CHRISTIAN SERVICE UNIVERSITY COLLEGE

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

EFFECTS OF BANK CREDIT ACCESS ON SME PERFORMANCE

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A DISSERTATION SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE, CHRISTIAN SERVICE UNIVERSITY COLLEGE, KUMASI, GHANA, IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF BUSINESS ADMINISTRATION (BBA) IN BANKING AND FINANCE

JULY, 2020

DECLARATION

Candidate Declaration

We hereby declare that, this dissertation, with the exception of quotations and references contain in this published works which have all been identified and duly acknowledged, is entirely our own original work, and it has not been submitted, either in part or whole, for any other degree elsewhere.

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Supervisor's Declaration

I hereby declare that the preparation and presentation of this work was supervised in accordance with the guidelines for supervision of project work laid by the Christiana Service University College.

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DEDICATION

This research is dedicated to the Almighty God for His unfailing love, and also to our parents, siblings and our love ones.

ACKNOWLEDGEMENT

This dissertation could not be written without the favor of God Almighty for his abundant grace, care and love which has seen me through the course. I am greatly grateful and thankful to our supervisor Mr. Kofi Amanor and to our head of department Dr.(Mrs) Joycc Ama Quatey.

ABSTRACT

Finance is a key input in the development and growth of business enterprise. One of the reasons why firms form linkages and relations with one another as well as with financial institutions is to access credit for business growth. Credit contributes to enterprises development in a number of ways. Access to external resources allows for flexibility in resource allocation and reduces the impact of cash flow problems on firm activity. Small and Medium Scale Enterprises (SMEs) performance is largely connected with availability of banks' credit as this enhances investment, thereby contributing to the overall development of the economy. This research is aim to find out the effect of bank credits on Small and Medium Scale Enterprises performance. Much research has been conducted in various countries in Nigeria, Kenya, Ethiopia and other countries in Europe. The data for this study were purposely collected through the secondary sources and analyzed using content analysis approach. Through several studies findings in this work suggest that the access to external sources of financing through bank loan is an important factor that influences the investment growth. The paper provides some important conclusions and implications for policymakers and entrepreneurs.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In Ghana, the most commonly used definition of SMEs is the number of employees of the enterprise. In applying this definition, however, there is some controversy in respect of the arbitrariness and cut off points used by the various official records (Dalitso & Quartey, 2000). The Ghana Statistical Service (GSS) defines small businesses as enterprises that employ less than 10 persons while those that employ more than 10 people are classified as Medium and Large-Sized Enterprises. Alternately, the National Board for Small Scale Industries (NBSSI) in Ghana utilized both the 'fixed asset and number of employees' criteria to define SMEs. According to the NBSSI, enterprises with not more than 9 workers, has plant and machinery (excluding land, buildings and vehicles) and not exceeding GH 1, 000 are considered as Small-Scale Enterprises. Very demanding requirements, in addition to the bureaucratic lending procedures by financial institutions is the biggest challenge to creditmost cases are not adequate (Graham, 1996 and Udell, 1992).

On a global scale, small and medium-size enterprises (SMEs) have exerted much influence on social-economic development based on its outstanding contribution to employment and GDP growth. According to the Ministry of Trade and Industry of Ghana, as at August 2011, figures from the Registrar General's Department suggest that 88% of registered businesses in the country are in the small and medium-size enterprises sector of the Ghanaian economy (Adjei, 2012, p. 67). Based on this information, it can be said that the Ghanaian economy is largely dependent on the SMEs sector, creating jobs for hundreds and thousands of

Ghanaians. Yet the full potential of the SMEs sector in Ghana is still unrealized (Adjei, 2012; Adomako-Ansah, 2012). To some writers (Cofie, 2012; Ahiawodzi & Adade, 2014), the SMEs sector can do better with respect to its current contribution to GDP growth. Invariably, the sector can grow faster and better contribute to employment in Ghana. These arguments are indirect ways of saying that the sector is not realizing its full potential logically as a result of some constraints. Ackah & Vuvor (2011) are among several writers who have acknowledged that some of these constraints are challenges faced by SMEs in having access to credit facilities from financial institutions (banks, micro-finance firms, savings and loans companies among others), which are the sector's financiers.

In the microfinance and SMEs literature, several challenges are identified as working against access to credit facilities among SMEs. Some of these challenges are: SMEs lacking collateral security; poor records keeping; poor credit rating as a result of poor savings history, and stringent lending criteria used by financiers (Ackah & Vuvor, 2011; Cofie, 2012). The fact is that these and other challenges have been consistently found in researches conducted in both developed and developing country contexts, making them strongly confirmed constraints faced by SMEs in the global SMEs industry. However, these challenges have been found in previous studies (Adjei, 2012; Cofie, 2012) only from the perspective of SMEs. Zairani & Zaimah (2013) are of the view that this situation is unwholesome and poses a major gap in the literature because some of the challenges faced by SMEs in accessing credit are best identifiedfrom the viewpoint of financiers.Thus they contend that a holistic framework of challenges associated with access to financial resources among SMEs in any jurisdiction comes from two sets of people: (1) employees of financial institutions; and (2) SMEs (i.e. SME owners and employees).

1.2 Statement of the Problem

Access to adequate credit for working capital and long-term investment purpose has been cited as one of the major constraints that SMEs face in their operations in Ghana and other developing countries. The World Bank report (2010) suggests that one of the major causes of SME failure is limited access to external finance. The report further observes that SME loans as a percentage of total bank loans are generally smaller compared to large firms. Approximately ten percent (10%) of all formal SMEs have access to a bank credit line. Finance is the life-blood of any business enterprise and no enterprise, no matter how well managed, can survive without enough funds for working capital, fixed assets investment, employment of skilled employees and development of markets and new products (Agnew, 2003). Therefore, access to finance is essential to the survival and performance of any business enterprise.

