor to this concept. As stated by Karlan and Zinman (2004), adverse selection occurs when borrowers possess characteristics that remain hidden from the lender but significantly influence their ability to repay the loan. This theory is built on two fundamental premises: first, that lenders are unable to differentiate between borrowers with varying levels of risk, and second, that loan agreements come with limited liability, meaning the borrower is not obliged to make cash payments if project returns fall short of debt obligations (Berhanu, 2005).

In line with the adverse selection theory, a bank faces difficulty in distinguishing between safe and risky borrowers. In this scenario, the lender lacks information regarding the risk levels of its borrowers. Riskier borrowers should logically be charged higher interest rates to account for the increased likelihood of default compared to safer borrowers, who pose a lower default risk. However, for this differentiation to work effectively, each borrower type must be accurately identified. Because the lender possesses incomplete information regarding the risk profiles of borrowers, it results in higher average interest rates being applied to all borrowers, regardless of their individual risk profiles (Armendariz & Morduch, 2010).

Before approving a loan, credit providers put their candidates through a thorough screening process to address adverse selection issues; this has been successful in lowering SME loan default rates.

Several hypotheses regarding loan repayment have been covered in this section. Initially, the theory of information asymmetry offers insight into why banks can assess the general credit risk of their clients but struggle to precisely identify the exact default costs associated with individual borrowers. According to the moral hazard theory, banks are unable to monitor borrower behavior, placing them at a higher default risk when dealing with subprime borrowers. Additionally, because most loans for small and medium-sized businesses are issued for working capital requirements and business expansion, most borrowers fail to uphold the terms of the arrangement.

Finally, according to the theory of adverse selection, banks are unable to distinguish between safe and risky borrowers.

2.2.1.2 The Moral Hazards Theory

Moral hazard involves the lender's challenge in verifying whether the loan given to borrowers serves its intended purpose or if the borrower commits the expected resources, particularly effort and entrepreneurial skill, which form the basis of the agreement to secure the loan. If these resources fall short of expectations, it may result in the borrower's reduced ability to repay the loan (Ghatak & Guinnane, 1999).

Another dimension of moral hazard emerges from the difficulty banks face in monitoring borrower behavior, which is particularly pronounced when dealing with financially disadvantaged borrowers. Consequently, when borrowers fail to meet their obligations to the lending institutions, a moral hazard situation arises. Most business loans are extended with the aim of promoting business expansion and augmenting operational capital. However, there are instances when certain borrowers deviate from their commitments to the financial institutions

(Makorere, 2014). This diversion of funds creates moral hazards, potentially affecting the ability of small and medium-sized businesses to repay loans because the loan was diverted from its originally intended commercial purpose.

2.2.2 Information Sharing Theory

Sharing information represents a vital strategy for mitigating both moral hazards and adverse selection. As mentioned in Fuentes and Maquieira's work (2000), referencing Pagano and Jappelli (1993), the act of sharing information can function as an initial filtering mechanism within the financial market, offering some relief to the adverse selection issue. This arrangement tends to be more prevalent when borrowers are diverse, the credit market is substantial, and the cost of information sharing is reasonable. The act of sharing information enhances a borrower's commitment to repay the loan, thereby reducing moral hazard concerns. Because borrowers are aware that the bank will eventually share default information with other lenders, exposing their creditworthiness to the market, financial institutions offer incentives to borrowers to make every effort to fulfill their loan obligations. This system ensures lower interest rates and default rates.

Stiglitz and Weiss (1981) argue that when lenders possess more information about borrowers, including their credit histories or relationships with other lenders, they become less concerned about financing unviable projects and are thus more willing to extend credit. Consequently, the level of information held by each party in a credit transaction significantly influences the nature of credit agreements, the effectiveness of credit markets in matching borrowers with lenders, and the role of interest rates in allocating credit among different borrowers. This, in turn, leads to distinct roles for various types of lenders and borrowers within the credit market.

2.3 CONCEPTUAL REVIEW

The objective of the conceptual literature review is to organize and explain the relevant concepts associated with the study or subject while also establishing connections or relationships between them.

2.3.1 Definition of SMEs

There are diverse definitions for small-scale enterprises, but the most frequently employed criterion involves the count of employees within the enterprise. (Kayanula and Quartey, 2000).

According to the Industrial Statistics provided by the Ghana Statistical Service (GSS), firms employing fewer than 10 individuals are considered small-scale enterprises, while those with more than 10 employees fall into the category of medium and large-sized enterprises. Paradoxically, in its national accounts, the Ghana Statistical Service designates companies with up to nine employees as small and medium enterprises.

As Mensah (2005) reports based on data from the Registrars' General Department, a significant 90% of registered firms in Ghana can be categorized as micro, small, and medium enterprises. These enterprises hold paramount importance as contributors to both revenue generation and employment, earning them recognition as a driving force behind the nation's economic growth. However, obtaining comprehensive information about this segment of businesses is often challenging. Mensah highlights that in 1998, the Ministry of Trade and Industry (MOTI) made an estimation indicating the presence of 220,000 registered partnerships and 80,000 registered limited firms in Ghana. Data from the Social Security and National Insurance Trust (SSNIT) reveals that 90% of private sector businesses in Ghana employ fewer than 20 individuals, and only a few large-scale organizations exist. An additional criterion used to classify small and medium-sized firms is the value of fixed assets within the company. The National Board of Small Scale Industries (NBSSI) in Ghana, however, takes into account both the fixed asset and staff count criteria. According to NBSSI, a small-scale firm is one that employs no more than nine people and has plant and machinery (excluding land, buildings, and cars) valued at no more than 10 million cedis (equivalent to US\$ 9506, based on the 1994 exchange rate).

In contrast, the Ghana Enterprise Development Commission (GEDC) utilizes the same 10 million Cedis upper limit for plant and machinery. However, it's important to exercise caution as the process of valuing fixed assets can pose challenges, and the continuous depreciation of

exchange rates can render such definitions obsolete. Steel and Webster (1991) and Osei et al. (1993), in their definitions of small-scale enterprises in Ghana, employ an employment threshold of 30 employees to indicate small-scale enterprises. The latter, though, further breaks down small-scale enterprises into three distinct categories:

1. Micro: having a staff of fewer than 6 individuals.
2. Small: comprising teams with 6 to 9 employees.
3. Medium: consisting of workforces ranging from 10 to 29 employees.

Based on the diverse definitions provided earlier, it becomes evident that there is not a universally accepted definition for a small or medium-scale enterprise. Consequently, the need arises for a practical working definition.

2.3.2 Characteristics of SMEs in Ghana

Small and medium-sized enterprises (SMEs) stand apart from larger corporations due to the latter's direct access to both national and international financial markets. In contrast, SMEs face exclusion from these markets due to the higher costs associated with intermediation in their more modest ventures. Furthermore, SMEs encounter limitations when it comes to marketing their products internationally, all while bearing the same fixed expenses as larger enterprises when complying with regulatory requirements (Kayanula & Quartey, 2000).

Within Ghana, SMEs can be divided into urban and rural enterprises. Urban SMEs can be further categorized as either 'organized' or 'unorganized.' Organized enterprises typically have registered offices and are predominantly owned by individuals. In contrast, unorganized enterprises primarily consist of artisans who operate in open spaces, temporary wooden structures, or their homes and employ few or, in some cases, no salaried workers. They primarily rely on family members or apprentices.

Rural enterprises in Ghana are predominantly run by families, individual artisans, and women engaged in producing food from locally sourced crops. According to Kayanula & Quartey (2000), the key activities within this sector encompass a wide range, including the production

of soap and detergents, fabrics, clothing, textiles, leather goods, village blacksmithing, timber and mining, brick and cement production, beverages, food processing, wood furniture, electronic assembly, agroprocessing, chemical-based products, and mechanics (Liedholm & Mead, 1987; Osei et al., 1993).

This industry is characterized by low levels of education and training for the self-employed. Most of these enterprises are family-operated, with no clear distinction between personal and business finances, to the extent that an owner's or operator's personal account may be synonymous with the company's.

In Ghana, SMEs encompass a diverse array of businesses, including service providers like restaurants, consulting firms, and software companies, as well as small workshops engaged in the production of apparel, metal components, furniture, and various other items. Among them, some are considered "livelihood" businesses content with remaining small, while others exhibit innovation and a growth-oriented approach.

2.3.3 Sources of Credit available to SMEs

Many small firms struggle to obtain the initial or supplemental cash they require. Financial institutions cannot be convinced of the company's potential without a broad list of assets or a track record of success. SMEs have serious challenges in the area of financing. There are places one can turn to for credit when commercial banks refuse to. The following are the sources of credit for many SMEs:

i. Credit Unions and other local Financial Companies

Small-business owners can take advantage of specialized loans from many smaller neighborhood banks and credit unions that may have fewer restrictions than those provided by larger commercial banks. For owners of small businesses, this can be a tremendous benefit.

Due to the smaller regional area, they will first have to compete against much fewer opponents. Second, a credit union or other neighborhood bank will be more inclined to want to support your community by investing in local companies.

ii. Grants

Both public and commercial groups offer assistance to anyone wishing to start a new business or support an established one that wants to grow. These are frequently aimed at particular underrepresented groups or niche markets with significant demand. Although writing grants requires time and a certain level of expertise, the work is unquestionably worthwhile. The best part is that SMEs don't have to repay grants, which enables them to start up without having to make a lot of payments before they start making money.

iii. Family members and Friends

For startup business owners, there is no more reliable source of funding, but many people are too ashamed to ask their friends and family for help. Even if the banks do not, your family or friends will still have faith in you. A relative is also less likely to charge outrageous interest and is more likely to accept a flexible payback timeline.

iv. Personal Resources

The personal savings of business founders and partners are once again noted by Longenecker et al. (1994) as constituting an essential source of money, particularly during the early phases of a firm. Additionally, gifts from individuals aid in securing more money from other sources. When they make substantial financial commitments, potential investors usually have a lot of faith in a company's founders. Kuriloff et al. (1993) additionally consider other personal resources in addition to personal funds. These include borrowing while pledging personal property, like a house and bonds, as security.

v. Business Suppliers

If business owners can establish a history of on-time payments or otherwise show the creditworthiness of the enterprise, suppliers will frequently grant credit to buy their goods and services.

vi. Joint Venture

Strategic alliances come in a variety of forms and are now frequently employed in business. One such important kind of strategic cooperation is joint ventures. A joint venture often entails the joining of two or more businesses to create a new entity. Creating a joint venture is mostly done to increase profitability and obtain a competitive edge. Synergy is frequently attained by pooling the resources of the companies taking part in a joint venture. The new business might be able to provide a service more quickly, provide goods at a lower cost, or make better use of resources like space or money. The businesses involved end up making more money as a result of this than they would have individually. Another typical objective of joint ventures is financing. Particularly smaller businesses often reap the benefits of larger businesses' often stronger financial standing. Additionally, because creditors' and investors' confidence in the new company is frequently higher, joint ventures stand a better chance of securing financing or raising more equity. As their asset base grows, they offer a higher guarantee for creditors' cash as a combined organization.

2.3.4 Challenges facing SMEs

Cuevas et al. (1993) state that multiple research works have consistently pointed out that Small and Medium Enterprises (SMEs) encountering challenges in accessing bank financing act as a notable hindrance to the growth of the industrial sector. The reported obstacles faced by SMEs in securing bank loans are often linked to their inability to furnish substantial collateral. They argue that the system of regulations in place currently controlling land ownership and transfer obstructs and, to some extent, inhibits access to formal funding. First, because there are few legal titles to much usable property in Ghana, the extent of real property that can be offered as

collateral is restricted. Additionally, a governmental prohibition on the transfer of familial and communal land has additionally constrained the availability of land suitable for use as collateral. Lastly, in cases where the title or lease is unambiguous and transferable, unnecessary regulations regarding transfers cause avoidable delays in finalizing mortgages, consequently impeding timely access to borrowed capital (p. 24).

From the perspective of the private sector, Aryeetey et al. (1993) concurred with Cuevas et al. (1993) in emphasizing that financial issues surpass all other barriers to growth (p. 50). They emphasized that the willingness of banks to cater to the needs of the private sector is significantly influenced by the presence of collateral. Collateral serves as an incentive for repayment and a means to mitigate potential losses in the event of default. Consequently, their study on financing supply and demand for small businesses in Ghana revealed that over 75% of the sampled companies seeking loans had to provide collateral (p. 19). The report also indicated that 65% of the entire sample of companies had, at some point, applied for a bank loan for their businesses. However, a substantial portion of these applications was rejected by banks, with nearly a 2:1 likelihood of loan applications from businesses being declined. In most cases, companies received loans for amounts significantly lower than what they initially requested. The primary reason cited by banks for rejecting company loan applications was the absence of adequate collateral, which typically took the form of real estate property. Aryeetey et al. (1994) noted that banks may accept guarantors, sales contracts, and liens on financed equipment as alternatives to real estate collateral.

