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Factors that Influence the Demand for Credit of Small and Medium-Sized Enterprises' (Nkwantanang Municipality)

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Abstract

The purpose of this paper is to discuss the factors that influence the various small and medium-scale enterprises to access credit from banks, saving and loans, and other financial institutions. Most enterprises access credit from financial institutions for different reasons and purposes. Whether its expansion projects, general business activities, buying of new equipment among others, these are all factors that influence enterprises to demand credit and this paper explores some of these factors in one district in Ghana. As a formal study, the research was based on a cross-sectional survey method because it allows the researchers to compare many variables at the same time. It is also used to compare different population groups at a single point in time or over a short period. Based on the respondent from the survey conducted, the following were some of the major findings: the SME's business is dominated by females compared to the Males in La Nkwantanang Municipality. Also, the SMEs business in La Nkwantanang Municipality is dominated by Hairstylists. Most businesses in this community are owned by individuals and few go into partnership with others. From the studies, we found out that the main source of financing of these enterprises is self-financed, followed by bank credit and from family and friends. In conclusion, we made some recommendations to the SMEs in Nkwantanang Municipality on how they can access financial support from banks, saving and loans, and other financial institutions.

Keywords

SME Financing in Ghana, Savings and Loans, Factors Influencing Financial Credit

1. Introduction

1.1. Background of the Study

Previous studies have shown the growing relevance of credit facilities to the development and productivity of every business organization particularly Small and Medium-sized Enterprises (SMEs). The importance of SMEs in a Ghanaian economy cannot be overstated; they serve as a substantial source of income to most Ghanaian households, hence alleviating financial difficulties. Because of the development of SMEs, poverty levels in Ghana have been reduced from 51.7 percent in 1993 to 39.5 percent in 1999, according to the Action Plan of the United Nations Development Project (UNDP). Over the same period, immoderate poverty reduced from 36.4 percent to 27 percent (United Nations Development Program, Action Plan 2010). The sector has significantly impacted Ghana's non-traditional export profits and has created more jobs for several individuals. SMEs were critical and still are in Ghana's transition and maintaining as a middle-income country.

According to Andah (2008), SMEs received more assistance in the 1990s after the National Board for Small Scale Industries was established (NBSSI). The most significant financial initiative of the NBSSI is a loan line funded by the World Bank's initiative for small and medium firms. With the exception of agricultural, property investment, and commerce, the funds offered finance to small and medium enterprises. The state also developed PAMSCAD (Program of Action to Mitigate the Social Cost of Adjustment), a credit aid program meant to mitigate the impact of the Structural Adjustment Program (SAP) on small businesses. The World Bank and the International Monetary Fund (IMF) have a unique program/policy called the Structural Adjustment Program (SAP) that provides loans to developing nations that have faced financial crises. The NBSSI-managed loan facility was designed to support entrepreneurs in obtaining rare but important raw materials. Microfinance and Small Loans Centre (MASLOC) was founded in 2006 with the mission of "providing, managing, and regulating authorized funds for microcredit and small-scale lending, credit systems, and initiatives, as well as providing business development services, coaching, and technical assistance for small and medium-scale enterprises (SMEs)". The Policy Statement's overarching goal, as is well understood, is to boost economic growth and therefore reduce poverty. While SMEs have several development problems, narrowing the financial gap among them and larger companies are viewed as critical to economic advancement. An effective SME financing framework must provide prospects for SMEs to reach their financing needs while maintaining the success of the company, or on the resultant investment and return or collection of loans which would provide funds for later investments, to analyze the efficacy of schemes for promoting SME finance. When SMEs lack access to outside funding for investments, their ability to boost growth per employee, and so improve productivity and pay, is severely hampered. The problems that SMEs face might come from a variety of places. The limited scope of financial services may be available in the domestic capital market. The absence of acceptable finance mechanisms could be due to several factors, including regulatory restrictions or legislative gaps. Furthermore, developmental economists are gradually accepting the notion that, due to monitoring challenges such as principal/agent problems (e.g., related to the shareholder-manager relationship) and asymmetric information, financial institutions may sensibly like to offer a diverse range of financial services, denying credit to a large number of possible debtors. To assess the efficacy of SME financing schemes, these schemes should provide possibilities for SMEs to reach their financial needs while maintaining the enterprise's profitability, or on the ultimate sale of investments or collection of debts that would provide money for future investments. It is worth mentioning that numerous factors distinguish capital (financial) from other inputs required for the production of goods and services. Fixed assets, such as machinery and equipment, land, buildings, etc. provide advantages based on their physical qualities. However, the same cannot be said about the financial resources required to manage a firm. Contractual responsibilities result from the accumulation of financial resources. Small businesses, especially artisans in poor countries, frequently suffer from inadequate access to money as a major restraint on their activities. This inadequate access is frequently linked to financial policies and banking practices that make it extremely difficult for bankers to afford the high costs and risks associated with loans for small and medium-sized businesses. Against this context, the purpose of this research is to explore the numerous obstacles that SMEs (artisans) face in accessing credit in Ghana, particularly in the La Nkwantanang Municipality.

1.2. Problem Statement

Most traditional financial institutions especially banks do not emphasize conducting business with sole traders because they regard them as high-risk clients. Small and medium-sized enterprises Small and medium-sized businesses (SMEs) are regarded as high-risk because they lack the necessary assets to serve as collateral for loans, and the mortgage process is costly due to candidates from the informal sector chose to go for small loans, which demand the same administrative process and expense as that of the larger loan requests made by large-scale enterprises. This has been a huge issue for SMEs, who as a result find it difficult to obtain sufficient funding to function and must rely on individual resources and help from relatives and friends.

Despite the tremendous contribution of SMEs to the economic development of Ghana, one of the major impediments to SME development in the country has been accessing credit facilities from banks and other formal financial institutions. Various obstacles or blockages impede SMEs' easy accessibility to loan facilities from official banking institutions in the country. These limits are, among other things, collateral, high-interest rates, working capital, and profitability.