However, empirical studies on the impact of bank financing on the financial performance in Ghana are limited. Nondi & Achoki (2006), in a survey of financial management problems in small hotels and restaurants, found that 26 percent of these establishments reported lack of working capital as the most serious problem they face in their operations. Research by Mwamadzingo & Ndung'u (1999) which focused on the commercialization of innovations in Ghana also found that small scale firms experience great difficulty in attracting investment funds, which inhibits their ability to adopt modern methods of production. Onyango's (2000) study of the role of entrepreneurship in coping with development challenges in found that women-owned SMEs face financial constraints due to inadequate financial resources caused by their under representation in the salariedemployment sector as well as using the low earnings they get to support their families with the basic necessities of life.

A comparison of the situation of SME financing in developing countries and developed countries shows a mixed picture. In developed countries, the constraint of credit access to SMEs has also been identified as one of the challenges that SMEs have faced overtime. Hallberg (2000) argued that SMEs complaints that their growth and competitiveness are constrained by lack of access to enough financial resources exist in many parts of the world. Although, a considerable number of research reports have mentioned the access to finance has been a major problem in the SME sector, a survey of literature dealing with this area indicates there is a significant gap in knowledge of the effect of bank financing on the financial performance of SMEs. Thus, this study sought to address the research question; what is the effect of bank financing on the financial performance of small and medium enterprises in the Kumasi Metropolis?

1.3 Purpose of the Study

The main objective of the study is to investigate the effect of bank credit access on SMEs performance in the Ghana with particular interest in SMEs located in the Kumasi metropolis.

Specific Objectives

The study specifically sought to:

1. To examine the factors that determines access to credit.

2. To examine the effect of credit access on SMEs performance.

3. To access the challenges faced by SMEs accessing credit facilties.

1.4 Significance of the Study

The study is expected to be important to the commercial banks in Ghana, Government, academia and other stakeholders. In the academia field, the result of this study is a contribution to the existing store of knowledge on the subject and serve as a catalyst for further research on innovative ways of financing SME. It is useful as a source of reference to researchers, academics, policy makers, students and other stakeholders interested in financing challenges faced by SMEs. In bank management, this study would provide data that may help to better understand banks' involvement with SMEs. This also include to identify "best practices" in commercial bank involvement with SMEs, including key factors and links among business models, processes, tools, as well as the actual performance in SME banking. To policy makers like government agencies such as the Ministry of Finance and Ministry of Industrialization, the findings and results of the study would provide insight and a more reliable guide for monitoring the financing challenges of SMEs. The study would provide data that may help understand the needed finances for banks to provide quality service to SME consumers and to ensure that their systems achieve the highest level of efficiency in provision of financing.

1.6 Scope of the study

The study is confined to investigating the factors that predict access to and its effect on SME performance. Geographically, the study islimited to SMEs in the Kumasi metropolis. The sampled SMEs were categorized into manufacturing, agro-business and Service.

1.7 Limitation of the Study

Funds is the number one limiting factor for the successful completion of this research as the persons embarking on this research are student and does not have at their disposal grants which may help in a small way for its successful completion. Another factor may be time. Time is too short to complete the work of this magnitude. This work would require that one reads through hundreds of journals and write a review on each, but due to deadline given to complete the work; one may not have the time to read through all the vital journals. Being that as it may, the researchers will do the best to make sure that the impact of these aforementioned limitations are limited and strive to come out with a fantastic research work.

1.8 Organization of the Study

The study is organized into five chapters. Chapter one comprise the background to the study, problem statement, research objectives and questions, significance of the study, methodology as well as scope and limitation of the study. The Chapter two of the study reviews pertinent literatures related to SMEs accessibility of credit facilities. The Chapter three of the study discussed research design, and methodology, population, sample size, sampling technique, materials for datacollections, procedure involved in data collection as well as ethical considerations. The Chapter four of the study constitute the presentation of the result and analysis of data gathered for the study. The Chapter five of the study constitute the summary of the findings, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter gives an overview of the SMEs sector, both in developed and developing economies, with particular focus on Ghana. It begins with theoretical definition of SMEs and a general overview of the SME sector in Ghana. Further, the study examines the important roles that SMEs play in economic growth and development, especially in developing countries such as Ghana. This chapter also discusses general problems facing SMEs sector, particularly lack of access to credit. Finally, government's financial supports aimed at alleviating SMEs financing constraints in Ghana are also discussed.

2.2 Definition of Small and Medium-sized Enterprises (SMEs)

A number of studies have tried to come up with a working definition of what kind of businesses can be classified as SMEs (Kayanula & Quartey, 2000). As noted by Gockel (2003), the challenges faced by SMEs, especially with regard to access to credit is partly because they lack an operational definition and partly due to lack of understanding of their heterogeneous nature by lending institutions. According to Kayanula and Quartey (2000), there is no single, universal, or uniformly acceptable definition of small-scale enterprises. As a result, several measures have been used to define SMEs. A survey of the literature on the definitions of SMEs is based on different criteria such as number of workers employed, annual rate of turnover and value of fixed assets. However, the commonest criterion used across countries is the number of employees, but this definition varies across countries and even within the same country there are divergent views on the exact number of workers and the cut-off point to be used (Ayyagari et al., 2003).