Dr. Kwadwo Ansah Ofei (JEL: G21, I30, N27) echoed the aforementioned findings. He argued that the stringent banking procedures pose obstacles for small and medium-sized businesses in securing loans. He categorized these hurdles into two groups: Formal bank procedures, which concentrate on relatively small transactions and involve various pre-screening criteria for clients. These include minimum deposits, track records, feasibility studies, and the provision

of collateral. Informal banking practices, on the other hand, encompass personal connections, family ties, and business relationships.

The fear of danger, particularly the potential loss of their money (as SME operators), deterred them from seeking a loan, according to Dr. Ansah Ofei's Journal.

Because it is harder for SMEs to obtain capital for start-ups and expansion, they have greater difficulty operating their businesses than huge corporations do. Schiffer and Weder's (1991) study suggests that small businesses generally encounter greater difficulties compared to medium-sized businesses, and in turn, medium-sized businesses also confront more challenges compared to large businesses. Lending to small firms and entrepreneurs is still scarce in the majority of countries, particularly in developing countries, because financial intermediaries are wary of doing so because of the high risk, small portfolios, and high transaction costs associated with such businesses.

The cost of transactions hinders SMEs' access to financing, according to Cuevas et al. (1993). The net margin banks expect from loan operations, in their judgment, does not compare favorably to the secure investment represented by Treasury bonds if the transaction expenses of lending are considerable (p. 30). According to Aryeetey et al. (1993), if a lender has knowledge asymmetry, the problem frequently arises from the somewhat persuasive influence he or she holds in securing repayment. Due to the high probability of default and the need to control it, these increase transaction costs. Lenders may therefore refrain from lending to smaller or less well-known clients or place high collateral requirements on those they do. They might view customers in a way that contradicts how those clients view the difficulty of obtaining formal financing.

When determining "whether lending to SMEs in Ghana was more expensive than lending to larger enterprises in terms of loan screening, loan monitoring, and contract enforcement," banks estimate that the process of gathering applicant and project details, feasibility study review,

credit analysis, and decision-making takes an average of 16 days for large-scale applicants and 24 days for small-scale applicants. Nevertheless, a study conducted in 1992 by Aryeetey and Seini, which investigated lending transaction costs across sixty bank branches in Ghana, indicated that there wasn't a statistically significant contrast in the cost of managing loans for smaller and larger enterprises. Comparable findings for loan monitoring and contract enforcement, however, imply that the transaction expenses for lending to SMEs were higher compared to those for larger enterprises on a per-loan basis.

They add that most banks' internal structures place significant decisions in the hands of executives at the head office who have little familiarity with small businesses, while SMEs requesting loans deal with branch workers who have little say in the matter. This approach ensures that a significant number of potential SME borrowers won't have the opportunity to communicate with the limited number of proficient project staff members before they submit their applications. Due to a lack of unverified information, distant credit officers are likely to reject a large number of potentially excellent projects, especially those involving entrepreneurs.

Despite the fact that SMEs are very interested in credit, commercial banks may decide not to offer credit to SMEs due to the increased transaction costs and risk involved due to their focus on profits. First, because SMEs often have smaller borrowing requirements, processing fees for loans tend to be higher than loan amounts. Second, because the success of small businesses frequently depends greatly on the entrepreneur's skill, it is challenging for financial institutions to collect the data required to evaluate the risk of new, unproven ventures. Third, it is believed that new small businesses have a significant likelihood of failing (Ibid., pp. 24–27).

However, Cuevas et al. (1993), asserts that there are practical limitations to other loan security options except real and movable property. For instance, it is feasible to obtain a security interest in liquid assets, which can be quickly foreclosed upon in contrast to real and moveable property.

However, numerous debtors, especially traders, tend not to keep their funds in easily accessible accounts. Instead, they either move it to the informal market or reinvest it into their businesses. An alternative possibility is for banks to consent to borrowers transferring contractual benefits. While this practice is recognized in Ghana, banks are not inclined towards it, as they prefer to avoid entering into supplementary agreements, as noted by Cuevas and colleagues (1993).

2.3.5 SMEs Contribution to Socio - Economic Development and Growth

"The private sector acts as the driving force behind economic growth, and it's imperative to equip it with the necessary tools for fostering its expansion," as highlighted by Anyima-Ackah (2006).

Economic development denotes a process of economic transformation, encompassing structural changes such as industrialization, the rise in Gross National Product (GNP), and per capita income growth. Economic growth, on the other hand, contributes to the overall prosperity of the economy. It is desirable because it allows the economy to consume and contribute to more goods and services by boosting investments, expanding the labor force, optimizing inputs to increase output, and embracing technological advancements. When a nation experiences both economic development and growth, it reaps benefits in terms of improved living standards, particularly when the government complements these with supportive monetary and fiscal policies, as noted by Pass et al. (1993).

The Small and Medium-sized Enterprise (SME) sector holds significant importance in numerous economies. It serves as a source of employment, tax revenue, innovation, and a key driver of global market participation for countries. Beck and Kunt (2004) emphasize that the relationship between SME activity and economic growth is vital, especially considering the substantial resources allocated to the SME sector in developing nations by international bodies like the World Bank group.

In Ghana, SMEs make up nearly 93% of registered businesses, playing a pivotal role in economic development by generating employment opportunities, fostering entrepreneurship,

stimulating creativity, and opening up new business avenues, among other contributions. Kayanula and Quartey (2000) recognize SMEs as the engines through which developing countries can achieve their growth objectives and as potential sources of income and employment. Mensah (2005) aptly describes SMEs as absorbers of surplus labor, significantly contributing to employment and income in Ghana.

Various scholars assert that SMEs enhance entrepreneurship and competitiveness, making them eligible for direct government support to expedite economic development. Moreover, SMEs, being labor-intensive and adept at utilizing limited resources with minimal capital, have the capacity to create more jobs compared to large corporations. Hellberg (2000) suggests that emerging countries should take a keen interest in SMEs, given their substantial presence in businesses and economic growth within these nations. In addition to being employment generators, Young (1994) underscores that SMEs are vital for fostering efficiency, growth, and economic decentralization.

Most importantly, SMEs play a crucial role in poverty alleviation, particularly in emerging nations where poverty is most severe. They significantly contribute to government efforts to reduce poverty, often providing the sole employment opportunities in rural areas and hiring low-wage and marginalized workers.

2.3.6 Determinant of loan repayment

Repayment of loan signifies the action of giving back borrowed funds to a lender. Regular payments, encompassing both the principal and interest, are commonly employed to replenish the amount. The principal of a loan represents the initial sum borrowed. The borrower gains access to the funds provided by the loan and, in exchange, agrees to pay interest; interest serves as compensation for the privilege of borrowing money. Although some contracts could have an early repayment cost, loans are typically also able to be entirely repaid in one single sum at any time (Alexandria Twin, 2021).

Bhatt and Tang (2002) identify several influential factors, including gender, age, industry experience, educational background, income level, business sector, the formal nature of the borrower's business, social connections to the borrower, group cohesion, repayment duration, loan type (whether in cash or kind), loan amount, distance between the borrower's business and the lending institution, and the borrower's eagerness to access future loans. According to studies, female borrowers do better when it comes to loan repayment than male borrowers (Roslan and Abd Karim, 2009; Mokhtar et al., 2012; Bennett and Goldberg, 1993). This is because they have a reduced chance of default.

According to Bennett and Goldberg (1993), this may be the result of women using microcredit as a means to strengthen their family's economic situation. Godquin (2004) conducted a study but found no statistically significant difference in repayment performance between male and female borrowers.

The age of the borrower is also observed to affect loan repayment performance (Mokhtar et al., 2012). Borrowers between the ages of 18 and 25 are at a higher risk of default than older borrowers due to their inexperience. Since they have more stable businesses and more consistent cash and revenue flows, borrowers with greater business experience typically do better in terms of payback (Bhatt et al., 2002).

Furthermore, research (Nitin et al., 2002; Matin, 1997; Khandker et al., 1995; Bhatt and Tang, 2002) demonstrates that educated borrowers have a lower default risk. Borrowers are supported by education in two ways. First, improved arithmetic and accounting abilities can help borrowers in their commercial endeavors. Second, borrowers with more education are more likely to get a second job or part-time employment. As a result, when individuals encounter difficulties, they can pay back their debts with fewer issues (Bhatt et al., 2002). According to an empirical study conducted in Pakistan, debtors with only an elementary education do better in terms of payback than those with no formal education. According to Chaudhary et al. (2003),

education boosts borrowers' productivity and gives them a better grasp of microfinance schemes. Education is especially important for microfinance consumers living in developed countries due to the complexity of the products and services there (Bhatt et al., 1999). In addition, loan repayment varies among various business sectors. According to Chaudhary et al. (2003), unlike non-agricultural companies, agricultural enterprises, like farming, are vulnerable to weather conditions. As another illustration, Sirola (1992) reveals that individuals engaged in informal occupations like handymen and street vending have limited access to credit sources. Consequently, borrowers involved in such informal businesses often exhibit a reduced risk of loan default since microfinance loans frequently represent their sole available credit source, motivating them to preserve their credit history.

Other significant factors to consider include the characteristics of borrower groups and their social connections. Older groups tend to exhibit superior repayment performance compared to younger ones (Godquin, 2004). However, the duration of a member's participation in a group may adversely affect loan repayment. This phenomenon occurs because older group members may be less inclined to impose penalties in cases of default, resulting in decreased loan repayment (Paxton, 2000). Greater homogeneity within groups is associated with improved repayment performance (Ghatak, 1999) because shared socio-economic backgrounds can foster "kinship ties" that promote mutual oversight among group members and provide incentives for loan repayment (Bhatt et al., 2002, p. 367).

Likewise, the social environment is anticipated to exert an influence on loan repayment performance. For example, Besley and Coates (1995) reveal that interpersonal relationships enhance loan repayment performance by amplifying peer pressure and peer monitoring. A study conducted by Wydick (1999) on 137 credit groups in Guatemala underscores the substantial enhancement in repayment performance among both rural and urban borrowers resulting from peer pressure and peer monitoring. Khandker (1996) demonstrates that penalties such as social

sanctions, public humiliation, and social exclusion have a positive impact on loan repayment performance.

Characteristics of loans, including the repayment duration, whether they are provided as cash or in-kind, and their size, play a pivotal role in shaping how well borrowers adhere to repayment schedules. If the repayment period is exceedingly brief, the potential for generating returns on investment during that timeframe diminishes. Conversely, if the repayment term is excessively protracted, borrowers might be tempted to allocate the surplus funds towards non-productive expenditures, particularly for personal consumption (Chaudhary, 2003, p. 682).

Borrowers who receive loans in-kind, such as seeds, fertilizers, or equipment, tend to exhibit better loan repayment behavior when compared to those receiving cash loans. This discrepancy primarily arises from the fact that borrowers may employ cash loans for purposes unrelated to their business activities (Okorie, 1986). Furthermore, a larger loan size augments a borrower's expected profits. This is due to the fact that "the net return increases with the loan size, and borrowers consistently prefer larger loans" (Godquin, 2004, p. 1911).

Contrarily, Fremier et al. (1965) demonstrated that enlarging the loan size leads to a deterioration in loan repayment rates. Godquin (2004) argues that a larger loan size can render it more challenging for borrowers to meet their repayment obligations within a specified time frame. However, Matin (1997) found that the size of the loan does not have a significant influence on loan repayment performance.

Repayment performance is also impacted by the distance between the borrower's place of business and the lending office of the microfinance organization. People who live closer to the lending office can communicate with the MFI more easily. This enables the MFI to offer more effective aid when it is required. Borrowers also have more time to work on their own enterprises because they commute less because they are closer to the loan office (Bhatt et al.,

2002). One of the factors that affects loan repayment is motivation. The primary driver of loan payback for MFIs is the borrowers' hope of getting additional loans, as these institutions often do not need considerable collateral (Field and Pande, 2008).

2.3.7 Credit Utilization

Credit utilization refers to the portion of your total available credit that you utilize. It serves as a gauge of how much of your available credit you use at any given time, offering lenders insights into your credit management.

In the case of numerous small and medium-sized enterprises (SMEs), these credits are often employed to procure essential business supplies while a portion of the profits is allocated to funding their children's education. Business owners are consequently empowered to extend their children's schooling periods and make more substantial investments in their educational pursuits. Enhanced income generated through financial institutions leads to improved nutritional standards and enhanced living conditions, resulting in a reduced occurrence of illness. Additionally, increased earnings enable business proprietors to access and afford healthcare services when necessary, instead of forgoing treatment or waiting until their health deteriorates significantly. When effectively harnessed, the tangible benefits provided by financial institutions can extend beyond individual households and positively impact the broader community. Credits furnished by financial institutions play a pivotal role in addressing the financial requirements of both households and SMEs.

