School of Management

The Challenges faced by Small & Medium Enterprises (SMEs) in Obtaining Credit in Ghana.

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Abstract

This study, The Challenges faced by Small and Medium Enterprises in Obtaining Credit in Ghana, was undertaken to highlight the issues facing SMEs in Ghana in their quest to accessing bank credit (loans) from financial institutions (banks & non– banks) to undertake various activities; be it general business operations or carrying out expansion project all in the name of fulfilling the objectives as being job creators and helping to reduce poverty.

In tackling this topic, the quantitative approach was adopted. Questionnaires were circulated to 80 SMEs in the Accra and Tema metropolis selected through a technique of convenience sampling. Based on the responses received through these questionnaires, the following major findings came to the fore.

There are institutions such as bank and non-bank financial institutions that are willing to provide funds to SMEs but Ghanaian SMEs are not able to meet the requirements of these financial institutions. Chief among these requirements is the issue of collateral, which most SMEs cannot provide. Aside this is the other issue of small equity base of these SMEs among others.

Secondly, those who are able to access this credit are also faced with high interest rates and short repayment periods making it very difficult to embark on any developmental or expansion projects.

Another interesting revelation with regards to the high rate of defaults in repayment of loans contracted, relates to the tight Cash flow situations of these SMEs that is mostly due to difficulties in the management of the account receivables of the respective SMEs surveyed.

The study concludes with some recommendations to help free up capital or credit to the SME sector. Among the recommendations are encouraging financial institutions (banks & non-banks) to establish factoring services, enforcement of the credit reporting act and finally provision of tax incentives for banks that lend to SMEs to encourage others to do same.

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Table of Contents

List of Tables

Chapter One: Introduction

1.1 Background

There is growing recognition of the important role small and medium enterprises (SMEs) play in economic development. The SMEs constitute about 90% of total business units in Ghana and account of 60% of Ghana's employed labour force (KDI, 2008). They are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines. Even in the developed industrial economies, it is the SME sector rather than the multinationals that is the largest employer of workers (Mullineux, 1997). This is also supported by a research done on small businesses in the United States by Dr. Charles Ou in June 2006, which indicated that U.S. small businesses numbered 23 million in 2003, and it employed about half of the private sector work force, and also produces about half of the nation's private sector output.

The Korean Development Institute (KDI) in its study, "Building the Foundations for the Development of SME in Ghana" (September 2008) noted rather grimly, the obstacles these SMEs face daily in Ghana. The study enumerated these as smaller sizes of the SMEs; they are few in number and lack competitiveness internationally. These factors affect the SMEs in many ways. For instance, over 80% of SMEs in Ghana are reportedly having employees numbering less ten. The smaller size of these SMEs means less value addition as fewer processes are possibly involved in the production.

A 1992 study by the Ghana Statistical Service revealed that nearly 93 percent of all registered businesses in Ghana are of the SME category. The National Board of Small Scale Industries (NBSSI) defines SMEs as enterprises that employ no more than 29 workers, with investment in plant and machinery (excluding land and building) not exceeding the equivalent of $100,000. Small enterprises in Ghana are said to be a characteristic feature of the production landscape and have been noted to provide about 85% of manufacturing employment of Ghana (Steel and Webster, 1991; Aryeetey, 2001). SMEs are also believed to contribute about 70% to Ghana's GDP and account for about 92% of businesses in Ghana.

Again, from an economic perspective, however, enterprises are not just suppliers, but also consumers; this plays an important role if they are to position themselves in a market with purchasing power: their demand for industrial or consumer goods will stimulate the activity of their suppliers, just as their own activity is stimulated by the demand of their clients. Demand in the form of investment plays a dual role, both from a demand-side (with regard to the suppliers of industrial goods) and on the supply-side (through the potential for new production arising from upgraded equipment) (Berry et al., 2002).

In order for the Ghanaian SME's to continue to fulfil the above and much more, they need access to finance to carry out their business operation and expansion. The seeming lack of finance for SMEs is not only retarding their expansion but also the growth of the nation's economy. Macroeconomic conditions in Ghana in 2000 severely constrained private sector access to credit. High levels of government borrowing pushed interest rates up and crowded the private sector out of the financial markets. With government treasuries paying real interest of 16.8 percent, banks had little incentive to take on what they perceived as riskier private sector debt. (USAID's DCA Ghana Impact Brief, 2009)

In view of the perennial financing challenge faced by these SMEs, many interventions have been made by the government through its recent monetary policy and financial sector reforms. These have substantially increased banks' lending to the private sector but limited access to credit, high interest rates and prohibitive collateral requirements still pose significant constraints to the growth of many SME's. Access to medium to long- term financing necessary for capital investment is still tight. (USAID's DCA Ghana Impact Brief, 2009)

Another area of constraint, which tends to block the flow of credit to SMEs, is lack of information. Small business owners most often possess more information about the potential of their own businesses but in some situations it can be difficult for business owners to articulate and give detailed information about the business as the financiers want. Additionally, some small business managers tend to be restrictive when it comes to providing external financiers with detailed information about the core of the business, since they believe in one way or the other, information about their business may leak through to competitors (Winborg and Landstrom, 2000).

Aside their unwillingness to disclose information to financiers, SMEs in Ghana are also faced with the challenge of proper book keeping practices that makes it difficult for financiers who are even willing to assist to do so.

1.2 Statement of the Problem

Despite the role of SMEs in the Ghanaian economy, the financial constraints they face in their operations are daunting and this has had a negative impact on their development and also limited their potential to drive the national economy as expected. This is worrying for a developing economy without the requisite infrastructure and technology to attract big businesses in large numbers.

Most SMEs in the country lack the capacity in terms of qualified personnel to manage their activities. As a result, they are unable to publish the same quality of financial information as those big firms and as such are not able to provide audited financial statement, which is one of the essential requirements in accessing credit from the financial institution. This is buttressed by the statement that privately held firms do not publish the same quantity or quality of financial information that publicly held firms are required to produce. As a result, information on their financial condition, earnings, and earnings prospect may be incomplete or inaccurate. Faced with this type of uncertainty, a lender may deny credit, sometimes to the firms that are credit worthy but unable to report their results (Coleman, 2000).

Another issue has to do with the inadequate capital base of most SMEs in the country to meet the collateral requirement by the banks before credit is given out. In the situation where some SMEs are able to provide collateral, they often end up being inadequate for the amount they needed to embark on their projects as SMEs assets- backed collateral are usually rated at 'carcass value' to ensure that the loan is realistically covered in the case of default due to the uncertainty surrounding the survival and growth of SMEs (Binks et al., 1992).

These are some of the factors already acknowledged by some researchers as blocking most SMEs in accessing credit from the financial institution in the country. But are these really the case in Ghana?

SMEs in Ghana do not also have the luxury of picking a financing scheme that will be appropriate for their businesses. The major type of financing open to them is debt financing from the financial institutions, which most often comes with a long list of requirements that most SMEs find them difficult to meet. The other type that is Asset financing, aside the long list of criteria also requires operators of SMEs to provide 50% of the funds and the financing institution providing the other half to fund the purchases of the assets. This type of financing do not allow for growth of the SMEs sector since they are all short term in nature.

1.3 Objective of the study

To highlight the specific challenges inhibiting SMEs in accessing credit in Ghana with a view to proposing some recommendation to help mitigate these challenges.

In pursuance of this objective, the following research questions were administered:

- Does SMEs have challenges in accessing credit in Ghana? What are they?
- To what extent has these challenges afftected their operations?
- What alternative sources of funding are SMEs resorting to and how viable are these?

1.4 Motivation of the study

Studying why SMEs in Ghana have difficulty in accessing credit or funding from financial institutions from the perspective of the operators of these SMEs is crucial since it would present the problem from the perspective of the SMEs thereby making it a base line study for policy interventions by state agencies, development partners and non-governmental organisation with missions to develop the SME sector.

1.5 Organisation of the Study

The Thesis is organised as follows:

The first chapter contains the background which introduces the topic and touched on some of the issues with regards to SME access to credit. The literature review that forms the second chapter looks at the various financing schemes available to SMEs and the challenges these SMEs faced in accessing credit in Ghana. Thirdly, the method used in gathering the data forms the third chapter. Chapter four contains the data analysis, presentation and discussion of the findings. The conclusion and recommendations will form the chapter five of this Thesis. Figure 1 below shows the structure of the study:

Fig. 1- Structure of Work

Chapter 1	**Introduction**
Chapter 2	**Theoritical Framework and Literature Review**
Chapter 3	**Methodology**
Chapter 4	**Data Aanlysis, Presentation and Discussion of Findings**
Chapter 5	**Conclusion and Recommendation**

Chapter Two:

Theoretical Framework and Literature Review

2.1 Theoretical Framework:

Many theories have raised the issue on the financing gap for small and medium enterprises (SMEs), meaning that there are a good number of SMEs when given access to credit could use it profitably to grow their businesses but cannot obtain credit from the formal financial system (bank), because of the inability of the SMEs to meet the stringent requirement of these financial institutions.

The issue of lack of credit to SMEs can be looked at from two fronts: the financial institutions (banks) and the SMEs operators.

2.1.1 The financial Institutions (Banks)

Most literature states that differences in the financial institution structure and lending infrastructure affect the availability of funds to SMEs (A.N, Berger & G.F Udell, 2004). These differences may significantly affect the availability of funds to SMEs by affecting the feasibility with which financial institutions may employ the different lending technologies (be it transaction lending or relationship lending) in which they have comparative advantage to provide fund to different businesses. Transaction lending technologies are primarily based on “hard” quantitative data such as the financial ratios calculated from certified audited financial statement among others. Relationship lending on the other hand is based on “soft” qualitative information gathered through contact overtime with SMEs. This soft information may include the character and reliability of the SME’s owner based on direct contact overtime by the financial institution.

Also by lending infrastructure, they were talking about the rules and conditions set up mostly by governments that affect financial institutions and their abilities to lend to different potential borrowers.

2.1.2 The SME Operators

Paul Derreumaux, Chairman and CEO of Bank of Africa, highlighted three main issues blocking the flow of credit from banks to SMEs. These are lack of equity in SMEs, lack of organization in terms of human resources, accounting, and administrative management among others and finally the firm's lack of forward-looking vision. For him, most firms were born on the impulse on the part of the entrepreneur, without any in-depth- analysis of the market or competition, which often leads to disillusion in terms of turnover and, consequently, in repayment capacity for bank loan. These are some theories from the perspectives of financial institution but are these really the issues from the perspective of SMEs?