Though the former government and non-governmental groups made a concerted effort and ways to support SMEs grow via varied practices and initiatives, it appears that there is still a considerable distance to go to regarding SMEs achieving their full efficiency levels due to their lack of easy access to funds from formal banking institutions. As per Aryeetey et al. (1994), the lack of finance may have been overstated because most businesses neglect their inherent organizational challenges, and several SMEs saw robust growth regardless of the lack of credit. Furthermore, the SME sector is underserved because most banks are yet to create specialty plans to attract SMEs (Stephanou & Rodriguez, 2008). Given this, this study might be useful in identifying the numerous obstacles to SMEs' (artisans') access to finance.

1.3. Research Objectives

The primary goal of this research is to uncover the numerous obstacles that SMEs (artisans) have in accessing credit in La Nkwantanang Municipality. Specific objectives are:

1) To determine the various factors that influence SMEs' (Artisans) demand for credit in La Nkwantanang Municipality.

2) To ascertain the primary source of starting capital for SMEs in the municipality of La Nkwantanang.

3) To learn about the credit facilities available from banking institutions to SMEs in La Nkwantanang Municipality.

4) To identify the constraints limiting SME access to loans from financial institutions in La Nkwantanang Municipality.

5) To identify the various challenges associated with SMEs in accessing credit from financial institutions in La Nkwantanang Municipality.

1.4. Research Questions

This study seeks to answer the following question:

1) What are the variables that influence SMEs' (Artisans) demand for credit in La Nkwantanang Municipality?

2) What is the major source of startup finance for SMEs in La Nkwantanang Municipality?

3) What are the credit facilities available for SMEs from financial institutions in La Nkwantanang Municipality?

4) What factors limit SMEs' access to credit from financial institutions in La Nkwantanang Municipality?

5) What are the various challenges associated with SME credit access from financial institutions in La Nkwantanang Municipality?

1.5. Significance of the Study

The problem of SMEs being able to obtain finance has been a topic that most researchers have considered for some time now. Even though scholars have researched this topic, there are very few studies on the factors of credit demand. This study aims to examine the multiple obstacles that SMEs face while seeking finance, as well as the factors that influence them.

The findings of this work will act as a guideline for SMEs in terms of the requisite factors that will help facilitate their capacity in accessing external funding from financial institutions, as well as contribute to the existing literature on SMEs' financing in Ghana.

1.6. Scope and Structure of the Study

This research was divided into five different chapters. The first chapter gives a basic description and explanation of the research, which includes the research introduction and background, the problem statement, research questions and objectives, and the rationale for this research.

Chapter two illustrates a review of both theoretical and empirical literature, the importance of SMEs in the Ghanaian economy, the various problems facing these SMEs, the characteristics of SMEs, evolution and its definitions, and finally the challenges faced by SMEs in obtaining credit.

The third chapter discusses how the research was carried out, including the study design, population and sampling, data gathering methods, and data analysis.

The fourth chapter reports on the results and interpretation. It also explores the findings of other research. The fifth chapter concludes with a summary, limits, and recommendations for future research.

2. Literature Review

This chapter examines conceptual and empirical studies on small and medium-sized businesses in Ghana. The study of previous research is an excellent starting point for drawing prudent and impartial findings. The concept of SMEs, SME definition in Ghana, SME development barriers in Ghana, sources of capital for SMEs in Ghana, SME financing from banks, and previous literature on SME financing are all discussed in this chapter.

2.1. Definition of SME

A business entity or organization is regarded as an enterprise that engages in any type of economic activity. This comprises self-employed individuals and family companies involved in handicrafts or other activities, as well as partnerships or organizations that participate in an economic activity regularly. The term SME is most commonly used to designate private-sector firms. Because of the variety of their enterprises, there is no uniform definition for SMEs. What exactly does SME signify based on the number of employees, as well as the company's sales and properties. A small business is defined as one that operates on a smaller scale than the industry average (Quaye & Sarbah, 2014). Many organizations and well-known scholars have characterized Small and Medium Scale Enterprises in different ways, with some being questioned by others.

At the G-20 conference in 2009, an agreement was reached to enhance funding for SMEs, prompting the issue, "What constitutes the definition of SME?" This was the impetus for two scholars to develop a definition. An SME is a formal firm or company with yearly revenue (USD) of ten to thousand times the average per capita Gross National Income of the country in which the entity operates (Gibson & Van-der Varrt, 2008). Because of the usage of revenue as a measuring tool, this definition appears to be ideal. This is also an excellent way to assess the contribution of SMEs to a country's Gross Domestic Product (GDP).

Even though this definition is considered less flawed, it does confront a few obstacles. According to Khrystyna (2010), it was difficult to get statistics on the annual revenue of SMEs after doing a practical study in over 120 countries. Second, informal SMEs exceed formal SMEs by an order of magnitude. A formalized business has fixed hours, salaries, and is controlled and taxed by the state. The formalized enterprises are controlled and supervised, whereas the informal is the polar opposite.

2.2. SME Definition and Outlook in Ghana

Several definitions have been given to SMEs from various geographical places and based on various factors. Despite the differences in the various definitions, the number of employees was the uniform requirement. In practice, there are issues with applying this definition to the maximum and lower limitations that apply to various official sources. Small businesses are defined as those that employ fewer than ten (10) people, while medium and large businesses employ more than ten (10) people, according to the Ghanaian Statistical Service (GSS) (1987). In the national accounts, the GSS contradicts itself by referring to firms with 0 - 9 employees as small and medium enterprises.

Another criterion for defining small and medium-sized firms is the total value of the firm's fixed assets. In its definition, the Ghana National Board of Small-Scale Industries (NBSSI) used both "employees and fixed assets." A small enterprise, according to the NBSSI, is defined as a company with fewer than ten (10) people and a total fixed asset worth less than ten million Ghana cedis (10,000,000 Cedis) (US$ 9506), excluding buildings, land, and cars. The year 1994 was utilized as the exchange rate. The Commission for Ghana Enterprise Development (GEDC) also set a maximum of 10 million Ghana cedis for the value of plant and machinery that qualifies a company as a small-scale enterprise. Nevertheless, the fixed asset assessment methodologies are dubious, and the continuous devaluation of the Ghanaian currency (GH cedi) makes the definition impractical.

