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IMPACT OF CAPITAL STRUCTURE ON THE FINANCIAL PERFORMANCE OF COMMUNITY-BASED CREDIT UNIONS IN GHANA

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Abstract

Community-based Credit Unions in Ghana have been operating for several decades, significantly improving the living standards of many. These unions provide essential financial services contributing to economic growth and poverty reduction. However, the factors influencing their financial performance remain largely unexplored. This study aimed to evaluate the role of capital structure in the performance of these credit unions. A cross-sectional descriptive research design was used, selecting 27 out of 35 community-based credit unions for the study. Data were gathered through questionnaires and analyzed using thematic content analysis. The results indicated that both equity and debt capital positively impact the financial performance of these unions. Based on these findings, we recommend that the Board of Directors and management create opportunities for debt financing and optimize the use of both equity and debt in their capital structure.

Keywords: *Community-based Credit Union, Capital Structure, Ghana.*

INTRODUCTION

Community-based Credit Unions have gained global recognition as vital instruments for both economic and social development. Amenya and Ombui (2016) noted that over one million individuals worldwide are actively or nominally involved in community-based credit unions. Central banks in many countries have strategically used credit unions as efficient tools for savings mobilization, poverty reduction, and meeting the financial needs of marginalized groups. According to Niyi Oladipo and Olusegun (2020), the financial sector, including credit unions, plays a significant role in national economic growth by fostering a culture of saving and supporting viable investments. Credit unions encourage people from all socioeconomic backgrounds, including the wealthy, the poor, and business owners, to save, invest in productive ventures, minimize risks, and access reliable credit. The most crucial role of credit unions is financial intermediation, which promotes economic prosperity among community members (Moraa Amenya & Andrew Ombui, 2016).

Moreover, resilient and sustainable community-based credit unions remain focused on enhancing the economic well-being of their members and alleviating poverty (Sakitri, 2020). Credit unions that are well-structured and operate with sound financial systems play a key role in efficiently allocating financial resources, transferring funds from those with surplus to those in need (financial intermediaries) (Guinnane et al., 2001).

Globally, credit unions play a significant role in providing social opportunities by fostering a supportive environment for their members. They also create economic opportunities through financial initiatives designed to bridge the gap between commercial banks and individuals who lack access to traditional banking services (Vrajlal K. Sapovadia | IDEAS/RePEc, n.d.). According to the credit union concept, these organizations offer a wide range of financial services to their members, providing greater flexibility to meet both their financial and social needs (Ansah & Sakyiwaa, 2020).

The resilience and persistence of well-managed credit unions are evident in their ability to provide both financial and non-financial resources to members, create jobs, and improve the overall well-being of their communities. Credit unions also demonstrate economic resilience by consistently mobilizing sufficient resources for their members and supporters to enhance their financial stability (Irumba & Alinaitwe, 2019). Globally, credit unions are recognized for nurturing microfinance groups and fostering social and financial connections among members. They focus on expanding credit facilities, increasing savings volumes, offering more loan opportunities, and accumulating capital assets to improve business performance (Irumba & Alinaitwe, 2019). Furthermore, their core operations require them to continually provide financial literacy to their members as needed (Coen et al., 2019).

As highlighted above, credit unions play a crucial role in fostering a savings culture among their members (Ansah & Sakyiwaa, n.d.). A strong savings culture is vital for effective planning, both in terms of investments and expenditures. A favorable financial environment enhances accessibility, allowing members to participate in viable business opportunities (Hezron & Muturi, 2015). Recognizing the significant contributions of credit unions to development, it is essential to ensure that funds are managed and disbursed within a profitable environment. Moreover, like any financial institution or business venture, credit unions must demonstrate strong performance. Given their importance to both the global and local economy, the financial performance of credit unions remains a critical consideration.

