



# The Effect of Access to Credit on Financial Performance of Small and Medium-Sized Enterprises in the North West Region-Cameroon

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**Abstract:** The objective of this study is to analyse the effect of credit accessibility on the financial performance of small and medium-sized enterprises in Bamenda. The study used a mixed methods approach to collect and analyse data from sample of 185 SMEs in Bamenda, selected using a multistage sampling technique. Key informant was used to collect primary data, and a structured, pretested questionnaire was used to collect quantitative data. The study employed descriptive statistics and inferential statistics such as ordinary least squares (OLS). The findings revealed a significant and positive impact of loan approval rates on financial performance; the study underscores the positive relationship between loan size and financial performance. Larger loan sizes are associated with better financial performance for SMEs, while the study suggests a positive effect of collateral requirements on financial performance, the statistical insignificance result and the study confirms the significant and positive effect of the cost of credit on financial performance. As the cost of credit increases, SMEs' financial performance tends to improve, underscoring the importance of carefully considering the cost of credit when making financing decisions. The study

recommends that policymakers should focus on implementing measures to improve the loan approval process for SMEs. This could involve streamlining procedures, reducing bureaucratic hurdles, and providing support and guidance to financial institutions to ensure efficient and timely loan approvals.

**Keywords:** Credit accessibility, financial performance, small and medium-sized enterprises,

## **Introduction**

In the world context, strong economies like the United States and the United Kingdom have seen their development linked to the growth and development of SMEs (Al-Mamary et al., 2020). SMEs account for a significant share of the private workforce and GDP in various countries, such as 51% of the United States' GDP and 62% of total employment in the United Kingdom (Muriithi, 2017; Fasola et al., 2020). SMEs in Italy, France, and Germany contribute to 79%, 63%, and 63% of employment, respectively, while Japan has the highest proportion of SMEs among industrialised countries (El-Gohary, 2010). In India, SMEs account for 80% of all businesses, with 13 million SMEs in 2008 (Wanjiru & Gongera, 2015). In Vietnam, SMEs make up 98% of all enterprises and contribute significantly to the country's GDP and employment (up to 48% and 77% of the labour force, respectively). Despite their contributions, most SMEs are micro-enterprises with limited access to resources such as advanced technology and formal credit.

In China, small and medium-sized enterprises have played an active role in economic growth. About 99.6% of enterprises in China are SMEs. These enterprises account for 59% of GDP, 60% of total sales, 48.2% of taxes, and about 75% of employment in urban areas (Gou & Huang, 2019). SMEs' participation in international trade and outward investment is also very significant, representing 68.85% of the total import and export values and about 80% of outward investment (Nyumba et al., 2015). In contrast to its contribution to the economy, the difficulty of SMEs to obtain external financing from formal financial institutions is widely recognised. Shen et al. (2009) documented that no more than 0.5 million of over 40 million SMEs could obtain bank loans in 2006. In other words, over 98% of SMEs have no access to bank lending. The World Bank Investment Climate Survey for China also indicates that SMEs in China are facing greater credit constraints and have more limited access to bank loans than in other Asian countries.

Closer home, in the African context, SMEs face several challenges, including limited access to finance, inadequate infrastructure, and a poorly skilled workforce (Baldin, 2023). SMEs in the North West Region of Cameroon also face these challenges, and limited access to finance has been identified as a major factor hindering their growth and development (Bin et al., 2021). The limited access to finance is a critical challenge for SMEs in the region, and it has been identified as a major factor hindering their growth and development (Bin et al., 2021). In Nigeria, Adebisi, Alaneme, and Ofuani (2015) revealed that high collateral requirements, high interest rates, and difficulty in accessing funds were major constraints to lending to SMEs in Southwest Nigeria. Eniola (2021) also noted that access to formal finance by SMEs in Southwest Nigeria is poor due to the high cost associated with borrowing, and the stringent collateral requirements of banks often make it difficult for many SMEs to access credit.

In Tanzania, SMEs play a significant role in job creation, poverty reduction and reducing inequality in the economy. The sector employs over 33% of the labour force (Kira, 2013). When taking the informal sector together with the formal sector, the total contribution of the sector to GDP is about 63%. Moreover, about 700,000 job seekers enter the labour market each year. The formal sector absorbs only 40,000 annually. The implication is that the remaining excess annual labour supply of about 660,000 is absorbed by SMEs or left unemployed (Kira, 2013). Bank lending has been mentioned to be top most challenge to many SMEs. Given the commercial orientation of the conventional financial system, it may not be surprising to see that banks are not lending to SMEs. This is because SMEs are risky in nature (either perceived or real or both), small in size, have high transaction costs per service and may lack transparency in their operations. Therefore, reckless lending to this market segment may jeopardise the core business of the formal banking system (Marwa, 2014). As part of the solution, the recent resurgence of development finance institutions, including microfinance, has played a key role as an alternative financing mechanism in this market segment (Marwa, 2014).

In Cameroon, SMEs account for over 90% of all businesses and contribute significantly to employment generation, poverty reduction, and economic growth (Mukete et al., 2021). However, despite their importance, SMEs in Cameroon face several challenges, including limited access to finance. The lack of access to finance is a significant constraint for SMEs, and it has been identified as a major factor

preventing them from achieving their full potential (Nguyen et al., 2020). According to Tchouassi and Ndobbo (2018), financing constraints were prevalent among SMEs in Cameroon, with limited access to external funding sources such as bank loans and equity financing. SMEs faced challenges in meeting collateral requirements, providing audited financial statements, and demonstrating creditworthiness, which restricted their access to formal financing, limiting their ability to expand production, adopt new technologies, and enter new markets.