Having looked at the various perspectives on the issue of SMEs difficulties in accessing credit, there is a better understanding of the direction of the study.

2.2 Literature Review

The literature review describes aspects connected to the study of the challenges faced by SMEs in obtaining credit in Ghana. It therefore follows a particular layout. First, some definitions relating to SMEs are given, which is followed by looking at the characteristics of the Ghanaian SMEs. This paves the way for the discussion of their contribution to the economic development and growth and also looked at literatures on the constraints SMEs faced in accessing credit. Attention will then be focus on the type of financing available to these SMEs without forgetting to also look at the sources of credit/finance for these SMEs. In the final sub-sections, we will delve into how SME development can be promoted and the importance of financial institutions (banks) in helping the development of these SMEs.

2.2.1 Some SME Definitions

According to Ward (2005) there is no universal definition for SMEs since the definition depends on who is defining it and where it is being defined. For example, in Canada SME is defined as an enterprise that has fewer than 500 employees and small enterprise as one that has less than 100 employees. On the other hand, the World Bank defines SMEs as having no more than 500 employees.

SMEs can be defined in two ways: based on the number of employees in an enterprise and/or the enterprises fixed assets. According to Boon (1989), the size of the enterprises employment is the most important criterion used in Ghana. But one must be cautious when defining SMEs based on fixed assets because of the continuous depreciation in the exchange rates, which often makes such definition out-dated.

UNIDO defines SMEs in developing countries based on the number of employees in an enterprise. A small enterprise has between 5 and 19 workers and takes the example of the ubiquitous small shops in the cities such as hair dressing saloons and chop bars. A medium enterprise has 20 to 99 workers and these include manufacturing firm and exporting companies.

The Ghana Statistical Service, in their 1987 Ghana Industrial Consensus, considers firms employing between 5 and 29 employees and with fixed assets not exceeding $100,000 as small scale, while those employing between 30 and 99 employees medium scale category.

The National Board of Small Scale Industries (NBSSI) defines SMEs as enterprises that employ no more than 29 workers, with investment in plant and machinery (excluding land and buildings) not exceeding the equivalent of $100,000.

For the purpose of this research, the Venture Capital Trust Fund (VCTF) Act 2004 (Act 680 section 28) definition of SMEs will be used since it's a more recent definition. SMEs are defined by the VCTF as "an industry, project, undertaking or economic activity which employs not more than 100 persons and whose total asset base, excluding land and building, does not exceed the cedi equivalent of US$1 million in value".

2.2.2 Characteristics of SMEs in Ghana

A distinguishing feature of SMEs from larger firms is that the latter have direct access to international and local capital markets whereas the former are excluded because of the higher intermediation costs of smaller projects. In addition, SMEs face the same fixed cost as Large

Scale Enterprises in complying with regulations but have limited capacity to market product abroad (Kayanula & Quartey, 2000).

SMEs in Ghana can be categorised into urban and rural enterprises. The former can be sub-divided into ‘organised’ and ‘unorganised’ enterprises. Organised ones tend to have employees with a registered office and are mostly solely owned by an individual whereas the unorganised ones are mainly made up of artisans who work in open spaces, temporary wooden structures or at home and employ little or in some case no salaried workers. They rely mostly on family members or apprentices. Rural enterprises are largely made up of family groups, individual artisans, women engaged in food production from local crops. The major activities within this sector include: soap and detergents, fabrics, clothing and tailoring, textile and leather, village blacksmiths, timber and mining, bricks and cement, beverages, food processing, wood furniture, electronic assembly, agro processing, chemical based products and mechanics (Liedholm & Mead, 1987; Osei et al., 1993) as cited by (Kayanula & Quartey, 2000)

This sector is characterised by low levels of education and training of the self employed. They are mostly family owned businesses and there is little separation of the business finances from that of the owners even to the point that the owners or operators personal account is the same as that of the business.

SMEs in Ghana are heterogeneous group- ranging from small workshops making furniture, metal parts and clothing to medium-sized manufactures of machinery as well as service providers such as restaurants, consulting and computer software firms. Some are traditional ‘livelihood’ enterprises that are satisfied to remain small; others are growth-oriented and innovative.

2.2.3 SMEs Contribution to Economic Development and Growth

“The private sector is the engine of growth of the economy therefore they must be given the necessary tools to increase their growth”.(Anyima-Ackah, 2006)

Economic development is a process of economic transition involving the structural transformation of an economy through industrialization, rising GNP, and income per head. Economic growth on the other hand, contributes to the prosperity of the economy and is desirable because it enables the economy to consume and contribute to more goods and services by increasing investment, increase in labour force, efficient use of inputs to expand output, and technological progressiveness. Any nation that experiences economic development and growth will benefit from improvement in the living standards especially if the Government can assist in growth by implementing complementary and growth-enhancing monetary and fiscal policies (Pass et al. 1993)

The SME sector is considered very important in many economies because they provide job, pay taxes, are innovative and very instrumental in countries participations in the global market. Beck and Kunt (2004) state that SME activity and economic growth are important because of the relatively large share of the SME sector in most developing nations and the substantial international resources from sources like the World Bank group, that have been channeled into the SME sector of these nations.

SMEs account for nearly 93% of the registered businesses in Ghana and therefore play an important role in economic development by providing employment opportunities, opening up new business opportunities, enhancing entrepreneurship, and fostering creativity among many other things. Kayanula and Quartey (2000) recognize them as the engines through which the growth objectives of developing countries can be achieved and are potential sources of employment and income in many developing countries. Mensah (2005) makes the analogy that SMEs act like sponges by soaking up surplus labour to provide a large share of employment and income in Ghana.

Many researchers have observed that SMEs enhances competition and entrepreneurship therefore they suggest that direct government support can boost economic growth and development. Also SMEs growth boost employment more than large firm because they are labour intensive and make better use of scarce resources with very small amount of capital. Hellberg (2000) also states that developing countries should be interested in SMEs because they account for large share of firms and development in these countries. Young (1994) contended that SMEs are not only important because they are a source of employment but also because they are a source of efficiency, growth and economic decentralization.

Finally, they are very important in the fight against poverty as they help in the poverty reduction strategy for most government especially those in the developing countries were poverty is most severe. Since they employ poor and low income workers and are sometimes the only source of employment in the rural area, their contribution cannot be overlooked.

2.2.4 Constraints Faced by SMEs in Accessing Credit

Cuevas et al. (1993) indicates that access to bank credit by SMEs has been an issue repeatedly raised by numerous studies as a major constraint to industrial growth. A common explanation for the alleged lack of access to bank loan by SMEs is their inability to pledge acceptable collateral.

In their view the current system of land ownership and transfer regulations clearly retards and to some extend limits access to formal credit. First, due to lack of clear title to much usable land in Ghana, there is a limited amount of real property that can be put up as collateral. Second, a Government embargo on transfer of stool and family land has further restricted land availability for collateral. Finally, where title or lease is clear and alienable, transfer regulation needlessly delay the finalization of mortgages and consequently access to borrowed capital (p 24). Aryeetey et al. (1993) supported the view of Cuevas et al. (1993) that from the view point of private sector, problems related to finance dominate all other constraint to expansion (p 50).

They claimed that the available of collateral plays a significant role in the readiness of banks to meet the demand of the private sector. Collateral provides an incentive to repay and offset losses in case of default. Thus collateral was required of nearly 75 percent of sample firms that need loans under a study, which they conducted on the demand supply of finance for small enterprises in Ghana (p 19). The study also indicated that 65 percent of the total sample firm had at various times applied for bank loans for their business. Nevertheless a large proportion of the firm had their application rejected by banks. For firms that put in loans applications there was almost 2:1 probability that the application would be rejected. Firms receive loans for much less than they requested for. Among firms that had their applications rejected, lack of adequate collateral (usually in the form of landed property) was the main reason given by banks. Aryeetey et al. (1994) suggest that banks can offer alternative to property as collateral such as guarantors, sales contract and liens on equipment financed.

The above was also corroborated by Dr. Kwadwo Ansah Ofei (JEL: G21, I30, N27). In his view small and medium enterprises are unable to assess loans because of the conditions attached to the banking methodologies. This he grouped into two:

Formal bank methodologies: These consist of several techniques to pre-screen clients and concentrate on relatively few large transactions. They include; feasibility studies, collateral, track record and minimum deposits. **Informal banking methodologies include**: personal relations family connections and knowledge business relations.

Also it is contained in Dr. Ansah Ofei's Journal that the fear of risk, especially the loss of their (SME operators) wealth prevented them from pursuing a loan.

SMEs face more challenges in doing business than large enterprises because of the difficulties in financing start-up and expansion. Schiffer and Weder (1991) found that small firms tend to experience more difficulties than medium-sized firms, which also experience more difficulties than large firms. In most countries, especially developing nations, lending to small businesses and entrepreneurs remain limited because financial intermediaries are apprehensive about supplying credit to businesses due to their high risk, small portfolios, and high transaction cost.

According to Cuevas et al. (1993) cost of transaction contributes to the inability of the SMEs to access finance. They are of the opinion that "if transaction cost of lending are high the net margin banks expect from loans operation do not compare favourably against safe investment represented by treasury bonds" (p 30). Aryeetey et al. (1993) also shares the same view that if a lender face information asymmetry, the issue often becomes somewhat persuasive authority he or she holds in ensuring repayment. These push up transaction cost as the probability of default is assumed to be high and has to be contained. Thus lenders may avoid lending to smaller or lesser known clients or impose strict collateral requirements when they do. They may perceive clients in ways that would overcome the latter own perception of the difficulty in obtaining formal finance.

In investigating "whether lending to SMEs in Ghana was more expensive that lending to larger enterprise in terms of loan screening, loan monitoring and contract enforcement, banks estimate that screening to gather information about the applicant and project, review the

feasibility study, do the credit analysis and make a decision, an average of 16 man days for large scale applicant and that of small scale applicants takes 24 man days.
Similar results obtained for loan monitoring and contract enforcement suggest that the transaction cost of SME lending were higher than those for large enterprise per loan though a similar study undertaken in 1992 by Aryeetey and Seini on the transaction cost of lending covering sixty bank branches in Ghana suggested that there was no statistically significant difference in the cost of administering loans to smaller and larger enterprises".