According to Steel and Webster (1990), a small business has a total staff count of no more than thirty people (30). In contrast, Osei-Assibey (2014) employed three distinct divisions for a small business in Ghana.

1) Micro businesses have less than six (6) employees.

2) Very tiny businesses employ between 6 and 9 people.

3) Small businesses employ between 10 and 29 people.

Ghana has a varied economy that includes manufacturing, service, export, and other industries. Ghana exports digital technology items and cars, as well as mineral products, in addition to natural resources. Service was a key engine of the economy in 2015, accounting for around 50.2 percent of overall Gross Domestic Product (GDP) and employing about 28 percent of the country's workforce. Agricultural and industrial sectors provided 28.4% and 19.9%, respectively, making them the 2nd and 3rd greatest donors (Ghana Statistical Service, 2016).

Ghana's overall Gross Domestic Product (GDP) in 2014 was 36.61 billion US dollars, down from 47.8 billion US dollars the previous year.

Ghana's GDP is expected to grow by 5.9% in 2017 compared to the previous year. The new oil drilling that began commence in the second quarter of 2016 will have an impact on this forecast. Despite all of the relevant economic data from multiple statistical authorities, the SME sector, which is the economy's backbone, continues to be underfunded and requires special attention.

2.3. Source of Finance for SMEs

These are the different sites or methods via which small and medium-sized businesses can obtain financing for either start-up or operation's needs.

Individual Savings and Relatives and Friends Borrowing: In Ghana, it is the most popular method of financing for small businesses. Personal donations, such as 'SUSU' (a term used to describe a traditional group contribution scheme where individuals come together and agree on a certain amount of money to be contributed at regular intervals and given to one member at a particular time say the ending of the month. This process rotates until the last person in the group takes his/her contribution).

Share Capital and Retained Earnings: Share capital refers to the amount of money an investor or entrepreneur is willing to put up as startup capital to set up a business and retain earnings refers to the profit generated from business activities that are saved to be reinvested (Frimpong & Antwi, 2014). By trading some of the firm's ownership to outside parties, the business may be able to raise financing. The buyers of this right are now joint owners of the company and have the power to take decisions that are in the best interests of the company. This is a cost-effective source of capital, although not as cost-effective as private money. The investors are eligible for an annual dividend; but, if the company has had a bad year, this entitlement is not enforced.

Bank Loans and Overdrafts: Bank loans and overdrafts are another common source of finance for small businesses in Ghana. Bank loans can be excessively costly for small firms since they have predetermined interest rates and mandate payback of the principal over a specified period of time. Despite the high-interest rates charged on bank loans, banks also need collateral in the form of fixed assets that can be sold if the borrower defaults on payments. Overdrafts are money that have been withdrawn in excess of savings and can be reimbursed with interest over a specified period of time. Overdrafts are usually for a brief span of time than loans, but they cost more. When loans aren't completed on time, overdrafts are more versatile and can help businesses meet short-term financial obligations.

Individual experts who fund start-up enterprises are known as business angels. Business angels seek to invest in emerging companies with promising futures. They usually put money into start-up companies in exchange for equity or changeable bonds. Bonds that can be converted into stock at a predetermined price at a later date are known as convertible bonds (Quaye & Sarbah, 2014).

The sum of money that has been committed or made accessible to be invested in a new firm is known as venture capital. In exchange for ownership share, venture capitalists often invest in high-risk, high-return businesses. Despite the fact that the description suggests that they invest in startups, this is unlikely to be the case. As venture capitalists invest such large sums of money, small start-up businesses are out of their reach, requiring them to invest in existing medium-sized organizations (Quaye & Sarbah, 2014).

2.4. Related Work

At the UNIDO Regional workshops of SMEs in Accra, Mensah (2004) in his research on the Review of SMEs financing schemes in Ghana reviewed some problems that were in the sector. In his conclusion, he indicated that even though some traditional banks and financial institutions have tabled out the importance of SMEs in the economy they are yet to include them in their loan structures or even develop distinct credit policies and strategies for them.

In different research conducted by Afenyo (2004), it was also observed that personal savings are the most common funding source. The SMEs appeared to be unaware of government-sponsored entities. This supported Mensah's (2004) conclusion that SMEs failed to benefit from government-sponsored programs.

Yankson (2004), also performed a study into SMEs financing and concluded that small businesses do not typically require large amounts of early cash or sophisticated technology, therefore they are more likely to fund their start-ups using personal savings or credit from family and friends. He went on to say that in underdeveloped countries, early capital expenditures are almost entirely funded by personal resources or those of relatives and friends, and future investments are generally funded by profits earned. His findings are in accordance with a World Bank report from 1994, which stated that "small entrepreneurs start with relatively tiny sums of capital from personal savings (their own and relatives or friends) and gradually grow their business by reinvesting profits."

Nkuah et al. (2013) conducted a study into the problems that SMEs face in obtaining credit. They determined that a strong and competitive financial sector may contribute significantly to expanding business access to capital. According to Antwi-Asare and Addison (2000), the banking sector liberalization was intended to increase SME access to capital.

Duah et al. (2012) investigated the influence of financial institutions on investment and development. Personal savings, followed by business loans, are the most common sources of start-up capital for SMEs, according to their results. MFIs are the primary source of business loans for SMEs among financial institutions. They went on to say that the main barrier to SMEs accessing financing from MFIs is long loan processing and approval timeframes of up to three months, as well as the requirement to provide collateral for loans.

All these previous studies tackled some of the major issues in the SME sector including financing, most of the studies were conducted in the capital city that is Accra. Though the researchers talk about SMEs they failed to discuss the problems faced by the SMEs in rural areas in the country which in one way or the other is different from financing in the urban areas. This is why this work fills the gap by accessing the factors that influence the demand for credit in rural areas in Ghana. It will also serve as a guideline for SMEs in rural areas in terms of the requisite factors that will help facilitate their capacity in accessing external funding from financial institutions, as well as contribute to the existing literature on SMEs' financing in Ghana.