Many important questions remain unresolved regarding the financial performance of community-based credit unions and the factors that contribute to it. How do key stakeholders assess the financial performance of these credit unions? What are the key determinants of their financial success? Some researchers have explored the factors influencing the growth and sustainability of credit unions. Upon reviewing widely cited studies, it becomes evident that these determinants can be grouped into two main categories: pre-determinants and post-determinants of performance. Pre-determinants refer to factors that influence financial performance but are not reflected directly on financial statements. These include aspects such as budgeting and budgetary control, the financial environment, management and employees, regulatory conditions, internal controls, and capital structure.

On the other hand, post-determinants refer to factors that directly influence financial performance and are reflected on financial statements. These include liquidity, net assets, total assets, return on assets, return on capital employed, net profit, gross profit, return on equity, and others (Hezron & Muturi, 2015)..

Regarding the determinants mentioned above, the capital structure of a community-based credit union refers to the decision to be an equity-based firm, a debt-based firm, or a combination of both (Rayees, 2022). Capital structure involves developing a financing strategy and determining the appropriate financing sources. This study, therefore, aims to examine how a credit union's financing choices impact its financial performance. An unsound capital structure can lead to operational inefficiencies and hinder the achievement of organizational goals (Niyi Oladipo & Olusegun, 2020).

Capital structure decisions are primarily the responsibility of the Board of Directors (BOD) and management due to their critical impact on the organization. The nature, character, and operational effects of a firm are directly linked to its capital structure, making these decisions crucial for the BOD and management. As noted by Salawu et al. (2012), a firm's success begins with its capital structure. This structure consists of the proportion of equity capital and debt capital, with debt capital being either long-term or short-term, such as loans, debentures, and bonds, while equity capital includes shares, retained earnings, capital surplus, and share deals. A mixed capital structure combines both equity and debt capital. The decision to opt for all equity, all debt, or a mix depends on the BOD and management's assessment of the capital and money market conditions (Shibutse et al., 2019). Typically, cooperative credit unions raise capital through members' shares, reflecting the concept of equal ownership. As Shibutse et al. (2019) suggest, equity capital is the primary source of funds, while debt capital is secondary, as credit unions require equity for ownership. The form and nature of a firm's capital directly influence its performance, with financial managers being tasked with determining the optimal capital mix (Shibutse et al., 2019). Both quantitative and qualitative factors are key determinants of capital structure, including the timing of share issuance and securities, firm characteristics, profitability, industry nature, control, competitive positioning, liquidity, and other subjective judgments (Shibutse et al., 2019).

RELATED RESEARCH WORK

Several authors have conducted empirical studies examining the relationship between capital structure and firm performance. For example, Ngoc et al. (2021) investigated the impact of capital structure on the performance of service providers in Vietnam. They found that a high cost of borrowing led to an increased debt servicing burden, which negatively affected performance. Similarly, Ullah et al. (2019) conducted a study on manufacturing firms in Pakistan and found that borrowing at high interest rates resulted in a high cost of service delivery. Their research revealed that capital structure negatively impacted the performance of cement manufacturing firms.

Other studies have explored the influence of equity capital on firm performance. Sharma and Senan (2019) examined the role of equity financing in the performance of publicly listed companies on the American Stock Exchange. They found a significant positive relationship between equity financing and firm performance, suggesting that over-reliance on equity capital could be beneficial for firms. Similarly, Rahman et al. (2019) studied the impact of capital structure on the performance of trading companies in Bangladesh. Their study found that both debt and equity are commonly used to finance investments, and an increase in equity led to a corresponding increase in performance.

On the other hand, studies on debt financing have also yielded important insights. Asif Khan et al. (2016) examined the effect of debt capital on the performance of pharmaceutical companies in Vietnam. Their findings suggested that debt financing is advantageous for large capital investments, with a positive correlation between debt capital and performance. Similarly, Singh and Bagga (2019) studied the effect of debt capital on companies listed on the Nigerian Stock Exchange. They found that while debt capital could be beneficial, it was sometimes difficult to access, and that proxies for debt capital negatively correlated with performance.

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These studies suggest that both debt and equity financing have varying impacts on performance, with debt sometimes acting as a hindrance due to high servicing costs and equity contributing positively to firm growth. The balance of these two components remains crucial for optimal financial performance.