They further state that the internal organization of most banks is such that SMEs applying for loans deal with branch staffs that have little say in the decision, whereas major decisions are taken at the head office of official who know little about the enterprise. This arrangement ensures that many potential SME borrowers do not have the chance to interact with the few trained project personnel before applications are made. There is a high probability that many potential good project are turned down because distant credit officers lack enough undocumented information to form an opinion on the projects and especially on entrepreneurs.

Despite SMEs strong interest in credit, commercial banks profits orientation may deter them from supplying credit to SMEs because of the higher transaction cost and risk involved. First, SMEs loan requirement are small so the cost of processing the loan tend to be high relative to the loan amounts. Second, it is difficult for financial institutions to obtain the information necessary to assess the risk of new unproven ventures especially because of the success of small firms often depends heavily on the ability of the entrepreneur. Third, the probability of failure for new small ventures is considered to be high (Ibid pp 24-27)

Cuevas et al (1993) however indicates that other alternatives to loans secured by real and movable property have practical constraints. For example, it is possible to take security interest in liquid assets, the foreclosure upon which is much quicker than that for real and movable property. However many debtors especially traders are not in the habit of saving money in liquid accounts, rather they turn to either move it into the informal economy or re-invest in their business. Another alternative would be for the banks to accept the assignment of contractual benefits from borrowers. Though this arrangement is known in Ghana, it is not chosen by banks as they prefer to stay out of other contracts. Cuevas et al.(1993).

2.2.5 Types of Financing available to SMEs

Boom et al.(1983) and Longenecker et al.(1994), like most writers on the subject of SME financing, describe two basic types of financing, namely debt and equity. Hisrich and Peters (1995) and Anderson and Dunkelberg (1993) describe debt as funds borrowed to be paid at a future date and a fee, referred to as interest to be paid an at agreed time schedule. The payments of interest are supposed to be done regardless of whether the firm makes profit or loss. Equity, on the other hand, is defined as funds contributed by entrepreneurs or investors who become owners or part owners of the firm and whose returns are primarily based on the profits. This implies that if a firm fails to make profits its owners do not get any returns. Generally, equity funds are long-term funds but debt may be short to medium or long-term.

Hisrich and Peters (1995) mention another basic classification of funds: internal and external funds. Internally generated funds come from a number of sources within a company and are more frequently employed. They include operational and investment profits, sales of assets, extended payment terms, reduction in working capital and accounts receivable. Another important source of internally generated funds is expediting the collection of receivable accounts. This releases funds that may be locked up with suppliers and distributors for the firm's use. Sources that are external to a firm include owners, friends and relatives, commercial banks suppliers and distributors, government and non-government agencies.

i. Equity versus Debt

It is very important to carefully evaluate the reasons for the choice of one form of funding against another or a particular mix. A number of factors must be considered and they include the following:

- **Purpose of funds**

The choice of the type of financing, that is, whether to use equity or debt depends on several factors and one such important factor is the intended purpose of the funds. Wert and Henderson (1979) note that the suitability of funds obtained and project for which funds are obtained is very important. Long-term funds as long-term debt may not be suitable for short-term projects. This will burden the firm with the cost of servicing an unnecessary debt. Similarly, short-term debts are not appropriate for financing long-term projects since the loan may have to be repaid before the end of the project. Wert and Henderson (1979) concluded that a more flexible short-term debt is more suitable for short-term projects, whereas long-term funds such as long-term debt or equity are more suitable for long-term financing such as acquisition of equipment or the construction of a new plant. The phenomenon is described by Brealey and Myers (1996) as “matching maturities”.

➢ Leverage and Owner’s Equity

Borrowing creates financial leverage since payments of interests add to financing costs. Thus a percentage of increase in the earnings before interest and tax of a firm will result in a higher percentage increase in the net earnings of the firm. Consequently, the value of the owner’s equity will appreciate. Similarly, a percentage reduction in net earnings before interest and tax will lead to a greater percentage reduction in net earnings, and consequently, the depreciation of owner’s equity. Therefore the use of debt results in higher earnings volatility and increase the risk to owner’s equity. Equity capital does not result in financial leverage (Brealey and Myers, 1996; Wert and Henderson, 1979).

➢ Riskiness

Apart from the increased risk to earnings and owner’s equity, debt financing poses another risk. When a firm has to honour its debt obligations with difficulty or is unable to honour the obligation at all, then it is said to be in financial distress. The probability of financial distress increase as a firm’s debt-to-equity ratio increases. So to avoid financial distress affirm must guard against excessive debt. Financial distress is costly. Investors take the potential for financial distress in the future into consideration in the valuation of firms. The attitude of suppliers towards a firm may change when a firm becomes financially distressed. Also valuable management time will be lost to the firm. Financial distress may result in bankruptcy. Filing for bankruptcy involves heavy legal fees, which comes from the remaining value of the firm’s assets. So costs of financial distress and bankruptcy must be considered carefully.(Wert and Henderson, 1979).

➢ Flexibility

A firm’s ability to adapt to a changing economic environment, particularly, with respect to its future financing decisions, is very important. According to Wert and Henderson (1979), if a company takes on too much debt it may be forced to use equity financing at a time that the market for equity may be unattractive. Alternative options under such circumstance may be equally unattractive. For instance a firm may be forced to take more debt at very high interest rates, since lenders will demand higher returns from a firm that already has high levels of debt. Otherwise, the firm may have to forego very attractive business opportunities due to major cuts in capital expenditures. On the other hand, too much equity can give rise to a similar problem. In this case the problem arises if a company decides to contract operations. Wert and Henderson (1979) recommend that to be truly flexible a company must maintain its options by maintaining a good balance of capital mix. This will allow an easier choice of expansion or contraction as and when necessary.

2.2.6 Sources of Financing for SMEs

A number of sources of capital exist but many of them may not be accessible to companies of small and medium sizes.

- **Debt**

- **Friends and Relatives**

Loans and contributions from friends and relatives are common source of funds, especially for new business since the financial institutions are reluctant to providing funding for start-up business because of the risk involve. This source of funds, however, bears a potentially dangerous price. Many friends' relatives find it very difficult to stay as passive creditors or investors. They usually try to interfere with policy and operational issues (Kuriloff et al. 1993; Longenecker et al. 1994). As a remedy to this problem, Kuriloff et al. (1993) recommended the treatment of such loans like bank loans by putting in writing all the terms including interest rates and payment schedule.

Commercial Banks

Hisrich and Peters (1995) make an assertion that commercial banks constitute the most widely used source of debt financing for small companies. This assertion is also supported by longenecker et al. (1994). Again Longenecker et al. (1994) claim that commercial banks loans to small companies are mostle short-term loans, though some do offer long-term loans to small and medium size companies. According to Kuriloff et al. (1993), commercial banks usually provide loans for working capital or for the purchase of fixed assets. They demand evidence of a company's ability to pay the interest and principal as scheduled. This evidence is usually in the form of cash flows statements. They also demand some form of security.

Collaterals are the most widely used form of security demanded by commercial banks. Longnecker et al. (1994) classify commercial bank loans as line of credit and term loans.

➢ Business Suppliers

Companies can enjoy some form of credit from their business suppliers. This is a very important source of credit, especially for SMEs. The suppliers allow the company some time to pay for the supplies. The credit periods varies from a few days to several years according to Broom et al. (1983). Credit from business suppliers may be trade credit or equipment loans and leases.

i. **Trade Credit:** Basically it involves the purchase of goods and services from a supplier on credit. The purchasing firm is given a few days, usually between 30 and 120 days, to settle the debt (Broom et al. 1983). This type of credit is very important to SMEs for a number of reasons:
    - Broom et al. (1983) and Moyer et al. (1992) assert that suppliers are more flexible in dealing with SMEs than the banks. Suppliers may only check the credit standing of an SME whereas a bank is likely to demand financial statement and cash flow budgets before extending a credit facility. Generally, suppliers are very eager to add to their customers (irrespective of the size of firm) and thereby increase their sales hence they are more willing to assume greater risk.
    - Suppliers are more flexible regarding adherence to terms of credit. Banks required strict adherence to loan terms and monitor borrowers more closey that suppliers do.
    - The amount of trade credit granted may be readily increased just as the volume of a company's purchases increases. It may not take a lot of negotiations to make this possible. Banks are less willing to substantially increase the amount of credit they grant to customers, especially small and medium scale companies (Peirson et al., 1990)

Trade credit, however is not cost- free. The cost associated with trade credit may not be explicit as interest on bank loans, for instance. Suppliers incur costs by supplying goods on credit and they must recover cost. They usually pass the costs on implicitly as part of the purchase price of the merchandise.

Trade credit may come with an offer of cash discount. A cash discount may be quoted as 3/12 net 40. This means that the customer has 40 days to pay the full amount but can enjoy a 3 percent discount if payment is done within 12 days. Failing to take cash discount may constitute an opportunity cost of trade. In the above quote, for example, failing to utilize such discount implies borrowing the amount for 28 days (i.e. 40-12) days at 3 percent. Therefore it is important to compare the cost of forgoing a trade discount and the cost of other available short-term credit facilities before decision is made (Moyer et al., 1992; Brealey et.al, 2001)

ii. **Equipment Loans and Leases:** Many SMEs find it very difficult to raise funds for outright purchase of certain equipments and machinery. They resort to purchasing such equipment on installment basis. Longenecker et al. (1994), noted that down payment of about 25 to 30 percent of the price of the respective equipments are usually made initially. The remainder may be amortized over 3 to 5 years. This practice is referred to as equipment loans. An alternative to this is equipment leasing. This arrangement allows firms greater investment flexibility; and smaller amounts of capital are required by the firm at any given time. However, the total cost involved in equipment leasing is usually higher than the cost of outright purchase. On the other hand, in a situation where continuous specialized maintenance and protection against obsolescence are required, leasing may be more suitable (Broom et al.,1983)

❖ Equity

➢ Personal Resources

Again Longenecker et al. (1994) observe that personal savings of the owners and partners of businesses constitutes an important source of funds, particularly in the formative stages of a firm. Personal contributions also help to raise additional funds from other sources.