This research aims to address these gaps by examining the effect of loan approval rates, loan size, collateral requirements, and the cost of credit on the financial performance of SMEs. By investigating these factors, we can gain valuable insights into the specific relationships between credit access and SME performance, thus providing a foundation for informed decision-making and policy recommendations. The study will also investigate the effect of credit availability on SME financial performance.

## **2. Review of literature**

### ***2.1. Financial Performance***

The financial performance of a business is an objective measure of exactly how effectively small and medium-sized enterprises can utilise their assets in their main economic operations to produce revenues. This particular phrase is likewise used as a broad measure of a firm's general economic health within a certain time period and may be utilised in order to evaluate identical firms across the same business or maybe to evaluate sectors or industries within the general business environment (Kamal et al., 2012). If firms do not care about earnings, they cannot survive for an extended period. In addition, in case firms do not pay strict attention to liquidity, they might experience the issue of bankruptcy or insolvency (Uremadu et al., 2012).

Financial performance refers to the measure of a company's ability to generate profits and create value for its shareholders through effective management of its financial resources (Arkan, 2016). Financial performance represents the evaluation of a firm's profitability, liquidity, solvency, and efficiency, as reflected in its financial statements and key financial ratios (Kadim et al., 2020). Financial performance is the assessment of a company's financial health and stability, encompassing its ability to generate revenues, manage costs, and achieve sustainable profitability (Abbood,

2022). Financial performance refers to the extent to which a company achieves its financial objectives, including profitability, growth, and shareholder value creation (Farza et al., 2021). Financial performance represents the ability of an organisation to generate positive economic outcomes, maintain competitiveness, and create value for its stakeholders, including shareholders, employees, and creditors (Ekpo et al., 2017).

"Financial performance is the measurement of a company's profitability, efficiency, and effectiveness in utilising its financial resources to achieve its strategic objectives" (Čabinová et al., 2021). Financial performance represents the evaluation of a firm's ability to generate cash flows, manage risks, and deliver sustainable financial results over time (Sapuan et al., 2021). Financial performance refers to the measurement of a company's profitability, liquidity, and efficiency, as well as its ability to meet financial obligations and provide returns to investors (Sultan, 2014).

## ***2.2. Credit Availability and Financial Performance***

Credit availability plays a crucial role in facilitating the growth and expansion of SMEs. Access to credit allows them to invest in new projects, expand their production capabilities, and explore market opportunities. With sufficient credit, SMEs can seize growth prospects, enter new markets, and increase their market share, which ultimately contributes to improved financial performance. Credit availability has a significant impact on the financial performance of SMEs. Access to credit allows SMEs to fund their operations, invest in growth opportunities, and improve their productivity, which can lead to higher profitability and overall financial performance (Abora et al., 2014). Access to credits allows SMEs to utilise productive assets to enhance productivity and economies of scale (Kira & He, 2012). As suggested in Peter et al (2018) report, access to finance encourages market entry, facilitates growth, reduces risks, fosters innovation and entrepreneurial activity. Thanh et al (2017) test the impact of access to finance on microenterprise growth and profitability in Bangladesh using the fixed-effect model. Their results suggest that credit constraints negatively affect microenterprise profit margin more severely than other types of constraints (such as transportation, lack of demand, etc.). In addition, enterprises that borrowed from moneylenders to start their business have significantly lower profits than those that borrowed from other sources.

The relationship between credit availability and the financial performance of SMEs is multidimensional. While credit availability positively influences SMEs' growth, profitability, and investment, the effective utilisation of credit and prudent financial management practices are also vital in determining their financial performance (Lu et al., 2020). Credit availability has a significant impact on the financial performance of SMEs, particularly in terms of their liquidity and solvency. Access to credit can help SMEs manage their cash flow, meet their financial obligations, and maintain their financial stability and viability (Agwuna, 2022). The availability of credit influences the financial performance of SMEs through its impact on their investment and growth opportunities. Credit availability enables SMEs to undertake productive investments, expand their operations, and enhance their competitiveness, leading to improved financial performance (Ackah & Vuvor, 2011).