The World Bank (2013) classifies an enterprise as MSME when it meets any two of the following criteria namely, number of employees, size of assets, or annual sales as follows: microenterprises employ up to 10 employees, with total assets and annual sales of up to $10,000; small enterprises employ up to 50 employees with total assets and annual sales of up to $3 million; and medium-sized enterprise employ up to 300 employees, with total assets and annual sales of up to $15 million. It is therefore noted that there is no universal definition of SMEs, which applies to all countries. This is due to the fact that SMEs are not homogeneous; they differ from one country to the other and from one industry to the other. However, SMEs are generally privately-owned firms which have relatively a small number of personnel and low volume of sales and fixed assets (Nkuah et al., 2013).

2.3 Contributions of SMEs to Economic Growth and Development

The significant contributions of SMEs to the economic growth and development of national economies especially developing countries have been emphasized by a number of empirical studies. Utilizing firm-level data from 76 countries, Ayyagari et al. (2007) found that on average SMEs account for 55% of employment in manufacturing. SMEs usually comprise about 99 per cent of all enterprises, and account for 44% to 70% of employment and 50% of manufacturing output. In developing countries, SMEs account for 98% of enterprises, 50% to 80% of industrial employment, and 50% of manufacturing output (UNCTAD, 2005). According to Seibel (1996), small businesses usually operate in market niches, which are unattractive for large enterprises due to low level of profits. Small firms can strengthen domestic economic cycles and inter-sectoral relations, which is a necessary precondition for successful industrialization strategies. Moreover, in countries with a large proportion of agriculturalists and underdeveloped industrial relations, SMEs can utilize cheap, labor intensive and appropriate technologies (Seibel, 1996). In Ghana, SMEs employs a large part of the labor force and the growth of employment in the SME sector is about 5% higher than in micro and large-scale enterprises and the sector's contribution to GDP was 6% percent in 1998 (Kayanula & Quartey, 2000). According to Abor and Quartey (2010), SMEs contribute about 85% of manufacturing employment and 70% of GDP in Ghana. In addition, SMEs are also believed to make up about 92% of businesses in Ghana (Abor & Quartey, 2010). Moreover, SMEs also provide potential market for industrial and consumer goods manufacture by other large enterprises through their demand for these goods and services (Abor & Quartey, 2010).

However, a major weakness of these studies is that they fail to offer a clear mechanism through which SMEs contribute to growth. For example, Beck et al. (2003), utilizing cross-country data from the manufacturing sector of 76 countries, find that there is a robust, positive relationship between the relative size of the SME sector and economic growth. However, their cross-country analyses do not support the view that SMEs exert a causal impact on long-run growth and that there is not a significant relationship between SMEs and poverty alleviation and further that SME size is not linked with the growth rate of the incomes of society. This is because small businesses are not necessarily more labor-intensive than large enterprises. Moreover, there is not clear link between growth, poverty reduction and the promotion of small firms. However, in view of these significant contributions made by SMEs, the development of SME sector is important since most large enterprises usually start as small ones; hence, SMEs need to be promoted to become the backbone of the economy (De la Torre et al., 2008).

2.4 SMEs Access to Credit

SMEs in both developing and developed countries face a number of problems, which are caused by complex and multi-dimensional factors (Stephanou & Rodriguez, 2008). Generally, the constraints faced by SMEs, especially those in developing counties are lack of access to credit for start-up and working capital, increasing competition, sluggish demand, insufficient supply of business inputs such equipment, machines, raw materials, electricity and fuel and problems relating to business environment (Seibel, 1996). In Ghana, empirical studies show that major constraints to SMEs' expansion include the following: lack of access to finance, low demand for output, technology, raw materials, labor and management, infrastructure, marketing and business environment problems (Aryeetey et al., (1994); Baah-Nuakoh (2003); Kayanula & Quartey (2010).

2.5 Relationship Between Small and Medium Scale Enterprises Performance and Financial Institutions

Obviously, banking and financial services are important to small and medium scale enterprises. For one, they provide financing for businesses to start, sustain, or expand.

There are many SME business loans designed to help SMEs start and thrive. Without banks and financial services providers, the business community will be totally dominated only by those who have the capital. This is definitely something modern societies cannot allow. Moreover, banks and financial services providers are important to SMEs to facilitate financial transactions. Obviously, not everyone uses cash to pay for transactions. Some use checks. Others use online payment systems. There are also those that pay through credit cards and special setups for transferring funds. These cannot be possible without banks and financial services providers. However, there is a real gap between financial institutions and SMEs. The shortage of finance occupies a very dominant position affecting the SMEs in the country. Globally commercial bank, which remains the highest source of funds to SMEs, has in most cases, shields away because of the perceived risk and uncertainties. Banks see small-scale businesses as very risky. They have a huge amount of money in reserve but they are never using if for small industries. The interest rate 19% to 30 % is definitely too high for a most small scale businesses to cope with. Most SMEs therefore see banks as utility providers and not business partners. There are relatively few studies that address this issue head on but it is possible to glean some insights from studies that are concerned with other aspects of the lender-borrower relationship. There are a number of UK based studies, which indicate that the centralization of banking decisions has increased 'the psychological distance' between the bank and small and medium business borrowers, the negative perception effects being greatest in the case of young firms. The rationalization of banking provision is seen by some authors as compounding problems of information asymmetry for small and medium businesses. There is recent evidence to show that business-lending officers, despite undergoing similar training on the application of decision criteria, tend in practice to place greater emphasis upon the personal characteristics of the entrepreneur, resulting in concerns about a lack of evenhandedness and its adverse impact on the perceptions of entrepreneurs. More positive perceptions of banks by small business owners tend to be underpinned by more participative relationships and research has shown the crucial role that accountants can play here, as trusted actors by both the banks and entrepreneurs.