Significant financial commitments made by owners of a company tend to build a lot of confidence among potential investors. Kuriloff et al. (1993) also note other personal resources apart from personal savings. These include borrowing using one's personal assets such as house and bonds as collateral.

➢ Other Individuals (Business Angels)

There is a category of private individuals who invest in business ventures. These individuals are referred to as ‘business angels’. Many of such individual investors tend to have some experience in business and/or are affluent professionals, who may have a lot of money to invest. Business angels constitute the informal capital source. They are said to represent the informal capital because there is no formal market place where their investment transactions are carried out. They are usually contacted through dealmakers such as business associates, accountants and lawyers (Longenecker et al. 1994).

- **Venture Capital**

Venture capital, according to Stevenson et al., (1999), is a pool of equity capital contributed by wealthy individuals, as limited partners, and professionally managed by general partners for a fee and a percentage of the gain on investments. Thus venture capital firms are investment firms.

Owing to the highly risky nature of the investments they undertake, venture capitalists demand very high returns on their investments, with target returns of about 50 percent or 60 percents being considered normal (Stenvenson et al. 1999). Tuller (1994) notes that owing to their high expected returns, venture capital companies usually target companies that have prospects of rapid growth and above average profitability. The targeted companies must also have the prospect of going public in the foreseeable future – usually within five to seven years. Venture capital firms aim to capitalize on initial public offerings (IPOs) and cash in on their investments if prices are substantially above their initial investments in the respective companies.

Apart from the provision of capital for very promising business ventures, venture capital firms also provide useful advice to these young enterprises, having acquired much more experience in business. They also provide additional financial assistance in the future if a firm they have invested in runs into financial difficulties. It will not be considered prudent to stand aside and watch their investments go to waste with a firm for lack of cash provided throwing in more cash will not amount to reckless investment. (Tuller,1994; Longenecker et al.1994). Tuller (1994) summarizes this as “future availability of funds can be an enormous boost to achieving long-term strategic goals”.

One of the clear weaknesses in the Ghanaian financial system is the limited medium and long-term financing available to the private sector in the market place (Morse et al, 1996).

While commercial banks are the major source of loanable funds in the market, they focus on providing only short-term financing for their clients. As a consequence, many companies inappropriately use short –term funds to finance long-term project (Morse et al, 1996). The short–term nature of the loans from the banks does not support the expansion programs of SMEs.

As another measure with the intended purpose of assisting SME overcomes their financing difficulties, Venture Trust Funds has been set by State and other developing partners. As defined in the Cambridge dictionary, a venture capital is money that is invested or is available for investment in a new business or company, especially risky one. In 1991, U.S. Agency for international Development (USAID) and the Commonwealth Development Corporation (CDC) sponsored the formation of a venture capital fund in Ghana in respect to a perceived need for financial products and services designed to meet the long-term financing requirements of growing businesses in Ghana within the context of Ghana's financial sector reform program (Mensah, 2004).

In the absence of a regulatory environment, the sponsors agreed to establish, a non-bank finance institution to hold the funds –Ghana Venture Capital Fund (GVCF), and a management company, Venture Fund Management Company (VFMC) to make investment decisions. It became operational in November 1992, and was fully invested with 13 investee companies of which their average investment was $250,000 (Mensah, 2004). In addition to the management of GVCF, VFMC was awarded the management of a $4 million Enterprise Fund, promoted by the European Union. According to Mensah, 2004, all these funds have been targeted at growth oriented large enterprises simply because the risks and cost involved in managing shareholdings in SMEs have so far rendered those investments not interesting.

- **Joint Venture**

Various forms of strategic alliances have become important and common practice in business today. One such important form of strategic alliances is joint ventures. A joint venture typically involves two or more companies coming together to form a new entity. The main objective of joint venture formation is to gain competitive advantage and become more profitable. Combining the resources of the firms involved in a joint venture most often leads to the attainment of synergy. The new company may be able to perform a service more efficiently, produce a product at a less cost or utilize a facility or funds more effectively. This ultimately results in greater profits for the firms involved than they would have achieved as separate business entities. Financing is also a common goal of joint venture. Smaller firms in particular tend to benefit from the usually better financial positions of larger firms. In addition, joint venture stand a better chance of obtaining credit or raising more equity as creditors and investors confidence in the new firm is often greater. As a joint entity, they provide better guarantee for creditors fund as their assets base is widened.

2.2.7 Promoting SME Development

There are several institutions, programmes and government agencies that aim at promoting SME development. These were created to help SMEs in various ways such as: access to finance, training programmes and technological development. These are discussed briefly below.

i. Government Institution

Government has implemented several programmes to benefit the SME sector in Ghana. This started in 1969 with the establishment of the Credit Guarantee Scheme, which was administered by the Bank of Ghana (BOG) to assist entrepreneurs to obtain bank credit. Shortly after this, in 1970, the Ghana Business Promotion Programme was established to provide financial assistance to newly establish SMEs. Unfortunately these schemes did not have the intended impact because of low loans repayment rates and the fact that beneficiaries were politically connected to former managers of foreign-owned enterprises (BOG Policy Brief, 2006)

Under an Act of Parliament in 1981, Act 434, The National Board for Small Scale Industries (NBSSI) was established to promote and develop the small-scale industrial sector because of their importance and contribution to the economic development of Ghana. The NBSSI also has a revolving loan scheme that is intended for working capital and fixed assets acquisition by enterprises in selected sectors. It collaborates with and receives support from several NGOs and international organizations such as the Friedrich Ebert Foundation, World Bank, and UNDP. Unfortunately, according to Adu-Amankwah(1999), this institution is poorly funded thus limiting the assistance that they can offer to help SMEs develop and grow in the economy.

GRATIS is another organization that was established by the Government of Ghana to promote small and medium scale industrialization, provide employment opportunities, improve incomes and enhances the development of Ghana. This is accomplished through the dissemination of appropriate technologies by developing and demonstrating marketable products and processes for small and medium enterprises.

The Ministry of Private Sector Development (MPSD) was also established to coordinate and harmonize inter-sectoral efforts to propel the development of private sector as an engine of growth and poverty reduction. With a majority of the working population in this sector, government is aiming at a successful reform that will have a major effect on the development of society and economy.

Within the MPSD is the Business Development Unit, which aims to facilitate business support services targeted especially at the informal sector and access to credit for micro and SMEs. Some of these services are the African Development Fund (ADF) and Ghana Government providing between 5 to 8 SMEs with up to US$500,000 each for the next 5 years; the Italian Credit Facility of 10 million Euros; the Danish Government's contribution of US$30 million for the Business Sector Programs Support; and the Swiss Government support of US$5 million which is being administered by The Trust Bank Limited. Also in addition to a US$40m HSBC credit, MPSD has arranged for the SOFITEL Bank of USA to approve a release a US$17m facility to the Ghana Commercial Bank (GCB) to enable the bank to provide long-term project credit to SMEs.

Government has also issued several policy papers to support SMEs. These include the Investment Code 1985 (PNDC Law 116), Draft Policy Paper on Micro and Small Enterprise Development (May 2002), MPSDs Policies, Strategies and Action Plan: 2002-2004, Ghana Poverty Reduction Strategy Paper (2002-2004), and the National Medium-Term Private Sector Development Strategy (2004-20008), which articulates government's commitment to facilitate private sector-led growth. There have also been various programs and initiatives over the past 10 years to support the sector such as Vision 2020 and the Fund for Small and Medium Enterprise Development (FUSMED).

ii. Non-Governmental Organization (NGOs)

As a result of the unsuccessful nature of direct lending by government in recent past, more donor interventions in SME finance have recently used existing financial institutions to channel funds to SMEs. Examples of some of the available credit facilities are Trade and Investment program created by USAID to provide assistance to SMEs in the non-traditional export sector, African Management Services Company funded by UNDP to assist SMEs (training and secondment) (Mensah, 2004).

EMPRETEC Ghana and TECHNOSERVE are other NGOs in Ghana established to offer assistance to SMEs. The former raises funds for SMEs through venture forums where entrepreneurs are linked with potential investors. The latter on the other hand, helps entrepreneurs to build businesses that create income, employment opportunities and economic growth for the nation. They train and mentor the entrepreneurs to identify customers' needs, employ capable managers and act strategically. (www.technoserve.org)

2.2.8 Importance of Financial Institutions in SME Development

"Finance is the oil for growth. It is indeed the life-blood of the economic system. The financial system is the vessel that carries this life-blood through the economic system. Faulty vessels prevent the life-blood from reaching essential parts of the economic system". (Sowah N.K., 2003)

Gockel and Akonea (2002) offer a historical account of the banking industry in Ghana. They write that Ghana Commercial Bank (GCB) entered the banking market with the purpose of providing credit to large indigenous enterprises since the expatriate banks refused to offer assistance. National Investment Bank (NIB), established in 1963, provided credit facilities for manufacturing and agro-based industries with Agricultural Development Bank (ADB), which was established in 1976 with the aim of providing financial assistance for the development of agricultural and allied industries. SSB (now SG-SSB) and NSCB (National Savings and Credit Bank) emphasized not only consumer credit but also finance for small-scale projects. Even though banks were established to cater for all sectors in the economy financing small businesses was still a problem therefore government started rural banking to mobilize funds and channel them to SMEs and other informal activities in their localities.

As time progressed, Ghana's monetary system went from the best in Sub-Saharan Africa to the worst. According to Steel (1998), this was affected by the deteriorating economy and high inflation rates. The financial sector was fragmented with different institutions using different lending technologies to serve clients, which resulted in funds not flowing from one segment of the financial system to the other. This resulted in the implementation of two major financial liberalization programs, ERP and FINSAP.

ERP led to the liberalization of financial markets, removal of restrictions and the deregulation of interest rates but it had a minute effect on the conditions that inhibit banks from financing SMEs leaving their demand for credit unsatisfied (Aryeety et al., 1994). In 1988, FINSAP was embarked upon with the main objectives to restructure financially distressed banks, improve savings mobilization and enhance credit allocation especially to SMEs, enhance soundness in the banking sector by promoting competitive banking practices, develop money and capital markets and establish NPART(non-performing assets recovery trust). In a study conducted by Galindo et al.(2002), financial liberalization leads to improvement in the efficiency with which investment funds have been allocated. Antwi-Asare and Addison (2000) state that FINSAP sought to ensure that businesses have access to institutional credits and deposit mobilization. Unfortunately, Gokel and Akonea (2002) state that SMEs have rather been marginalized from the credit market after financial liberalization and therefore they are still suffering from credit scarcity.