3. Empirical Literature

Constraints Faced by SMEs in Accessing Credit

Collateral Requirements

The concern of focusing on security availability as a fundamental component of lending is based on the financial system's historical growth and tradition. Banks have traditionally taken a risk-averse method to small firms when analyzing loan repayment prospects, due to an inability to focus on the venture's income-generating potential (Beaver, 2002).

Credit limits might occur when there is an increase in bank loan collateral. As a result, low-interest borrowers (including MSEs) may be left off the list of potential customers, and banks may opt to disregard them (Stiglitz & Weiss, 1981). Gangata and Matavire (2013) found that only a small proportion of MSEs are successful in obtaining financial support from financial institutions in their research project on the challenges faced by MSEs in securing funding from financial institutions, with the primary reason being an inability to meet lending requirements, the most crucial of these is the provision of collateral security.

One research was done to look at the challenges that SMEs in Ghana face when it comes to obtaining loans. Based on survey responses, it was obvious that SMEs in Ghana, like SMEs in other countries, have considerable challenges in acquiring financing. As per the report, SMEs' inability to show collateral and other documentation required by banks, such as verified financial documents, along with the high cost of the loan in terms of high-interest rates, make obtaining credit facilities extremely difficult (Vuvor & Ackah, 2011).

"Better borrowers get larger loans and lower interest rates," according to Cressy and Toivanen (2001). "The requirement for collateral and the loan amount reduce the interest rate paid.... The creditor is demonstrated to employ qualitative as well as quantitative data in the formalization of loan agreements to small firms." In essence, it could be that there is an apparent "discrimination" against women and ethnic minorities because banks approach the loan process in a risk-averse manner (to preserve depositors' cash), and hence turn down various ideas seen to be "riskier."

Information Asymmetry

Information asymmetries are another barrier that SMEs encounter when it comes to obtaining credit. It is not only challenging but also expensive to obtain information regarding SMEs' creditworthiness. Due to the data deficiencies induced by SMEs' lack of financial statements, or business strategies, lenders find it difficult to assess the creditworthiness of SME bids (United Nations Conference on Trade and Development, 2005).

Lenders also don't have access to a potential entrepreneur's credit history or profile. Financial institutions compensate for these knowledge gaps by demanding higher interest rates or refusing to lend at all (Kempson, Whyley, Caskey, & Collard, 2000). As a result, access to data is a prerequisite for granting loans to businesses. One of the primary difficulties limiting bank funding to MSEs is often stated as a lack of information (Observatory of European SMEs, 2003; Udell, 2004). Banks acquire the bulk of information from MSE businesses primarily from debtors: investment plans, working capital requirements, and balance sheets. The necessary information is then double-checked for internal accuracy and compared to other information held by the bank.

According to the Observatory of European SMEs (2003), 60 percent of SMEs in Europe submit this type of data regularly. According to the survey, there is a favorable relationship between the business size and the information submitted to banks. It also shows that 70 percent of SMEs without lines of credit do not disclose accounting reports with their banks. The problem is worsened in developing nations, where illiteracy rates are alarmingly high. However, providing relevant data to the bank may be necessary for MSEs to develop an evaluating culture to receive external capital. Small business owners often have more information about the potential of their enterprises, but it may be difficult for them to articulate and offer particular information about their businesses as lenders require. Moreover, some entrepreneurs are unwilling to offer significant information about their firm's core to external financiers because they are concerned that information regarding their business activities would be leaked to their competitors in some way (Winborg & Landstrom, 2001). Some previous and recent research on small business growth and development has recognized the relevance of effective accounting in supporting small business growth (Abor & Biekpe, 2006). Kinyanjui (2006) According to documents, numerous businesses had difficulty obtaining loans since they needed to produce credit records and didn't completely understand the loan terms.

High Transaction Cost Involved in SME Lending

Banks frequently consider lending to SMEs with high processing costs because small sums need more time, effort, and tiresome formalities; lack of comprehension of SME objectives; inability to assess creditworthiness; and poor financial statistics (United Nations Conference on Trade and Development, 2002).

According to Zavatta (2008), the problem is exacerbated in developing nations due to a lack of adequate strategic planning in financial institutions, an underdeveloped economic information industry, and the poor state of certain public services such as property title and collateral registration. The expenses of processing and managing loans, on the other hand, are usually at a fixed cost, and banks frequently find that handling small SME loans is inefficient (Malhotra, Chen, Criscuolo, Fan, Hamel, & Savchenko, 2007).

Mwangi and Bwisa's (2013) study on the obstacles facing small businesses in obtaining credit: a case study of young entrepreneurs in Makuyu, Kenya discovered that almost all of the young entrepreneurs had difficulty obtaining loan facilities due to the high cost of loans, as demonstrated by high cost of processing fees, legal fees, high rates of interest, high cost of credit insurance, and high travel expenses incurred in the process of seeking credit. Financial institutions should seek ways to establish credit solutions that appeal to young people, according to the study.

Lenders and other stakeholders should look into decreasing the interest rate on credit products for teenagers. Another study looked at the impact of financial loans on the expansion of women-owned small retail businesses in Uasin Gishu County, with a focus on the Kapseret Constituency. The research discovered that interest rates influenced women entrepreneurs operating small-scale businesses in the Kapseret Constituency's access to financing (Cheluget, 2013).

Lack of Competition in the Banking Sector

Because of tight government controls, many emerging economies' banking businesses are substantially consolidated and non-competitive, leading banks to practice very moderate borrowing strategies or charge high-interest rates (Zavatta, 2008). For example, Beck et al. (2002) showed that supersaturated and unproductive financial sectors are often connected to higher funding limits, especially in countries with low measures of income and institutional development, depending on a firm-level examination of 74 nations. The impact of bank concentration on financing obstacles is amplified by central bank control, a high level of government supervision in the financial system, and constraints on banking' activities (Beck et al., 2002).