2.4 REVIEW OF EMPIRICAL LITERATURE

This section draws upon empirical data derived from research studies, as well as the insights and observations of scholars who have investigated the subject of loan accessibility and repayment within Small and Medium-sized Enterprises.

2.4.1 Accessibility of Credit

Numerous research studies have consistently demonstrated a positive correlation between the size of a firm and its ability to secure financing from financial institutions (Berger & Udell, 2006; Binks & Ennew, 1996; Brent & Addo, 2012). Kounouwewa and Chao (2011), focusing on African countries, found that banks often use firm size and ownership as primary criteria when making loan approval decisions. Gregory, Rutherford, Oswald, and Gardiner (2005), in their investigation into the growth cycle of SME financing, established that larger firms are more inclined to seek external funding sources like public equity or long-term debt as opposed to relying solely on internal financing, primarily because of their greater accessibility to such options. Additionally, a firm's financial attributes, such as liquidity, profitability, and asset holdings, also influence its ability to access external financing (Caneghem & Campenhout, 2012; Neeley & Auken, 1996).

According to the 2010 Population and Housing Census, approximately 80% of the working population is engaged in the private informal sector. This sector faces a notable challenge of limited access to credit, which hampers its development and growth, ultimately impacting the broader economy. It's evident that access to financial services is essential for nurturing the informal sector and plays a pivotal role in channeling excess liquidity into savings that can subsequently serve as investment capital for national development. Unfortunately, despite the crucial role that microfinance institutions have played in the economy, especially in the last two decades, there is a significant dearth of data pertaining to their operations.

Ibeleme, Okpara, and Odionye (2013) conducted a study that examined the relationship between the size of loans and the repayment performance of small-scale oil palm producers and processors in Nigeria, with a focus on Abia State. The study involved interviewing 90 respondents, consisting of 54 producers and 36 processors, who were randomly selected. The researchers employed the Ordinary Least Square technique to analyze the data and draw conclusions.

The data analysis revealed that among oil palm processors, the size of the loan was significantly influenced by factors such as processing experience, gross annual income, and the interest rate. In the case of farmer borrowers, the key determinants of loan size were found to be educational level and interest rate, aligning with the researchers' prior expectations, as indicated by the signs of the coefficients of the relevant variables. Regarding loan repayment rates and creditworthiness ratings, the results of the data analysis demonstrated that factors such as the loan-to-asset ratio and the distance between the borrower's residence and the source of the loan played significant roles in determining the loan repayment rate.

2.4.2 Utilization of Credit

A study by Fulford and Schiantarelli (2011) examined how firms utilize bank credit and its impact on investment and productivity growth. Agarwal and Mazumder (2013) explored the impact of student loan debt on household consumption and homeownership. Brown and Petersen (2011) investigated the relationship between loan use by small businesses and subsequent performance. Lusardi and Tufano (2015) explored the impact of high-interest borrowing on financial capability and well-being. These studies, among others, contribute to understanding the nuances of loan utilization, its drivers, consequences, and implications for individuals, businesses, and the economy as a whole.

The initial concern revolves around the possibility that clients' intended purposes for taking out loans may differ from how they actually use the funds in the microfinance institution (MFI) credit market (Johnson & Rogaly, 1997). Empirical evidence, as seen in Ethiopia, indicates that clients frequently redirect loans towards unproductive endeavors (as documented by Belay, 2002; Getaneh, 2002; Borchgrevink et al., 2005). However, there is a mixed body of research on whether this diversion of funds has detrimental effects on clients' financial stability.

Furthermore, MFIs employ stringent measures, including peer pressure, fieldworkers, and potentially legal actions, to ensure loan repayment, regardless of the clients' circumstances.

Nevertheless, impoverished clients may resort to risky financial sources to fulfill their MFI repayment obligations. Ledgerwood (1999) emphasized the importance of tailoring loan product design, credit delivery methods, and monitoring systems to meet the specific needs of clients. When MFIs successfully design their financial services, clients are more likely to utilize and repay loans effectively. For instance, evidence from Ethiopia, as presented by Getaneh (2005), highlighted that the inflexibility of ACSI (an MFI) has constrained clients' investments and income-generation.

Moreover, MFIs often lack qualified personnel who possess both social development and financial management backgrounds (Ledgerwood, 1999). Employee commitment, an understanding of local culture, and altruistic behavior are particularly crucial in the provision of microcredit services by MFIs.

Lastly, the socio-economic characteristics of clients are inherently significant. Studies have demonstrated that factors such as gender, age, education level, religion, asset ownership, and occupation influence how clients utilize and repay their loans.

2.4.3 Repayment of Loan

Ezihe, Oboh, and Hyande (2014) conducted research aimed at assessing the loan repayment performance of small-scale maize farmers in Kanke Local Government Area, Plateau State, Nigeria. They employed statistical methods, including percentages, means, and multiple regressions, on a sample of 90 randomly selected farmers. The study found that, on average, farmers received loans amounting to 75,000. A significant portion of these farmers engaged in mixed varieties of maize cultivation. Key challenges affecting loan repayment included delayed loan disbursement, low market prices for agricultural produce, and high interest rates. To address these issues, the study recommended providing larger loans to farmers through formal channels, ensuring prompt disbursement to prevent diversion, and delivering comprehensive loan management training to successful applicants.

Kapsalis (2006) explored the factors influencing student loan repayment in Canada by utilizing data from the Canada Student Loans Program database and administrative records from the Statistics Canada Longitudinal Administrative Database. The research primarily examined variables such as loan status, borrowers' annual income, and total loan amounts. The study revealed that students' ability to repay their loans was primarily determined by their future earnings rather than the size of their debt, except when high loan amounts coincided with low incomes. The type of education, including the degree, field of study, and institution type, significantly affected future earnings and the likelihood of loan repayment.

Derban et al. (2005) categorized the causes of loan non-repayment into three main areas: borrower-related factors, characteristics of lending institutions and loan products, and systematic risks stemming from external factors such as economic, political, and business environments in which borrowers operate.

Vigenina & Kritikos (2004) discovered that individual lending involves three pivotal components: the requirement for non-traditional collateral, a screening procedure that integrates both novel and conventional elements, and dynamic incentives coupled with the prospect of loan termination in the event of non-payment. These elements contribute to high repayment rates of up to 100 percent.

Roslan Abdul Hakim et al. (2007) concluded in their study that close and informal relationships between Microfinance Institutions (MFIs) and borrowers can facilitate monitoring and early detection of repayment issues. Additionally, cooperation and coordination among various agencies supporting borrowers can enhance their business success. The study compared practices and performance among selected MFIs in Malaysia.

Addisu (2006) categorized repayment challenges into four factors: borrower-related causes, business operation-related causes, lender-related causes, and external factors.

Bassem (2008) examined the primary factors influencing the repayment performance of group lending. The study found that factors such as internal conduct rules, engaging in the same type of business, familiarity with other group members, peer pressure, self-selection, gender, education, and non-financial services had positive effects on repayment. Conversely, group homogeneity and marital status negatively impacted repayment.

Sileshi, Nyikal, and Wangia (2012) investigated the determinants of loan repayment performance among smallholder farmers in Ethiopia. Their findings indicated that factors such as the agroecological zone, engagement in off-farm activities, and technical assistance from extension agents positively influenced loan repayment. On the other hand, factors like production loss, informal credit, social festivals, and high loan-to-income ratios negatively affected repayment.

Mensah et al. (2013) investigated the correlation between loan default and repayment timetables within microfinance institutions in Ghana, focusing on Sinapi Aba Trust. They found no significant relationship between loan default and repayment schedules but identified factors like interest rates, moral hazard, over-borrowing, irregular loan officer visits, and lack of collateral as contributors to loan default.

Al-Sharafat, Qtaishat, and Majdalawi (2013) investigated the loan repayment performance of the Agricultural Credit Cooperation in Jordan over 52 years. They found a high repayment rate and identified factors such as loan volume, borrower experience, and staff size as significant contributors to the organization's success.

Ojiako, Idowu, and Ogbukwa (2014) delved into the loan repayment performance of smallholder farmers in Yewa, Nigeria. They found that non-farm income positively influenced repayment, while loan size had a negative impact.

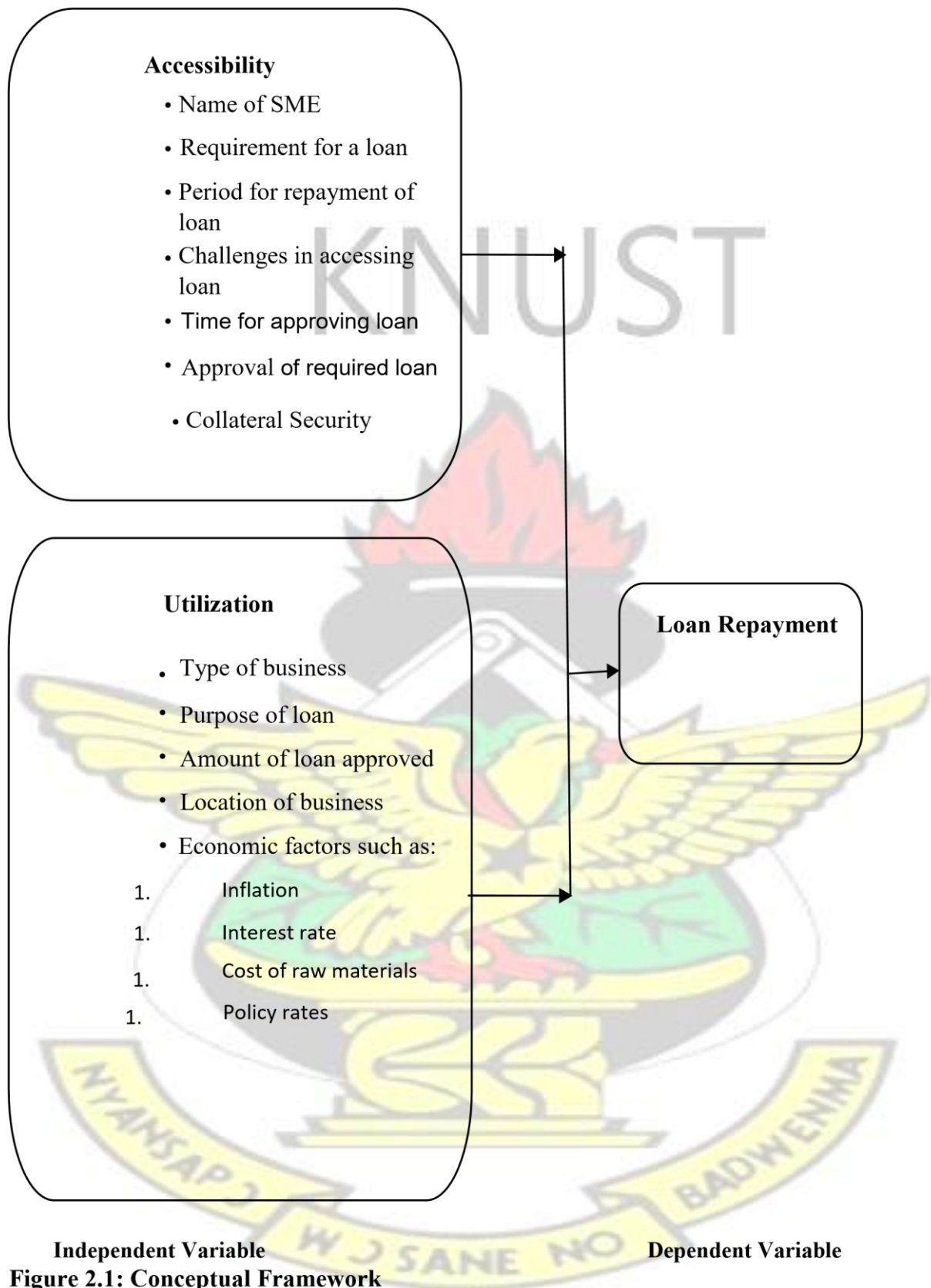
Kiros (2014) explored the factors influencing the loan repayment performance of group-owned Micro and Small Enterprises (MSEs) in Ethiopia. The study discovered that initiation and sector had significant effects on loan repayment, while group composition and size did not significantly affect it.

Makorere (2014) analyzed the elements influencing loan repayment patterns in Tanzania. The research pinpointed variables including interest rates, grace periods, profitability, moral hazard, electricity rationing, and economic stability as exerting significant impacts on loan repayment behavior.