Llewllyn (1997) argues that financial system play a crucial role in development through the reduction of information and transactions cost and its efficiency in reducing those cost influences savings rates, investment decisions, technological innovation and long run growth rates. Patrick (1966) stated in his work that financial institutions play a major role in promoting economic growth by ensuring the availability of cash flow cost credit to potential investors. Likewise, King and Levine (1993) agree with the above that countries with better financial systems have superior economic growth while Arestis and Demetriades (1996) add that this varies across countries. Goldsmith (1969) and Gerschenkron (1962) argued that in the early stages of economic development suppressed interest rates, credit policies and institution building provided the financial impetus necessary for economic development.

It is in the interest of financial institutions to ensure that the economy is growing efficiently by playing an intermediary role between suppliers and lenders of funds in any economy by gathering surplus funds in the economy and then lending these funds to those who need them. According to Mishkin (2001), banks are the most important source of external funds especially for loans. This suggests that bank play an important role in financing business activities especially in developing countries.

Even though banks may be faced with constraints, Aryeetey et al. (1994) suggest that they do active banking by mobilizing resources and distributing them to needy SMEs. Sowah (2003) further suggest that bank should be urged to take “reasonable risk” in vetting loan applications from small and medium enterprises, especially for business ventures in new areas and technology.

Chapter Three: Methodology

3.1 Introduction

This chapter looks at how data of the research were gathered, the research method employed in the study, the data collection techniques used and the target population, the sample size and sampling techniques as well as the data analysis method employed. It finally looks at the procedures and the limitations faced in gathering these evidence.

3.2 Research Method

To achieve the proposed research objective of highlighting the specific challenges inhibiting SMEs in accessing loans /funding in Ghana, the quantitative research method was adopted, which often is the most efficient and cost- effective research method (Gerhardt, 2004).

Many researchers have looked at the issues of SMEs financing in Ghana (see Dr. Kwadwo Ansah Ofei's) research "Terms and Access to Credit: Perceptions of SME/Entrepreneurs in Ghana". His study relates access to finance by SMEs to the nature of the region in which the SMEs operate and therefore adopted a comparative analysis approach.

With all the banks located in the Greater Accra region of Ghana having branches across the various regions of the country and also for the purpose of this study; it was therefore assumed that conditions that existed in banks found in Accra are the same in the bank's branches located in the other regions of Ghana. With this in mind, all SMEs no matter where they are located in the country are expected to face the same condition in accessing credit or loan from these banks. In view of this, the case study approach was adopted, which focused on SMEs in the Greater Accra region of Ghana.

3.3 Data Collection techniques

The data for this study were gathered through the use of primary and secondary data sources.

The primary data source for this study involved the use of questionnaire. The questionnaires were distributed to SME operators and/or owners for first hand information for processing towards answering the research questions. The questionnaire was divided into three sections. Section A, concentrated on the bio data of the respondent firms such as:

- Age of the firm
- Form of ownership
- Nature of the firm
- Number of employees of the firm
- Average monthly turnover of the firm

These helped us in identifying the type of SME we were dealing with, whether or not they were Micro, Small or medium enterprise as per the definition given in Aryeetey et al. (1994) research.

Section B of the questionnaire consisted of various questions geared towards answering the objective of the study. These questions looked at the constraints faced by SMEs when accessing credit, other financing options available to these SMEs and how cheap the cost of finance is in the opinion of these SMEs among others.

The final section also looked at the future of these SMEs, whether or not they plan to remain a going concern in the foreseeable future through the expansion of their business to other regions of Ghana when assisted financially.

The secondary data were obtained from reviewing journals and literature relevant to the subject matter of this research. Newspaper source and official policy documents of government of Ghana with relevance to the subject were also consulted. The electronic search site: www.google.com was employed extensively for up-to-date materials on the topic.

The primary data formed the crux of this study because it afforded the opportunity in obtaining at first hand, relevant responses.

3.4 Target Population

SMEs are scattered across the length and breadth of the country with most of them located in Ashanti, Western, Central and Greater Accra regions of the country. These regions were identified to have high concentration of SMEs. In adopting a case study method in a research, the selection of the research site is most important (Yin, 1994). With this in mind, Greater Accra region was selected for the following reasons.

Firstly, most of the SMEs are located in this area, so are the banks and non-bank financial institution since the capital city Accra is also located in this region. With the objectives of the study in mind, selecting this region afforded the researcher the opportunity to contact SME operators who have made numerous contacts with different banks for financial support and therefore have a lot of experience to share.

Secondly, it was easier for the researchers to approach these SMEs operators since the researchers are also located in the same region. Choosing any other region would mean travelling a long distance just to make contact with the SMEs operators, which would have been very difficult considering the time frame of this Thesis.

The sampling frame however for this study chose a few SMEs in the Greater Accra region, specifically those in the Accra and Tema metropolis because of the easy access to these SMEs.

3.5 Sample size

Following Aryeetey et al (1994) definition of SMEs that classified SMEs into:

- Micro enterprise – (1 to 9 workers)
- Small enterprise – (10 to 29 workers)
- Medium enterprise – (30 to 140 workers)

A sample size of the 80 participants was targeted for responses. 80 questionnaires were distributed to these SMEs out of which we received responses from 68 respondents. This represented about 85% of the response rate which we deemed to be impressive for this study.

3.6 Sampling Technique

The method of convenience sampling was employed in arriving at the 80 SMEs, which the researchers believe possesses the experience relevant for this study and who have sufficient time and were willing to participate (Morse, 1998). This technique, convenience sampling, involves obtaining responses within the sample frame from willing respondents and also their availability for the study.

The advantage here is that respondents will participate on their own volition and not selected against their will.

This technique was chosen to boost response rate because respondents in this sector are reluctant in giving out information since they believed in one way or the other, information about their business may leak through to competitors and also exposed them to tax authorities.

Besides, the quality of responses was high as participants took their time to respond to the questionnaire.

3.7 Data Analysis

A descriptive statistics was found to be an ideal analysis technique and subsequently used in ascertaining the difficulties that SMEs faced in accessing bank loans. Aided by the tabulation of data extracted from a close–ended questions surveyed, it was easier to understand the issues identified by the respondents.

Also to help answer the question whether or not SMEs have challenges in accessing credit in Ghana as contained in the objectives in chapter one, the below hypothesis were formulated and tested using test of proportion:

Ho: Not more than 50% of SMEs face challenges when accessing credit

H1: More than 50% of SMEs face challenges accessing credit

These could also be expressed statistically to be:

Ho: $P = 0.5$

H1: $P > 0.5$

Where P = the proportion of respondents who face major challenges in accessing credit in Ghana.

n = sample size, hence n=68 and X being the number of respondents facing difficulty in accessing credit

Level of significance:

Let $\alpha = 0.05$

Test Statistics:

$$Z = \frac{X - np}{\sqrt{(npq)}}$$

Where z follows the standard normal distribution N (0, 1)

Null distribution:

X follows B (68, 1/2) and since np = n (1-p) = 68 x 0.5 > 5, we can approximate the binomial to the normal distribution

Decision Rule:

If the computed p value is less than the level of the significance $\alpha = 0.05$ we reject Ho otherwise we fail to reject Ho

ie $p^* = P(X \geq x/ Ho)$

Computation

Given that n = 68, x = 50 and p = 0.5

Our P value can be calculated as:

$P^* = P(x \geq 50)$

By approximating the binomial to the normal distribution, we had

$$P^* = P\left(Z \geq \frac{50 - 68*0.5}{\sqrt{(68*0.5*0.}}\right)$$

(n = 50 has been reduce to 49.5 due to continuity correction)

This implies,

$P^* = P(Z \geq 3.759) = 1 - P(Z \leq 3.759)$

$= 1 - 0.9999$ (read from the Standard Normal Table)

$= 0.00$

Decision:

Since the P value ($p^* = 0.00$) < the level of significance, we reject Ho

Conclusion:

The small P* value of 0.00 which is far less than the level of significance gives us enough evidence to conclude that more than 50% of SMEs face challenges accessing credit

3.8 Procedures

After deciding on the target population, a list of SMEs was received from the National Board of Small Scale Industries (NBSSI). After contacts have been made to seek the consent of some of these SMEs to be part of this research, the numbers of 80 SMEs were therefore arrived at. The various SMEs that agreed to be part were subsequently contacted and given a brief about what the study sort to achieve through the means of telephone. After getting the required number for the study, the questionnaires were then dispatched. The respondents were then given a week to complete the questionnaires, as this gave them ample time in giving out the right responses.

The data gathered were then analysed through the means of relative frequencies and graphs; tables and charts after the data was edited for completeness.

3.9 Limitation

Due to time constraint, a relatively small sample size of 80 SMEs was employed and as such it limits the extent to which we can generalise the issues raise. Again it would have been better to have sample some SMEs in the Middle and Northern belt of the country compared to just those in the Southern belt forming the sample frame. But due to time constraint, we could not have travelled to those areas.

It was also very difficult in getting information from the selected SMEs because of fear that the information given would one way or the other get to the tax authorities as most of them do not fulfil their tax obligation despite the assurance the researchers have given them.

Chapter Four:

Presentation, Analysis and Discussion of Data

4.1 Introduction

The data collection for this study was done basically through the usage of questionnaire. We targeted a population of 80 SMEs and distributed the questionnaires among them. Out of the 80 questionnaires circulated, 68 were returned representing about 85% of response rate, which we deemed impressive considering the short time given to these respondents. A higher response rate would have been preferred, but there were many reasons for the percentage achieved. Two of the most crucial reasons were:

- Some of the SMEs were reluctant in answering the questions because they thought the information they will provide will one way or the other fall in the hands of the tax authorities despite the assurance given in writing that all information given would be treated confidentially.
- Others also complained about the time given them to provide answers to the questions. According to them, it was too short and as a result their inability to complete answering the questions

In spite of these problems, the response rate of 85% for the purpose of this study is quite good.

Below are the presentations of the details of the responses.