4. Methodology

The activities and processes used to collect information for the research are depicted in this chapter. It explains in detail how the data for this study was obtained and evaluated. The following are the main points of discussion: The research design, the population under study, the instruments, the sample and sampling technique, the information gathering procedure, analysis of data procedure are all important factors to consider.

4.1. Research Design

A study design, thus according to Creswell (2003), is "the system, model, or plan applied to create replies to survey questions." A quantitative research strategy, according to Creswell (1994), is "a style of research that describes events by the collection and analysis of numerical data utilizing mathematically based methodologies, particularly statistics". The research used a cross-sectional survey approach as a formal study since it allows the researcher to compare multiple factors at once. It's also used to compare distinct demographic groupings over a short period or at a particular moment in time. It was also an explanatory study because it established a causal relationship between the obstacles that small businesses (ARTISANS) encounter in obtaining loans from banks.

4.2. Study Population and Sampling

Population to Be Targeted

A population for a study is defined by Baxter and Babbie (2003) as the group (primarily of people) about whom one wishes to conclude. The study's target audience includes all SMEs and financial institutions in the La Nkwantanang Municipality (Madina).

Artisans (fashion designers, hairstylists, and shoemakers), Commercial Banks, and other financial institutions in La Nkwantanang Municipal Assembly make up the study sample frame. A non-probability survey method was used in this research, with purposive and convenient sampling techniques being used in respondent selection. Because the study was undertaken to meet a specific need or purpose for SMEs that are most readily available to participate in the study and who can offer the essential information, a purposeful and convenient technique was utilized. Also the time and financial constrain involved makes it not possible to reach all SMEs and Financial Institutions in La Nkwantanang Municipal Assembly.

The investigation used two categories of data: main and secondary data. Primary data refers to information acquired directly from a source. As a result, primary data refers to information gathered specifically for this project. Data that was initially obtained for a different reason is referred to as secondary data. Secondary data refers to empirical data obtained from the internet, past studies, and the literature for a different purpose. Secondary sources for this research include published and unpublished books, scholarly journals, internet search engines, and organization reports.

In determining the sample size, the researchers used the Cochran formula for sample size.

$$n_0 = \frac{Z^2 pq}{e^2}$$

n is the sample size;

z is the corresponding value found on the Z-value table according to the confidence level;

p is the (estimated) proportion of the population that has the attribute in question;

q is $1 - p$.

From the survey conducted the confidence level of data collected is at 95% with ±5 precision

Therefore:

$$n_0 = \frac{1.960^2 \times 0.5 \times (1-0.5)}{0.05^2} = 384$$

To find the sample size

$$n = \frac{n_0}{1+\left(\frac{n_0 - 1}{N}\right)} = \frac{384}{1+\left(\frac{384-1}{126}\right)} = 95$$

N is the total number of SMEs in La Nkwantanang Municipality.

4.3. Data Collection and Analysis

Interviewing and self-administered questionnaires/surveys are the two main forms of data collecting procedures, according to Emory and Cooper (2003). The primary data for this study were collected using a self-developed questionnaire (both open-ended and closed-ended). Respondents were self-administered the survey for the sake of convenience or because they glad responded to partake in the research. Two sets of questionnaires were employed, one for SMEs' and the other for the financial institutions. There were two components to the SME questionnaire. The demographic profile of the respondents was analyzed in the first section (Section A) of the questionnaire. Section B) discusses concerns and challenges with obtaining loans to fund SME activities. The financial institutions' questionnaire focuses on concerns of expediency when working with SMEs and the challenges they face in processing credit applications.

The study's findings were presented using descriptive statistics. The demographic and business profile of the respondents was assessed using descriptive statistical analysis such as frequency distribution. Measures such as standard deviation and mean were also used to depict the frequency with which SMEs obtain credit, as well as the numerous obstacles that SMEs have in obtaining credit and the causes for these obstacles. The Statistical Package for Social Sciences was used to analyze the data (SPSS, Version 20).

The study was focused on the various variables that affect SMEs access to credit in La Nkwantanang Municipality (Madina) analysis from multiple linear regression was undertaken to explore if required information was acquired to aid the evaluating the presence of clear relationship or linear Model on the various factors that affect the accessibility of loans to SME's. In this case, credit accessibility is the dependent variable represented by (Y), and the independent variables (S), of Nature of business, Start-up Capital, and Purpose of Credit. These variables were assessed for linear relationships in this research with the help of multiple regressions.

By calculation, the model is as fellows

$$CA = \beta_0 + \beta_1 SC + \beta_2 NB + \beta_3 C + \beta_4 PC + E$$

where:

CA = Credit Access;

SC = Start-up Capital;

NB = Nature of Business;

PC = Purpose of Credit.

The undefined coefficients, in this case, are $\beta_0, \beta_1, \beta_2, \beta_3$, and β_4, and its results were found using regression analysis from SPSS. As a variation on positive 1, the standard of error that E talks about has a value of zero.

The first hypothesis is regression analysis between Credit Access and Start-up Capital.

The association between the dependent variable and the independent variable, credit availability, and start-up capital, was investigated using linear regression analysis models.

The coefficient of determination, in addition to the correlation coefficient (R), indicates the strength of the link between the firm's start-up capital and SME loan access. Table 1 below shows the value of R = 0.15 revealing a linear or positive relationship between the start-up of a small business and loan availability. According to the R square, the independent variable's power of predicting is 14%, implying that the Model is

$$Y = \beta_0 + \beta_3 + X_3$$

where: Y = credit access;

X_3 = start-up capital.

According to this, a change in the independent variable will result in a change in the dependent variable. This means that small-medium businesses' access to finance is determined by their start-up capital. Table 2, shows the results of the analysis of variance (ANOVA), which show indicating SME start-up capital does have a substantial impact on credit accessibility. The value for p is less than 5% significant. Because both the constant and the independent variable have positive coefficients, the start-up capital has a positive impact on their access to financing.