2.6 The Effect of Credit on SMEs Performance

Peek and Rosengren (2004) showed that the mergers of commercial banks tended to reduce lending to small businesses more than to other borrowers. Hancock and Wilcox (2002), estimating the effects on small businesses of several aspects of the financial sector, found that the widespread bank capital crunch around 1990 had larger effects on smaller banks than on larger banks. Since smaller businesses tend to deal more with smaller banks, capital-related reductions in lending were greater at smaller businesses. Berger and Udell (2000) argued that financial innovation and changes in bank regulations during the 1980s and 1990s may have made banks less willing to lend to small firms. The Federal Reserve's monetary tightening that began in the late 1980s, in the middle of the 1990s, and again in the late 1990s may well have impinged more on small businesses. Small businesses also may have reacted more than did large businesses to changes in other costs, terms, and availability of bank credit. In fact, small businesses did seem to have been affected more by shocks to bank capital and by changes in banks' lending standards during the 1990-1991 recessions (Hancock and Wilcox 1998). In addition, adverse conditions at small banks may have impinged more on small businesses than on large businesses.

2.7 Challenges faced by SMEs in Accessing Credit Facilities

The first constraint for Small Medium businesses in accessing credit is the bank's requirement of financial records on the past performance of the enterprise. Many Small Medium businesses have difficulties in providing these. The constraint put on Small Medium businesses access to finance by the level of requirements of financial records varies between the different financial institutions. Those who target mainly micro enterprises do generally not require balance sheets or profit and loss statements. However, they are never less interested in the past performance of the applicant's enterprise. To build an idea on it, they often rely on simple sales records. The task is less complex for the Small Medium Businesses than producing independently its own records. However, they still need to have some form of record keeping in order filling in the forms correctly. The second constraint for Small Medium businesses in access to business credit is the bank's skepticisms of their repayment. Generally, Small Medium Businesses have difficulties in convincing the banks on this issue. The core of the repayment capacity is the cash flow of the enterprise after receiving the loan. If the loan serves to finance one specific transaction only, it is fairly easy to establish the cash flow. The only requirement in this case is that the applicant brings the contract of the order for the transaction. It becomes more complicated if a Small Medium Businesses applies for working capital or for a fixed investment. The returns are more difficult to determine and the analysis of the bank becomes more complex.

Consequently, Small Medium Businesses have more to prove. The main factors considered by the bank are the personality of the owner or manager of the small enterprise, the marketing of its products, the reliability of its supplies and the profit margin. The banking survey by the bank of Nigeria on annual percentage rates and average rate paid on deposits show that banks operating in the country demand at least double the interest from their most favored borrowers more than what they offer to depositors. One of the challenges of Small and Medium businesses in access to credit is the security requirement of the banks. Small Medium businesses often do not have assets that qualify as security for a loan, or if they have the assets they do not have proper titles. The banks requirements are different according to different market segments. The institutions specialized in micro finance have group facilities that rely on peer pressure without any other form of collateral. But also the participation in a group poses certain constraints on an enterprise.

2.8 Theoretical Discuss

The theories underpinning this study are financial intermediation and loan pricing theories.

2.8.1 The theory of financial intermediation

This was propounded by an early economist, Schumpeter (1912), who described financial intermediation as innovation finance. He further opined that this provided the entrepreneurs an access to funds which increased their expectations and new horizons to possible alternatives, thereby enhancing their performance. Innovation as an attribute of entrepreneur contributes to economic development. McKinnon and Shaw (1973) as cited in Imoughele and Ismaila (2013) opined the essence of the role of financial intermediation as an opportunity of inducing real growth through finance. In 1973, Schumpeter stressed the role of credit in financing innovation as a key factor for performance and economic development. In a related study, Bencivegan and Smith (1991) emphasized the role of banks as a financial intermediation agents by channeling savings received from surplus units to productive investments through credit advances. Hence, without credit, the innovation opportunities may be handicapped and can hinder performance and economic growth. Therefore, it was concluded that non-availability of bank credits can be a hindrance to the performance of entrepreneurs.

2.8.2 Theory of Loan Pricing

Thompson Reuters (1965) propounded this theory and asserted that banks should not always increase interest rates to maximize their incomes, as this can affect the borrowers' perception to credits. Chodechai (2014) argued that increasing interest rates might cause adverse selection problem. He further stated that this might be an acceptable rate for risk loving borrowers but they might venture into high risk business which can adversely affect their performance. Consequently, this theory predicts that high-interest rates lead to low-performance.

2.9 Conclusion

The significant role played by SMEs cannot be overemphasized. Though there are variations in the definition of SMEs, the common criteria used include number of employees, size of assets and sales turnover. Empirical studies show that even though

SMEs face numerous challenges such as lack of access to finance, low demand for output, technology, raw materials, labor and management, infrastructure, institutional and regulatory obstacles, the problem of lack of access to finance still remains a binding constraint. Governments have taken steps to meet the financing needs of SMEs over the years.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with how the study is to be conducted in order to achieve the study objectives satisfactorily. This is an issue of methodology. Research methodology refers to the procedural framework within which the research is conducted (Saunders et al., 2009). A research methodology further refers to a set of rules for reasoning, and the evaluation of facts that can be used to draw inferences (Eldabi et al., 2002). It is the way in which the researcher investigates and seeks answers to pre-defined research problems (Taylor & Bogdan, 1984). Research methodology is about how the researcher conducts the entire study to achieve the stated research objectives and seek answers to the stated research questions. Therefore, this chapter is aimed at discussing the main methodological dimensions of the study.

3.2 Process of Downloading

During the course of the project we drew on the expertise of potential users of the review, including researchers, policy advisers, and SMEs, particularly seeking their input on where to search for relevant literature, on our initial findings and on how best to disseminate this work. In order to ensure we identified all the relevant literature for inclusion in the review, we searched systematically for evaluations of SMEs or Sole Proprietorship in sub-Saharan Africa, looking in few specialist systematic review libraries, electronic online databases, websites of SME organizations, and an online directory of books. . Among these articles some more related to the studies than others so a table was created to categorise them into two namely; relevant and irrelevant. A total of twenty-three (23) papers were gotten and five (5) of them were relevant to my studies whiles eighteen (18) were irrelevant.