4.2 Characteristics of SMEs

All the respondents are SMEs located in the Accra and Tema Metropolis in the Greater Accra region of Ghana, have a working force of between 8 and 53 employees with professionals in some managerial positions of the business. Out of the 68 respondents, 57% have had their businesses registered as Limited Liability Companies. The rest are registered as Sole proprietorships, Partnerships and Family owned as shown in table (I).

Table I

Frequency Distribution of Forms of Participant SMEs

Form	Frequency	Percentages(%)	Cummulative (%)
Private Ltd Company	39	57	57
Public Ltd Company	0	0	57
Partnership	6	9	66
Sole Proprietorship	18	26	93
Family Owned Business	5	7	100
Others		0	100

Source: Research questionnaire

As can be seen from table I, the bulk of the respondents SMEs are registered as Private Limited Liability Companies. They accounted for 39 out of 68 respondents, representing 57%. None of the respondents were Public Limited Liability Company. 18 respondents, representing 26% were Sole Proprietorship with 6 being Partnership. The remaining 8% of the respondents SMEs were registered as family owned businesses.

These SMEs surveyed cut across the various sector of the Ghanaian economy and also have an average monthly turnover ranging between as low as 15,000 cedis to a maximum amount of 35,000 cedis, as shown from table (II) and (III) below.

Table II.

Frequency Distribution of Nature/ Kind of Participant SME

Nature	Frequency	Percentages(%)	Cummulative (%)
Retail Trading	32	47	47
Export	15	22	69
Manufacturing	8	12	81
Services	10	15	96
Real Estate industries	3	4	100
Farming		0	100
others		0	100

It is a general knowledge that SMEs cut across the various sector of an economy, hence the 68% responses received were fairly spread across a wide range of the Ghanaian economy with the most concentration centered in the retail trading sector. This sector alone accounted for 47% of the total responses as can be seen from table II. The export sector accounted for 15, representing 22%, Services, 10 or 15%, Manufacturing 8 or 12% and the Real Estate industries accounting for 3 or 4%. For all intent and purposes, apart from the Agricultural sector, all the key sectors of the economy were captured in the sample.

Table III

Frequency Distribution of Average Monthly Turnover of Respondent SME

Amount (GHS)	Frequency	Percentages(%)	Cummulative (%)
Less than 15,000.00	5	7	7
15,000.00 to 25,000.00	18	26	34
25,000.00 to 35,000.00	20	29	63
Above 35,000.000	25	37	100

From Table III above, which represents the average monthly turnover for the 68 respondents, 25 of them recorded an average turnover of above 35,000 Cedis. This gave us in terms of percentage 37% of the total responses, which happens to be SMEs mostly from the Export, Manufacturing and Real Estate sectors of the economy. 29% had a turnover ranging between GHS25,000.00 to GHS35,000.00 and 18 or 26% fell within the GHS15,000.00 and GHS25,000.00 range. Just 7% or 5 respondents recorded a monthly turnover of less than 15,000.00 Cedis.

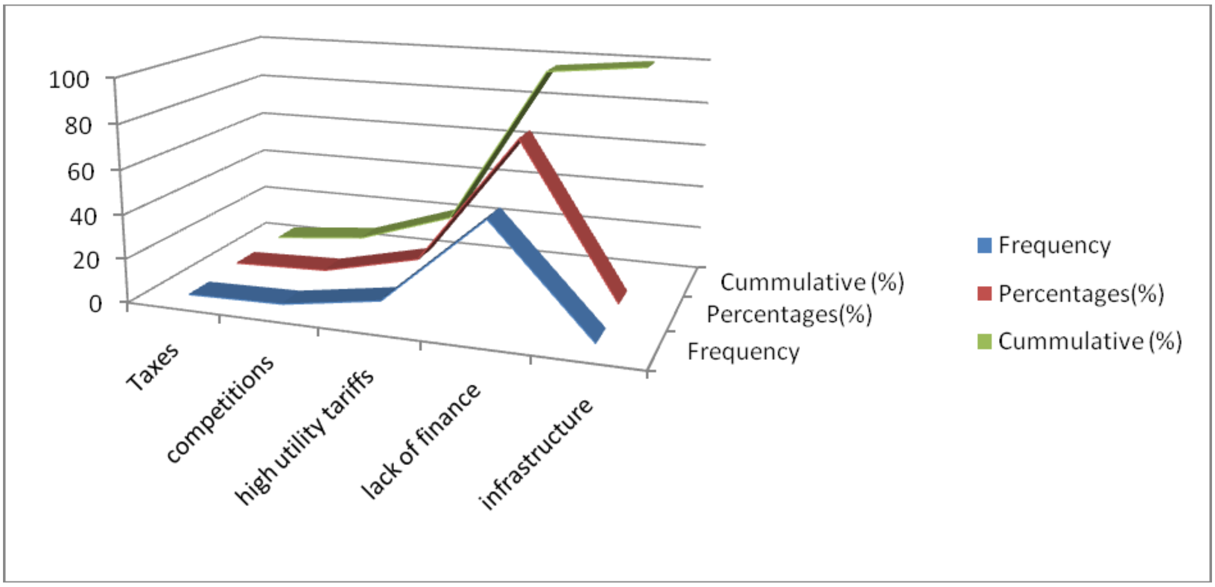
From the above data, there is no doubt that the respondents were all SMEs as supported by the definition contained in Act 680 section 28 that establishes the Ghana Venture Capital Trust Fund (GVCTF). SME is defined by the GVCTF as an industry that employs not more than 100 persons and whose total asset base does not exceed the cedi equivalent of US$1 million, excluding land and building.

4.3 SMEs Constraints

SMEs known all over the world are faced with lots of challenges in their operations and this was not different from the responses received from our target respondents. SMEs operators who took part in the study were however asked to rank the major constraint they face in operating and growing their businesses. Lack/inadequate access to finance (bank loans) were considered to be a major constraint as it recorded 75%. This means that among all the problems faced by SMEs in their operation ranging from competition, high utility tariffs, infrastructure among others, the participant SMEs saw the lack of credit facilities as the major constraint. This assertion was also confirmed from the test run in the data analysis subsection in chapter three, where P value ($p^* = 0.00$) < the level of significance, which is $\alpha = 0.05$. Table (IV) below shows the various challenges faced by SMEs in Ghana.

Table IV.

Major Constraint to the growth of SME



The above shows participants rankings of the major problems facing the growth of their businesses in order on importance. 50 or 74% of the participant ranked lack of finance as the major constraints to the growth of their business followed by high utility tariffs, which recorded 15%. Competition and infrastructure were ranked as the 3rd major constraint to the growth of SMEs with just 3% thinking that taxes also constrained their growth.

This result reinforces the theory by Cuevas et al (1993) where they indicated that access to bank credit by SMEs has been an issue and continues to be raised by numerous studies as a major constraint to growth, which was also supported by Aryeetey et al. (1993) that from the view point of private sector, problems related to finance dominate all other constraints to business expansion. These go to also indicate that finance for SMEs particularly in Ghana is still a major problem even though the number of banks operating in the country has increased tremendously since 1993 when Aryeetey et al. came out with their studies. With a total number of 25 banks (www.bog.gov.gh) and number of non-bank financial institutions operating in the country one expects that access to credit by these SMEs will greatly improve as competition becomes keen. But the expectation has not been met since the results confirm the numerous theories that lack of access to credit/bank loans remains a key constraint that needs attention to resolve to enhance SMEs growth.

This notion was also in line with Schiffer and Weder (1991), who found that small firms tend to experience more difficulties than medium-sized firms, which also experience more difficulties than large firms.

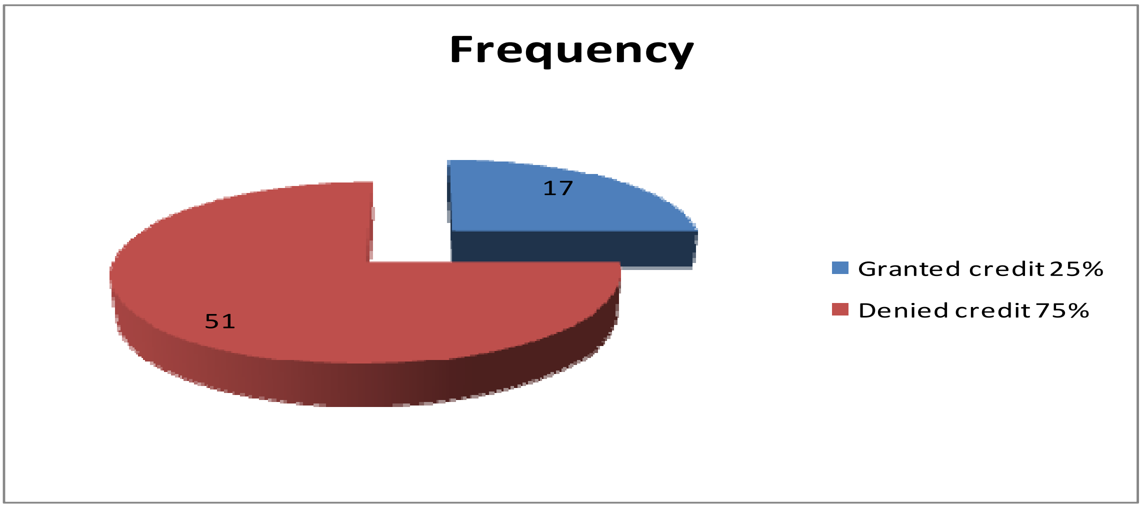
4.4 Factors Contributing to SMEs Constraints

The inability of SMEs in Ghana to readily have access to credit from the country's financial institutions (banks) can be attributed to a lot of factors. Schiffer and Weder (1991), attributed this factors to the perceived high risk nature of these SMEs, small portfolios of these businesses and the high transaction cost that banks go through in performing credit appraisal on them before granting credit to these SMEs. Berger and Udell (2006) in finding out factors contributing to the challenges in financing SMEs attributed some of the causes to the type of lending infrastructure of nations. For them, it affects the feasibility and profitability of using the different lending technologies in SME financing.

Before revealing what this study came out with, the study first tested the possibilities of these SMEs being denied credit from the country's banks. That can be referenced from the result below:

Table V

<u>Total Number of Participant SMEs granted or denied access to Credit</u>



The above pie chart shows a number of participant SMEs who in one way or the other has been granted or denied access to credit from financial institutions. From the chart above, 75% of the total respondents say they have been denied access to credit, whilst 25% of them responded No to the same question.

