

DEBT FINANCING AND ITS EFFECT ON THE GROWTH OF SMALL AND MEDIUM-SIZED ENTERPRISES IN BAMENDA CITY, CAMEROON

Ngoh Christopher Sam¹ & Chi Collins Penn²

¹(PhD), Lecturer in the Department of Accounting and Finance, Higher Institute of Commerce and Management, University of Bamenda, Republic of Cameroon.

²(PhD), Lecturer in the Department of Accountancy and Finance, Faculty of Economics and Applied Management, University of Douala, Republic of Cameroon

Correspondence: Ngoh Christopher Sam (PhD), Department of Accounting and Finance, Higher Institute of Commerce and Management, University of Bamenda, P.O. Box 39 Bambili – NW Region, Republic of Cameroon, Email: samngoh@yahoo.com

ABSTRACT

The aim of this paper is to examine the effects of debt financing on the growth of Small and Medium-Sized Enterprises (SMEs) in Bamenda, Cameroon. A sample of 100 managers/owners of SMEs was selected for the study, and data was collected using a questionnaire. The data was analyzed using a binary logistic regression technique. The results show that SMEs in Bamenda rely heavily on trade credit and loans from family members to promote growth. Trade credit, in particular, is preferred by many enterprises due to its accessibility and the flexibility of the payment period, leading to a significant positive impact on financial performance. Both trade credit and loans from family members exhibit a positive relationship with SME growth. However, the study found a negative effect of microfinance loans and leasing/equipment loans on SME growth. The study suggests that financial institutions should emphasize training enterprises to better prepare them for utilizing long-term loan services, which could enhance their growth opportunities.

Keywords: Debt Financing, Trade Credit, Leasing, Micro Finance, loans, Growth

INTRODUCTION

Debt financing involves acquiring capital from a lender to run a business, with the obligation to repay it within a specified period along with interest (Horne, 2013). Torre (2016) describes debt financing as a funding system where a company receives credit, which can include both long-term debt and short-term loans, with a promise to repay, thus ensuring competitiveness for both the company and the nation (Frasch, 2013).

The goal of debt financing is to boost business earnings to cover costs, benefit proprietors, and retain any surplus (Damodaran, 2013). Both startups and established businesses utilize debt financing to expand and navigate economic challenges (Hussain, 2016). SMEs can access financing from banks, trade credit, micro-financial institutions, family and friends, and equipment loans. Debt financing is crucial for the growth of SMEs in both developing and developed countries. The definition of SMEs varies by

country, based on factors like staff size, value of noncurrent assets, and turnover rate. Srinivas (2015) defines SMEs as registered businesses with fewer than 250 employees, significant contributors to employment and GDP, which often struggle to access financial services and grow as economies formalize. The primary purpose of SMEs is to create employment and reduce poverty (Onoja & Ovayioza, 2015).

Niall (2011) notes that the origins of debt financing trace back to early civilizations, with written loan contracts from Mesopotamia over 3,000 years old indicating the growth of a credit system involving interest. McIlravey (2014) agrees that debt financing is ancient, stating that historically, firms primarily financed projects with debt and equity. Despite the Catholic Church's opposition to interest from the 13th to 18th centuries in Europe, debt financing existed during that period. Interestingly, Islamic Sharia law still prohibits lending with interest, despite the development of compound interest in the Middle East (McIlravey, 2014).

In the US, the standard loan strategy began in 1929 with the American Title Association. As loans became more accessible to average Americans, financial institutions expanded, with title insurance becoming a requirement for most loans by the mid-1900s. Policy forms evolved but retained numerous inherent risks (McIlravey, 2014). The increase in debt financing for SMEs gained momentum with the rise of micro-finance institutions. For instance, Nannyonjo and Nsubuga (2014) highlight that since the mid-1990s, MFIs in Cameroon have gained broad recognition for providing financial services to low-income households, significantly contributing to poverty reduction..

Numerous governments across the globe have extended money at reduced interest rates to Small and Medium-Sized Enterprises (SMEs) due to its significance in generating employment opportunities and mitigating poverty (Onoja & Ovayioza, 2015). When SMEs don't get government backing, they frequently look to friends, family, trade credit, and microfinance organizations for assistance (Matarirano, 2007). SMEs have the capacity to produce jobs and expand the economy quickly (Reddy, 2015). Research from Hatega (2007) and Kauffmann (2016) emphasizes how important SMEs are to job creation and economic growth. The industry's importance is demonstrated by the number of people it can employ and the reasonably priced goods and services it can offer (Kauffmann, 2016). Governments and development organizations around the world are now more interested in and supportive of SMEs' improved performance and expansion as a result of this.

According to empirical research, in high-income nations like the UK, USA, Canada, and China, SMEs account for over 55% of GDP and over 65% of all jobs. (Asta & Zaneta, 2010). Formal SMEs make up 20% more of the GDP and jobs in middle-income nations than do informal businesses. Therefore, there would be major economic gains from reducing obstacles that keep informal businesses from entering the legal SME sector. Additionally, in several developing economies, SMEs are a major source of export income. For instance, SMEs make up a significant portion of manufactured exports

to industrialized East Asian nations (nearly 40% in China and 56% in Chinese Taipei) and India (31.5%), but only 1% in Tanzania and Malawi.

Due to their smaller size and weaker creditworthiness, SMEs have historically had limited access to loan funding (Cabbar, 2000). SMEs had less access to financial market tools than larger companies, which had advantages such as sophisticated treasury operations, financing economies of scale, and access to stock markets and securitized lending.

Small and Medium-Sized Enterprises (SMEs) have historically struggled to achieve desired performance metrics such as liquidity, long-term solvency, and profitability. This has led to missed business opportunities and stunted growth in both size and financial resources. One significant factor contributing to this is the high lending conditions imposed by financial organizations, with interest rates ranging from 30% to 36% annually (MFPED, 2009). Kasekende and Opondo (2003) argue that the underperformance of SMEs is largely due to poor loan management and a lack of strategic resources, aligning with Barney's (1991) resource dependency theory. These scholarly perspectives suggest that the underperformance of SMEs is not due to a single factor but a combination of multiple issues. Consequently, the relationship between debt financing and the financial performance of SMEs has been a longstanding and significant topic of debate in business finance literature.