3.3 Geographical distribution

Many studies have been done on the effect of bank credit on small and medium scale enterprises performance in most countries especially in developing countries in Africa and other developed countries in the world. Some studies linked these credits to small and medium scale enterprises performance to overall economy development i.e., countries GDP. Ahiawodze and Adade (2012) investigated the impact of access to credit on the growth of SMEs in the Ho Municipality in Ghana using the survey design. The survey involved a sample of seventy eight (78) SMEs in the manufacturing sector. It was found that access to credit exerted a positive significant influence on the growth of SMEs in Ghana. Similarly, Evans, Munir, Douglas and Stephen (2015) studied the impact of loan interest rates on the performance of small and medium-sized enterprises in Lurambi Sub-County, Kenya. The study used descriptive research design and correlation and found that loan interest rate has a significant impact on the performance of SMEs in Kenya.

In Nigeria, Onyiewu (2012) examined the effect of SMEs financing on the economic growth of Nigeria using ordinary least square method to analyze the data. The result showed that access to credits by SMEs has a positive effect on economic growth while money supply and deficit financing have negative effect on the growth. In the same manner, Afolabi (2013) examined the impact of SMEs financing on economic growth in Nigeria from 1980 and 2010. The study analyzed the data using ordinary least square method. The study found that SME output (measured as wholesale and retail trade to GDP) and banks' credit have a positive impact on the economic development (measured as real GDP) while lending rate has a negative influence on the growth. Onakoya, Fasanya and Abdulrahman (2013) studied the effect of banking reforms on the performance of SMEs in Nigeria between 1986 and 2014. The study also used ordinary least square method of analysis. The result revealed that banks' credit exert a negative effect on the growth of SMEs in Nigeria. But Dada (2014) examined the effect of banks' credit on SMEs development in Nigeria from 1992 to 2011. The study used secondary sources of data and ordinary least square method. The result showed that bank credits' to SMEs and savings and time deposits have a positive influence on SMEs development in Nigeria. Imoughele and Ismaila (2014) used Co-integration and Error Correction Model (ECM) to examine the effect of bank's credit on the output of SMEs in Nigeria. The empirical result revealed savings time deposit and exchange rate have a significant effect on SMEs output while credit to SMEs and total government expenditure have direct but insignificant effect on the output in Nigeria. Bello and Mohammed (2015) examined the impact of financial intermediation on the SMEs performance in Nigeria using ordinary least square method of analysis. The result revealed that financial intermediation, bank loans and advances, bank lending rate, exchange rate and monetary policy have positive and significant influence on SMEs performance in Nigeria.

However, Ubesie et al. (2017) examine the effect of deposit money banks' credit on small and medium scale enterprises growth in Nigeria for the period of 1986 to 2015, using ordinary least squares regression method to analyse the data. It was found that DMBs credit to SME has no significant effect on SMEs growth in Nigeria.In a different study, Muhammad, Olusegun, and Sonny (2018) examined a comparative analysis of viable SMEs financing in Nigeria. The study employed Net Present Value (NPV) technique to determine whether conventional banks usury is more viable than Islamic bank mudaraba. The results revealed that Islamic bank mudaraba has a positive and higher NPV than conventional bank usually towards economic growth.

Dey & Flaherty (2005) used a two-stage regression model to examine the impact of bank credit and stock market liquidity on GDP growth. They found that bank credit and stock market liquidity are not consistent determinants of GDP growth. Banking development is a significant determinant of GDP growth, while turnover is not. Chang et al (2010) used branch panel data to examine bank fund reallocation and economic growth in China and found a positive association between bank deposits and growth. Olaitan (2009) examined the significance of bank credit in stimulating output within the real sector and the factors that prompt financial intermediation within the economy. Evidence from this work shows that real output causes financial development, but not vice versa. According to the seminal work by Bayoumi &Melander (2008), a 2½% reduction in overall credit causes a reduction in the level of GDP by around 1½%. Similarly, findings have also revealed that economic growth can also be a causal factor for financial development. This often occurs when the level of development within the economy is responsible for prompting the growth of the financial system.

Vazakidis & Adamopoulos (2009) employed a Vector Error Correction Model (VECM) to investigate the relationship between credit market development and economic growth for Italy for the period 1965-2007 taking into account the effect of inflation rate on credit market development. The empirical results indicated that economic growth had a positive effect on credit market development, while inflation rate had a negative effect. Cappiello et al (2010) in their study of European Area found that in contrast to recent findings for the US, the supply of credit, both in terms of volumes and in terms of credit standards applied on loans to enterprises, have significant effects on real economic activity. In other words, a change in loan growth has a positive and statistically significant effect on GDP.

Oluyombo (2011) examined the contribution of microfinance bank to the economic development of Nigeria for fifteen years by using secondary data collected from the 18 Central Bank of Nigeria records, annual reports and statistical bulletin. The ordinary least square estimation technique was adopted using linear regression model. The study found a weak positive relationship between microfinance banks' finance and long run economic growth in Nigeria, and between microfinance banks' finance and capital formation. There was large positive correlation between microfinance banks' finance and penetration ratio. The results suggest a net outflow of finance from the microfinance banks that may jeopardize the economic development of the nation. Akpansung &Babalola (2012) examined the relationship between banking sector credit and economic growth in Nigeria over the period 1970-2008. The causal links between the pairs of variables of interest were established using Granger causality test while a Two-Stage Least Squares (TSLS) estimation technique was used for the regression models. The results of Granger causality test show evidence of unidirectional causal relationship from GDP to private sector credit (PSC) and from industrial production index (IND) to GDP. Estimated regression models indicate that private sector credit impacts positively on economic growth over the period of coverage in this study. However, lending (interest) rate impedes economic growth.