Out of the 68 respondents sampled, 60% of them attributed their lack of access to bank loans or credit to their inability to provide the required security or collateral for the loans or credit being requested for and in situations where they are able to provide, it ends up to be inadequate, which accentuate the opinion of Binks et al., 1992. For them, they attributed this factor to the inability of the SMEs to provide collateral and in some cases where they do, they are inadequate and also the SMEs asset-backed collateral are usually rated at "carcass value" thereby making it difficult for these SMEs to get access to the credit they want.

The result collated from the survey in table (VI) below shows the frequencies of various factors hindering SMEs in securing loans for their businesses.

Table VI

Frequency Distribution of Factors that Hinders Participants SMEs Access to Credit

Factors	Frequency	Percentages(%)	Ranking
Default on Previous Loan	2	3	5
No Security/ collateral	41	60	1
Small Equity base	15	22	2
Lack of experience Management	7	10	3
others	3	4	4

60% representing 41 of the total respondents of 68 ranked lack of collateral as the major factor preventing them from accessing loans from the financial institutions. 15 or 22% ranked small equity base as factor affecting their access to credit. Lack of experience management was the opinion of 7 or 10% of the respondents with 4% thinking that other factors such as the inability to provide audited financial statement are preventing them from accessing credit with 3% relating their inability to access credit to default on previous loan.

Again apart from the collateral issues and other factors as indicated above, which makes it very difficult for SMEs to access the maximum amount needed for various expansion projects, the interest rates charges on the loan facilities by the various banks are outrageous and also unattractive for most SMEs to access these credits. Almost all the respondents expressed an opinion on the level of interest rates charged by financial institutions on facilities received, to be extremely high whiles others also say the rates are just high. Table (VII) shows the figures:

Table VII

Frequency Distribution of the Level of Interest rates on Loans

Measure	Frequency	Percentages(%)	Cummulative (%)
Extremely High	48	71	71
High	18	26	97
Acceptable	2	3	100
Low	0	0	100

The above table shows the opinion of respondents on the level of interest rates charges on loans from the bank and non-bank financial institutions. 48 out of the 68 responses received from participants saw the interest rates on loans to be extremely high. This represented 71% of the total responses. 18 or 26% of the total respondent think the rates are high with just 3% saying the rates are manageable.

One significant thing is that among the respondents, none saw the interest rates charged on loans by the financial institutions to be low. The extremely high interest rate group numbering about 48 out of the total respondents of 68 pays interest between 31% and 40% per annum. 26% of the respondents, which indicated that the rates charged by the financial institution are high, also pay interest of 21% to 30% per annum, with just 3%, which we will term the “fortunate” ones servicing their loans at an interest of less than 20% per annum. This makes their businesses unprofitable as the profits made are eroded by the huge finance cost.

This high interest rate demanded from the SME sector by the banks is due to the high risk nature of this sector, resulting from the high default rates associated with SMEs financing. The high default was also linked by the respondent SMEs to the delay in receiving payments for their goods and services rendered. This was revealed in the answers given in one of the questions, which sort to find out the causes of high default on the part of SMEs in honouring their loan obligation. One shocking revelation was that about 85% of the total respondents linked the problem to delays in receipts of debtors' payments. These delays, affect their cash flow considerably making it difficult for them to meet their loans repayment dates leading to them bearing extra cost in financing loan contracted in respect of additional fees to the already high interest charge on the loans facility

4.5 Alternative Sources of SMEs Financing

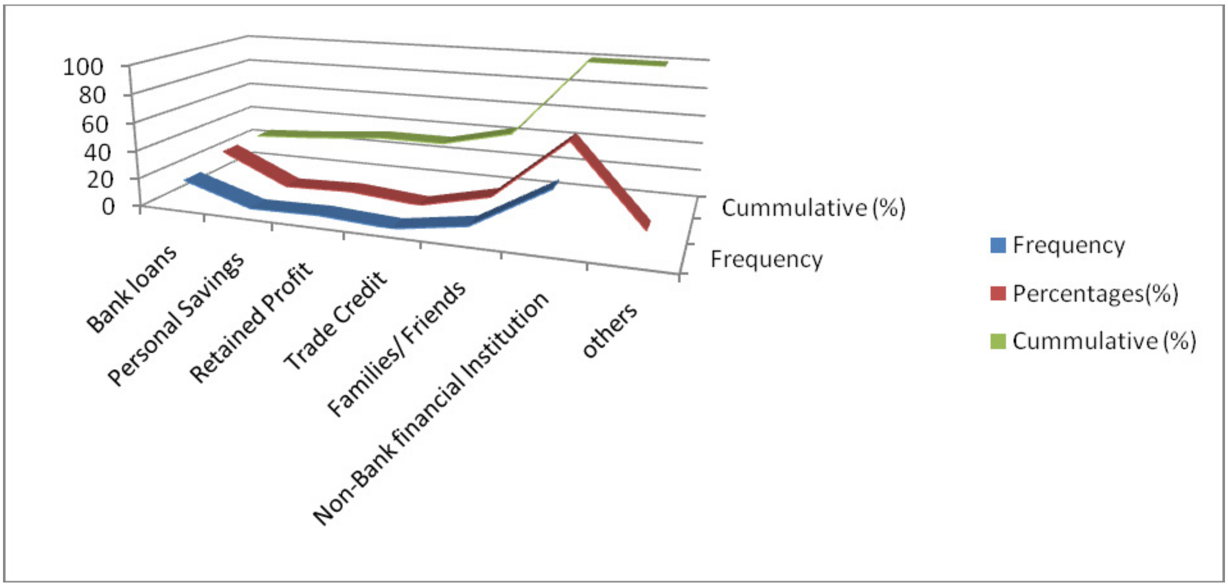
Boom et al.(1983) like most writers on the subject of SME financing, described two basic type of financing namely debt and equity, which were further classified by Hisrich and Peters (1995) also into two sources internal and external.

Since finance is the major constraints to SMEs development and growth, various sources ought to be explored by these SMEs to run their businesses. It came to the fore through the survey that most of these SMEs depend on mostly on external sources such as the banks, non-bank financial institution, families and friends and also personal savings the only internal source as alternative source of financing for their businesses. Table (VIII) below shows these sources.

Table VIII

Distribution of SMEs Major Sources of Funding

Source	Frequency	Percentages(%)	Cummulative (%)
Bank loans	17	25	25
Personal Savings	2	3	28
Retained Profit	3	4	32
Trade Credit	0	0	32
Families/ Friends	8	12	44
Non-Bank financial Institution	38	56	100
others		0	100



Among the various sources in Table VI, which is also presented in the graph, 56% out of the total respondents ranked their major sources of funding from the Non-Bank Financial Institutions followed by 25% getting their financing from bank loans. The third ranked sources of funding for SMEs operation are from families and friend with 12% and the fourth being retained profit with 3%. Personal savings was ranked the fifth with trade credit not resorted to as a source.

This goes to show that the SMEs operating in Ghana are skewed more towards the external source of funding, which is not also easy to access thereby inhibiting their growth. From the above the only internal source of funding is just from their personal savings none of the other internally generated options of funding are being exploited. These internal sources include operational and investment profits, sales of assets, extended payment terms, reduction in working capital and proper management of accounts receivable, which are less expensive and also reliable.

The kind of banks operating in the country have limited interest in funding the SMEs sector most especially those seeking funds as start up capital for their businesses because of the risk associated with new businesses where it is known that 8 out of 10 new businesses fail within the first three years (Mason, M.K, 2011). The limited interest of banks to finance start up businesses is also supported by the data in table (IX)

Table IX

Frequency Distribution of Sources of Funds for Start-up Businesses

Sources	Frequency	Percentages(%)	Cummulative (%)
Personal savings	25	37	37
Bank Credit	8	12	49
Friends and Relatives	31	46	94
Others	4	6	100

The above table shows the distribution of SMEs sources of funding in establishing their businesses. It is clear from the table that 37% and 46% of the funds are generated from personal savings and relatives and friend respectively with 12% of SMEs start-ups getting their finances from the banks. The reaming 6% get their funds from other sources.

This makes it extremely difficult for the SME sector to pursue growth thereby hindering their growth just to stay afloat. In spite of these challenges there is a strong desire among these SMEs to pursue the agenda of growth when the question was asked as to whether or not they would like to expand their business to other cities within the country should their financing needs be met. 60% of the respondents showed interest in that direction as indicated in Table (X).

Table X

Distribution of Participants SMEs Establishing More Branches in the Major Cities in Ghana

Ranking	Frequency	Percentages(%)	Cummulative (%)
Strongly Agree	41	60	60
Agree	24	35	96
Not Sure	3	4	100
Disagree	0	0	100
Strongly Disagree	0	0	100

This table shows the distribution on the question relating to SMEs expanding their businesses to the other cities of the country. 60% of the respondents strongly agreed to the statement, meaning that all things been equal they would like to grow their business. 24 or 36% of the same respondents also agreed to the statement with just 4% not sure as to whether they will expand or not. One critical point is that none of the respondents disagree with the statement of whether SMEs would like to establish more branches in the major cities of the country.

This seems to remain a dream for them as the funds to undertake such an expansion projects are difficult to access because of the stringent criteria of the banks. The only sure way of getting such an amount to embark on these expansions is mainly through the banks and the listing onto the Ghana Stock Exchange, which most of the SMEs are not qualified. This leaves the banks as the only viable source and even then because of the duration given in repayment of loan, which is mostly up to two years (see Table XI), such facility will not be appropriate for investing into business expansion.

Table XI

Frequency Distribution of Loan Repayment Distribution

Factors	Frequency	Percentages(%)	Cummulative (%)
Up to 1 year	49	72	72
Up to 2 years	19	28	100
Up to 3years	0	0	100
Above 3 years	0	0	100

This shows the frequency distribution of loan repayment duration by the respondents usually received from the financial institution by which time they should have repaid the loan amount. From the above record, 72% are given a repayment period of up to one year, whilst 28% or 19 of the total respondents of 68 indicated a repayment period of up to one year

The findings enumerated above corroborate the opinion about the difficulty that SMEs in Ghana faced when it comes to accessing credit (bank loan) to run their businesses. But one interesting twist in these findings is the issue of poor management of account receivables of these SMEs. However, we believe that with proper management of SMEs receivables, they should have enough cash to boost their working capital to run their operations and also meet their financial obligations.