### ***Conceptual Framework***

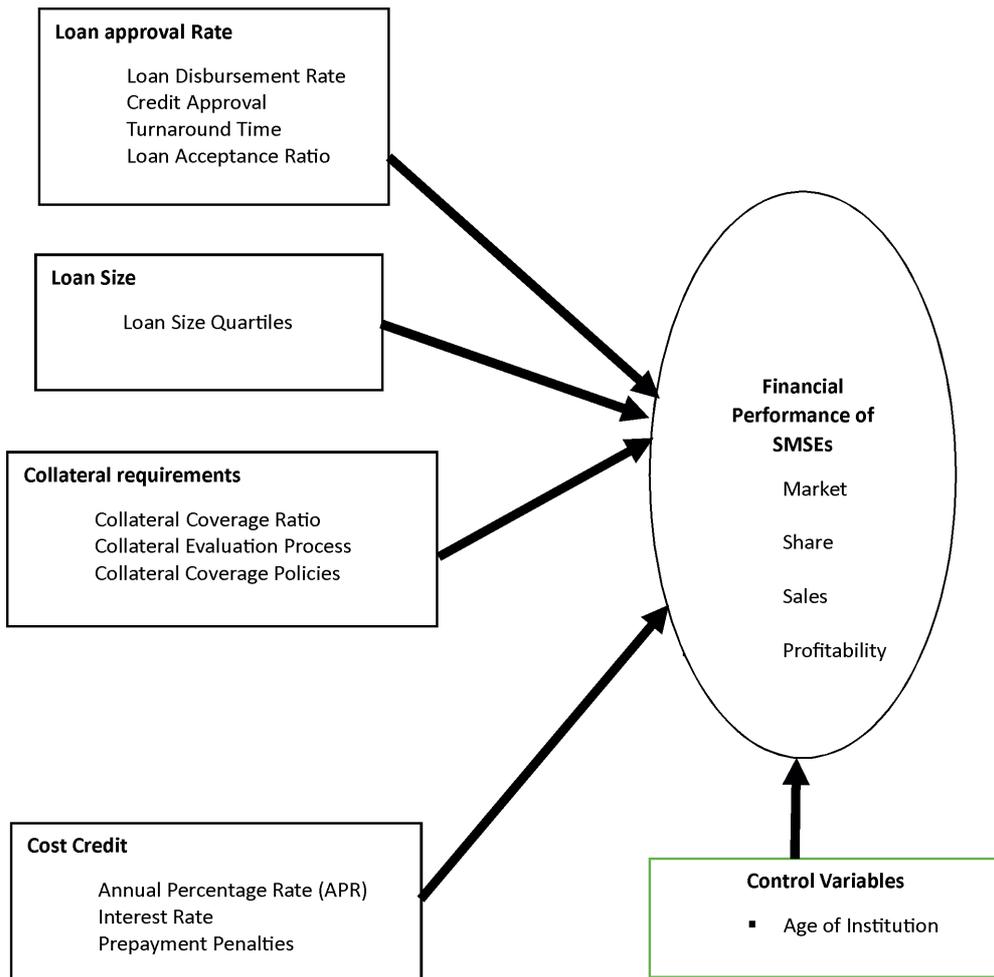
The conceptual framework will be constructed based on the literature review. This building will be accomplished by identifying overlaps and gaps in the relationships between the major ideas (dependent and independent variables). In order to establish a connection between the research constructs being studied, the conceptual model shown in Figure 1 has also been constructed using the literature review as a guide. Furthermore, Chinomona and Maziriri (2017) note that "the conceptual model is a representation of the constructions and their interactions with one another."

### ***2.3. Theoretical Framework***

This section makes use of theories and models related to observed variables; such theories include Pecking Order Theory, Trade-Off Theory, Asset Side Theory and Credit Risk Theory.

#### ***2.3.1. Pecking Order Theory***

The SME financing pattern explained by Berger and Udell (1998) seems to be in contrast with the hypotheses given under the pecking order theory. The pecking order theory developed by Myers (1984) and Myers and Majluf (1984) emerged as a result of asymmetric information present in financial markets wherein insiders (firms' managers) have superior information about the firm's prospects than



**Figure 1: Relation between Dependent and Independent Variables Independent Variables Dependent Variable**

Source: Author Computation (2023)

outsiders (investors). The theory suggests that the capital structure decisions of a firm are a function of its age. As postulated by this theory, internal sources of funding are prioritised while the use of external sources is delayed until the internal sources are exhausted. As such, when seeking funds, a firm prefers internal equity to external debt, short-term debt to long-term debt, and external debt to external equity. Therefore, the order of financing preference for a firm should follow internal equity, issuing debt, and then issuing equity (Cassar & Holmes, 2003).

The literature on SMEs provides demand-side and supply-side reasons to justify the preference order suggested by this theory (Lucey & Mac an Bhaird, 2006). Demand-side justifications are based on the well-established fact that SMEs' owner-managers are usually unwilling to lose control of their business. As such, to meet the financing needs of their firm's owner-managers will try to follow a pecking order of, first, their own personal savings and retained earnings; second, short-term borrowings; third, longer-term debt, and, least preferred of all, from the introduction of new equity investors. As for the supply-side explanation, it is noticeable in the restrictions that exist when SMEs cannot obtain the debt financing they require at market interest rates, resulting in an underinvestment problem.

Consistent with pecking order theory and contrary to the lifecycle model Gregory et al. (2005) argued that older firms should be less reliant on external financing. They attributed this to the fact that because older firms have more opportunities to accumulate retained earnings and more internal funds is available to finance their operations. Hall, Hutchinson and Michaelas (2000) reached a similar conclusion. Work by Sanchez-Vidal and Martín-Ugedo (2005) on Spanish SMEs supports the pecking order theory.

### *2.3.2. Trade-Off Theory*

The term trade-off theory is used by different authors to describe a family of related theories. The standard version of the hypothesis of this theory emerged out of the debate of the well-known Modigliani and Miller theorem when income tax was added to their original proposition. The essence of this theory is that by evaluating various costs and benefits of alternative leverage plans, an optimal solution can be obtained when marginal costs and marginal benefits are balanced (Frank & Goyal, 2008). The trade-off theory focuses on taxes and bankruptcy costs. According to the standard trade-off theory, taxes and bankruptcy account for the firm's use of debt. As such, when firms seek finance for their operations, they are "trading off" the costs and benefits of debt. Myers (1984) explained that by stating that a firm that follows the trade-off theory sets a target debt-to-value ratio and then gradually moves towards the target. The target is determined by balancing debt tax shields against the costs of bankruptcy. As stated by Seifert and Gonenc (2008), the trade-off theory arrives at balancing the benefits of debt (tax and reduction of free cash flow problems) with the costs of debt (bankruptcy and agency costs between stockholders and bondholders).