The second hypothesis is the regression analysis between Credit Access and nature of Business. The value for R and R^2 is 0.49 and 0.46 respectively. The result of R = 0.049 denotes a positive direct association between the type of the SME's operation and its ability to obtain loans. The R^2 indicates that the prognostic value of independent variables is 49%, implying that $CA = \beta_0 + \beta_2 NB + E$ indicates about 49% of access to credit. When the independent variable (credit access) changes, the dependent variable changes as well (Nature of Business).

The third hypothesis is the regression analysis between Credit Access and the Purpose of Credit. In this analysis, the R and R^2 value is 0.45. The R value of 0.45 indicates a positive linear relationship between the Purpose of Credit of SME's and credit access. The independent variable prediction is 45%, there the model will be $CA = \beta_0 + \beta_3 PC + E$.

Access to credit (*CA*) and SME's Purpose of Credit (*PC*), on the other hand, account for roughly 45 percent of the variation or variations in bank credit. This means that the consequence of the variation is explained, the dependent variable's percentage rises. The regression model indicates that SME purpose for credit affects access to credit. The dependent variable (availability to credit) has a progressive relationship with the dependent variable.

The overall regression analysis using SPSS is meant to fulfill the overall study goal of identifying the variables that impede small and medium-sized businesses access to financing. The coefficient of determination (R^2) and the correlation coefficient was used to determine the degree of correlation between the independent variables and credit accessibility (dependent variable) of SMEs in La Nkwantanang Municipality (R). Since establishing the framework and finding solutions for independent variables, the R^2 value acquired is high. After measuring the levels of liberties, changes in independent variables explain approximately 82.7 percent of changes in credit accessibility (number of independent variables). The value of $P = 0.000$ which is less than 5%. This demonstrates the importance of and utility of the basic model in predicting and decision-making. This implies that the start-up capital, nature of business, and purpose of credit all have a huge impact on SMEs' access to credit. The model's predictive summary supports the research goal that there is a positive link between the independent variables and the dependent variable when SMEs in the La Nkwantanang Municipality decide to go for credit or loan. **Tables 1-3** depict the overall model summary in SPSS.

Table 1. Overall regression Model analysis summary.

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate
1	0.371	0.837	0.827	1.03790

Table 2. ANOVA overall regression analysis model.

	Model	Total of Squares	Df	Mean Square	F	Sig.
1	Regression	56.759	4	14.190	13.172	0.000
	Residual	356.563	331	1.077		
	Total	413.321	335			

All the variables considered in this research impact significantly whether an SME is going to get access to credit or loans in the municipality.

5. Findings and Discussion

The project data was evaluated in this chapter using SPSS and Microsoft Excel, statistical software. The findings are provided in terms of descriptive statistics (frequency), and the chapter concludes with a discussion of the findings in connection to theoretical and other empirical findings of SME loan access issues.

5.1. Respondents' Demography

Findings according to **Table 4** illustrate that 55.8% majority of the respondents are women whereas 44.2% are men. An indication that the SME's business is dominated by females compared to the Males in La Nkwantanang Municipality.

Based on educational level, 76.8% majority possess basic level education, followed by High School with 18.9% and the least being 2.1% for Tertiary and no formal education each. This illustrates that the majority of respondents possess

Table 3. Overall regression analysis model coefficient.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	Constant	2.725	0.286		9.537	0.000
	Start-up Capital	0.168	0.052	0.186	3.227	0.001
	Nature of Business	−0.525	0.118	−0.229	−4.455	0.000
	Purpose of Credit	−0.162	0.057	−0.147	−2.844	0.005

Table 4. Respondents demography

Variable	Category	Frequency	Percent	Valid Percent	Cumulative Percent
Gender	Male	42	44.2	44.2	44.2
	Female	53	55.8	55.8	100
Level of Education	None	2	2.1	2.1	2.1
	Basic	73	76.8	76.8	78.9
	High School	18	18.9	18.9	97.9
	Tertiary	2	2.1	2.1	100
Age	15 - 25 years	15	15.8	15.8	15.8
	26 - 36 years	58	61.1	61.1	76.8
	37 - 47 years	22	23.2	23.2	100
Total		95	100	100	

Source: Authors survey data, 2021.

some degree of formal education compared with those without formal education in La Nkwantanang Municipality.

Regarding age range, 61.1% majority are within the age range of 26 - 36 years, followed by 23.2% within 37 - 47 years and the least being 15.8% within 15 - 25 years.

According to Table 5, 80% majority of the financial institution are commercial banks whereas 20% are credit unions where SMEs request credit facilities.

5.2. Nature of Business

According to Figure 1, the majority of 49.5% representing 47 respondents are Hair Stylist, 31.6% are Fashion Designers and 18.9% being the least are Cobblers (Shoe Makers). This shows that the SMEs business in La Nkwantanang Municipality is dominated by Hairstylists.

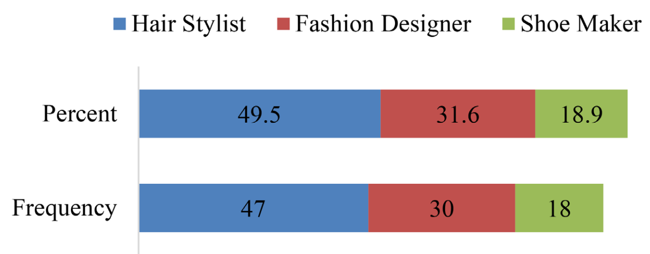
5.3. Type of Business Ownership

Figure 2 illustrates that 89.5% majority of SME's business in La Nkwantanang

Table 5. Type or nature of the financial institution.

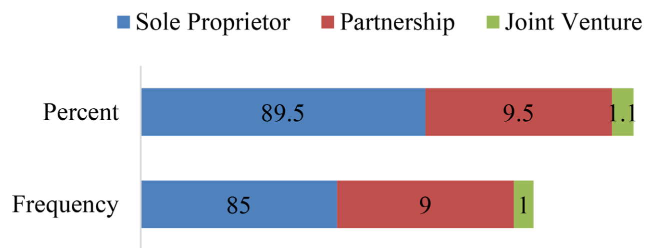
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Commercial Bank	4	80.0	80.0	80.0
	Credit Union	1	20.0	20.0	100.0
	Total	5	100.0	100.0	

Source: Authors survey data, 2021



Source: Authors survey data, 2021.