RESEARCH METHODOLOGY

Data for this study were drawn from a larger research project aimed at assessing the pre-determining factors influencing the performance of community-based credit unions in Ghana. A descriptive-analytical research design was employed to examine the impact of capital structure on the performance of these credit unions. This design was chosen as it facilitated a detailed, comparative analysis of the relevant issues necessary for the study.

Study Population and Sample
The study utilized a stratified sampling technique, dividing Ghana into three geographic zones: the northern belt, the middle belt, and the southern belt. This approach ensured inclusiveness and coverage across different regions. The target population for this study consisted solely of managers of community-based credit unions, as the study focused on managerial perspectives. To ensure diversity, nine credit unions were selected from each region, categorized as large, medium, and small, making a total of 27 credit unions. Managers or their representatives from these credit unions were chosen to participate in the study.
Data Collection Instrument and Procedure
Primary data were gathered using a structured questionnaire administered to the managers of the selected credit unions. Secondary data were obtained from the annual financial statements of the community-based credit unions, sourced from the Credit Union Association of Ghana (CUA), the regulatory body. The questionnaire included questions related to capital structure and other financing sources. In addition, five years of audited financial statements were acquired from CUA for analysis. The questionnaires were self-administered by the selected managers, with follow-up visits conducted to collect additional information and clarify responses when needed.
Data Analysis
Descriptive analytical techniques were used to analyze the data. This process involved synthesizing and comparing the responses from managers representing their credit unions. Specific questions were included to assess the influence of capital structure on key financial indicators, such as net and total assets. Prior to analysis, the questionnaires were reviewed for completeness. The responses were then coded and manually processed for analysis. Thematic content analysis was applied to organize the data and generate findings that addressed the study's key research questions. Frequency distribution tables were created to present some aspects of the data, complemented by verbatim quotes from the questionnaires.

RESULTS

The study explored the impact of the Capital structure on the financial performance of community-based credit unions in Ghana. Data on equity capitalization and Debt capitalization were collected and analyzed to achieve this. The overall impact of Capital structure on the performance of credit unions was also assessed. Capital structure is an internal policy decision made by BOD and Management on capital ratio regarding equity and debt.

Equity Capitalization

Terms of the process's variables used to assess the processes included; data on Capital Structure for every financial year, the existence of adequate equity from members, the ability to retain enough earnings, the reserves levels, the ability to carry investments with only equity and the policy of dilution of control. The information is summarized in the following table.

The influence of capital structure in determining the financial performances of CCUs

This research objective intended to determine how CCUS' equity capitalization and debt/leveraged capitalization affect its financial performance, as illustrated in the tables below.

Table 1 Population Characteristics by Capital Structure

Capital Structure	N = 27						
	Strongly disagree n (%)	**Disagree n (%)**	**Neutral n (%)**	**Agree n (%)**	**Strongly Agree on n (%)**	**Mean**	STD Dev
Share Capitalization							
CCU has adequate share capital from members than debt capital	6 (22.9)	6 (22.9)	1(3.7)	7 (25.9)	7 (25.9)	3.11	1.577

CCU has enough retained earnings	8(29.6)	4(14.8)	2 (7.4)	7 (25.9)	6 (22.2) 2.96 1.605
CCU has adequately disclosed reserves	10(37.0)	3(11.1)	4(14.8)	4(14.8)	6 (22.2) 2.74 1.631
CCU investments are financed by equity capital	5(28.5)	5 (18.5)	2 (7.4)	7(25.9)	8(29.6) 2.74 1.509
CCU control is not diluted through equity of equity shares	7(25.9)	4(14.8)	8(29.6)	5(18.5)	3(11.1) 2.74 1.347
Debt Capitalization					
CCUs rely on debt finance for operations	9(33.3)	11(40.7)	3(11.1)	4 (14.8)	- 2.07 1.035
Debt-level financing makes CCU strong and facilitates growth	10(37)	10(37.0)	3(11.1)	4 (14.8)	- 2.04 1.055
Investments are financed with debt capital	9 (33.3)	11(40.7)	2 (7.4)	5 (18.5)	- 2.11 1.086
Debit capital is more accessible than equity	7(25.9)	10(37.0)	3(11.1)	5(18.5)	2(7.4) 2.44 1.281
CCUs use debit finance because it is cheaper	11(40.7)	10 (37.0)	3(11.1)	2(7.4)	1(3.7) 1.96 1.091

Source: The study survey results, 2023.