In summary, these studies, conducted across diverse global and African regions, have examined the multifaceted factors influencing loan repayment behavior, covering various sectors and demographics. They shed light on the intricate dynamics impacting loan repayment performance

2.5 CONCEPTUAL FRAMEWORK

The conceptual framework aims to increase knowledge and comprehension of the situation under consideration and to effectively express it. According to Mugenda and Mugenda (2003), conceptual framework entails developing theories regarding connections between study variables and diagramming these connections. This study will adopt the conceptual framework shown in figure 2.1 on page 31.



Source: extracted by the researcher (2023)

CHAPTER THREE

METHODOLOGY

3.1 INTRODUCTION

In order to determine how small and medium-sized businesses in Suame Municipal would repay their loans, the research will be conducted using the methodology and procedures presented in this chapter. The study population, sample design, data collection, validity and reliability, and finally the data analysis process are all covered in this chapter.

3.2 RESEARCH DESIGN

A research design acts as a framework for the process of conducting research by detailing the steps necessary to collect the data needed to answer certain research questions (Cooper & Schindler, 2008). A research design, according to Orodho (2006), is the arrangement of parameters for data collection and analysis with the intention of striking a balance between relevance to the research objectives and process effectiveness. According to Kothari (2004), a research design serves as the blueprint for data collection, measurement, and analysis and offers the conceptual framework within which research is carried out.

A descriptive research design was used in this study. According to Mugenda & Mugenda (2006), descriptive research requires collecting data from all sampled participants through their questions. A descriptive design, as emphasized by Cooper & Schindler (2008), ensures a thorough portrayal of the situation, reduces data collection bias, and enables the economically advantageous collection of data from a sizeable population. A field survey is frequently used in descriptive research to look into the population of interest and ask questions about particular problems that are connected to the intended topic. As a result, a descriptive study design has proven to be a useful strategy for efficiently gathering data from small and medium-sized businesses using questionnaires.

3.3 POPULATION OF THE STUDY

A population, according to Mugenda & Mugenda (2003), is a precisely defined grouping of the people, things, occasions, or homes that are the focus of research. The term "population" refers

to the entire collection of individuals or objects from whom the researcher seeks to derive generalizations. The study's population of interest was the SMEs in Suame Municipal. Records show that 379 SMEs are registered in Suame Municipal. The owners and managers of these enterprises made up the study's population.

3.4 SAMPLE AND SAMPLING TECHNIQUE

A well-defined approach for selecting a sample from a particular population is recognized as a sample design. The technique or procedure employed by the researcher to select the items comprising the sample is termed as outlined by Kothari (2004). The study used a sample of 111 respondents. The research focused on entrepreneurs and managers of Small and Mediumsized Enterprises (SMEs), specifically those SMEs that have obtained a loan from various financial institutions (such as commercial banks, Microfinance Institutions, and cooperative societies) located in Suame. The sample was 15% of the total population.

The respondents were chosen using straightforward stratified selection and random sampling techniques. The stratified sampling technique guaranteed that particular demographic subgroups were represented in the sample in proportion to the population as a whole (Orodho, 2005). In order to categorize the SMEs and enterprises into different subgroups (strata), stratified sampling was utilized. Simple random selection was employed to choose the owners and managers of the businesses after the SMEs had been categorized. According to simple random sampling, every member of the population has an equal chance of being selected, and all decisions are made independently of one another (Kothari, 2004). As a result, the SMEs were separated using the pertinent data that was available, utilizing:

Trading 45%,

Manufacturing / Artisans 49.1%

Service sector 5.9%.

The number of SMEs in Suame Municipality is 379 and this was used as the sample frame. Using a mathematical method by Hogg and Craig (1994) a sample size of 111 SME owners or managers was used for the study. The sample size was calculated as;

$n = \frac{N}{1 + N(\alpha)^2}$ where “n” is the sample size, “N” is the sample frame which is 379 and “α” represents the margin of error which is 0.08 with a confidence interval of 92%. $n = \frac{379}{1 + 379(0.08)^2} = \frac{379}{3.4256} = 110.6376$ which is approximately 111

3.5 DATA COLLECTION PROCEDURE

The research employed both primary and secondary data resources. Primary data was acquired by means of a questionnaire. A questionnaire is a document designed and distributed to obtain responses from individuals (Mugenda and Mugenda, 2003). This questionnaire comprised a mix of structured and unstructured questions. Structured questions are those with clear, specific, and predetermined responses, while unstructured questions are open-ended and do not require specific answers (Kothari, 2004).

The questionnaires were distributed to the selected participants for self-administration. This method was chosen for its simplicity, allowing respondents to read and personally complete the questionnaire. Moreover, self-administration enabled the researcher to address any queries on the spot and ensure that all questions were adequately answered.

Secondary data, on the other hand, was sourced from various references, including books, journals, newspapers, magazines, and online resources.

3.6 VALIDITY AND RELIABILITY

While reliability is concerned with how consistently the instrument yields the same findings when used repeatedly, validity is the degree to which a set of test items accurately represents the content it is intended to measure (Mugenda and Mugenda, 2003). The degree to which a measurement accurately captures a certain notion is measured by validity, and the consistency

with which multiple measurements of the same phenomenon yield the same result is measured by reliability (Kothari, 2004).

The project manager was one of a group of specialists engaged to guarantee the validity of the instruments. Additionally, a pretest was performed to evaluate the reliability of the sample techniques, data gathering instruments, and procedures.

Data obtained were reliable in the sense that, interviews were done at the respondents own convenience, questions asked were not sensitive and respondents could clarify questions they did not understand. However, due to time constraints, the research is limited to only SMEs owners and financial institutions in Suame Municipal in the Ashanti Region and hence the outcomes cannot be generalized.

3.7 DATA ANALYSIS

The collected data underwent categorization, condensation, and analysis employing both descriptive statistical techniques and inferential statistics through tools such as the Statistical Package for Social Scientists (SPSS) and Microsoft Excel. Descriptive statistics encompassed metrics like the mean, frequencies, percentages, and standard deviation, which provided a concise and comprehensible summary of the data. Inferential statistics, as described by Kothari (2004), involved the application of various significance tests to evaluate hypotheses, thereby establishing the extent to which the data could reasonably support specific conclusions. Additionally, inferential statistics contributed to the generalization process by assisting in the estimation of study parameters and the testing of statistical hypotheses.

CHAPTER 4

ANALYSIS, FINDINGS AND DISCUSSION

4.1. INTRODUCTION

This chapter takes into consideration the descriptive statistics of data obtained from the field, which have been analyzed and well discussed under sub-themes which are socio-demographic

characteristics of SMEs, the ease of access to credit by SMEs, credit utilization by SMEs, assessment of determinants of loan utilization as well as loan repayment performance by SMEs.

4.2. SOCIO-DEMOGRAPHIC CHARACTERISTICS OF SMES

The Socio-Demographic characteristics of SME respondents in Suame Municipality involves the gender, level of education, line of business, location of business, number of years in business, number of employees and profit level of respondents.

Suame Municipality is a business area with most of the businesses being artisan or manufacturing while the rest are in trading business and service sector. This is evident in Table 1, which reveals that 49.1% of SME respondents were artisans, 45% were traders while 9% were in the service sector. According to Table 1, 40.5% of the SME respondents are JHS graduates, 37.8% are SHS graduates, 10.8 are graduates from various tertiary institutions while 10.8% of them have never received any form of formal education. Again, Table 1 revealed that 31.5% of the SME respondents have been in business for more than 10 years, 25.2% have been in business from 1 to 4 years while 18.9% have been in business for less than a year. Again, Table 1 68.5% of the SME respondents have their businesses located along major roads, 26.1% at the market places while 5.4% in front of their houses. According to Table 1, 71.2% of the SME respondents have less than 6 employees while 28.8% have 6 to 9 employees. This indicates that most of the SMEs in Suame Municipality are indeed small scale businesses. Furthermore, Table 1 shows that 32.4% of the SMEs earn from C100 to C500 as profit every week, 29.7% earn above C1000, 28.8% earn C501 to C1000 while 9% earn below C100 profit every week. This indicates that greater percentage of SMEs in Suame Municipality are making good profit out of their business activities. This aligns with the findings from Kayanula & Quartey's work in 2000 regarding the attributes of SMEs, which involve limited levels of education and training among self-employed individuals. These businesses are predominantly family-owned and represent a diverse range, spanning from small workshops engaged in

furniture, metal parts, and clothing production to medium-sized manufacturers of machinery. Additionally, the category extends to service providers like restaurants, consulting agencies, and computer software firms.

Table 1. Socio-Demographic information on SME Respondents

Variable	Frequency	Percentage (%)
<i>Gender</i>		
Male	54	48.6
Female	57	51.4
<i>Level of Education</i>		
None	12	10.8
JHS	45	40.5
SHS	42	37.8
Tertiary	12	10.8
<i>Line of Business</i>		
Artisan/manufacturing	55	49.5
Trading	45	40.5
Service	11	9.9
<i>Location of Business</i>		
In front of my house	6	5.4
Market Place	29	26.1
Along the major road	76	68.5
<i>Number of years in Business</i>		
Below 1 year	21	18.9
1to 4 years	28	25.2
5 to 10 years	27	24.3
Over 10 years	35	31.5
<i>Number of Employees</i>		
Below 6employees	79	71.2
6 to 9 employees	32	28.8
<i>Profit earned every week</i>		
Below C100	10	9.0
C100to C500	36	32.4
C501 to C1000	32	28.8
Above C1000	33	29.7

Source: Field (2023)

4.2.1. The Access to Credit or Loan by SMES

This takes into consideration whether respondent has ever applied for credit before, the type of credit applied for, whether respondent received loan assistance, respondent received the exact amount applied for, the terms of credit, period it took respondent to get the loan, FIs security

requirements, type of collateral and the highest amount respondent has ever applied. It also captures the determinants of loan accessibility analyzed from data obtained from the field.

According to Table 2.1, all respondents have applied to take business credit or loan but though they all received credit assistance, 60.4% of them did not receive the exact amount they requested for while 39.9% of them received the exact amount they applied. From

Table 2.1, it was revealed that security was a requirement for loan acquisition and 44% of SME respondents were required to use shops as collateral, 27% were required to use land, 20.7% were required to use cars while 8.1% were required to use houses as collateral. Failure on the part of respondents to provide the exact collateral prevented them from getting the exact amount of credit they applied for. Also, Table 2.1 shows that 37% of SME respondents who sought for loans were to provide at least a guarantor while 12% were required to make special deposit. Their inability to provide guarantors or make special deposit made a greater percentage of them unable to access loan or credit from financial institutions. This is evident in Table 2.1, where 55% of SME respondents who apply for loan from FIs sometimes get the loan, 20.7% most at times get the loan while 24.3% get the loan all the time. Furthermore, though 74.8% of the credits or loans accessed by SMEs were requested on Medium term while 25.3% were requested on short term, it took 81.1% of SME respondent more than 2 weeks to access their loans, according to Table 2.1. This shows how long it takes SMEs to access loans from financial institutions in Suame Municipality. Therefore, loan accessibility in Suame Municipality is not so easy but a somehow challenging.

This is in agreement with the literature provided by Cuevas et al. (1993) which indicated that access to bank credit by SMEs has been an issue repeatedly raised by numerous studies as a major constraint to industrial growth.

Schiffer and Weder (1991) found that small firms tend to experience more difficulties than medium-sized firms, which also experience more difficulties than large firms. In most

countries, especially developing nations, lending to small businesses and entrepreneurs remain limited because financial intermediaries are apprehensive about supplying credit to businesses due to their high risk, small portfolios, and high transaction cost.

Aryeetey et al. (1993) also shares the same view that if a lender face information asymmetry, the issue often becomes somewhat persuasive authority he or she holds in ensuring repayment. These push up transaction cost as the probability of default is assumed to be high and has to be contained. Thus lenders may avoid lending to smaller or lesser known clients or impose strict collateral requirements when they do. They may perceive clients in ways that would overcome the latter own perception of the difficulty in obtaining formal finance.

The inability of small and medium enterprise (SME) to access a loan can have far-reaching implications for various stakeholders:

MSE Owner/Entrepreneur

Financial Strain and stagnation; Without access to funding, the owner might struggle to sustain or grow the business, leading to financial stress and inability to invest in new equipment, technology, or workforce can hinder innovation and growth opportunities.

Employees:

Job Security limited opportunities: Reduced ability to expand or sustain operations might lead to layoffs or pay cuts, affecting job security and livelihoods. Lack of funds for training or skill development might restrict employees' chances of advancement.

Suppliers and Service Providers:

Reduced Business: If the MSE cannot procure goods or services due to financial constraints, it affects the revenue and sustainability of its suppliers.

Customers:

Limited Choices: If the MSE cannot innovate or offer a wider range of products/services due to financial limitations, customers might have fewer options.