Murty, Sailaja and Demissie (2012), examined the long-run impact of bank credit on economic growth in Ethiopia is examined via a multivariate Johansen co-integration approach using time series data for the period 1971/72-2010/11. More importantly, the transmission mechanism through which bank credit to the private sector affects long-run growth is investigated. The results supported a positive and statistically significant equilibrium relationship between bank credit and economic growth in Ethiopia. Deposit liabilities also affect long-run economic growth positively and significantly through banks services of resource mobilization. A major finding is that bank credit to the private sector affects economic growth through its role in efficient allocation of resources and domestic capital accumulation. Banu (2013) attempted to establish whether there is a connection between credit and economic growth, the economy being unable to develop in the absence of credit. With the aid of statistic software they tried to determine the supposed existence of a connection between the GDP, credits offered to public administration and credits offered to households. The results of the analysis show that credits offered to twenty (20) households contribute to a greater extent to the formation of the GDP than credits offered to public administration. It can be seen that some of the studies linked bank credits to Small and Medium Scale Enterprises performance to a countries economic growth i.e., the overall

Gross Domestic Product (GDP) of a country, which clearly shows great affect on the performance of a country's economy.

3.4 Methodology

The paper adopted a singular source of data collection. The secondary source of data generation, which include the use of textbooks written by different authors on the subject matter, journals, magazines, information from the internet and other published and unpublished materials relevant to work. The data was analyzed using the content analysis approach. This is because of its major dependence on the secondary source data. In order to serve the purpose of this research only five (5) studies were selected from the twenty three studies. The variables used as proxies to measure access to credit and Small and Medium Scale Enterprises performance are based on literature and adapted to fit the context of this study. Access to bank payment service was assessed using five items on a 3-point Likert scale. The items include frequency of cash withdrawals, payment of clients through banks, use of ATMs for withdrawals, cell phone banking, and change checks or vouchers into cash. Four items measuring access to investment services were also adopted and measured on a 3-point Likert scale. The items measure the credit capacity and risk-bearing ability of firms to receive credit facilities from formal banking institutions. These items assessed the levels of firms' ownership of current account with money; savings account with money; business investments in insurance, stocks, and bonds at bank; and receivable of loan facility for business. Meanwhile, six items were used to assess the extent to which firms are receiving training/skill improvement from governmental agencies such as business advisory services for firm performance and growth. The items assessed the levels of awareness of support programs and training from business advisory services; training received in business planning, marketing, and information services; accounting and financial services; entrepreneurship-related activities (new markets, products, and services); and human resource services.

In the study some variables were measured using the model of Afolabi (2013) who investigated the impact of SMEs financing on economic growth. The study modified the equation by employing SMEs performance as the dependent variable measured by the aggregate performance of SMEs. On the apriori expectation, it is expected that $a1 and a2$ will be greater than zero, hence they will exert a positive influence on the SMEs performance. The multiple linear regression model was also used to determine the relative importance (sensitivity) of each independent variable in affecting the financial performance of SMEs. The dependent variable is defined by the financial performance of the SMEs. The financial performance was measured by the ROA. The independent variables were size, tangibility and leverage of the SMEs. Size of the SMEs was measured by Net Sales/average total assets. This was measuring the financial effectiveness of the firm. Tangibility indicated whether the shareholder is the permanent owner of the assets and was measured using the ratio Fixed assets/Total Assets. The last independent variable was the SMEs Leverage that was measured using Debt/Equity. The relevant studies has been tabulated below;

Table 1. Relevant Studies Related to the Studies

Author/Title	**Setting**	**Methodology**	**Variables and Implications**
Ahiawodze and Adade(2012). The impact of access to credit on the growth of SMEs	Ho;Ghana	Survey Design	Access to credit has positive significant influence on the growth of SMEs
Evans, Munir, Douglas and Stephen (2015). The Impact of loan interest rates on the performance of small and medium-sized enterpirises	LurambiSub County; Kenya	Descriptive Research Design and Correlation	Interest rate has significant impact on the performance of SMEs
Dada (2014). The effect of banks' credit on SMEs development	Nigeria	Secondary Sources of Data and Ordinary Least Square Method	Bank credits to SMEs and savings and time deposit and exchange rate have a positive influence

			on SMEs development
Bello and Mohammed (2015). The impact of financial intermediation on the SMEs performance	Nigeria	Ordinary Least Square Method	Financial Intermediation, Bank loans and advances, Bank lending rate, exchange rate and Monetary policy have positive and significant influence on SMEs performance
Ubese et. al., (2017). The effect of deposit money banks' credit on Small and Medium Scale Enterprises growth	Nigeria	Ordinary Least Squares and Regression	Deposit Money Banks' Credit to SME has no significant effect on SMEs growth

Source: Researcher's Own Construct (2020)

3.5 Summary

In other to get relevant materials in support of our study we searched a number of articles and we got numerous published and unpublished but for the sake of our studies we used only the published articles. We got to find out that a lot of this study has been done in Africa and from observation since Ghana is one of the developing countries in africa we concentrated more on studies from Africa. We first considered a paper or study from Ghana, Ho municipality to be specific by Ahiawodze and Adade (2012) we then moved on to other african countries such as Kenya a study done by Evans, Munir, Douglas and Stephen (2015) then to studies done in Nigeria by the following authors; Dada (2014), Bello and Mohammed (2015) and Ubese et. al., (2017). These countries were considered because they are ahead of Ghana when it comes to economy development and growth according to Wikipedia which Small and Medium Scale Enterprises play a vital role. Other studies which also focus on bank credits and SMEs performance and the overall country's economic development and growth were also considered from around the world namely a study by Vazakidis & Adamopoulos (2009) in Italy, Chang et. al., (2010) in China etc many of these studies on the average used the secondary sources of data, descriptive research design, ordinary least square method and regression. Most of the findings showed a positive significance between bank credits and Small and Medium Scale Enterprises Performance.