The results in Table 1 show that over half (51.8%) of respondents with equal percentages agree and strongly agree that CCUs prefer equity capital from members over debt capital from other financial institutions. That's because CCUs with equity capital can dictate when and how much to raise at what time. Additionally, unlike debt, which sometimes comes with strings attached, CCUs are not tied to mutual fund shares. Some scholars argue that raising funds through equity is less costly and comparable to debt. If CCUs make profits at the end of the fiscal year, they can either distribute them to their shareholders or pay them back. It further revealed that nearly 46% preferred debt capital to equity capital with the precision of an equal percentage of 22.9% strongly preferred and preferred and only 3.7% took a neutral stance. The preference of equity capital to debt capital by community-based credit union operators impacts financial performance with a mean of 3.11% and a standard deviation of 1.577.

Furthermore, nearly 48% of the respondents agreed that CCUs have enough retained earnings to undertake all their viable investment opportunities. Some researchers argued that debt capital is only useful when a firm is unable to raise enough equity capital. Again, it further suggests that community-based credit unions retain more of their profit and pay little to shareholders as dividends. It further revealed that nearly the same percentage (44%) disagreed and only just a few (14.8%) took a neutral stance. Retaining more earnings by community-based credit unions has an impact on financial performance with 2.96% and 1.605 mean and standard deviation respectively.

The study results further indicate that only (35%) believe that CCUs have adequate reserves to meet all operational obligations including investment but the majority of the respondents (48.1%) disagreed with the assertion and only (14.8%) have no position. This suggests that besides raising additional equity capital for investment CCUs do not have adequate reserves to meet their opportunities. A similar outcome was revealed in investment financing. The majority of respondents (55.5%) agreed that CCUs investments are directly financed by the equity capital raised from members. CCUs at their AGM easily increase their equity capital threshold. This is done when BOD and management. The rest of the respondents (37%) and (7,4%) disagreed and others sat on the fence respectively. The financing of investment by CCU impacts financial performance with a mean of 2.74 and a standard deviation of 1.509. Finally, the result revealed that the majority of the respondents (40.7%) agreed that raising more equity capital from new and existing members does not increase or dilute control and members. This is because the cardinal principle of establishing community-based credit is equal ownership. No member is said to have more control than the others provided the minimum share contributions are met. It further indicated that the rest of the respondents agreed and quite a substantial number took a neutral stance. The contribution of control dilution to financial performance with a mean of 2.74 and a standard deviation of 1.347

In addition to this, respondents were asked whether the availability of equity share capital impacts financial performance. The following relevant responses were obtained. Response narrated that;

"Equity Capital provides the road map to identify viable investment opportunities that would maximize resources and also maximize returns on investment. Equity capital helps in the efficient allocation of resources to available investment opportunities and also utilization of assets. It helps in the maximization of shareholders' wealth. The availability of equity financing impacted positively on the financial performance".

Additionally, a direct question was asked to gather responses to further establish the influence of equity capital financing on the financial performance of CCUs. "Does CCUs have enough retained earnings for viable investment opportunities and how does it impact on financial performance? Some key responses gathered narrated this:

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"CCUs depend on equity capital and all earnings belong to them. Dividend policy determination largely depends on the size and understanding of equity shareholders. Management and BOD say equity source of capital helps reduce dividend payout ratio and increase retained earnings. Viable investments are undertaken without necessarily seeking debt. They further stated that equity capital helps build shareholder funds and also ensures its utilization. it helps in maximizing the utilization of assets and maximization of shareholders wealth".