Government and Economy:

Economic Growth and tax revenue: MSEs are crucial for employment generation and economic growth. Their inability to access loans might hinder overall economic development. Reduced business activity might lead to lower tax revenues for the government.

Financial Institutions:

Reduced Lending Opportunities: If MSEs represent a significant part of a bank's lending portfolio, their inability to access loans might limit the bank's lending activities, impacting its profitability.

Investors and Shareholders:

Reduced Returns: If MSEs are part of investment portfolios, their inability to grow or sustain might lead to diminished returns for investors.

Addressing barriers to accessing loans for MSEs is crucial for fostering economic development, job creation, and overall financial stability. It often involves initiatives like better financial inclusion, supportive policies, and targeted financial assistance programs.

Table 2.1. Credit Accessibility by SMEs

Variable	Frequency	Percentage (%)
<i>SME Respondent ever applied for credit Yes</i>	111	100
<i>Type of credit applied by SME Respondent Business Credit</i>	111	100
<i>SME Respondent received loan assistance Yes</i>	111	100

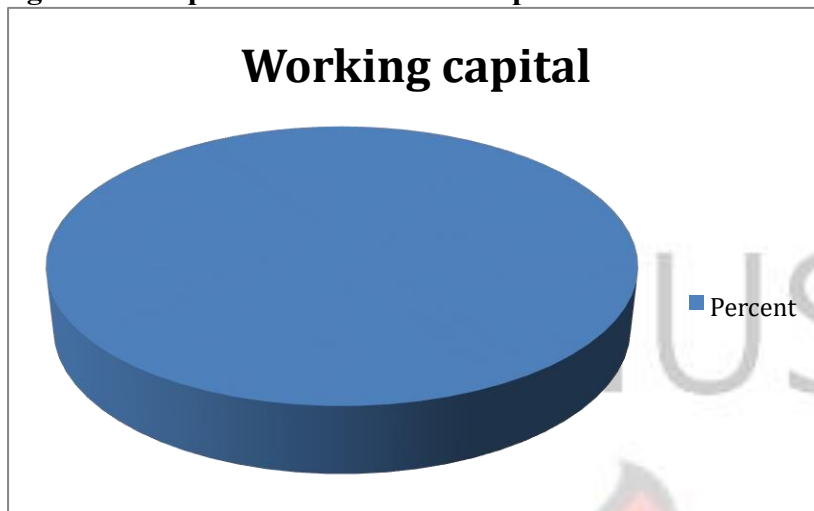
<i>SME Respondent received the exact amount</i>		
Yes	44	39.6
No	67	60.4
<i>Terms of credit</i>		
Short term	28	25.2
Medium term	83	74.8
<i>Period it took SME Respondent to receive loan from FI</i>		
1 to 2 weeks	21	18.9
2 to 3 weeks	69	62.2
3 to 4 weeks	21	18.9
<i>FIs security requirement before granting loan</i>		
Collateral	62	55.9
Guarantor	37	33.3
Special Deposit	12	10.8
<i>Kind of Collateral required by FIs</i>		
Land	30	27.0
House	9	8.1
Car	23	20.7
Shop	49	55.9
<i>Highest amount taken by SME from FI</i>		
Less than C30000	58	52.3
C30000 to C80000	53	47.7

Source: Field (2023)

4.3. UTILIZATION OF CREDIT OR LOAN OBTAINED BY SMES

This looks at the purpose for which SME respondents took credit, whether they were able to use the loan for its purpose, the extent to which respondents were able to use the loan for its purpose, the reasons for poor utilization and the purposes respondents use credit for aside business.

Figure 1.1 Purpose for which SME respondent took credit



Source: Field (2023)

Figure 1.1 is a pie chart showing that all 100% of SME respondents took credits or loans purposefully as working capital.

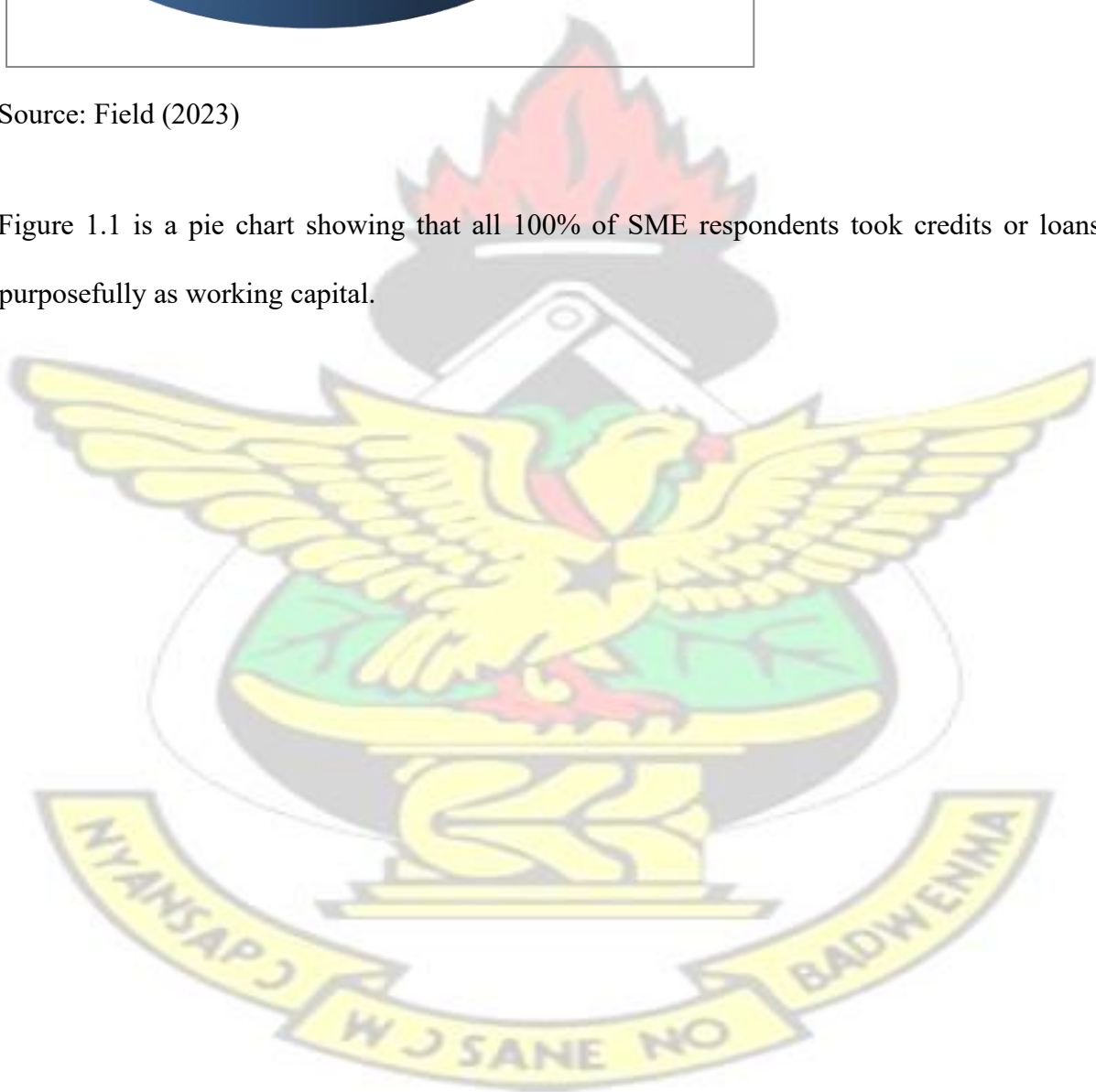
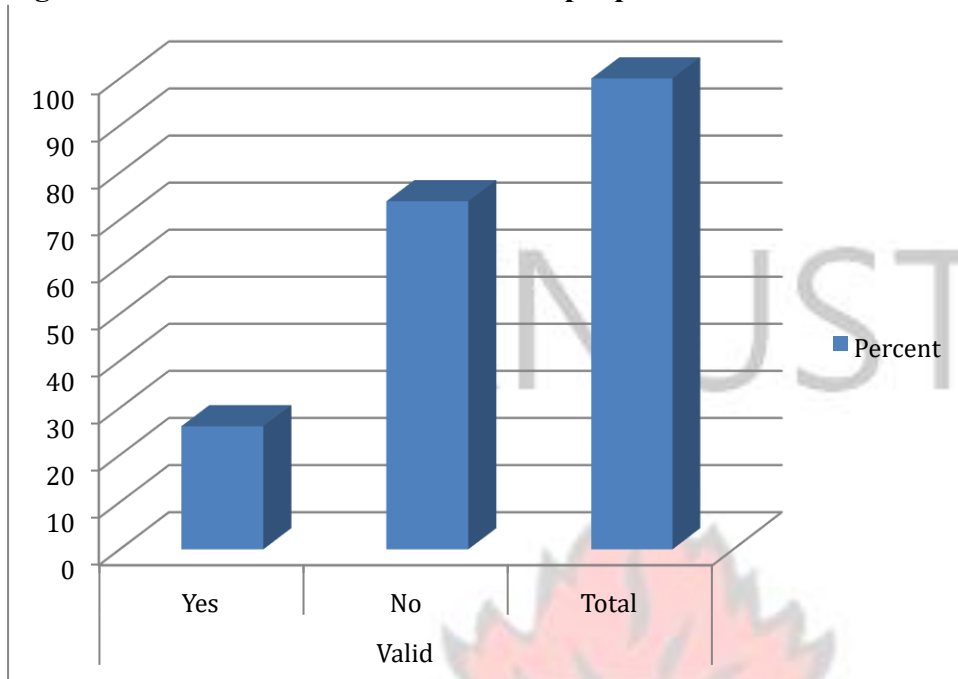


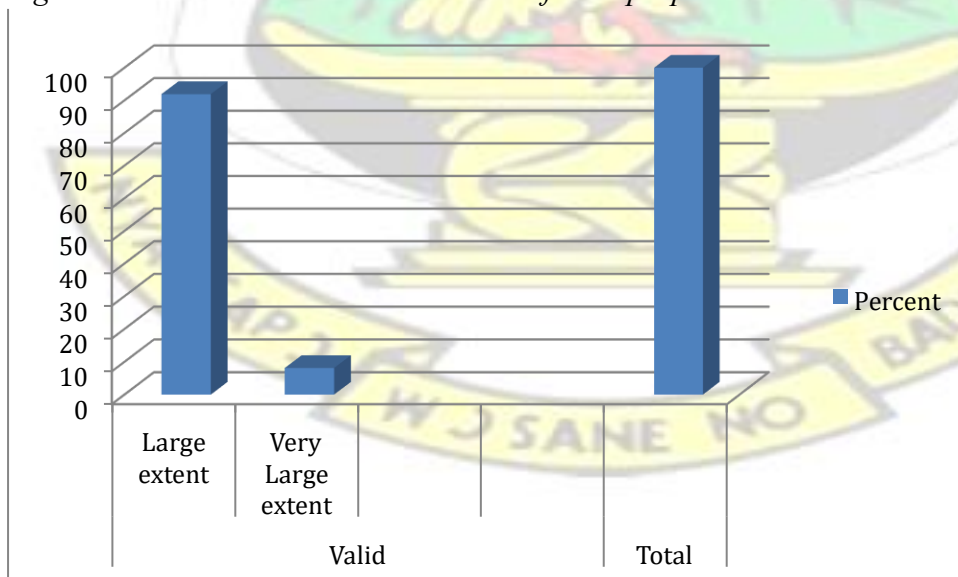
Figure 1.2 Whether loan was used for its purpose



Source: Field (2023)

Figure 1.2 is a bar graph showing whether SME respondents used loans they took from financial institutions for the purpose for which they collected them. It indicates that 73.9% of them confirmed not using the loan for the purpose for which they took them while the remaining 26.1% used the loans for the purpose they collected them.

Figure 1.3 Extent to which loan was used for its purpose



Source: Field (2023)

Figure 1.3 shows the extent to which the loan obtained by SME respondent from the financial institution was used for its purpose. This indicates that out of the 26.1% of SME respondents who used the loan obtained for its purpose, 91.9% used their loans appropriately to a very large extent while 8.1% of them used their loans appropriately to a large extent.