A number of studies investigated the applicability of the trade-off theory to SME. The study by López-Gracia and Sogorb-Mira (2008) concluded that both the pecking order theory and the trade-off theory help to explain SME financial behaviour. However, according to them, greater trust should be placed in the trade-off approach. Their results also revealed that debt tax shields seem to play an important role in determining SMEs' sources of finance. The results of Cassar and Holmes (2003) also support static trade-off theory in Australian SMEs. However, against this theory, some research indicates that SMEs are not as profitable as larger firms, so they have less use for debt tax shields (Michaelas et al., 1999). Likewise, Day, Stoll and Whaley (1985) argued that since SMEs are generally less capital-intensive, the debt tax shield is of lesser value for these firms. In addition, Bartholdy and Mateus (2008) found that tax rates do not significantly influence the level of debt in SMEs.

### *2.3.3. Asset Side Theory*

Arguing that both the Pecking Order theory and the Trade-off theory overlook the point that the asset side of the balance sheet primarily determines the financing source for an additional unit of money, Bartholdy and Mateus (2008) introduced the asset side theory in an attempt to detect what determines the main sources of financing used by SMEs. Their theory argues that due to asymmetric information and the solution to this problem for different providers of funding (primarily banks and other firms in the form of trade credits), the marginal costs of each funding source are a function of the use of the funds. Therefore, the composition of the asset side or the intended use of funds determines the source of the funds and, more generally, the capital structure. In particular, purchases of goods and services are financed by trade credits, investments in fixed assets are financed by long-term loans from banks and other debtors, and other parts of working capital are funded by short-term bank loans.

Bartholdy and Mateus (2008) tested this theory on a panel data set of Portuguese SMEs. According to their results, the hypotheses of the pecking order theory and the traditional trade-off theory were rejected. In addition, they found that the composition of the asset side is an important determinant of the type of financing sought and used by SMEs. That is to say, the marginal cost of the financing source is a function of the use of funds. This suggestion was partially confirmed by the

significant positive relationship between asset structure (the ratio of fixed to total assets) and long-term debt found in the study by Mac an Bhaird and Lucey (2014). Similarly, it was found that SMEs are more likely to seek some external debt if they have more tangible assets that can serve as collateral (Fourati & Affes, 2013).

Despite the effort that has been made to theorise the financial behaviour of SMEs, which has resulted in the different financing patterns followed by SMEs, it seems that different theories suggest different approaches. However, regardless of what theory or pattern is followed when seeking finance, SMEs in general have a range of options to cater for their financing needs. The next section presents a review of the general literature on SMEs' sources of finance.

#### *2.3.4. Credit Risk Theory*

Credit risk is the risk of default or reductions in market value caused by changes in the credit quality of issuers or counterparties. Adverse selection and credit exposure are a case in business lending, where the borrower knows more than its lender. Being at an informational disadvantage, the bank, in light of the distribution of default risks across the population of borrowers, may find it profitable to limit borrowers' access to the bank's credit, rather than allowing borrowers to select the sizes of their own loans without restriction. An attempt to compensate for credit risk by increasing a borrower's interest rate increases with the size of the loan. This creates a moral hazard. One of the reasons that large loans are more risky than small ones, other things being equal, is that they provide incentives for borrowers to undertake riskier behaviour. The obvious defence against the moral hazard induced by offering large loans to risky borrowers is to limit access to credit. Large borrowers in default are often in a better bargaining position and can thereby extract more favourable terms for bankruptcy or restructuring than small borrowers. Conclusion, it was pointed out by the author to be due to poor infrastructure and low income as constraints to MFI.

#### *2.4. Empirical Literature*

Anderson et al. (2023) examined the relationship between loan approval rate and the financial performance of SMEs in various industries. The Sample Size for this study was 200 SMEs, The study made use of stratified random sampling Techniques. Data Source: Survey data collected from SMEs and financial institutions. Method

of Data Collection: Questionnaires were administered to SME owners and loan officers. Method of Data Estimation: Multiple regression analysis. Results: The study found a positive and significant correlation between loan approval rate and the financial performance of SMEs. Higher loan approval rates were associated with better financial outcomes, including increased profitability and business growth. Conclusion: Access to loans plays a crucial role in enhancing the financial performance of SMEs. The findings suggest that improving loan approval rates can have a positive impact on SMEs' financial health. Recommendation: Financial institutions should streamline their loan approval processes and consider providing additional support to SMEs by offering flexible loan options and tailored financial services.