This study is framed by the Growth Borrowing Theory proposed by Kauffmann (2004). According to Kauffmann, bank loans, loans from financial institutions, loans from family and friends, and equipment loans are critical in fostering the development of enterprises by enhancing profitability, sales levels, and asset acquisition. These loans serve as financial solutions for innovative entrepreneurs who lack sufficient capital. By obtaining loans and repaying them with profits, a cycle of borrowing is created, benefiting both lenders and borrowers.

Debt capital is crucial for the success of any business (Derbile, 2003). An optimal level of debt capital should maximize a firm's value and minimize capital costs. Despite these benefits, the use of debt capital among SMEs in Bamenda City has been low. Many SMEs in Bamenda City have struggled to access debt financing from financial institutions. The study reports that only 2.8% of SMEs have been able to secure loans, which is significantly lower than the global average for SME debt capital access.

The main objective of this study is to assess the effect of debt financing on the growth of Small and Medium-Sized Enterprises in Bamenda, Cameroon. Specifically, we intend to:

- i. evaluate the effect of "Loans from Micro Finance Institutions" on the Growth of Small and Medium-Sized Enterprises in Bamenda City.
- ii. identify the effect of "Trade Credit" on the Growth of Small and Medium-Sized Enterprises in Bamenda City.
- iii. investigate the effect of "Loans from Family Members" on the Growth of Small and Medium-Sized Enterprises in Bamenda City.

- iv. assess the effect of “Leasing” on the Growth of small and Medium-Sized Enterprises in Bamenda City.

The following null hypotheses were formulated to guide the study:

H₀₁: There is no significant positive effect of “Loans from Micro Financial Institutions “on the Growth of Small and Medium-Sized Enterprises in Bamenda City.

H₀₂: There is no significant positive effect of “Trade Credit “on the Growth of Small and Medium-Sized Enterprises in Bamenda City.

H₀₃: There is no significant positive effect of “Loans from Family Members “on the Growth of Small and Medium-Sized Enterprises in Bamenda City.

H₀₄: There is no significant positive effect of “Leasing” on the Growth of Small and Medium-Sized Enterprises in Bamenda City.

REVIEW OF RELATED LITERATURE

Concept of Debt Financing

Debt financing involves borrowing money to fund a business from various sources, primarily financial intermediaries such as commercial banks, microfinance institutions, individual money lenders, and through leasing. According to Damodaran (2009), debt is a financing strategy designed to enhance the return on owners' investments by generating returns that exceed the cost of borrowing.

Loans from Micro Finance Institutions

Microfinance is a tool for development that helps the extremely poor start or grow their enterprises by offering financial services and products such as modest loans, savings accounts, microleasing, microinsurance, and money transfers. When SMEs don't have access to other financial resources, it is mostly utilized in developing economies (Robinson, 1998). Certain microfinance institutions (MFIs) provide social intermediation services in addition to financial intermediation, such as group creation, the building of self-confidence, and financial literacy and management training for group members (Ledgerwood, 1999). Microfinance services are provided by a number of sources, such as government banks, commercial banks, credit unions, savings and loans cooperatives, non-bank financial institutions, and nongovernmental organizations (NGOs). Self-employed, low-income business owners like street vendors, hairdressers, rickshaw drivers, seamstresses, traders, and artisans make constitute the target market for MFIs (Ledgerwood, 1999).

Trade Credit

A trade credit agreement permits a customer and seller to postpone paying for goods rather than exchanging cash (Main & Smith, 2015). This arrangement is essential to the financial strategy of a company. Trade credit is an investment in accounts receivable for the supplier and a means of financing through accounts payable for the buyer.

Prior studies have mostly concentrated on the factors that influence trade credit for large businesses (Niskanen & Niskanen, 2016). But as trade debtors frequently make up the majority of a SME's assets

on their balance sheets, trade credit is very important to them. The substantial investment in accounts receivable means that credit management policies can have significant implications for a firm's growth. Studies by Demircuc-Kunt and Maksimovic (2017) suggest that firms in countries with more developed SME systems extend more trade credit to their customers. In countries with weaker legal systems, trade credit from suppliers can be a crucial indirect capital source for firms that struggle to access financial markets directly (Rajan & Zingales, 2018).

SMEs are a vital component of the industrial sector in Cameroon's economy, yet they face challenges that hinder their performance and growth. In a developing country like Cameroon, SMEs contribute a higher proportion to GDP than is currently observed in other emerging markets (Oyelaran-Oyeyinka, 2010).

Loans from Family Members

When SME owners face a lack of capital, their primary option is to invest personal funds and seek help from family members, a practice known as sourcing trust capital. In Cameroon, approximately 73% of SMEs finance their operations through personal savings, while only about 2% turn to financial institutions (Terungwa, 2011). In Pakistan, due to the high cost and complex procedures, SMEs rank bank credit as their third option, preferring funding from NGOs and family and friends first (Nenova et al., 2009).

Financing from friends and family is often considered a good alternative, as these investors are typically not solely focused on monetary returns and may accept lower or no interest on their investments. However, this type of financing has drawbacks: the risk is concentrated within the owner's social circle, which can negatively impact relationships (Lee & Persson, 2016). Additionally, such financing is usually limited in scope.

Leasing/Equipment Loan

Leasing is an asset-based financing method that provides SMEs with short- and medium-term financing options. It allows for the procurement of capital equipment through an agreement where one party (the lessor) provides an asset to another party (the lessee) for a specified period, in exchange for regular payments. At the end of the contract, the lessee may have the option to purchase the equipment (Amiri, 1998; Fletcher et al., 2005).

Leasing is a vital financing tool for SMEs, as it aligns with the investment period of leased assets. Unlike traditional loans, leasing does not involve cash disbursement by a finance company but rather the provision of an asset. Government support for leasing can help mitigate market weaknesses and expand SMEs' access to finance. Leasing is particularly effective for small businesses that struggle to access traditional bank credit due to limited credit history and lack of collateral, as it allows them to use capital equipment without these constraints.