Figure 1. Nature of SME business.



Source: Authors survey data, 2021.

Figure 2. Ownership of SME business.

Municipality is Sole Proprietor Ownership, followed by 9.5% being Partnership and the least 1.1% being Joint-Venture.

5.4. Major Source of Startup Capital

According to **Table 6**, the majority of SMEs (68.4%) use personal money as a key source of start-up capital for their business, followed by Bank Credit (24.2%) and Friends and Relations (7.4%). These findings suggest that SMEs rely less on banks for startup financing and rely more on their savings, which are not subject to stringent conditions such as collateral security or expensive payback costs.

These findings support Myers' (1984) Pecking Order Theory, Ou and Haynes' (2006) assertion, and Frimpong and Antwi's (2014) are of the view that MSE owners obtain cash through a rank of "own" money (personal savings and retained earnings), short-term borrowings, long-term loans, and, least favored of all, the entrance of new equity shareholders, which constitutes the largest incursion. A large number of people say they rely on personal savings before other sources of income. Howorth's (2001) study report also confirms that entrepreneurs first, look for funding from their own resources, then from friends and family, and finally from other sources such as banks.

5.5. Access to Credit Facilities from Financial Institution

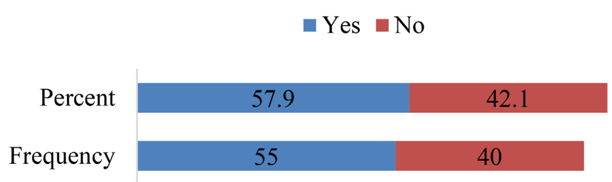
Findings according to **Figure 3**, revealed 57.9% majority affirming that they access credit facilities from financial institutions whereas 42.1% do not access such credit facilities from the financial institution.

5.6. SMEs Influential Factors for Credit Application from Financial Institution

Table 7 presents findings that illustrate that 21.1% of SMEs access credit facilities

Table 6. SME major source of start-up finance.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Personal Savings	65	68.4	68.4	68.4
	Bank Credit	23	24.2	24.2	92.6
	Friends & Relations	7	7.4	7.4	100.0
	Total	95	100.0	100.0	



Source: Authors survey data, 2021.

Figure 3. Access credit facilities from financial institution.

from a financial institution for working capital management purposes whereas 18.9% access it for startup and 17.9% for expansion of business. However, 42.1% representing 40 respondents (SMEs) did not indicate the purpose for their credits application as earlier findings revealed that 40 respondents do not access credit facilities from the financial institutions. These findings concurred with Avevor's (2016), study reports which indicate that majority of SMEs request credit facilities for working capital purposes, followed by import loans and least for business expansion.

5.7. Frequency of SME Credit Access from Financial Institution

According to **Table 8**, 49.5% of respondents affirmed that they do not access credit facilities from the financial institution very often whereas 43.2% do not make access at all. Only 7.4% affirmed that they often access credit facilities from financial institutions.

5.8. SME's Credit Access Challenges

In identifying the various challenges SMEs encounter in their credit access from the financial institutions results according to **Figure 4**, revealed High-Interest Rate as the most difficult challenge with 47.5% majority affirmation, followed by lack of collateral (21.1%), lack of guarantor (11.6%), long duration (10.5%) and short payback period (6.3%).

The following are the top hurdles for SMEs in acquiring credit from banking institutions, on a scale of Difficult to Most Difficult.

High-Interest Rate with 98%, which affirms Vuvor and Ackah (2011) and

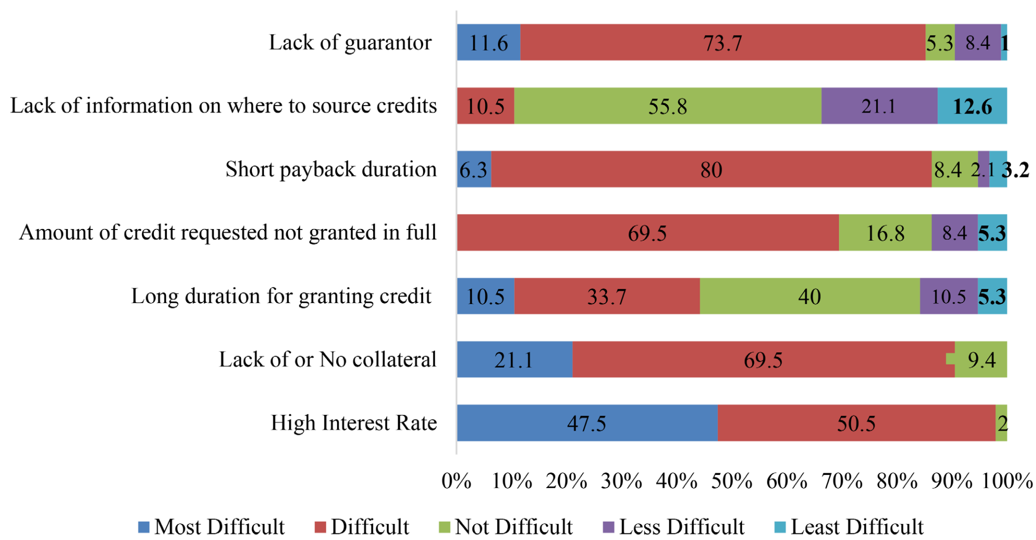
Table 7. SMEs purpose for credit application from financial institution.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		40	42.1	42.1	42.1
	Startup capital	18	18.9	18.9	61.1
	Working Capital (top up)	20	21.1	21.1	82.1
	Expansion of Business	17	17.9	17.9	100.0
	Total	95	100.0	100.0	

Table 8. Frequency of SME's access for credit facilities from financial institutions.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not very often	47	49.5	49.5	49.5
	Often	7	7.4	7.4	56.8
	Not at all	41	43.2	43.2	100.0
	Total	95	100.0	100.0	

Source: Authors survey data, 2021.