Table 3. Reasons and Purposes for which loans were used for aside business

Variable	Frequency	Percentage (%)
<i>Reasons for which loan collected was not used for its purpose</i>		
Poor Budgeting	21	18.9
Family Issues	33	27.9
Unfavorable Market	28	25.2
Other Issues	29	26.1
<i>Purposes SME Respondents used credit for aside business</i>		
None	20	18.0
School fees	31	27.9
Hospital bills	21	18.9
Family issues	39	35.1

Source: Field

According to Table 3, 29.1% of respondents who did not use their loans for the purpose for which they collected them rather used them for settling family issues, 26.1 used theirs for other issues such as school fees, hospital bills as well as other emergencies, 25.2% failed to properly utilize their loans due to unfavorable market while 18.9 poorly utilized their loans as a result of poor budgeting. This is in line with Johnson & Rogaly, 1997, whose empirical evidence in Ethiopia indicates that clients frequently redirect loans towards unproductive endeavors (as documented by Belay, 2002; Getaneh, 2002; Borchgrevink et al., 2005). The initial concern revolves around the possibility that clients' intended purposes for taking out loans may differ from how they actually use the funds in the microfinance institution (MFI) credit market.

4.4. ASSESSING THE DETERMINANTS OF LOAN UTILIZATION

With reference to the literature, the amount of time for loan approval by Financial Institutions, inflation, location of business and how well the business is doing which is determined by the level of profit of the business are the determinants of loan utilization. This was captured in the conceptual framework. The point biserial and chi squared tests were used to measure and evaluate the relationships between these determinants and whether the loan was used for its purpose of collection. Both the direction and degree of relationship were determined using these tests. The point biserial was used to measure and evaluate the relationship between the amount of time spent for loan approval and whether loan was used for its purpose as well as inflation and whether loan was used for its purpose. These were computed manually. Chi squared test was also used to measure and evaluate the relationship between the location of business and whether loan was used for its purpose as well as profit level of business and whether loan was used for its purpose. They were electronically computed using SPSS.

The point biserial, according to Etsey (2018) is used when you want to measure a continuous data variable with a dichotomous variable such as variables with yes or no as options. The point biserial correlation is computed as;

$$r_{pb} = \frac{(\bar{y}_1 - \bar{y}_2)\sqrt{(pq)}}{S_{dy}} \quad (\text{accessed from } \text{www.statisticshowto.com}, \text{ on } 25^{\text{th}} \text{ May, 2023})$$

Where, \bar{y}_1 is mean of variable 1,

\bar{y}_2 is mean of variable 2, p is

proportion in variable 1, q is

proportion in variable 2 and

S_{dy} is standard deviation of population.

4.4.1. Assessing the Amount of Time Taken For Loan Approval as a Determinant of Loan Utilization

Table 4 Period taken for loan approval by FIs

	Frequency	Percent	Proportion	Mean
Valid 1 week 1 month	37	33.3	0.33	2.67
	74	66.7	0.67	
Total	111	100.0	1.00	

Source: Field

Table 4 shows the frequency, percentages, proportions and mean of the period of time taken by financial institutions to approve loans applied by SMEs.

Table 5; Loan used for its purpose

	Frequency	Percent	Proportion	Mean
Valid Yes	29	26.1	0.26	1.74
No	82	73.9	0.74	
Total	111	100.0	1.00	

Source: Field

Table 5 shows the frequency, percentages, proportions and mean of whether loans obtained by SMEs were used for their appropriate purpose of collection.

The relationship between the amount of time for loan approval and whether loan was used for its purpose of collection, using 1 month for loan approval and loan not used for its purpose as variables, was manually computed as;

$$rpb = \frac{(\bar{y}_1 - \bar{y}_2) \sqrt{(pq)}}{S_{dy}}$$

$y_1 = 1$ month for loan approval $y_2 =$ loan not used for its purpose $\bar{y}_1 =$

mean of period of time for loan approval (2.67) $\bar{y}_2 =$ mean of whether

loan was used for its purpose of collection (1.74) $p = 0.67$ $q = 0.74$

$$S_{dy} = 17.24$$

$$rpb = \frac{(2.67 - 1.74) \sqrt{(0.67 * 0.74)}}{17.24}$$

$$rpb = 0.038$$

0.038 obtained shows a positively weak relationship between the long period of time taken for loan approval and loan not used for its purpose of collection. This implies that, inappropriate usage of loan by SMEs cannot strongly be determined by the how long it took FIs to approve loan, meanwhile to some extent the longer it takes for loan to be approved the higher the loan may be intended to be used of other purposes aside its appropriate purpose.

The relationship between the amount of time for loan approval and whether loan was used for its purpose of collection, using 1 week for loan approval and loan used for its purpose as variables, was manually computed as;

$$rpb = \frac{(\bar{y}_1 - \bar{y}_2)\sqrt{(pq)}}{S_{dy}}$$

$y_1 = 1$ week for loan approval $y_2 =$ loan used for its purpose $\bar{y}_1 =$ mean

of period of time for loan approval (2.67) $\bar{y}_2 =$ mean of whether loan

was used for its purpose of collection (1.74) $p = 0.33$ $q = 0.26$ $S_{dy} =$

17.24

$$rpb = \frac{(2.67 - 1.74)\sqrt{(0.33 * 0.26)}}{17.24}$$

$$rpb = 0.016$$

0.016 obtained also shows a positively weak relationship between the short period of time taken for loan approval and loan used for its purpose of collection. This implies that, appropriate usage of loan by SMEs cannot strongly be determined by the how short it took FIs to approve loan, meanwhile to some extent the shorter it takes for loan to be approved the higher the loan may be used of its purpose. In summary, the amount of time taken by financial institutions to approve loans cannot be a strong determinant of loan utilization by SMEs.

4.4.2. Assessing Inflation as a Determinant of Loan Utilization

Table 6 Inflation affect utilization of credit

	Frequency	Percent	Proportion	Mean
Valid Yes	111	100.0	1.00	1.00

Source: Field

Table 6 shows the frequency, percentages, proportions and mean of SME managers views on whether inflation affect loan utilization.

Table 5 Loan used for its purpose

	Frequency	Percent	Proportion	Mean
Valid Yes	29	26.1	0.26	1.74
No	82	73.9	0.74	
Total	111	100.0	1.00	

Source: Field

Table 5 shows the frequency, percentages, proportions and mean of whether loans obtained by SMEs were used for their appropriate purpose of collection.

The relationship between inflation and whether loan was used for its purpose of collection, using collective “yes” as inflation affecting loan utilization and loan not used for its purpose as variables, was manually computed as;

$$rpb = \frac{(\bar{y}_1 - \bar{y}_2)\sqrt{(pq)}}{S_{dy}}$$

y_1 = inflation

y_2 = loan not used for its purpose \bar{y}_1 = mean of period of time for loan

approval (2.67) \bar{y}_2 = mean of whether loan was used for its purpose of

collection (1.74) $p = 1.00$ $q = 0.74$ $S_{dy} = 17.24$

$$rpb = \frac{(2.67 - 1.74)\sqrt{(1.00 * 0.74)}}{17.24}$$

$$rpb = -0.037$$

-0.037 shows a negatively weak relationship between high inflation and loan not used for its purpose of collection. This implies that, inappropriate usage of loan by SMEs cannot strongly be determined by high inflation, meanwhile to some extent the higher the poorer the loan may be used for its appropriate purpose. In summary, inflation cannot be a strong determinant of loan utilization by SMEs.

4.4.3. Assessing Location of Business as a Determinant of Loan Utilization

Table 7a Crosstabulation of Location of Business and Loan used for its purpose

			Loan used for its purpose	
			Yes	No
Location of Business	Infront of my house	Expected Count	1.6	4.4
		% within Location of Business	0.0%	100.0%
	Market place	Expected Count	7.6	21.4
		% within Location of Business	69.0%	31.0%
	Along road side	Expected Count	19.9	

	% within Location of Business	11.8%	56.1
			88.2%
Total	Expected Count	29.0	82.0
	% within Location of Business	26.1%	73.9%

Source: Field

Table 7b Crosstabulation of Location of Business and Loan used for its purpose

			Total
Location of Business	Infront of my house	Expected Count	6.0
		% within Location of Business	100.0%
	Market place	Expected Count	29.0

	% within Location of Business	100.0%
Along road side	Expected Count	76.0
	% within Location of Business	100.0%
Total	Expected Count	111.0
	% within Location of Business	100.0%

Source: Field

Tables 7a and 7b are crosstabulation of between location of business of SME and whether the loan obtained by the SME respondent was used for its purpose of collection.

Table 8a Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	37.731 ^a	2	.000
Likelihood Ratio	36.294	2	.000
Linear-by-Linear Association	11.702	1	.001
N of Valid Cases	111		

a. 2 cells (33.3%) have expected count less than 5. The minimum expected count is 1.57.

Table 8b Symmetric Measures

	Value	Approx. Sig.
Nominal by Nominal Phi	.583	.000
Cramer's V	.583	.000

	Contingency Coefficient	.504	.000
N of Valid Cases		111	

Source: Field

Tables 8a and 8b are the outputs of the chi squared tests done to measure and evaluate the relationship between the location of business of SME respondent and whether the loan obtained from the financial institution was used appropriately.

The chi squared test shows a positively moderate relationship (0.583) between location of business and whether the loan was used for its purpose of collection with a degree of freedom of 2, sample size of 111 and 0.000 significance level, $\chi^2 (2, 111 = 37.731, 0.000)$. Therefore, if the business is well and strategically located at an area where demand is high, improvement in business activities will be progressively high and SME manager may channel most resources into the business including loan obtained from financial institutions. In summary, this implies that location of business is a near-strong determinant of loan utilization.

4.4.4. Assessing Profit Level of SME Every Week as a Determinant of Loan Utilization

Table 9a Crosstabulation of Profit earned every week and Loan used for its purpose

			Loan used for its purpose	
			Yes	No
Profit earned every week	Below 100 cedis	Expected Count	2.6	7.4
		% within Profit earned every week	0.0%	100.0%
	100 to 500 cedis	Expected Count	9.4	26.6
		% within Profit earned every week	50.0%	50.0%
	501 to 1000 cedis	Expected Count	8.4	23.6
		% within Profit earned every week	34.4%	65.6%
	Above 1000 cedis	Expected Count	8.6	24.4
		% within Profit earned every week	0.0%	100.0%
Total	Expected Count		29.0	82.0
	% within Profit earned every week		26.1%	73.9%

Source: Field

Table 9b Crosstabulation Profit earned every week and Loan used for its purpose

			Total
Profit earned every week	Below 100 cedis	Expected Count	10.0
		% within Profit earned every week	100.0%
	100 to 500 cedis	Expected Count	36.0
		% within Profit earned every week	100.0%
	501 to 1000 cedis	Expected Count	32.0
		% within Profit earned every week	100.0%
	Above 1000 cedis	Expected Count	33.0
		% within Profit earned every week	100.0%
Total	Expected Count	111.0	
	% within Profit earned every week	100.0%	

Source: Field

Tables 9a and 9b are crosstabulation of between profit earned by business every week and whether the loan obtained by the SME respondent was used for its purpose of collection.

Table 10a Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	26.967 ^a	3	.000
Likelihood Ratio	36.421	3	.000
Linear-by-Linear Association	7.083	1	.008
N of Valid Cases	111		

a. 1 cells (12.5%) have expected count less than 5. The minimum expected count is 2.61.

Table 10b Symmetric Measures

		Value	Approx. Sig.
Nominal by Nominal	Phi	.493	.000
	Cramer's V	.493	.000
	Contingency Coefficient	.442	.000
N of Valid Cases		111	

Source: Field

Tables 10a and 10b are the outputs of the chi squared tests done to measure and evaluate the relationship between the profit earned by business every week and whether the loan obtained from the financial institution was used appropriately.

The chi squared test shows a positively moderate relationship (0.493) between profit earned by business every week and whether the loan was used for its purpose of collection with a degree of freedom of 3, sample size of 111 and 0.000 significance level, χ^2 (3, 111 = 26.967, 0.000).

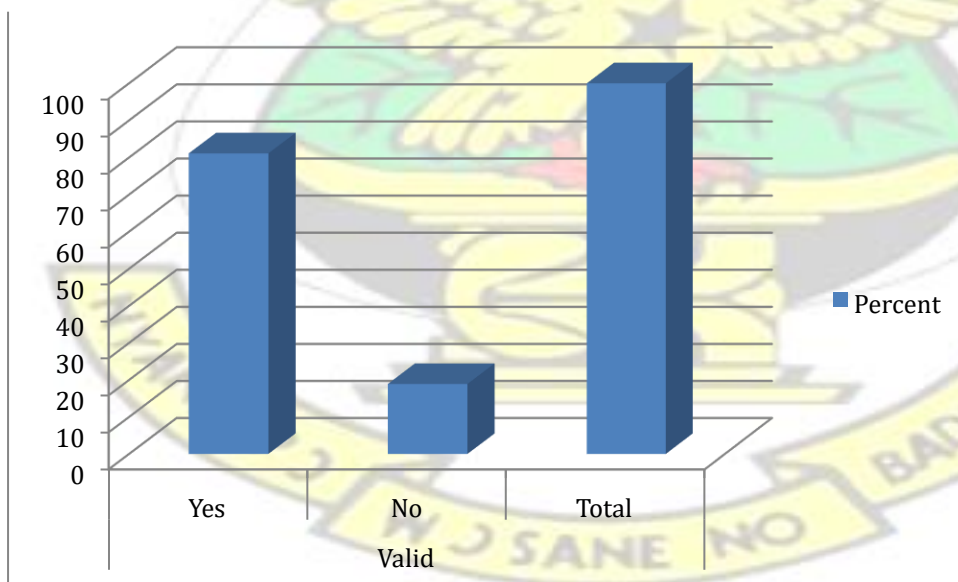
Therefore, if the business earns higher profit every week it shows that improvement in business activities are be progressively high so SME manager may want to earn higher profit and may use loan obtained from financial institution appropriately to achieve this goal of higher profit. In summary, this implies that profit earned by business every week can be identified as a considerable determinant of loan utilization.