Most leasing companies are bank-owned; in Europe, 90% of leasing companies are owned by banks. Besides bank-owned companies, sovereign and captive leasing companies also rely heavily on bank funding to operate (Mignerey, 2012). However, sovereign leasing companies often face organizational

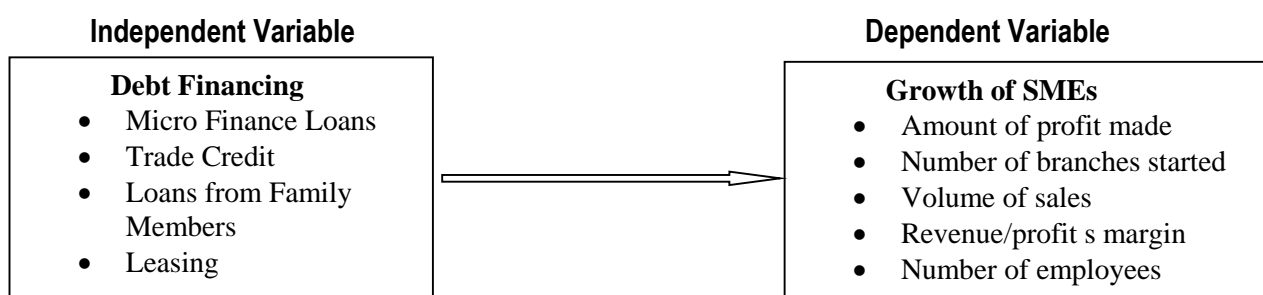
challenges, such as low equity bases and lack of specialization, which can lead to comparatively low residual values of leased assets on their balance sheets (Arzeni et al., 2015).

The Growth OF SMEs

The primary goal of any firm is to achieve profit and growth. A firm is defined as an administrative organization that can expand over time, incorporating both physical and human resources (Penrose, 1995). In this context, growth refers to an increase in size or other measurable attributes, or a process of change and improvement (Penrose, 1995). Firm size is the outcome of growth over time; growth is a process, while firm size is a state (Penrose, 1995). A firm's growth depends on the supply of capital, labor, effective management, and profitable investment opportunities. The availability of resources is a crucial determinant of a firm's growth (Ghoshal et al., 2002).

Some microfinance institutions (MFIs) adopt an integrated approach by providing enterprise development services, also known as business development or non-financial services. These services include marketing and technology support, business training, production training, and subsector analysis and interventions (Ledgerwood, 1999). Enterprise development services can be categorized into two main areas. The first is enterprise formation, which involves training individuals in specific skills such as weaving, as well as supporting those who wish to start their own businesses.

The conceptual framework presented in this study illustrates the relationship between the independent variables and the dependent variable (Kothari, 2004). In this framework, the independent variable is debt financing, and the dependent variable is the growth of SMEs. This relationship is depicted in Figure 1.



Source: Computed by author (2023)

Figure 1: Conceptual model of debt financing on the growth of SMEs

Given the significance of Small and Medium-Sized Enterprises (SMEs) in any economy, the issue of SME financing has remained a central focus for both academic inquiry and practical research. Financing is crucial to help SMEs establish and expand their operations, introduce new products, and invest in employee services. In essence, financing is the linchpin for the financial performance of SMEs. Scholars widely agree that SMEs continue to grapple with the challenge of limited access to funds (Peel & Wilson,

1996; Ukpong, 2002). For instance, Ukpong (2002) highlights the limited opportunities for debt funding for SMEs, alongside restricted access to capital markets for equity financing. This, coupled with insufficient personal savings among SME owners, poses a significant threat to the overall performance of SMEs and their financial health in particular.

Amidst these challenges, proponents of debt financing as a funding option for SMEs argue that it remains the most viable choice (Trisha, 2011; Lutwama, 2008; Gran, 2013). However, critics of debt finance point to obstacles such as high interest rates, collateral demands, bureaucratic loan access processes, unfavorable repayment terms, and the associated risks of loan default as significant drawbacks. These critics contend that such challenges generally hamper SME performance. In a study by Odife (2002), it is suggested that some financial institutions are hesitant to lend to SMEs due to concerns about the economic feasibility of such lending. Debt financing for SMEs is also viewed as high-risk due to factors such as the lack of accurate financial information, weak business plans, and managerial shortcomings (Odife, 2002). Although semi-formal financial institutions like cooperatives and trade associations have met the credit needs of some SMEs, many still struggle to access debt financing (Sololá, 2006).

Equity financing is another common source of funds for SMEs. Oteh (2011) asserts that "SMEs are the backbone of the country, and thus capital markets play a significant role in providing finances for SMEs." Similarly, Kasekende & Opondo (2003) argue that "capital markets are a viable finance option for SMEs." Advocates of capital markets as an alternative financing avenue for SMEs suggest that they could serve as a crucial source of long-term finance.

Scholars concur that "equity financing does not entail a direct obligation to repay acquired funds," offering several advantages for SMEs. However, it is essential to acknowledge that it is a less preferred option because SME founders must relinquish some control over the enterprise. Additionally, equity financing requires a level of formalization by SMEs, which carries financial implications (Oteh, 2011).

Despite the drawbacks of debt financing, several studies have concluded that it is a significant determinant of financial performance among SMEs (Trisha, 2011; Bayene, 2002; Teruel & Solane, 2008).

Theoretical Frame Work

Pecking Order Theory

The Pecking Order Theory, developed by Myers and Majluf in 1984, offers a framework to understand how firms prioritize their sources of financing. According to this theory, firms prefer to finance their operations and growth with the least effort or resistance, opting first for internal funds, and turning to external financing only when internal resources are insufficient. This financing hierarchy highlights the behavioral tendencies of firms, particularly small and medium-sized enterprises (SMEs), in managing their financial strategies.

Internal Financing Preference

One of the core tenets of the Pecking Order Theory is the preference for internal financing. Both SMEs and larger firms tend to rely on retained earnings to fund their activities. This preference is driven by several factors. Primarily, using internal funds incurs lower costs compared to external financing. There are no interest payments or underwriting fees, making it a cost-effective option.