On whether operations and investment are financed by equity capital from members. Some relevant response narrates this:

A respondent says

"100*% percent of investment opportunities are met by equity share capital. We never attempt to go to the capital market for debt. We make enough from shares, retain earnings and savings from members"*

Interestingly, some respondents were of the view that CCUs and Financial institutions operate in the same market and are competitors. A respondent has to say:

"At what rate do we have to borrow from our direct competitors and also sell to the same customers and still make a profit? We will continue to use our equity funds to meet our investment opportunities. We have always been able to meet our budgeted return from investment".

Again, another respondent says:

"*We have all the opportunities to raise enough capital from members either increasing the minimum share capital or to continue admitting new members. Why should we then go to the capital market to meet our investment opportunities? Financial performance improved from the viable investment finance by equity".*

Finally, one other respondent narrated this:

"We always had enough from our members and members continue to support our viable investment to be undertaken. We are ready to invest with our member's funds and give back the returns on investment in the form of dividends. We always made enough returns from investment".

Based on the narrated statements above we are comfortable suggesting that all investment opportunities undertaken by CCUs are financed by equity capital in the study area. This has an influence positively on financial performance.

Additional questions were asked by respondents to solicit responses to establish whether equity capital is cheaper and leads to improved financial performance of CCUs. The following are some narrations received from respondents.

"Management and BOD believe that equity capital is the best way to reduce the cost of financing and hence maximize returns. Equity sources of capital help in making strategic savings like the cost of raising capital, fixed obligation charges, and securitization costs. This increases revenue and reduces cost and therefore improves financial performance. It also maximizes shareholders wealth".

Interestingly, this is what others have to say:

"It's incomparable for one to consider the cost of equity to const of debit. Debit capital attracts more cost and further reduces profitability. Even though equity attracts issuing costs it is cheaper to raise equity than debt"

Again, another response says

"Costs of equity capital are limited and can go to increase shareholders fund. This is because when dividends are paid shareholders can decide to plow back and increase shareholders fund". Unlike debt capital which bears fixed interest increases cost and decreases financial performance. Debt capital attracts fixed interest obligations and continues to be settled as much as the debt exists"

Based on the narrated statements above we are comfortable suggesting that due to the cheapest nature of equity capital as compared to debt capital. Using equity capital impacted positively the financial performance of CCUs in the study area.

Debt Capitalization

Terms of the process's variables used to assess the processes included; data on Capital Structure for every financial year, the dependence of debt capital for operation, whether the level of debt financing makes community-based credit unions strong, the accessibility of debt finance compared to equity and the cost level of debt financing compare to equity. The information is summarized in the following table.

The results in Table 1 above show that a significant proportion (74.0%) of respondents believe that leverage does not make CCUs strong or foster growth. (33.3%) strongly disagreed and (40.7%) disagreed that CCUs do not rely on debt to fund their operations, nor do they make financial investments with debt. Only (14.8%) agreed that investments are made out of debt capital and (11.1) sat on the fence. Similar results show when responses were gathered on whether debt-level financing makes CCUs strong and also facilitates investment growth. Over half (74%) of the respondents disagree debt financing on investment makes CCUs strong and also facilitates growth. Out of this percentage equal number strongly disagree and agree respectively. This is because the cost of raising debt capital is higher than the counterpart financing. It's also clear that debt financing attracts fixed interest charges and brings fixed obligations. The results further show that only (14.8%) strongly agreed and (11.1%) took a neutral stance. Furthermore, the result indicates that a quarter and more (25.9%) and (37%) of respondents strongly disagree and disagree respectively that debt is more accessible to Community-based credit unions than equity. This is because equity raising is just a mere internal

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policy that does not apply to raising debt. Therefore, a modest proportion (40.7%) of respondents strongly disagree and also (37%) disagree that CCUs use debt financing because it is cheaper. But only (11.1%) took a neutral stance.