Source: Authors survey data, 2021.

Figure 4. Credit access challenges from SME's owners perspective.

Cheluget's (2013) study reports that the higher cost of credit in terms of the high rate of interest makes it extremely difficult to access bank loans.

Lack of Collateral with 90.6% and short payback period with 86.3%. This is in agreement with Gangata and Matavire (2013) and Vuvor and Ackah (2011), according to studies, only a tiny fraction of MSEs is fortunate to receive funds from financial institutions, with the principal cause being an inability to meet borrowing rules, the most essential element in accessing the loan is the provision of collateral security. Lack of Guarantor with 85.3%, Amount of credit requested not granted with 69.5% and the least being long duration for granting credit with 44.2%. Kinyanjui's (2006) and Udell's (2004) study reports support these conclusions. Entrepreneurs typically have more knowledge about their companies' prospects; however, lenders may find it challenging for them to describe and supply precise information about their businesses.

6. Summary of Findings and Conclusion

This study's final chapter recaps and implies the complete research procedure. This part consists of a summary of findings, conclusion, and recommendations for future work.

6.1. Factors that Influence SME's (Artisans) Demand for Credit

Out of 95 SMEs utilized for this study, only 55 do access credit from financial institutions and affirmed working capital management and startup capital as the major influential factor for their credit demands.

6.1.1. Major Source of SMEs Startup Capital

Findings revealed the majority of SMEs utilize personal savings as a major source of start-up capital for their business, followed by Bank Credit and the least being Friends and Relations support. These results indicate that SMEs depend less on the bank for start-up funds and heavily depend on their savings which do not have rigorous requirements such as collateral security and higher repayment cost.

6.1.2. Financial Institutions Special Credit facilities for SMEs

Out of five (5) financial institutions utilized for this study, four (4) are commercial banks and only one (1) Credit Union. The majority of three (3) affirmed that they have special packages for SMEs with high patronage levels by SMEs. The special financial package identified entails Power Breakfast, SME Loan Suite, and SME Susu Loan.

6.1.3. Factors that Limit SMEs Access to Credit from Financial Institutions

Assessment on the various factors that limit SME's credit request by the financial institution revealed lack of collateral and lack of owner's managerial experience and skills as the major limiting factors. The next on the list is Lack of information infrastructure, low or small equity base, and lack of a business plan by SMEs. An indication that most of the SMEs who request credit facilities lack these elements hence not meeting the requirement of the banks to grant them their request.

It was also evident that the significant factors required by most financial institutions in granting credit facilities to SMEs entails Information infrastructure (credit reporting, audited financial statements, etc.), Owner's managerial experience and skills, Business Plan, and operating or having an active account with them. Less consideration is given to collateral security.

6.1.4. SME's Credit Access Challenges

In identifying the various challenges SMEs encounter in their credit access from the financial institutions, results revealed High-Interest Rate, lack of collateral, lack of guarantor, Amount of credit requested not granted, and short payback period as the top challenges with high affirmation from 69.5% to 98% coupled with alpha less than 5%.

6.2. Conclusion

Several researches have shown the increasing relevance of credit to every business entity's growth and productivity, particularly Small and Medium-sized Enterprises (SMEs). Despite the tremendous inputs of SMEs to Ghana's economy, one of the biggest impediments to SME development in the country has been accessing credit from financial institutions and other formal financial institutions.

Despite previous state and non-government various programs and strategies being used to assist SMEs in their development, SMEs in Ghana appear to have a long way to go to reach their full potential because there are still difficulties accessing finance from formal financial institutions.

The main goal of this research is to identify the numerous barriers to credit that SMEs (artisans) face in La Nkwantanang Municipality. To obtain a sample size of 100 respondents (95 SMEs and 5 Financial Institutions), a non-probability sampling technique was used, and data were analyzed quantitatively using the Statistical Package for Social Sciences (SPSS) and Microsoft Excel. The majority of SMEs' (artisans) with high affirmation from 69.5% to 98% revealed high-interest rate, lack of collateral, lack of guarantor, amount of credit requested not granted, and short payback period as the major challenges they encounter in access credit facilities from financial institutions.

Although the data collected specifically pertains to the La Nkwantanang Municipality, the research can be generalized to the country as the factors that influence the demand for credit in one municipality which is or similar to other municipalities. This is because the setup of Ghana starts from the district or municipality level to the national level. In every district, financial institutions are the same example, banks, credit unions. The type of SMEs mentioned in this study is the same across the country. The degree they can have access to financial institutions that will provide credit facilities may differ due to the number of financial institutions in that particular district or municipality but the factors that influence their demand for credit are the same. For this reason, I can conclude that this research can relate to other places in the country.

6.3. Recommendations

This study suggests that, based on the numerous data;

1) The financial institutions should design and implement specific policy requirements on credits access for SMEs as some have special financial packages already in place.

2) The financial institutions should ensure all relevant information is disclosed to SME's clients who request credits facilities as well as potential clients to help inform their borrowing decision.

3) Financial Institutions and SME owners should collaborate to have regular training on financial and business management to assist the SMEs in upgrading their skills to effectively manage the funds borrowed to achieve the expected returns.

4) Further studies should be carried out in the area of the impact of credit facilities on SMEs' operational and financial performance.

6.4. Limitation of Study

There was limited time and money to conduct extensive research where virtually more financial institutions and SMEs in other municipalities will be considered, notwithstanding 95 SMEs and 5 financial institutions in La Nkwantanang Municipality were used for the study.

Due to the bureaucratic nature of some financial institutions, distribution of questionnaires and interaction took a lot of time, delaying the work since approval had been sort from the various management officers before.

However, despite the above factors enunciated, the findings reflect fairly and accurately on the challenges SMEs (Artisans) faced in accessing credit from a financial institution in La Nkwantanang Municipality.

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Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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