Wasara and Ganda (2019) analysed the relationship between loan approval rates and the financial performance of SMEs over a five-year period. Sample Size: 500 SME. Sample Techniques: Quota sampling. Data Source: Financial statements and loan application records from SMEs. Method of Data Collection: Data extracted from company databases and loan records. Method of Data Estimation: Panel data regression analysis. Results: The study found that higher loan approval rates positively influenced SME financial performance indicators, such as revenue growth, asset utilisation, and return on investment. However, the impact varied across different industries and company sizes. Conclusion: Loan approval rates have a significant impact on the financial performance of SMEs. Financial institutions should consider the diverse characteristics of SMEs when assessing loan applications to unlock their growth potential. Recommendation: Policymakers should encourage financial institutions to adopt more favourable lending practices, including simplified loan application processes and increased access to credit for SMEs.

Cheong et al. (2020) compared the impact of loan approval rate on the financial performance of SMEs accessing bank financing versus non-bank financing options. Sample Size: 400 SMEs (200 bank-financed, 200 non-bank-financed). Sample Techniques: Random sampling. Data Source: Bank record, non-bank financial institution record, and SME financial statement. Method of Data Collection: Data obtained from financial institutions and SMEs. Method of Data Estimation: Difference-in-differences analysis. Results: The study found that a higher loan approval rate had a more significant positive effect on the financial performance of SMEs accessing bank financing compared to those relying on non-bank financing.

Bank-financed SMEs exhibited higher profitability and stronger growth. Conclusion: Loan approval rates offered by banks have a stronger impact on SME financial performance compared to non-bank financing options. SMEs should consider the advantages and disadvantages of different financing sources to maximise their financial outcomes. Recommendation: Policymakers should encourage collaboration between banks and non-bank financial institutions to improve overall loan approval rates and provide diverse financing options to SMEs. Johnson (2020) examined the relationship between credit cost and the financial performance of SMEs across different industries. Sample Size: 500 SMEs. Sample Techniques: Stratified random sampling. Data Source: Financial records and loan application data from SMEs. Method of Data Collection: Data collected through surveys and interviews with SME owners. Method of Data Estimation: Multiple regression analysis. Results: The study found that higher credit costs were associated with lower financial performance indicators, such as profitability and liquidity. SMEs facing lower credit costs exhibited better financial outcomes. Conclusion: Credit cost significantly impacts SME financial performance. Financial institutions should consider adopting more competitive interest rates and fee structures to support SME growth and improve their financial outcomes. Recommendation: Policymakers should promote transparency and competition in the credit market to reduce credit costs for SMEs.

Jun et al (2019) investigated the effect of credit cost on the financial performance of SMEs in a developing economy context. Sample Size: 300 SMEs. Sample Techniques: Cluster sampling. Data Source: Loan records and financial statements from SMEs. Method of Data Collection: Secondary data collection from financial institutions and SMEs. Method of Data Estimation: Propensity score matching. Results: The study found that higher credit costs had a negative impact on SME financial performance, leading to lower profitability and liquidity. SMEs facing lower credit costs exhibited better financial outcomes. Conclusion: Credit cost significantly influences SME financial performance, particularly in developing economies. Policymakers and financial institutions should explore measures to reduce credit costs and enhance SME access to affordable credit. Recommendation: Financial institutions should consider implementing risk-based pricing mechanisms that align credit costs with the creditworthiness and risk profile of SMEs.

Sohilauw et al. (2020) analysed the long-term relationship between credit cost and the financial performance of SMEs. Sample Size: 400 SMEs. Sample Techniques:

Random sampling. Data Source: Financial statements and loan records from SMEs. Method of Data Collection: Data extracted from company databases and loan records. Method of Data Estimation: Fixed-effects panel regression analysis. Results: The study found that higher credit costs were associated with lower SME financial performance indicators, including profitability and liquidity. SMEs facing lower credit costs exhibited better financial outcomes in the long run. Conclusion: Credit cost significantly affects SME financial performance. Financial institutions should adopt pricing strategies that align credit costs with the risk and creditworthiness of SMEs to support their financial sustainability. Recommendation: Policymakers should facilitate the development of credit markets that promote competition and provide SMEs with access to affordable credit options.

### ***Methodological approach***

The data used for this study were collected directly from the selected small and medium-sized enterprises in Bamenda municipalities using questionnaires. The use of the tool was to permit the researcher to directly obtain information to explain and understand the phenomena under study. Questionnaires were hand delivered to the respondents, assuring them of voluntary, confidentiality and anonymity. Completed questionnaires were collected after 5 days. The researcher contacted key informants and provided them with the necessary details of the study, seeking their consent to participate in the study, and requesting a date on which the interview could be conducted. The researcher used structured self-administered questionnaires covering all the variables in the study. A questionnaire is a research instrument that contains a set of questions on defined issues under study that are put to respondents for answering on a self-administered basis (Saunders et al., 2007). In these questionnaires, a five-point Likert scale was used to ease data processing and analysis. The scale was marked 1-5, where 1 represents strongly disagree and 5 represents strongly agree. The questionnaire was used because it was easy to apply, as most respondents were well educated and filled in the questions easily or with little guidance.