Debt over Equity

When internal funds are depleted, the next preferred option is debt financing rather than issuing new equity. For SMEs, this preference is particularly pronounced. Debt financing is favored because it does not dilute ownership or control. Issuing new equity can lead to a loss of control for existing owners and may involve higher costs due to regulatory requirements and market conditions. Debt, while involving interest payments, allows the firm to retain full control over its operations and decision-making processes.

Costs of Debt

Despite its preference over equity, debt financing is not without its drawbacks. It imposes fixed obligations in the form of interest payments, which can strain an SME's cash flow. This strain is especially problematic during economic downturns when revenues may be lower, and maintaining regular interest payments can become challenging. However, the ability to access debt financing can be crucial for growth, providing the necessary capital to seize new opportunities, invest in technology, or expand operations.

Information Asymmetry

SMEs often face significant challenges related to information asymmetry. Unlike larger firms, SMEs typically have less established credit histories and fewer publicly available financial records. This lack of information makes external financiers perceive them as higher risk. Consequently, lenders may demand higher interest rates or impose more stringent borrowing conditions. This can make debt financing more expensive and difficult to obtain for SMEs compared to their larger counterparts.

Relevance to the Study

Using the Pecking Order Theory as an anchoring framework for studying debt financing and its effect on the growth of SMEs offers several advantages. It provides a structured approach to explore how SMEs decide between different financing options and the resulting impacts on their growth. This theory helps to identify the specific challenges SMEs face in accessing debt financing, such as high costs and stringent borrowing conditions, and how these challenges influence their growth trajectories. By understanding the financing preferences and behaviors of SMEs, researchers can better analyze the implications of debt on SME growth, leading to more informed policy recommendations and financial strategies tailored to the unique needs of SMEs.

Empirical Review

Nyamwanza et al. (2020) investigated the influence of debt financing on the profitability of a furniture retail company, utilizing a mixed methods approach that combined quantitative data from financial statements with qualitative data from interviews. The study incorporated a regression model with debt ratio as the independent variable and return on asset ratio as the dependent variable, representing profitability. Results indicated a statistically significant negative effect of debt financing on the return on assets of the company.

Abuamsha et al. (2022) analyzed the impact of debt structure on the financial performance of Palestinian Exchange (PEX) listed organizations, using a sample of 41 companies excluding the banking sector. Employing descriptive and multiple-regression methods, the study found that long-term debts positively influenced return on assets (ROA) in the insurance, investment, and industrial sectors. Conversely, in the service sector, long-term debt had a negative impact on ROA, and only industrial companies' ROA was significantly affected by total debt.

Arumona et al. (2020) explored the effects of debt financing on the financial performance of listed consumer goods firms in Nigeria from 2011-2020. Their panel data regression analysis revealed a negative and significant relationship between short-term debt and net profit margin (NPM), with short-term debt, firm size, and firm age as independent variables and NPM as the dependent variable.

Pham et al. (2020) investigated the moderating role of board independence in the relationship between debt financing and performance of emerging market firms, using a panel dataset of 300 listed firms in Vietnam from 2013 to 2017. The study found a significantly negative effect of debt financing on accounting profitability, while board independence mitigated this adverse impact.

Lenny et al. (2020) examined the impact of debt financing on the financial performance of retail firms listed on the Johannesburg Stock Exchange from 2010–2019. Their fixed effects analysis showed that lagged return on equity, total debt to total asset, and sales growth strongly influenced return on equity, while long-term debt to total asset and firm size had negative effects on financial performance.

Akaji et al. (2021) investigated the effect of Debt Financing on the performance of firms in Nigeria, using long-term debt financing, short-term debt financing, and preferred stock financing as debt financing variables and return on equity (ROE) as the performance measure. Their findings indicated a significant and positive effect of debt financing on firm performance.

METHODOLOGY

This research was conducted in Bamenda City, the administrative hub of Mezam Division situated in

the North West Region of Cameroon. Bamenda serves as the administrative capital of Mezam Division, the regional headquarters of the North West, and is the largest town in the region. Spanning a surface area of 5,250 square kilometers, Bamenda comprises seven subdivisions and hosts a population of approximately 800,000 residents. It stands as a cosmopolitan center deeply entrenched in Cameroonian politics, characterized by a robust traditional framework and influential Fons and Fondoms. While cosmopolitan, the majority of the population consists of local ethnic groups such as Bamendakwe, Nsongwa, Chomba, Mbattu, and Nkwen.

Renowned for the industriousness of its farmers, Bamenda boasts a diverse range of food crops including potatoes, cabbage, tomatoes, beans, and corn. These agricultural products are often exported to other regions, notably the South West and Littoral regions, to meet demand in areas less conducive to their cultivation.

The study's sample size was drawn from the roster of registered Small and Medium-Sized Enterprises (SMEs) operating within Bamenda City. To ensure representativeness, a sample comprising 100 managers/owners of SMEs was selected. The sample size calculation followed the formula outlined by Yamane (1973).

$$n = \frac{N}{1 + Ne^2}$$

Of which **n**: = is the sample size
N: = target population
e²: = is the standard error with 0.05 level of significance

The sample size obtained from this formula is 100 respondents. This is presented in table 1.

Table 1: Sample Size

Category of SMEs in Bamenda City	Sample Size
Electronic Shops	15
Pharmacies	19
Cosmetic shops	19
Documentation	15
Spare parts and automobile Shops	15
General merchandise	36
Hotels	10
Totals	100

Source: *Computed by author, 2023*

Table 2: Response Rate

Number Administered	100	100%
Number Returned	100	100%

Source: *Computed by author, (2023)*

From the table above, it shows that a total of 100 questionnaires were administered and 100 of them were returned which is 100%. Based on statistical benchmarks, it is a good situation for analysis to be done.

The analysis of the data collected in this study utilized SPSS software version 20, which facilitated the generation of both descriptive and inferential statistics. Descriptive statistics, including frequency and percentage distributions, were employed to characterize the demographic features of the participants. Furthermore, a binary logistic model with a random effect method was utilized to examine the impact of various factors, such as loans from Microfinance Institutions (MFIs), trade credit, loans from family members, and leasing/equipment credits, on the growth of SMEs.