CHAPTER FOUR

SUMMARY OF CHAPTERS

4.1 Introduction

This chapter presents the summary and conclusion of this study. Recommendations based on the findings of this study are also provided. These recommendations would be of significance to owners of SMEs, financial institutions, government policy makers and other stakeholders who are committed to overcoming SMEs financing obstacles. The limitations of this study are provided at the end of the chapter.

4.2 Summary of Findings

The purpose of the study is to access factors affecting access to credit by Small and Medium Enterprises (SMEs) from financial institutions in Ghana, a case study of Kumasi Metropolis. The research was guided by the following objectives: to determine the influence of firm's characteristics on SMEs access to credit in Kumasi, to determine Entrepreneur's Characteristics on SMEs access to credit, and to establish the influence of financial characteristics on SMEs access to credit. Through analytical approach, various studies where critically analyzed to draw conclusions. The findings on firm characteristics and access to credit revealed majority of the studies agreed that small firms size have problems in accessing loans than big firms, SME's located in urban are successful in access to debt financing compared to those located in rural areas, older firm (more than 3 years) have more experiences of applying for loans than younger firms below 3 years. There was however uncertainty on credit enables SMEs to meet their expansion plan, younger firms (less than 3 years) face challenge accessing loans as compared to older firms and banks are unwilling to lend to small firms located in rural areas.

The findings on financial characteristics and access to credit revealed that SMEs have adequate book keeping records which have made it easy for them to access credit, audited financial statements are needed before a loan is approved and lack of collateral affects access to finance. There was however uncertainty on firms that do not generate profits experience challenges accessing credit and financial institutions are reluctant to provide long term finance to SME's. In addition, it was evidenced in some studies that SMEs agreed that credit has a positive effect on business performance and growth. The findings on entrepreneur characteristics and access to credit revealed that majority of respondents agreed that banks prefer women to men when issuing credit. There was however uncertainty on use of networking influences access to finance. In addition, respondents disagreed on applying a loan as a group is easy because of access to co guarantors, use of political ties helps an entrepreneur access finances, level of education / training affects access to finance and banks consider training and skills one has to access credit.

4.3 Discussion

4.3.1 Effect of Firm's Characteristics on SME's Access to Credit

The findings revealed that small firms size have problems in accessing loans than big firms and older firm (more than 3 years) have more experiences of applying for loans than younger firms below 3 years. This is in support to study done by Berger and Udell (2002), and Fatoki and Asah (2011) who indicated that firm size influences SME's access to finance. This is because smaller and younger SME's are less favored by banks hence facing higher cost of financing as compared to big and older firms. In their study, they also revealed that there was a positive relationship between firm size and SMEs access to debt financing. In addition, Oliveira and Fortunato (2006) indicated that smaller firms faces a challenge accessing finance hence affecting their growth because of lack of sufficient cash flow and are unable to rely on bank financing. The findings revealed that SME's located in urban areas are able to easily access debt financing as compared to those located in rural areas. This is in agreement with a research done by Fatoki and Asah (2011) in their research findings revealed that there was a positive relationship between location and access to debt financing by SME's.

Findings revealed banks are willing to lend to small firms located in rural areas. This is in support to a study done by Rand (2007) who indicated that SME's in rural areas are able to access credit from banks because most government bank credit are located towards rural areas. However this is in contrast study done by Pandula (2011) who indicated that banks are more reluctant to lend to small firms located in rural areas because most SME's have collateral that have less market value and in case of default, they may find it difficult to realize these assets. Findings revealed younger firms do not (less than 3 years) face challenge accessing loans as compared to older firms. In contrast study done by Klapper (2010) and Ngoc, Le and Nguyen (2009) it was established that firms face hardship and more costs in accessing external financing from lenders because information asymmetry.

In addition, it was also revealed that there was a positive relationship between firm's age and access to debt financing by SME'S.

4.3.2 Effect of Financial Characteristics on SME's Access to Credit

Findings revealed that respondents have adequate book keeping records which have made it easy for them to access credit and audited financial statements are needed before a loan is approved. This is line with study done by Pandula (2010) and Nanyondo, (2014) who indicated that audited financial statements and quality of financial statement has a significant positive association with access to finance. However, In contrast, a study done by Sarapaivanich and Kotey (2006) indicates that young and small firms experience a challenge accessing credit due to lack of well-established record keeping system and readily available audited financial statements. Findings revealed that respondents agreed that lack of collateral affects access to finance. This is in agreement with research done y done by Kamau (2009) and Vuvor and Ackah (2011) which indicated that SME's faces a challenge accessing credit due to lack of collateral. Findings revealed that financial institutions are reluctant to provide long term finance to SME's, credit has a positive effect on business performance and growth and firms that do not generate profits experience challenges accessing credit. This is in line with study done by Rahaji and Fakayode, (2009); De Klerk, (2008) who indicated that agricultural SME's faces unfavorable factors which hinders them from accessing finance and also financial service providers classify farmers as high risk clients who cannot use their farms as collateral for credit. This was also in line with study done by Wagenvoort, (2003); Beck, et al (2005); Khandker et al (2013) indicated that SME's performance and growth is affected due to lack of accessing formal finance.