### ***3.1. Model Specification***

The research hypothesis is a sensitive and complex one, and establishing viable results would demand varied but effective analytical tools. After data collection,

the raw data was analysed through a systematic process of selecting, categorising, comparing, synthesising and interpreting data to provide explanation and make meaning. Completed semi-questionnaires were edited, coded and entered into Statistical Package for Social Science (SPSS) version 22 for analysis. This study is articulated around one main model as shown in the equation below:

$$FP = f(\text{CREDIT ACCESSIBILITY})$$

Consequently, the linear association between the variables in the model has the following form:

$$FP = f(LAR, LS, CR, CC, FA)$$

In Equation (2), FM represents financial performance, LAR represents the Loan approval rate, LS represents the Loan size, CR represents the Collateral requirement, CC represents the Cost of credit, and the control variable FA represents Firm age. These are the explanatory variables in the multivariate analysis, and the choice of these variables relies on the Measurability of the financial performance of small and medium-sized enterprises in Bamenda municipalities. The  $\beta_0$  is a constant term, and  $\beta_1$  to  $\beta_6$  are estimated parameters in the model, and  $\epsilon t$  is an error term. More specifically, the economic model is specified in equation 3 below:

$$FP_i = \beta_0 + \beta_1 LAR_i + \beta_2 LS_i + \beta_3 CR_i + \beta_4 CC_i + \beta_5 FA_i + \mu_i$$

The data was coded into the Statistical Package for Social Sciences (SPSS) and analysed using descriptive and regression analyses. The regression analysis coefficients from the regression showed the effect (whether positive or negative) of the independent variables on the dependent variable.

## 4. Results and Analysis

### 4.1. Presentation of Regression Results

The results of the summary of descriptive statistics of variables are presented in Table 1. It should be noted that the indices of financial performance, loan approval rate, loan size, collateral security, cost of credit, and age of the institution were constructed or transformed by computing the average of the items included in the questionnaire.

**Table 1: Summary of Descriptive Statistics**

<i>Variables</i>	<i>Obs</i>	<i>Mean</i>	<i>Std. Dev.</i>	<i>Min</i>	<i>Max</i>
Loan approval rate	185	2.598649	1.000712	1	4.25
Loan Size	185	2.575676	1.271159	1	5
Collateral security	185	3.036486	1.208701	1	5
Cost of credit	185	2.748649	1.274887	1	5
Age of the Institution	185	4.605405	1.897072	2	11
Financial Performance	185	2.769405	1.384356	1	5

Source: Author

From the results, the average loan approval rate is 2.598649, indicating that, on average, SMEs have a moderate level of success in obtaining loan approvals. The standard deviation of 1.000712 suggests that there is some variation in loan approval rates among SMEs. Some SMEs may have higher approval rates, while others may struggle to obtain loans. The moderate loan approval rate suggests that there may be room for improvement in credit accessibility for SMEs

The result further revealed that the average loan size is 2.575676, indicating that SMEs, on average, receive moderate-sized loans. The standard deviation of 1.271159 suggests that there is variability in loan sizes granted to SMEs. Some SMEs may receive larger loans, while others may receive smaller ones. The moderate loan size suggests that SMEs have access to a range of financing options. However, it is important to ensure that SMEs requiring larger loans have adequate access to funding sources that can support their growth and expansion plans.

The finding revealed that, the average collateral security score is 3.036486, indicating that, on average, SMEs have moderate levels of collateral security when seeking loans. The standard deviation of 1.208701 suggests that there is variation in the collateral security levels among SMEs. Some SMEs may provide higher levels of collateral, while others may have limited collateral to offer. The moderate collateral security levels suggest that lenders may have some requirements for collateral when extending credit to SMEs.

The results show that, the average cost of credit is 2.748649, indicating that, on average, SMEs face moderate costs associated with obtaining credit. The standard deviation of 1.274887 suggests that there is variability in the costs of credit faced by SMEs. Some SMEs may face higher costs, while others may have access to more affordable credit. The moderate cost of credit suggests that there is room for improvement in terms of affordability for SMEs.

The result shows that, the average age of the institution is 4.605405, indicating that, on average, SMEs have been in operation for a moderate duration. The standard deviation of 1.897072 suggests that there is variability in the age of SMEs. Some may be relatively new, while others may have a longer history. The average age of the institution indicates that both new and established SMEs seek credit. Lenders should consider the specific needs and potential of SMEs at different stages of their development when assessing creditworthiness.

The finding also shows that, the average financial performance score is 2.769405, indicating that, on average, SMEs have a moderate level of financial performance. The standard deviation of 1.384356 suggests that there is variation in the financial performance of SMEs. Some SMEs may have stronger financial performance, while others may face challenges. The moderate financial performance suggests that there is room for improvement in the overall financial health of SMEs. Enhancing credit accessibility and providing support to SMEs can contribute to their financial performance and sustainability.

**Table 2: Pairwise Correlation Analysis**

	<i>Loan approval rate</i>	<i>Loan Size</i>	<i>Collateral security</i>	<i>Cost of credit</i>	<i>Age of the Institution</i>	<i>Financial Performance</i>
Loan approval rate	1.0000					
Loan Size	0.0610	1.0000				
Collateral security	0.2086	0.0237	1.0000			
Cost of credit	0.1408	0.3788	0.1647	1.0000		
Age of the Institution	0.2268	0.1435	0.1395	0.0789	1.0000	
Financial Performance	0.2057	0.3449	0.0639	0.7362	0.0780	1.0000

Source: Author

The finding revealed that, loan approval rate correlation coefficient of 0.0610 suggests a weak positive relationship between loan approval rate and loan size. This implies that higher loan approval rates do not necessarily correspond to larger loan sizes. It indicates that the approval rate is not a significant factor in determining the size of loans granted to SMEs. The correlation coefficient of 0.1408 suggests a weak positive relationship between loan approval rate and the cost of credit. This implies that higher loan approval rates may be associated with higher costs of credit for SMEs. It suggests that lenders may be more willing to provide loans at higher

interest rates or fees, potentially impacting the affordability of credit for SMEs. The correlation coefficient of 0.0237 suggests a weak positive relationship between loan size and collateral security. This implies that larger loans may be associated with a higher likelihood of requiring collateral. Lenders may be more inclined to provide larger loans when there is adequate collateral, potentially restricting credit accessibility for SMEs with limited collateral.