Regarding the analysis of questionnaire responses, percentages were calculated to summarize the data. Prior to analysis, the collected data underwent a consistency check to ensure accuracy. Frequencies and percentages were then used to illustrate the distribution of respondents. The findings were presented in tables accompanied by explanatory notes. The analytical approach employed for data interpretation involved multiple regressions. The functional form of the model is outlined as follows:

$$Y_i = \beta_0 + (\beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon) \dots\dots\dots \text{eq 1}$$

Of which;

- Y = Growth of Small and Medium-Sized Enterprises
- β₀ = intercept
- β₁, β₂, β₃, β₄ = the slope of the regression
- X₁ = Loans from MFIs
- X₂ = Trade credit
- X₃ = Loans from family members
- X₄ = Leasing/ Equipment Credits

DATA ANALYSIS AND DISCUSSION OF FINDINGS

Table 3 (see appendix) shows the gender of the respondents. From the table, 56 of the respondents which is 56% of the study are male and 44 of the respondents which is 44% of the study are female. From table 3, 27 of the respondents are within 21 and 30 years which is 27% of the study, 49 of the respondents are within 31 and 40 years which is 49% of the study, 13 of the respondents are within 41 and 50 years which is 13% of the study and 11 of the respondents are above 50 years which is 11% of the study.

Table 3 shows the qualification of the respondents. From the table, 5 of the respondents which is 5% of the study are holders of the FSLC, 14 of the respondents which is 14% of the study are holders of the Ordinary level or Equivalent, 31 of the respondents which is 31% of the study are holders of the advanced level or equivalence, 24 of the respondents are holders of the HND or equivalence, 15 of the respondents

which is 15% of the study are holders of the bachelors and 11 of the respondents which is 11% of the study are holders of the masters and Above

From table 3, 31 of the respondents are from private limited companies which is 31% of the study, 33 of the respondents are from partnerships which is 33% of the respondents and 36 of the respondents are from sole proprietorships which is 36% of the study.

From table 3, 49 of the respondents are managers which is 49% of the study, 20 of the respondents which is 20% of the study are personnel managers, 18 of the respondents which is 18% of the study are accountants and 13 of the respondents are cashiers which is 13% of the study.

Table 3 shows the longevity if the respondents on their current positions. From the table, 5 of the respondents have been in their current position for less than 1 years, 37 of the respondents which is 37% of the study have been in their position for 2 to 3 years, 20 of the respondents which is 20% of the study have been in their position for 4 to 5 years and 38 of the respondents have been in their position for above 5 years.

Reliability Analysis of measurement scale of the Variables

Table 4: Cronbach Alpha Coefficients

Interpretation	Alpha	Decision
Loans from MFIs	0.77	Good
Trade Credit	0.74	Good
Loans from family	0.87	Great
Leasing	0.64	Acceptable

Source: Survey Data (2023)

The table above displays the alpha coefficients of the research variables. The Cronbach Alpha values suggest that the questionnaire's various variables demonstrate reliability. As noted by Denzin & Lincoln (2005), establishing reliability and validity in qualitative research may involve less precision; however, methods such as respondent checks, peer evaluation, and triangulation of methods can be effectively utilized, as was done by the researcher in this study.

Descriptive Statistics of the Frequencies of Items

Findings on Loans from Micro Finance Institutions

Table 5 (see appendix) shows the findings relating to credits from Micro Finance Institutions. From the table, to know if the enterprise usually receives loans from micro finance institutions, 82 of the respondents accepted and 18 of the respondents refused which is 82% and 18% respectively. Secondly,

to know if the amount of Loans granted is often small, 40 of the respondents which are 40% of the study accepted and 60 of the respondents which are 60% of the study refused that the amount is often small. Furthermore, to know if Micro finance institutions grant all the amount of loan you apply for, 38 of the respondents accepted and 62 refused which is 38% and 62% respectively. Also, to know if micro finance institutions disburse Loans to the enterprise on an instalment basis, 69 of the respondents accepted and 31 refused which is 69% and 31% respectively.

Moreover, to know if Micro finance institutions at times grant loans to the enterprise based on personal guarantee instead of collateral, 77 of the respondents accepted and 23 refused which is 77% and 23% respectively. Too, to know if the interest Rates on Micro finance institutions loans granted to the enterprises usually high, 84 of the respondents accepted and 16 refused which is 84% and 16% respectively.

Likewise, to know if the periodicity of Micro finance institutions Loans granted to the enterprises usually Short-Term oriented, 62 of the respondents accepted and 38 refused which is 62% and 38% respectively. Finally, to know if in preparing the Loan Repayment Schedule, Micro finance institutions usually focus on the possible Cash Flow stream of the Projects of the enterprises, 47 of the respondents accepted and 53 refused which is 47% and 53% respectively.

Findings on Trade Credits

Table 6 (see appendix) shows the findings relating to credits from trade credits. From the table, to know if Trade credit is a convenient form of financing, 100 of the respondents accepted and 0 of the respondents refused which is 100% and 0% respectively. Secondly, to know if most of the enterprises' purchases are acquired through credit, 23 of the respondents which are 23% of the study accepted and 77 of the respondents which are 77% of the study refused that most of the enterprises' purchases are not acquired through credit.

Furthermore, to know if trade credit encourages frequent purchases in the enterprises, 75 of the respondents accepted and 25 refused which is 75% and 25% respectively. Also, to know if enterprises acquire huge volumes of purchases through trade credit, 56 of the respondents accepted and 44 refused which is 69% and 31% respectively.

Moreover, to know if the enterprise has realized more sales by acquiring purchases on credit, 60 of the respondents accepted and 40 refused which is 60% and 40% respectively. Too, to know if trade credit is considered as an expensive source of finance for the enterprise, 38 of the respondents accepted and 62 refused which is 38% and 62% respectively.