Study done by Shinozaki (2012) revealed that access to credit has a positive effect on SMEs growth whereas a study done by Malesky and Taussig (2009) revealed that there was no relationship between access to credit and firm performance.

4.3.3 Effect of Entrepreneurs Characteristics on SME's Access to Credit

Findings revealed that respondents agreed that banks prefer women to men when issuing credit. This is in line with a study done by Demirgüç-Kunt, Beck, and Honohan, (2008), Cole and Mehran (2009) who indicated that women entrepreneurs face more challenge accessing finance compared to male entrepreneurs. It is also in line with study done by Roper & Scott (2009) and Mijid (2009), in their findings it was established that that gender is a factor in the demand for and availability of credit. However, in contrast a study done by Beck and Cull (2014) and Mama and Ewoudou (2010) findings revealed that gender is not a factor in access to credit and discouragement about obtaining it. Findings revealed that use of networking influences does not influence access to finance, applying for a loan as a group is easy because of access to co guarantors and use of political ties helps an entrepreneur access finances. In contrast, according to Atieno (2009), Andula, (2011) findings established that networks help to provide advice, information and capital to small firms, social ties or professional associations allows SME operators to establish relations with bankers. This was also in line with studies done by Vos, (2004); Pandula, (2011), Kumah, (2011), McKenzie, (2009) and OECD, 2000 who indicated that group liability is preferred by financial institutions, membership with an association increase SMEs' access to finance, group lending increases a firm's access to credit and political surroundings exert a huge impact on the performance of SMEs.

Findings revealed that level of education/training does not affect access to finance and banks consider training and skills one has to access credit. In contrast according to Zarooket al. (2013); Slavec and Prodan (2012) it was revealed that educational level of owners has big tremendous correlation with access to financial institution loan. This was also in line to study done by Abdesamed and AbdWahab (2012) Kira (2013) and Mukiri (2012) which indicated that that academic education level of the entrepreneur has positive effect on getting entry to finance and also that SMEs with proprietor/manager who have instructional qualification of training and past are much more likely to be favored by banks to get admission to credit score.

4.3.4 Effects of Credit Access on Performance

Findings revealed that banks' credit has a positive significant impact on SMEs' performance. This is consistent with apriori expectation. This means that when bank increases the volume of bank credits to the SMEs' sector, this will aid availability of credits to the sector which will thus have a positive effect on SMEs performance. This finding conforms to the result of Dada (2014) but against the work of Onakoya, et al. (2013).

4.3.5 Challenges faced by SMEs Accessing Credit Facilities

Findings revealed that some SMEs find it difficult to provide the necessary documents documents needed by these credit facilities in other to grant them the credits that they will require. Other too also revealed that because they have not "gotten the name" it becomes difficult to access these credits from banks because the banks are looking at people who have the personality and that is one of their bases for repayment of loans i.e, the person's ability to repay the loan. Others also revealed that accessing small credits is sometimes difficult to acquire because the banks will be looking at the interest n such amount.

4.4 Conclusions

4.4.1 Firm Characteristics on SME's

Access to Credit Small firms experience a challenge accessing loans from banks as compared to big SME's, location of a firm also affects access to finance, older firms that have been around for a long time have more experience in accessing finance than younger firms. Credit does not enable SME's achieve or meet their expansion plan.

4.4.2 Financial Characteristics on SME's Access to Credit

SME's have adequate book keeping records which have made it easy for them to access credit; audited financial statements and collateral are needed before a loan is approved. SME's are not able to generate profit due to challenges accessing credit, SME's are not able to access long term financing because financial institution consider them as being risky and credit does not have a positive effect on performance and growth.

4.4.3 Entrepreneur's Characteristics on SME's

Access to Credit Banks prefer lending to women than men, access to finance is not influenced by networking, applying as a group, political ties, level of education and training and skills entrepreneurs have.

4.4.4 Effect of Credit Access on Performance

Based on the findings, the study concludes that bank credit has a significant effect on the performance of small and medium scale enterprises. The result reveals that there is a positive relationship between bank credit creations to SMEs, implying that an increase in bank finances to this sector will improve the productivity of SMEs.

4.5 Recommendations

4.5.1 Firm Characteristics on SME's Access to Credit

It is recommended that financial institutions should develop products that will target SME's located in rural areas. Awareness should also be created. Through this SME's will be encouraged and motivated to access credit from financial institutions.

4.5.2 Financial Characteristics on SME's Access to Credit

SME's should ensure that they have collateral and sufficient documentations before accessing credit. Through this they will be able to access finance. Through this financial institutions will be less reluctant to give them long term loan. Access to credit will also enable SME's grow and invest.

4.5.3 Entrepreneur's Characteristics on SME's Access to Credit

SME's should be encouraged to access credit as a group. This is because that will be able to easily get guarantors hence making it easy to access loans. Entrepreneurs should be encouraged to attend training and seminars that will enable them network, share ideas and gain more knowledge of how to prepare a marketable business plan and access credit.

4.5.4 Challenges faced by SMEs Accessing Credits

The government should urge financial institutions to give out more loans and business credit to small businesses. Financial institutions should be made to know that small businesses can be trusted and are capable of repaying loans as other big and medium businesses. In order to reduce discrimination in business credit distribution to businesses, the government should set up more government organizations specifically meant to grant small business owners loans and financial advice.

4.5.4 Recommendation for Further Studies

The study only focused access to credit by SME's in the Kumasi Metropolis. It is recommended that other studies be done to determine other factors that affect access to finance in other locations including rural Ghana. Further studies should be conducted on the role of financial sector in development of SMEs. Research can also be done on the financial market deepening to look at the reachability of the financial services to the informal sector due to the impact SMEs have on our GDP.

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