Correlation with Cost of Credit: The correlation coefficient of 0.3788 indicates a moderate positive relationship between loan size and the cost of credit. This suggests that larger loans may be associated with higher costs of credit for SMEs. Lenders may charge higher interest rates or fees for larger loan amounts, which can impact the affordability of credit for SMEs seeking larger funding. The correlation coefficient of 0.7362 indicates a strong positive relationship between the cost of credit and financial performance. This suggests that higher costs of credit may have a detrimental effect on the financial performance of SMEs. The higher interest rates or fees associated with credit can increase financial burdens, potentially impacting SMEs' profitability and ability to repay loans. The correlation coefficient of 0.1395 suggests a weak positive relationship between the age of the institution and collateral security. This implies that older SMEs may be more likely to provide collateral when seeking loans. Lenders may perceive older and more established businesses as having more assets available for collateral, potentially affecting credit accessibility for younger SMEs.

## 4.2. Regression Results

**Table 3: Presentation of Regression Results**

<i>Financial performance</i>	<i>Coef.</i>	<i>Robust Std. Err.</i>	<i>t</i>	<i>P&gt;t</i>	<i>[95% Conf. Interval]</i>	
Loan approval rate	0.2030617	.1142087	1.78	0.077	-.0223069	.4284304
Loan Size	0.6602889	.0890103	7.42	0.000	.4846444	.8359334
Collateral requirement	0.0869393	.0573519	1.52	0.131	-.0262335	.200112
Cost of credit	0.7137543	.0746826	9.56	0.000	.5663826	.8611259
Age of the Institution	0.0079276	.031335	0.25	0.801	-.0539059	.0697612
Constant	-1.610442	.2553737	-6.31	0.000	-2.114373	-1.106512
Number of obs			=		185	
F(5, 179)			=		134.27	
Prob > F			=		0.0000	
R-squared			=		0.7092	
Root MSE			=		.75682	

Source: Author

The P-value of the F-statistic tells how confident the analyst can be that each individual variable has some correlation with the dependent variable. It is equal to 0.000. At the level of significance of 1%, there is enough evidence to reject the null hypothesis in favour of the alternative one. This means that the betas are statistically and globally significant at the 1% level of significance. This globally means that the independent variables included in the model can be used to estimate the value of a dependent variable. From Table 3, the findings revealed that there is a positive effect between loan approval rate and the financial performance of small and medium-sized enterprises in Bamenda, and the coefficient estimate for loan approval rate is 0.2030617. This indicates that, on average, for a one-unit increase in loan approval rate, the financial performance increases by 0.2030617 units. The p-value ( $P > t$ ) associated with the coefficient estimate is 0.077, this implies that the p-value of 0.077 is less than the significance level of 0.1, we therefore reject the null hypothesis in favour of the alternative hypothesis which implies that loan approval rate significantly affects financial performance suggesting that the coefficient is statistically significant at 10% level of significance. The confidence interval for the loan approval rate ranges from -0.0223069 to 0.4284304. This means that we can be 90% confident that the true effect of the loan approval rate on financial performance falls within this range. The finding further revealed that there is a positive effect between loan size and the financial performance of small and medium-sized enterprises in Bamenda, and the coefficient estimate for loan size is 0.6602889. This indicates that, on average, for a one-unit increase in loan size rate, the financial performance increases by 0.2030617 units. The p-value ( $P > t$ ) associated with the coefficient estimate is 0.000, this implies that the p-value of 0.000 is less than the significance level of 0.01, therefore we reject the null hypothesis in favour of the alternative hypothesis which implies that loan size significantly affects financial performance suggesting that the coefficient is statistically significant at 1% level of significance. The confidence interval for loan size ranges from 0.4846444 to 0.8359334. This means that we can be 99% confident that the true effect of loan size on financial performance falls within this range.

The finding further revealed that there is a positive effect between collateral requirement and the financial performance of small and medium-sized enterprises in Bamenda, and the coefficient estimate for collateral requirement is 0.0869393. This indicates that, on average, for a one-unit increase in collateral requirement, the financial performance increases by 0.0869393 units. The p-value ( $P > t$ ) associated

with the coefficient estimate is 0.131, this implies that the p-value of 0.000 is greater than the significance level of 0.1, we therefore do not reject the null hypothesis which implies that collateral requirement does not significantly affect financial performance suggesting that the coefficient is statistically insignificant at 10% level of significance. The confidence interval for collateral requirement ranges from -0.0262335 to 0.200112. This means that we can be 90% confident that the true effect of collateral requirement on financial performance falls within this range.