Finally, to know if the overall cost of acquiring goods/services on credit is affordable for enterprise, 85 of the respondents accepted and 15 refused which is 85% and 15% respectively.

Loans from family Members

Table 7 (see appendix) shows the findings relating to credits from family members. From the table, to know if enterprises usually get loans from family members, 62 of the respondents accepted and 38 of the respondents refused which is 62% and 38% respectively. Secondly, to know if the amount of Loans granted is often small, 62 of the respondents which are 62% of the study accepted and 38 of the respondents which are 38% of the study refused that most of the amount of Loans granted is often small.

Furthermore, to know if family members give the entire loan asked for, 49 of the respondents accepted and 51 refused which is 49% and 51% respectively. Also, to know if any collateral security is required to get the loan from family members, 0 of the respondents accepted and 100 refused which is 0% and 100% respectively.

Moreover, to know if any interest rate is paid on the loan from family members, 11 of the respondents accepted and 89 refused which is 11% and 89% respectively. Too, to know if the enterprise has more sales by acquiring purchases through loans from family members, 64 of the respondents accepted and 36 refused which is 64% and 36% respectively.

Finally, to know if there are problems repaying all the loan granted by family members, 40 of the respondents accepted and 60 refused which is 40% and 60% respectively.

Leasing/ Equipment Credit

Table 8 shows the findings relating to leasing/ equipment credit. From the table, to know if the business usually gets loans through leasing, 23 of the respondents accepted and 77 of the respondents refused which is 23% and 77% respectively. Secondly, to know if the contract terms are favourable, 56 of the respondents which are 56% of the study accepted and 44 of the respondents which are 44% of the study refused that the contract terms are favourable.

Furthermore, to know if Collateral security is required to get loans through leasing, 64 of the respondents accepted and 36 refused which is 64% and 36% respectively. Also, to know if the enterprise can afford the payment of leasing loan granted, 62 of the respondents accepted and 38 refused which is 62% and 38% respectively.

Moreover, to know if leasing loans have benefit to the enterprise, 56 of the respondents accepted and 44 refused which is 56% and 44% respectively. Too, to know if interest rate is required to get a leasing loan, 56 of the respondents accepted and 44 refused which is 56% and 44% respectively.

Finally, to know if there the periodicity of loans through leasing is granted to the enterprise usually Short-Term oriented, 49 of the respondents accepted and 51 refused which is 49% and 51% respectively.

Presentation of inferential statistics

Table 9: Correlation Matrix

ITEMS		Loans from MFIs	Trade credit	Loans from family members	Leasing/ Equipment Credits
Loans from MFIs	Pearson Correlation Sig. (2-tailed) N	1 100			
Trade credit	Pearson Correlation Sig. (2-tailed) N	.256* .010 100	1 100		
Loans from family members	Pearson Correlation Sig. (2-tailed) N	0.598** .000 100	.183 .068 100	1 100	
Leasing/ Equipment Credits	Pearson Correlation Sig. (2-tailed) N	-.177 .078 100	.322** .001 100	.085 .399 100	1 100

Source: Survey Data (2023)

Table 9 displays the correlation matrix of the variables under examination. This matrix is utilized to gauge the relationships between variables within the dataset. Our analysis reveals that the correlations among the variables are notably low, suggesting weak associations that contribute to the reliability of our findings. The highest correlation observed is 0.598, denoting the relationship between loans from Microfinance Institutions (MFIs) and loans from family members. Typically, correlations falling between -0.5 and 0.5 are deemed low; hence, we can place confidence in our results as the correlations remain sufficiently low to yield meaningful estimates. Consequently, the risk of multicollinearity in this study is deemed low.

Table 10: Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	82.737 ^a	.388	.529

Source: Survey Data (2023)

From table 10, the cox & snell R square and the Nagelkerke R Square are presented. From the Nagelkerke R Square, it shows that 52.9% of the variation on growth measured using sales is predicted by the model. Therefore 47.1% of the variables are predicted by other variables different from debt financing.

Table 11: Classification Table^a

	Observed	Predicted		
		Is there an increase in the sales value of this enterprise?		Percentage Correct
		Yes	No	
Step 1	Is there an increase in the sales value of this enterprise? Yes	38	25	60.3
	No	0	37	100.0
Overall Percentage				75.0

Source: Survey Data (2023)

Table 11 shows the classification of the respondents. From the table, amongst the 63 respondents who indicated an increase in their sales, 38 of them were predicted by the model and 25 of them were not predicted by the model and all the respondents who indicated that their sales did not increase were all predicted the model. The overall percentage predicted is 75% as indicated in the table.

Table 12: Variables in the Equation

ITEMS	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a Loans from MFIs	-.347	13002.301	.000	1	1.000	.706
Trade Credit	2.236	.676	.122	1	.027	101.267
Loans from family	21.446	8981.124	2.258	1	.009	501273.2
Leasing	-.655	.721	.825	1	.364	.520
Constant	22.929	9402.087	.000	1	.998	9073098017.493

a. Variable(s) entered on step 1: Loans from MFIs, Trade Credit, Loans from family, Leasing.

Source: Survey Data (2023)

From the table 12, it is observed that the estimated odds ratio of 0.706 indicates Loans from MFIs is 0.706 times more likely to influence the growth of Small and Medium-Sized Enterprises. The beta value of Loans from MFIs is -0.347 with a significance of 1.000 which indicates that it is insignificant at 5%

alpha. Therefore, an increase in loans from MFIs negatively influences the growth of Small and Medium-Sized Enterprises but this is insignificant at 5%.

At the 95% confidence interval, the estimated odd ratio of 101.267 indicates that trade credit is 101.267 times more likely to affect the growth of Small and Medium-Sized Enterprises compared to those with low trade credit. The beta value is 2.236 and p-value is 0.027 which is significant at 5% alpha. Therefore, increase in Trade Credit positively affects the growth of Small and Medium-Sized Enterprises and it is significant at 5%.

At the 95% confidence interval, the estimated odds ratio of 501273.2 indicates that Loans from family is 501273.2 times more likely to affect the growth of Small and Medium-Sized Enterprises compared to those with loans from family. The beta value is 21.446 and p-value is 0.009 which is significant at 5% alpha. Therefore, increase in loans from family positively affects the growth of Small and Medium-Sized Enterprises and it is significant at 5%.