In addition to this, respondents were asked "Does your community-based Credit Union rely on debt financing to improve financial performance? Secondly, "What level is your dependence". Additionally, a respondent narrated that;

"Debt financing is not a target for community-based credit unions. This is because the principle of ownership never relies on debt but rather equity. Debit capital is hardly used for investment because the cost of servicing debt may equal or less than the returns on investment. This does not make sense since financial performance can be improved. Over the past years, our Union has had zero debt financing on investment. Debit financing has no bearing on community-based credit unions' financial performance".

The above results imply that for the most part, CCUs in the study area had never relied on debt financing on investments. It also revealed that CCUs in this study have no plans to use debit financing for investment even though the opportunity exists. Similarly, respondents were asked to indicate the impact/influence of debt financing on investment about resilience and improving financial performance. Critical among the responses were the following:

"We can never tell the exact influence of debt financing on investment. We hardly used debt to finance any investment because equity capital is always available to undertake viable investment opportunities. We believe that debt financing has an impact on investment in other firms but not community-based credit unions. Debt financing has no impact on the financial performance of CCUs in Ghana".

The above results imply that for the most part, CCUs in the study area debit financing does not influence the performance of CCUs in Ghana. Furthermore, a similar question was asked to gather responses as to whether debt capital is more accessible than equity capital. Related and critical among the responses were the following:

"The capital market environment is very volatile. The conditions and requirements attached to acquiring debt capital are cumbersome. The capital market entry conditions are challenging and make it difficult for those who have another opportunity source to participate. Interestingly, the borrower and the lender participate in the same market and share the same customers".

Based on the above results, it implies that CCUs in the study area have no or little access to debt capital. Hence the accessibility of debt capital has no significant impact on CCU's financial performance. However, a further question was asked to gather responses about the cost of accessing debt capital. This question was to understand whether it's cheaper to access and use debt capital as compared to equity capital. Relevant and critical among the responses were the following:

"Debt capital is characterized by many costs especially commission, service cost, fixed interest, and cost of securitization cost. It's not easy to make savings using debt capital because most of the above-mentioned costs are unavoidable. This would certainly increase cost and reduce financial performance".

The above results, imply that CCUs in the study area have no or little access to debt capital. Hence the cost of debt capital would impact CCU's financial performance.

Table 21: Pearson Correlations of the influence of capital structure on CCU's financial performances

Factors		Net Assets 2017	Net Assets Growth / Decline 2018	Net Assets Growth / Decline 2019	Net Assets Growth / Decline 2020	Net Assets Growth / Decline 2021	Total Assets 2017	Total Assets Growth / Decline 2018	Total Assets Growth / Decline 2019	Total Assets Growth / Decline 2020	Total Assets Growth / Decline 2021
Share capitalization	Pearson Correlation	-.203	.254	.079	-.077	.184	.106	.393*	.384*	-.260	.269
	Sig. (2-tailed)	.309	.201	.696	.704	.358	.598	.042	.048	.191	.175
	N	27	27	27	27	27	27	27	27	27	27
Debt capitalization	Pearson Correlation	-.048	.032	-.117	.116	-.110	-.161	.010	-.104	-.078	.069
	Sig. (2-tailed)	.812	.872	.563	.565	.587	.422	.961	.607	.701	.734
	N	27	27	27	27	27	27	27	27	27	27
Total Capital Structure	Pearson Correlation	-.191	.224	.003	-.001	.093	.002	.326	.259	-.253	.256

	Sig. (2-tailed)	.339	.261	.989	.994	.646	.993	.097	.193	.203	.198
	N	27	27	27	27	27	27	27	27	27	27

Source: The study survey results, 2022

In Table 21, regarding the impact of capital structure on the financial performance of CCUs, the study found that capital structure had no significant impact on net worth (p-value = 0.05) and total worth (p-value > 0.05) on the combined scale and share capitalization as a factor of the capital structure showed a significant, slightly positive association with the observed total wealth growth in 2018 (R = 0.393, p-value = 0.042) and 2019 (R = 0.384, p-value = 0.048). The result suggests that while an increase in equity capitalization led to growth in CCU's total asset performance, leverage had no impact on the company's financial performance over the years of the assessment.