The finding further revealed that there is a positive effect between the cost of credit and the financial performance of small and medium-sized enterprises in Bamenda, and the coefficient estimate for the cost of credit is 0.7137543. This indicates that, on average, for a one-unit increase in loan size rate, the financial performance increases by 0.7137543 units. The p-value ( $P > t$ ) associated with the coefficient estimate is 0.000, this implies that the p-value of 0.000 is less than the significance level of 0.01, we therefore reject the null hypothesis in favour of the alternative hypothesis which implies that cost of credit significantly affects financial performance suggesting that the coefficient is statistically significant at 1% level of significance. The confidence interval for the cost of credit ranges from 0.5663826 to 0.8611259. This means that we can be 99% confident that the true effect of the cost of credit on financial performance falls within this range. The R-squared value of 0.7092 suggests that the regression model provides a reasonably good fit to the data. It indicates that the independent variable(s) included in the model can explain about 70.92% of the variability observed in the dependent variable. The remaining 29.08% of the variation in the dependent variable may be attributed to factors not accounted for by the independent variable(s) included in the model. These unexplained factors could be due to measurement error, omitted variables, or inherent randomness in the data.

### ***4.3. Discussion of Findings***

The coefficient estimate for loan approval rate is 0.2030617, indicating a positive and significant effect on financial performance. This means that, on average, for a one-unit increase in loan approval rate, the financial performance of SMEs increases by 0.2030617 units. This suggests that higher loan approval rates are associated with better financial performance. The findings were similar to the work of Anderson (2020), who found a positive and significant correlation

between loan approval rate and the financial performance of SMEs. Higher loan approval rates were associated with better financial outcomes, including increased profitability and business growth. The finding revealed that there is an effect between loan size and the financial performance of small and medium-sized enterprises (SMEs) in Bamenda, indicating a positive and significant effect. The coefficient estimate for loan size is 0.6602889, suggesting that, on average, a one-unit increase in loan size is associated with a 0.6602889-unit increase in financial performance. The p-value for the coefficient estimate is 0.000, which is less than the significance level of 0.01, the findings further show that larger loan sizes are associated with improved financial performance for SMEs in Bamenda and this result was consistent with the work of Johnson (2018) who found that an optimal loan size positively influenced SME financial performance. Both excessively large and small loan sizes were associated with financial performance indicators, such as profitability and return on assets.

The findings regarding the relationship between collateral requirement and the financial performance of small and medium-sized enterprises (SMEs) in Bamenda indicate a positive effect, although the statistical significance is inconclusive. The estimated coefficient for collateral requirement suggests that, on average, a one-unit increase in collateral requirement is associated with a 0.0869393-unit increase in financial performance. However, the p-value for this coefficient is 0.131, which exceeds the significance level of 0.1. Consequently, we do not have sufficient evidence to reject the null hypothesis, the finding was contrary to the result of Patel (2018), who found that stringent collateral requirements negatively affected SME financial performance, leading to lower profitability and constrained growth.

The results of the study demonstrate a positive association between the cost of credit and the financial performance of small and medium-sized enterprises (SMEs) in Bamenda. The coefficient estimate for the cost of credit is 0.7137543, indicating that, on average, a one-unit increase in the cost of credit is linked to a 0.7137543-unit increase in financial performance. The p-value (0.000) is smaller than the significance level of 0.01, leading us to reject the null hypothesis and conclude that the cost of credit significantly impacts financial performance at the 1% level of significance. The result was similar to the finding of Lee (2020). The study found that higher credit costs were associated with lower SME financial performance indicators, including profitability and liquidity. SMEs facing lower

credit costs exhibited better financial outcomes in the long run. So we conclude that the credit cost significantly affects SME financial performance.

## **Conclusion**

The primary purpose of this study was to examine the effect of credit accessibility on the financial performance of small and medium-sized enterprises in Bamenda. The findings of the study reveal several important insights regarding the factors influencing the accessibility of small and medium-sized enterprises (SMEs) in Bamenda to credit. Firstly, the study highlights the significant and positive impact of loan approval rates on financial performance. Improving the loan approval process and increasing access to financing can enhance the financial performance of SMEs, emphasising the importance of supporting SMEs in securing loans. Secondly, the study underscores the positive relationship between loan size and financial performance. Larger loan sizes are associated with better financial performance for SMEs, emphasising the need for adequate funding to support their growth and success. Thirdly, while the study suggests a positive effect of collateral requirements on financial performance, the result is statistically insignificant. Lastly, the study confirms the significant and positive effect of the cost of credit on financial performance. As the cost of credit increases, SMEs' financial performance tends to improve, underscoring the importance of carefully considering the cost of credit when making financing decisions.

Concerning recommendations, policymakers should focus on implementing measures to improve the loan approval process for SMEs. This could involve streamlining procedures, reducing bureaucratic hurdles, and providing support and guidance to financial institutions to ensure efficient and timely loan approvals. By increasing the loan approval rates, SMEs will have better access to financing, leading to improved financial performance. Policies should be put in place to facilitate access to larger loans for SMEs. This can be achieved through initiatives such as loan guarantee programs, encouraging collaboration between financial institutions and SMEs, and promoting alternative financing options like venture capital or crowdfunding. Adequate funding is crucial for SMEs to expand their operations and invest in growth opportunities, ultimately enhancing their financial performance. Given the significant and positive association between the cost of credit and financial performance, policymakers should implement measures to manage and mitigate the

cost of credit for SMEs. This can include promoting competition among financial institutions, implementing interest rate caps or subsidies, and providing financial literacy and advisory services to help SMEs negotiate favourable credit terms.

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