At the 95% confidence interval, the estimated odds ratio of 0.520 indicates that Leasing is 0.520 times more likely to affect the growth of Small and Medium-Sized Enterprises compared to those with no Leasing. The beta value is -0.655 and p-value is 0.364 which is insignificant at 5% alpha. Therefore, increase in Leasing negatively affects the growth of Small and Medium-Sized Enterprises and it is insignificant at 5%.

Discussion of Results

Relationship between Loan from Micro Financial Institutions and the Growth of SMEs

The first objective of the study was to identify the effect of loans from Micro Finance Institutions on the Growth of Small and Medium-Sized Enterprises in Bamenda City. The findings show that the enterprise usually receives loans from micro finance institutions, the amount of Loans granted is often small, Micro finance institutions grant all the amount of loan they apply for, micro finance institutions disburse Loans to the enterprise on an instalment basis, Micro finance institutions at times grant loans to the enterprise based on personal guarantee instead of collateral, the interest Rates on Micro finance institutions loans granted to the enterprises usually high, the periodicity of Micro finance institutions Loans granted to the enterprises usually Short-Term oriented and in preparing the Loan Repayment Schedule, Micro finance institutions usually focus on the possible Cash Flow stream of the Projects of the enterprises. In the same line, In Ebaid's (2016) study, the aim was to examine the relationship between debt levels and the business growth of companies listed on the Egyptian stock exchange. The study utilized return on assets (ROA), return on equity (ROE), and gross profit margin as dependent variables, while short-term debt, long-term debt, and total debt served as independent variables. The findings revealed a negative impact of both short-term debt and total debt on return on assets (ROA).

Microfinance Institutions (MFIs) offer notable advantages, particularly in their ability to cater to rural areas at minimal costs. Their service delivery is characterized by flexibility, facilitating easy access to financial services for Small and Medium-Sized Enterprises (SMSEs). However, they are not without weaknesses,

which include deficiencies in operational and management information systems, inadequate internal controls, limited access to technical assistance, and reliance on donor funding.

Relationship between Trade Credit and the Growth of SMSEs.

The second objective of the study aimed to assess the impact of "Trade Credit" on the Growth of Small and Medium-Sized Enterprises (SMSEs) in Bamenda City. The findings indicate that trade credit serves as a convenient form of financing, with most enterprises making purchases on credit. This practice encourages frequent purchases, allowing enterprises to acquire significant volumes of goods/services through trade credit. Moreover, the study revealed that enterprises have experienced increased sales by utilizing trade credit, although it is perceived as a costly source of finance. However, the overall cost of acquiring goods/services on credit remains affordable for enterprises.

Numerous studies have explored the influence of debt financing on the growth of SMSEs, suggesting that trade credit may contribute to smoothing demand and enhancing firm growth. Evidence suggests that trade credit can help mitigate information asymmetry regarding product quality, ultimately boosting profitability. Larger companies tend to benefit more from trade credit investments compared to smaller firms lacking reputation in product markets.

Suppliers extend credit for various reasons, primarily to enhance firm sales, leading to potentially higher profitability. Trade credit plays a crucial role in mitigating customers' financial constraints, thus facilitating increased sales and market share growth. Additionally, trade credit can alleviate informational asymmetry between suppliers and buyers regarding product quality, thereby promoting exchange by reducing uncertainty. Apart from increasing sales, trade credit may also generate revenue through interest income or reduce transaction costs.

Relationship between loan from the Family and Friends and the Growth SMSEs

The third objective of the study was to investigate the effect of "Loans from Family and Friends" on the Growth of Small and Medium-Sized Enterprises in Bamenda City. enterprises usually get loans from family members, the amount of Loans granted is often small, family members give the entire loan asked for, any collateral security is required to get the loan from family members, any interest rate is paid on the loan from family members, the enterprise has more sales by acquiring purchases through loans from family members and there are problems repaying all the loan granted by family members. SMSEs have several options to finance their operations, including internal funds, debt, and equity. Debt financing involves borrowing from various sources such as banks, microfinancial institutions, family and friends, and equipment loans. Numerous studies have investigated the impact of debt financing on the growth of SMSEs, yielding varying results. For instance, Cecchetti (2011) examined the effects of debt on firms and found that a moderate level of debt can enhance welfare and foster growth, whereas high levels may result in a decline in firm growth. Conversely, Rainhart and Rogoff (2016) argued that debt has a positive impact on firm growth when it is maintained within a certain threshold. Certain levelsWhen the ratio exceeds certain thresholds, a financial crisis becomes highly probable.

Relationship between Equipment/Lease and the Growth of SMEs

The fourth objective of the study was to assess the effect of “Equipment/lease” on the Growth of small and Medium-Sized Enterprises in Bamenda City. The study shows that the business usually get loans through leasing, the contract terms are favourable, Collateral security is required to get loans through leasing, the enterprise can afford the payment of leasing loan granted, leasing loans have benefit to the enterprise, interest rate is required to get a leasing loan and there the periodicity of loans through leasing is granted to the enterprise usually Short-Term oriented.

CONCLUSION AND RECOMMENDATIONS

The aim of this study was to explore the impact of debt financing on the growth of small and medium enterprises (SMEs) in Bamenda, Cameroon. The findings indicate that debt financing indeed influenced the growth of SMEs in Bamenda City. SMEs predominantly relied on trade credit and loans from family members to facilitate growth. Trade credit emerged as the preferred option among enterprises due to its accessibility and flexibility in payment terms, allowing businesses to obtain necessary supplies on credit for their operations. The study revealed a positive correlation between trade credit and the growth of SMEs in Bamenda City. Additionally, loans from family members were found to positively influence SME growth. However, microfinance loans and leasing/equipment loans were associated with a negative impact on SME growth according to the study's findings.