DISCUSSION

The study sought to examine the impact of capital structure (debit & equity) of community-based credit unions in Ghana. As revealed in the results, the majority of the considered community-based credit unions relied on equity share capital for investment and operation. This ensures efficiency through cost savings.
Previous studies by (Ngoc et al., 2021), have revealed that equity capital is commonly available for community-based credit unions for investment opportunities. The findings of this study revealed that community-based credit unions rely on equity financing to improve financial performance.
Additionally, the ability of CCUs to retain more earnings for viable investment. This reduces the stress of entering the capital market for debt and also stops exposing CCUs to their competitors. This also helps CCUs to reduce cost of raising debt that may expose them to higher risk. The findings established that enough retained earnings improve performance of CCUs. Finding is supported by a similar study by (A. Rahman et al., 2021). The ability to adequately disclose all reserves and redirect them into investment has aided in improving performance. This is because all unutilized reserves are redirected to viable investment. Findings concluded that channeling reserves into investment improves performance. Finding is in line with previous studies conducted by (Al-Hassan, 2021), that revealed positive influence on performance.
The study also assessed the impact of using only equity capital on investments. The study revealed that only equity capital is used for investment financing. Because it's easy to raise by CCUs. Findings established that equity financing on investment yielded positive performance. This finding confirms findings by (Ullah et al., 2019), that equity financing positively influences performance. Finally, the study assesses whether equity is cheaper and its impact on CCU's performance. Finding revealed that CCUs can raise more equity financing due to the cost of issuing. The study findings revealed that cheap capital costs ensure cost savings and hence improve performance. This conforms the finding by (Ullah et al., 2019) which established that cheap financing cost improves performance in manufacturing.
The study also assessed the influence of debt capital financing on performance of CCUs in Ghana. To ascertain this, the study broadly looked into whether CCUs rely on debt financing for investment and its contribution to performance, again it assesses whether debt financing makes CCUs financially strong. We further evaluate the level of investment financed by debt and how it impacted performance. Furthermore, we examined whether debt capital is more accessible to CCUs than equity financing. Finally, we investigated how cheap debt financing is compared to equity.
The study findings revealed that CCUs never rely on debt financing to finance their investments. This is because equity capital is easy to raise for investments. The finding concluded that debt financing does not contribute to the financial performance of CCUs. Again, the finding established that debt financing never makes CCUs financially strong but rather equity financing improves CCUs financially because it's very difficult to access the capital market in Ghana. The study concluded no relationship between the level of debt financing and the performance of CCUs. Furthermore, the finding revealed that debt financing is difficult to access. This is because both the borrowers and the lenders share the same customers. It's established that debt accessibility does not influence the performance of CCUs in Ghana. Finally, the study revealed that debt financing is more costly than equity financing because equity financing is more easily accessible than debt capital. The study finally revealed that the cost of debt has the potential to influence performance, this study, shows that CCUs do not use debt capital. Therefore, the study could not obtain its real impact.
Statistically, only equity financing was found to have a significant association with Net Assets and Total Assets (p > 0.005). In contrast, debt financing did not show any relationship with financial performance as reflected in net assets or total assets. This finding aligns with previous studies by Abongo (2017) and Kibunja (2017), who found a significant positive relationship between equity financing and financial performance. However, this study contrasts with the findings of Chepkorir et al. (2021) and Mohamed (2022), who reported a positive and significant relationship between debt financing and financial performance.

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CONCLUSION AND RECOMMENDATIONS

This study reinforces the critical role of capital structure in determining financial performance. The findings indicate that the appropriate choice of capital structure in community-based credit unions is essential for improving financial outcomes, particularly in terms of total and net assets. Therefore, credit unions should prioritize making informed and sound capital structure decisions to optimize their financial resources.

AREAS FOR FURTHER RESEARCH

Future research could include a comparative study across different types of credit unions, such as worker-based and religious-based credit unions. Additionally, studies could explore alternative financial performance metrics, such as member savings, membership size, profitability, and asset quality, beyond the use of Net Assets and Total Assets as indicators in this study.

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