Making reference to the conceptual framework, there is an agreement between the framework and analysis of data gathered from the field that the amount of time spent for loan approval, inflation, location of business and how well business is doing assessed by level of profit every week are determinants of loan utilization.

4.5. LOAN REPAYMENT PERFORMANCE BY SMES

This assesses whether respondents had problem repaying their loans, factors that resulted to the repayment problem, the extent to which the factors affected the loan repayment, maturity period of the loan, lending rate and interest rate. It further considers the concerns raised by respondents on the characteristics of the factors that affected the repayment of the loan.

Figure 2 Problem in loan repayment



Source: Field (2023)

Figure 2 is a bar graph showing whether SME respondents have encountered problem in the repayment of their loans. Figure 2 indicates that 81.1% of SME respondents had problem in repaying their loans while 18.9 had no problem in their loan repayment. According to Table 5, the major factor that resulted to poor loan repayment performance by SMEs in Suame Municipality was the loan characteristics recording 53.2% of respondents while financial institution characteristics and business characteristics of SME recorded 37.8% and 9% respectively.

Table 5. Loan Repayment factors and characteristics

Variable	Frequency	Percentage
<i>Factors that resulted to the repayment problem by SME</i>		
Loan Characteristics	59	53.2
FI Characteristics	42	37.8
Business Characteristics	10	9.0
<i>Extent to which the factor resulted to the repayment problem</i>		
Large		
Extent	102	91.8
Very Large Extent	9	8.1
<i>Maturity period of the loan</i>		
Up to 6 months	31	27.9
Up to 1 year	80	72.1
<i>Lending rate</i>		
High	111	100
<i>Interest Rate 31% to 40%</i>		
	111	100

Source: Field (2023)

Concerns raised by SME respondents on the loan characteristics included short loan repayment period, high collateral value, unfavorable number of installment and poor loan utilization due to long period in accessing loan. These affected their poor loan repayment to a large extent. Nevertheless, high interest rate, moderately high penalty for lateness in loan repayment, unfavorable lending policies, stringent loan procedure as well as long period between loan

application and accessibility were financial institution characteristics that moderately influenced the poor repayment of the loans accessed by SMEs. Also, the type of firm, firm location, firm size and profitability of the firm on a low extent influenced the poor loan repayment performance of SMEs in Suame Municipality.

Bhatt and Tang (2002) identify several influential factors such as gender, age, industry experience, educational background, income level, business sector, the formal nature of the borrower's business, social connections to the borrower, group cohesion, repayment duration, loan type (whether in cash or kind), loan amount, distance between the borrower's business and the lending institution, and the borrower's eagerness to access future loans.

Chaudhary, 2003 in his research posits characteristics of loans, including the repayment duration, whether they are provided as cash or in-kind, and their size, play a pivotal role in shaping how well borrowers adhere to repayment schedules. If the repayment period is exceedingly brief, the potential for generating returns on investment during that timeframe diminishes. Conversely, if the repayment term is excessively protracted, borrowers might be tempted to allocate the surplus funds towards non-productive expenditures, particularly for personal consumption.

Fremier et al. (1965) also demonstrated that enlarging the loan size leads to a deterioration in loan repayment rates. Godquin (2004) argues that a larger loan size can render it more challenging for borrowers to meet their repayment obligations within a specified time frame.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter presents a summary of the study findings, the conclusion drawn from the study, recommendations made as well as the limitations of the study.

5.2 SUMMARY

The general objective of the study was to assess the accessibility, utilization and repayment of loans by SMEs in Suame Municipality. Data obtained from the field was analyzed based on the specific objectives which were to assess the ease of access to credit by SMEs, examine the utilization of credits obtained by SMEs, assess the determinants of loan utilization and determine loan repayment performance by SMEs in Suame Municipality.

Data analysis proved that accessing credit from financial institutions by SMEs in Suame Municipality was challenging due to the inability of SME owners and managers to provide the exact collateral, required guarantors or make special deposits. These factors made most SMEs who were able to obtain credit not to receive the exact amount they requested from the financial institutions. Also, it took SME owners and managers between three to four weeks to obtain the

credit they applied for from the financial institutions and this is a considerably lengthy period of time. This affected business negatively since prices of inputs would have increased by then thereby increasing the cost of production. It was further established that, the level of education, number of years in business, location of business, line of business, number of employees, profit level of business as well as gender of SME owner and manager were determinants of loan accessibility since they all had positive relationships with loan accessibility. With the exception of gender, this implied that, improvement in the rest of the mentioned determinants will increase the SME owner's accessibility to credit from financial institutions.

The study also revealed that most SMEs in Suame Municipality did not use the credit they obtained from the financial institutions for the purpose for which collected them. Even though it was established that the SME owners collected credit purposely as working capital, most of them used the credit to settle family issues, school fees, hospital bills, utility bills as well as other emergencies. Moreover, some SMEs poorly utilized their credit due to poor budgeting and unfavorable market.

Furthermore, the study was able to assess the determinant of loan utilization and these were the level of education of SME owner or manager, number of years SME owner or manager has spent in business, location of the business, line of business, number of employees and the level of profit the business makes weekly. All the determinants had positive relationships with loan utilization with the exception of the number of employees. This implies that, SME owners or managers with high level of education, spent more years in business, proper business location, appropriate line of business and a high weekly profit are able to utilize their credits purposefully than SME owners or managers with none of these attributes. The study also revealed that SME owners or managers with few employees are able to purposefully utilize their credits than SME owners or managers with more employees.

Lastly, the study revealed that most SMEs in Suame Municipality had problem in repaying their loans or credits and this was due to factors, which included the loan characteristics, financial institution characteristics and business characteristics. The factor that influenced SMEs the most in their problem in loan repayment was the loan characteristics and the reasons included short loan repayment period, high collateral value, unfavorable number of installment, poor loan utilization and short period of time before loan repayment. Nevertheless, some SMEs had financial institution characteristics such as high interest rate, high penalty for lateness in repayment, unfavorable lending policies as well as long period of time in obtaining credit as the reasons for their poor loan repayment. Yet still, few SMEs attributed their poor loan repayment to business characteristics such as the type of firm, firm location, firm size as well as profitability of the firm as the reasons that influenced their poor loan repayment.

5.3 CONCLUSION

Based on the findings of the study, several conclusions can be drawn and these conclusions are based on the specific objectives of the study, which are to; assess the ease of credit access by SMEs, examine utilization of credit obtained by SMEs, assess the determinants of loan utilization and determine the loan repayment performance by SMEs in Suame Municipality.

Firstly, it can be generally concluded that most SMEs in Suame Municipality find it challenging in accessing credits from financial institutions since 24.3% always get the loan they apply for whilst 75.7% sometimes do not get the loan they apply for. Also, inability to fulfill the required security needed in obtaining the credit serve as obstacle to SMEs in getting the required amount they request for. These security requirements include high collateral value, required guarantors and special deposits which some SME owners find it difficult to provide. Again, from the study, it can further be concluded that SME owners or managers with higher education, more years in business, good business location, appropriate line of business, more number of employees and high level of weekly profit are more able to access credit from financial institutions.

Secondly, another conclusion that can be drawn from the study is that most SME owners and managers in Suame Municipality are not able to purposefully utilize the loan or credit they obtained from the financial institutions. This was evident when the study indicated that 73.9% of SME respondents confirmed that they did not use the loan for the purpose for which it was obtained. A higher percentage of SMEs use their credit to settle family issues, school fees, hospital bills, utilities and other emergencies. Also other SMEs poorly utilize their credit through poor budgeting and unfavorable market.

Moreover, another important conclusion drawn from this study is that, gender is not a determinant of loan utilization. Rather, the level of education, number of years in business, number of employees, , line of business, location of business and profit of business every week are the factors that affect utilization of loans. Meanwhile the level of education is the determinant that strongly affects loan utilization.

Lastly, a conclusion that can also be drawn from the study is that most SMEs in Suame Municipality find it challenging in repaying the loans they obtain from financial institutions. This was evident in the study when 81.1% of respondents confirmed that they had problem in their loan repayment. It can further be concluded that loan characteristics such as short loan repayment period, high collateral value, unfavorable number of installment, poor loan utilization and short time before loan repayment were the major reasons that influence the poor loan repayment performance by SMEs.

5.4 RECOMMENDATIONS

Training should be provided to owners and managers of SMEs in Suame Municipality in area such as the preparation of financial accounts and managerial skills. This will help increase their access to credit and improve their ability to utilize credit purposefully.

Also, financial institutions should adjust loan acquisition requirements to suit SMEs so as to further increase their access to credit. Financial institutions should further institute a proper

monitoring exercise to assess the utilization of credits obtained by SMEs. This will enable SMEs purposefully utilize the credits and further improve loan repayment.

Furthermore, SMEs in Suame Municipality should be encouraged to register their businesses to make their business formal. There should be cost adjustment in terms of business registration and licensing in order to encourage all SMEs to register their businesses. Also, business registration should be digitalized to enhance easy and quick registration. Business registration will enhance credit accessibility by SMEs.

The findings from the study established that loan characteristics largely influenced poor loan repayment performance by SMEs in Suame Municipality even though financial institution and business characteristics also affected poor loan repayment by SMEs. Financial institutions are recommended to revise the terms and conditions attached to their loans to make loan repayment not challenging to SMEs.

The government in conjunction with financial institutions are recommended to develop effective policies that will help advance credits to SMEs since SMEs are important for economic growth and development in Ghana.

5.5 LIMITATIONS OF THE STUDY

The study only focused on SMEs in Suame Municipality since it examined how easily accessible it was, how often they used it, and how they repaid their loans there. It's possible that SMEs outside of Suame Municipality cannot use the study.

The study's conclusions are restricted to SMEs and may not be applicable to other large corporate organizations because the study's focus was on SMEs.

Last but not least, because the survey concentrated on SME owners and managers in Suame Municipality, managers and staff at financial institutions were not included.

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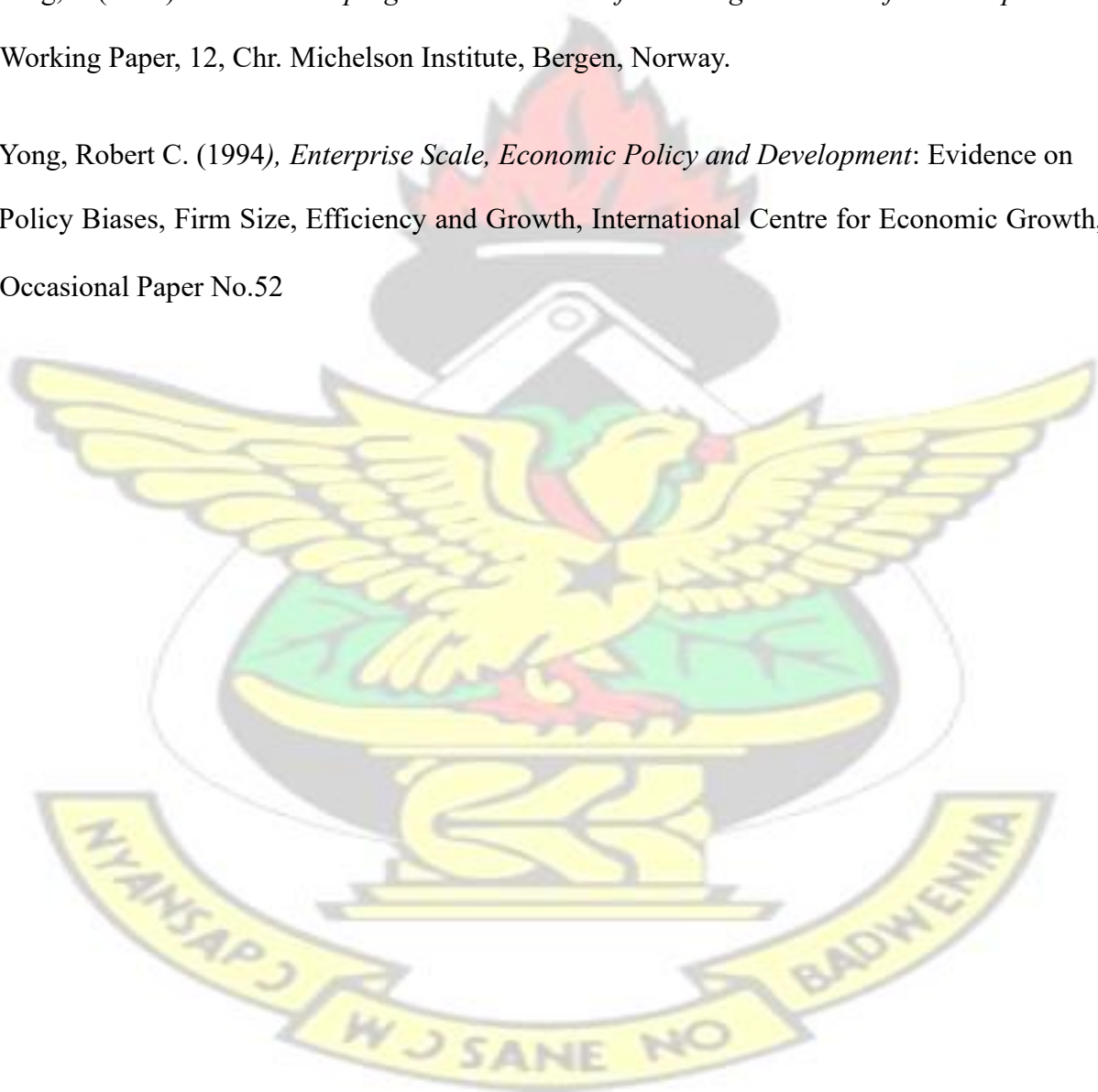
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APPENDIX