In light of the findings regarding the utilization of loans from financial institutions, where enterprises expressed concerns about stringent and short-term repayment terms, it is recommended that financial institutions integrate comprehensive training programs aimed at enhancing their clients' understanding of how to effectively utilize available services. This training would serve to empower entrepreneurs in the region and enable them to make informed financial decisions.

Furthermore, considering the widespread appeal of trade credit among enterprises in the region, the study suggests that financial institutions could launch targeted promotional campaigns to encourage other enterprises to adopt trade credit. Such initiatives could help broaden the scope of financial options available to enterprises and foster greater financial inclusion.

In terms of policy support, there is a need for a stronger emphasis on training initiatives for enterprises, particularly in utilizing long-term loan services to enhance their growth prospects. By equipping enterprises with the necessary skills and knowledge, policymakers can facilitate their ability to access and effectively utilize financial resources for sustainable growth.

Based on the findings, conclusions, and recommendations of this study, several areas warrant further exploration in future research endeavors. Scholars could delve into strategies to support enterprises in achieving financial sustainability and accelerating their growth trajectory. Additionally, future research

could focus on examining debt financing practices, particularly within specific financial institutions in the study area, to gain deeper insights into their impact on SMEs' growth and development.

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Table 3: Descriptive Statistics

ITEMS		Frequency	Percentage
Gender	Male	56	56.0
	Female	44	44.0
	Total	100	100.0
Age	21 to 30 years	27	27.0
	31 to 40 years	49	49.0
	41 to 50 years	13	13.0
	Above 50 years	11	11.0

	Total	100	100.0
Educational qualification	First school Leaving Certificate	5	5.0
	Ordinary Level	14	14.0
	Advanced Level	31	31.0
	HND	24	24.0
	Bachelors	15	15.0
	Masters and Above	11	11.0
	Total	100	100.0
Nature of Company	Private Limited Company	31	31.0
	Partnership	33	33.0
	Sole Proprietorship	36	36.0
	Total	100	100.0
Position	General Manager/Proprietor	49	49.0
	Personnel Manager	20	20.0
	Accountant	18	18.0
	Cashier	13	13.0
	Total	100	100.0
Longivity	Less than 1 year	5	5.0
	2 to 3 years	37	37.0
	4 to 5 years	20	20.0
	Above 5 years	38	38.0
	Total	100	100.0

Source: Survey Data (2023)

Table 5: Loans from Micro Finance Institutions

ITEMS	Yes		No		Total	
	Freq	%	Freq	%	Freq	%
Does your enterprise usually receive loans from micro finance institutions?	82	82.0%	18	18.0%	100	100.0%
Is the amount of Loans granted often small?	40	40.0%	60	60.0%	100	100.0%
Micro finance institutions grant me all the amount of loan you apply for?	38	38.0%	62	62.0%	100	100.0%
Do Micro finance institutions disburse Loans to your enterprise on an instalment basis?	69	69.0%	31	31.0%	100	100.0%
At times, do Micro finance institutions grant loans to your enterprise based on personal guarantee instead of collateral?	77	77.0%	23	23.0%	100	100.0%
Are the interest Rates on Micro finance institutions loans granted to your enterprise usually high?	84	84.0%	16	16.0%	100	100.0%
Is the periodicity of Micro finance institutions Loans granted to your enterprise usually Short-Term oriented?	62	62.0%	38	38.0%	100	100.0%
In preparing the Loan Repayment Schedule, do Micro finance institutions usually focus on the possible Cash Flow stream of the Projects of my enterprise?	47	47.0%	53	53.0%	100	100.0%

Source: Survey Data (2023)

Table 6: Trade Credits

ITEMS	Yes		No		Total	
	Freq	%	Freq	%	Freq	%
Is Trade credit a convenient form of financing	100	100.0%	0	0.0%	100	100.0%
Do most of your enterprise's purchases acquired through credit	23	23.0%	77	77.0%	100	100.0%
Does trade credit encourages frequent purchases in your enterprise	75	75.0%	25	25.0%	100	100.0%
Does your enterprise acquire huge volumes of purchases Through trade credit	56	56.0%	44	44.0%	100	100.0%
Has the enterprise realize more sales by acquiring purchases on credit	60	60.0%	40	40.0%	100	100.0%
Is trade credit considered as an expensive source of finance for the enterprise	38	38.0%	62	62.0%	100	100.0%
Is the overall cost of acquiring goods/services on credit affordable for enterprise	85	85.0%	15	15.0%	100	100.0%

Source: Survey Data (2023)

Table 7: Loans from family Members

ITEMS	Yes		No		Total	
	Freq	Percent	Freq	Percent	Freq	Percent
Do you usually get loans from family members?	62	62.0%	38	38.0%	100	100.0%
Is the amount of Loans granted often small?	62	62.0%	38	38.0%	100	100.0%
Do family members give you the entire loan you asked for?	49	49.0%	51	51.0%	100	100.0%
Is any collateral security required to get the loan from family members?	0	0.0%	100	100.0%	100	100.0%
Do you pay any interest rate on the loan from family members?	11	11.0%	89	89.0%	100	100.0%
Has the enterprise more sales by acquiring purchases through loans from family members	64	64.0%	36	36.0%	100	100.0%
Do you have problems repaying all the loan granted to you by family members	40	40.0%	60	60.0%	100	100.0%

Source: Survey Data (2023)

Table 8: Leasing/ Equipment Credit

ITEMS	Yes		No		Total	
	Freq	Percent	Freq	Percent	Freq	Percent
Does the business usually get loans through leasing?	23	23.0%	77	77.0%	100	100.0%
Are the contract terms favourable?	56	56.0%	44	44.0%	100	100.0%
Is Collateral security required to get loans through leasing?	64	64.0%	36	36.0%	100	100.0%
Can the enterprise afford the payment of leasing loan granted?	62	62.0%	38	38.0%	100	100.0%
Does leasing loans have benefit to the enterprise?	56	56.0%	44	44.0%	100	100.0%
Is interest rate required to get a leasing loan?	56	56.0%	44	44.0%	100	100.0%
Is the periodicity of loans through leasing granted to the enterprise usually Short-Term oriented?	49	49.0%	51	51.0%	100	100.0%

Source: Survey Data (2023)