I am Gloria Asante, a postgraduate of the Kwame Nkrumah University of Science and Technology writing a final thesis on the topic Accessibility, Utilisation and loan repayment by Small and Medium Scale Enterprises (SMEs) in Suame Municipal. This final thesis will help to fulfill the requirement for a Master of Business Administration (MBA) in Business Administration. This questionnaire is to gather information. This exercise is solely for academic purposes, and as such, the opinions expressed will be held in strictest confidence.

QUESTIONNAIRE

This section must be completed by respondents from Small and Medium Scale Enterprises (SMEs) in the Suame Municipal.

(Please tick or fill in where appropriate).

SECTION A. DERMOGRAPHIC INFORMATION

1. Gender a. Male ☐ b. Female ☐
2. Educational level a. No education ☐ b. JHS c. ☐ SHS ☐ d. A/O levels ☐
e. Others (please specify)
3. How long have you been in business?
4. Where is your business located in Suame Municipality?
 - a. Infront of my house ☐
 - b. Market Place ☐
 - c. Along a major road ☐
 - d. Close to a landmark such as school, hospital, church, etc. ☐
 - e. Others (Specify).....
5. What is your line of business?

- a. Manufacturing ☐ b. Trading ☐ c. Service ☐ d. Others (Please specify).....
6. What is the number of your employees?
- a. Less than 6 people ☐ b. 6-9 people ☐ c. 10-29 people ☐
- d. 30-99 people ☐ e. Above 100 ☐
7. How much profit do you earn a week?
- a. Below ₦100 ☐
- b. ₦100 to ₦500 ☐
- c. ₦510 to ₦1000 ☐
- d. Above ₦1000 ☐

SECTION B. SOURCES AND TYPES OF CREDIT

8. What is (are) the source(s) of your business capital?
- a. Self ☐ b. Friends & Relatives ☐ c. Partnership ☐ d. loans from banks ☐
- e. Micro finance institutions ☐ f. Others (Please specify).....
9. Have you ever applied to take Credits from Financial Institutions?
- a. Yes ☐ b. No ☐
10. What type of credit do you take?
- a. Consumer Credit ☐ b. Business Credit ☐ c. Both ☐
11. What types of Consumer credit do you take?
- a. Funeral loans ☐ b. Car loans ☐ c. Home loans ☐ d. Others.....
12. What type of Business Credit do you take?
- a. Working Capital for existing business ☐
- b. Venture Capital for new business ☐ c. Both ☐
13. What terms of credit do you normally request from Financial Institutions?
- a. Short term ☐ b. Medium term ☐ c. Long term ☐

14. Which services/products of Finance Institutions have you benefited from?

- a. Credits [] b. Financial & Management training []
c. Others (please specify).....

15. Were you given the assistance alone? Yes [] No []

16. If no, with whom did you get the assistance?
.....

17. Was the credit the exact amount you wanted? Yes [] No []

18. How long does it take to access credit from MFIs?

- a. Less than a week [] b. 1-2 weeks [] c. 2 -3 weeks []
d. 3-4 weeks [] e. above 4 weeks []

19. Has the availability of Financial Institutions contributed to the enhancement of
your managerial skill, financial management skill and overall business knowledge?

- a. Yes [] b. No []

If Yes, in what ways?

If No, why?

SECTION C. THE CHALLENGES FACED IN ACCESSING CREDITS

20. Do you get the credits whenever you apply for them?

- a. All times [] b. Most times [] c. Sometimes []

21. Do the financial institutions always require collateral securities before granting
loans? a. Yes [] b. No []

22. If Yes, what kind of collateral do they request?

- a. Land [] b. House [] c. Car [] Shop []
e. Other (Please specify).....

23. If No why?
24. Do you always get the collateral requested? a. Yes [] b. No []
25. What are the major challenges you face in accessing loans from Financial Institutions?
.....
.....
26. How do you rate your relationship with your bankers?
a. Excellent [] b. Good [] c. Average [] d. Poor []
27. Have you ever been refused or denied credit from a bank? Yes / No
28. What was the main reason your Bankers refused offering you loan?
a. Default on previous loan [] b. No Security to pledge []
c. Too small equity base [] d. Lack of experienced Management []
e. Others (Please specify)
29. What was the highest amount your company ever borrowed from a Bank:
a. Less than Ghs30,000 [] b. Ghs30,000 to Ghs80,000 []
c. Ghs80,000 to Ghs130,000 [] d. Above 130,000 []

SECTION D. UTILISATION OF CREDITS BY SMES

30. How often do you apply for credits from Financial Institutions?
a. Not Often [] b. Often [] c. Very Often [] d. Not sure []
31. What was the purpose of the loan?
a. Startup capital [] b. Working capital [] c. Expansion of business []
d. Other (specify).....
32. Was the loan used for the purpose for which you collected?
a. Yes [] b. No []
33. If Yes, to what extent was the loan used for its appropriate purpose?

	Not at all	Minimal Extent	Moderate Extent	Large Extent	Very Large Extent
Startup Capital					
Working Capital					
Expansion of business					

Other (Specify).....

34. If No, why was the loan not used for its purpose of collection?

b. a. Poor Budgeting []

c. b. Family Issues []

d. c. Unfavourable Market []

d. Other (Specify).....

35. Do you use credits for other purposes apart from business?

a. Yes []

b. No []

If yes, in what ways?

36. Does Inflation effect on the utilization of credits obtained from the financial institutions?

- a. Yes [] b. No []

SECTION E. LOAN REPAYMENT

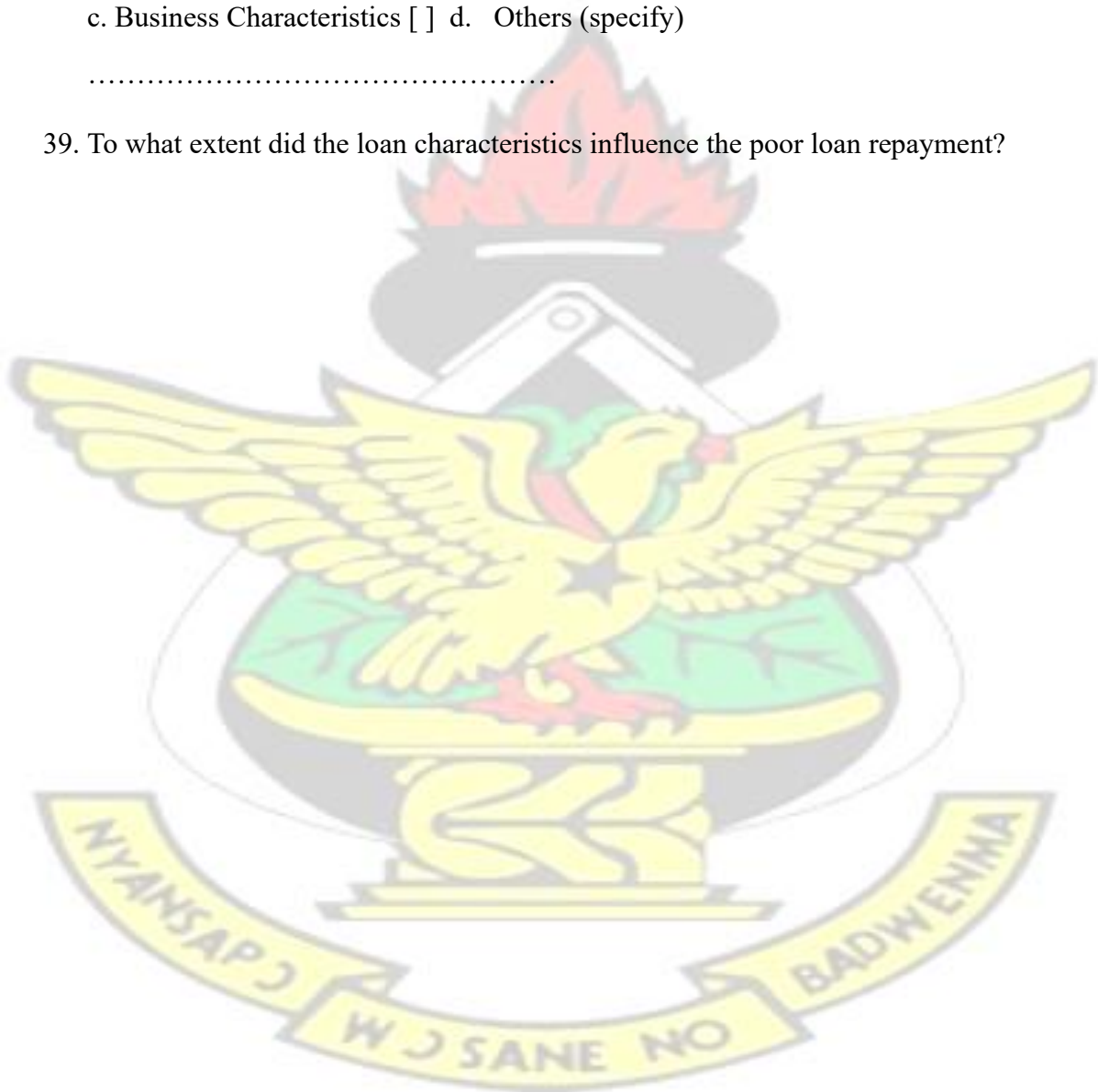
37. Have you ever had problem repaying a Bank loan? Yes / No

38. If yes, what created the problem?

- a. Loan Characteristics [] b. Financial Institution Characteristics []
c. Business Characteristics [] d. Others (specify)

.....

39. To what extent did the loan characteristics influence the poor loan repayment?



	Not at all	Minimal Extent	Moderate Extent	Large Extent	Very Large Extent
Loan size was huge					
Loan Repayment period was not favourable					
Collateral value was high					
Number of installment was unfavourable					
Loan was not used purposefully					
Length of time before repayment was unfavourable					

40. To what extent did the financial institution's characteristics influence the poor loan repayment?

	Not at all	Minimal Extent	Moderate Extent	Large Extent	Very Large Extent
Interest rate was high					
Penalty for lateness in loan repayment was high					
Lending policies were unfavourable					
Loan procedure was stringent					
Time lag between loan application and disbursement was long					

41. To what extent did the business characteristics influence the poor loan repayment?

	Not at all	Minimal Extent	Moderate Extent	Large Extent	Very Large Extent
Ownership structure					
Type of Firm					
Firm location					
Firm size					
Profitability					
Type of business activity					

42. What was the maturity period of the loan?

a. Up to 1 year [] b. Up to 2 years [] c. Up to 3 years []

d. Other (specify).....

43. How did you find the lending rates?

a. Extremely High [] b. high [] c. Acceptable [] d. Low []

44. What percentage of interest is on the loan?

a. Less than 20% [] b. 21 – 30% [] c. 31-40% [] d. Above 40%. []

45. How long does it take a loan to be approved?

a. a day [] b. a week [] c. a month [] d. more than a month []