Chapter Five: Conclusion and Recommendation

5.1 Conclusion:

The theme of this study which is “The challenges faced by SMEs in obtaining credit in Ghana” sort to highlight difficulty faced by these SMEs in accessing credit from the financial institution to operate and grow their businesses. In achieving this, the study sort to answer the following questions:

- Does SMEs have challenges in accessing credit? And if yes what these challenges are.
- To what extent have these affected their business operations and also how viable are the alternative sources of financing for the Ghanaian SMEs.

Based on the responses received through the questionnaires circulated, it became evident that SMEs in Ghana like most SMEs in other countries are faced with major challenges in accessing credit. These challenges were revealed by the study to include, the inability of SMEs to provide collateral and other information needed by banks such as audited financial statement couple with the high cost of loan in terms of high interest rates make it extremely difficult to access bank loans. The above also support the result of Aryeetey et al. (1993), which concluded that 75 percent of sampled firms that need loans under the study conducted on the demand supply of finance for small enterprises in Ghana, among those that had their application rejected, lack of adequate collateral were the main reason given by the bank.

Because of these constraints, which relate to access to bank loans and the difficulties SMEs have in managing their receivables, mainly due to delays in receiving payment for goods and services rendered, SMEs in Ghana are not able to mobilise cash as quickly enough to grow and expand in a way that they are supposed to. They still remain small without expanding their businesses to the other regions of the country, even though SMEs have expressed the desire to do so when they have the financial assistance required. See appendix 1 q. 31.

Finally, SMEs are not exploiting other avenues such as Ghana Venture Capital Trust Funds, Micro-finance and Small Loans Centre (MASLOC) among others to access loans to operate their businesses other than the banks and non-bank financial institutions. Even though these two institutions remain the major source of credit for SMEs, the SMEs inability to meet the stringent requirements of these institutions make these sources unviable unless there is a total change in the financial institutions lending methodologies, which will relax the criteria of these institutions to allow SMEs easy access to loans.

5.2 Recommendations

Based on the finding as revealed by the study, we believe that when the below recommendation are well implemented will help free up credit/capital to the SME sector

5.2.1 Establishing of Factoring services by banks and non bank financial services.

Most SMEs are finding it difficult in maintaining a good cash flow position to meet their operational needs and also their financial obligation in respect of servicing their loans as expected. Factoring as is well known will help SMEs breath in some air when it comes to the management of their account receivable because it has numerous benefits as indicated on www.grayco-factorlocators.com. Some of which includes:

- **Tap into unlimited cash:** Factoring as known is the only source of business financing that grows with sales. As sales increase, more money becomes immediately available. Unlike the transitional bank financing, factoring has no maximum limit to restrict growth.
- **Easy process to setup:** Account receivable financing does not require the documents that are generally needed to secure bank loans. Factoring account receivable gives one immediate access to cash.

Presently none of the financial institutions in the country offer such services which we believe when it is up and running, the country's SMEs can discount their invoices for immediate cash that currently takes up to 30 days to have them settled. This will also enable them to embark on any growth projects they may have.

5.2.2 Enforcement of the Credit Reporting Act.

Even though the government of Ghana has signed into law the Credit Reporting Act, 2007 (Act 726) in 2007 to facilitate the activities of reference bureaux, the country has just about three reference bureaux that are even finding it difficult in getting the cooperation of the various banks to share their credit information on consumer. The enforcement of this Act will help bring visibility in the credit market and reduce the risk level since bank will readily have data on consumers

The importance of such a bureau as indicated by Prof. Njuguna Ndung'u, the Governor of the central bank of Kenya, in his address on "Credit information sharing to enhance financial sector development" in August 2009, includes the following:

- Credit information sharing will facilitate the development of information capital. The risk premium associated with information asymmetry and search cost will decline
- Information capital will help change the current collateral technology. Borrowers without access to collateral have been constrained in accessing credit. Credit information sharing will enable borrowers build a track record that can be used in accessing credit.

As banks are unwilling to extend credit without the assurance that SMEs are creditworthy and that it will be possible for them to pay back, the establishment of more of these bureaux and the commitment of the government to make it obligated for banks to disclose such information to these bureaux will bring some transparency to the credit market, which will also go a long way to improve access to credit as a whole and to SMEs in particular..

5.2.3 Provision of incentives for banks lending to SMEs

Even though banks may be faced with constraints, Aryeetey et al. (1994) suggest that they do active banking by mobilizing resources and distributing them to needy SMEs. Sowah (2003) further suggest that bank should be urged to take "reasonable risk" in vetting loan applications from small and medium enterprises, especially for business ventures in new areas and technology.

In urging banks to take "reasonable risk", we suggest that government should institute some form of tax incentives to banks involved in SME lending. This will encourage others to consider the option of lending to this sector.

Also banks (that are not into SME financing) could consider setting up an SME division or department to provide specialized services to SMEs. Specially trained SMEs credit officers could manage such unit in the bank. For large financial institutions that already have such division, they are usually perceived to be less important compared to other corporate lending divisions. Elevating the importance or status of SME divisions would encourage greater interest and focus on the SME sector.

SMEs should also reduce the reliance on banks and take advantage of institutions set up by the state to assist them in terms of finance and training needs. Institution such as Ghana Venture Capital Trust Fund (GVCTF) and Micro Finance and Small Loans Centre (MASLOC) are viable options in terms of loans availability to SMEs in Ghana.

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Appendix 1: Questionnaire

QUESTIONNAIRE ON SMALL & MEDIUM ENTREPRISES (SMEs)

Dear Respondent,

This is an academic survey questionnaire which is aimed at identifying and collecting data about the challenges faced by small and medium enterprises (SMEs) in accessing finance/ credit from the financial institution. Your kind and objective response will significantly highlight these challenges from your perspective and contribute to finding practical solution to this problem.

This is purely academic exercise and any information given would not be disclosed

Section A: <u>General information of the company</u>

1. Name of organization/Enterprise: ……………………………………………….
2. Nature of Organization. (Please tick as appropriate)
   i. Private Limited Company
   ii. Public Limited Company
   iii. Partnership
   iv. Sole Proprietor
   v. Family Owned Business
   vi. Others (please specify)…………………………………………………….
3. Nature/Kind of organization (please tick as appropriate)
   i. Retail trading
   ii. Export
   iii. Manufacturing
   iv. Services
   v. Real Estate
   vi. Farming
   vii. Other (specify) …………………………………………………….

4. For how long has your company been in operations (please tick as appropriate)
   i. Less than one (1) year
   ii. Between 1 and 5 years
   iii. Between 6 and 10 years
   iv. Between 11 and 15 years
   v. Over 15 years
5. How many people are employed by your company ………………………………….
6. Do you have professionals in managerial positions in your company? Yes / No
7. What is the qualification of your management team
   i. Senior High School certificates
   ii. HND
   iii. First Degree
   iv. MBA
   v. Other (Specify)………………………………………….
8. Does your organization have an existing business plan? Yes / No
9. What is the average monthly turnover of your business

i. Less than GHS15,000.00
ii. GHS15,000.00 – GHS25,000.00
iii. GHS25,000.00 –GHS35,000.00
iv. Others (specify) GHS……………………………

Section B.

The following questions relate to the financing issues of your company: the difficulty in accessing credit, options your company is resulting to and future of your business.

10. Has your company ever applied for credit from a Bank? Yes / No
11. If No, why not?
    (i) Do not like Bank Loan
    (ii) Interest Rate too high
    (iii) No collateral to pledge
    (iv) Others (specify) …………………………
12. How do you rate your relationship with your bankers?
    i. Excellent
    ii. Good
    iii. Average
    iv. Poor
13. Have you ever been refused or denied credit from a bank? Yes / No
14. What was the main reason your Bankers refused offering you loan?
    (i) Default on previous loan
    (ii) No Security to pledge
    (iii) Too small equity base
    (iv) Lack of experienced Management
    (v) Others (Please specify) ……………………. ……………………………………..
15. What was the highest amount your company ever borrowed from a Bank:
    i. Less than Ghs30,000
    ii. Ghs30,000 to Ghs80,000
    iii. Ghs80,000 to Ghs130,000
    iv. Above 130,000
16. What was the purpose of the loan?
    i. Startup capital
    ii. Working capital
    iii. Expansion of business
    iv. Other (specify)……………………………………..
17. What information did your bank asked for? (tick all that apply)
    i. Collateral
    ii. Cash flow statement
    iii. Total Assets
    iv. Audited financial statement (account)

v. Business plan
vi. Other (specify)…………………………………………………

18. Have you ever had problem repaying a Bank loan? Yes / No
19. If yes, what created the problem?
    i. Short duration
    ii. High monthly repayment amount
    iii. High interest rate
    iv. Low turnover
    v. Others (specify) …………………………………………
20. What was the maturity period of the loan?
    i. Up to 1 year
    ii. Up to 2 years
    iii. Up to 3 years
    iv. Other (specify)……………………….
21. How did you find the lending rates?
    i. Extremely High
    ii. high
    iii. Acceptable
    iv. Low
22. What percentage of interest is on the loan?
    i. Less than 20%
    ii. 21 – 30%
    iii. 31-40%
    iv. Above 40%
23. How did you finance the start up of the business?
    i. Personal Savings
    ii. Bank credit
    iii. Friends & Relations
    iv. Others (Specify)……………………………………………..
24. What are your sources of funding for the business?(tick all that apply)
    i. Bank loan
    ii. Personal savings
    iii. Retained profits
    iv. Private institutions
    v. Trade credit
    vi. N.B.F.I
    vii. Susu
    viii. Family/friends
    ix. Other (specify)………………………
25. In your opinion, what are the major constraint to the growth of your company?(tick all that apply)

i. Lack of finance
ii. Competition
iii. High interest on bank loans
iv. Taxes
v. Other (specify)……………………………………………………………….

26. Have you accessed credit from other sources other than a bank? YES / NO
27. If Yes, Where?
    i. Microfinance institution
    ii. Ghana Venture Capital Fund (GVCF)
    iii. Microfinance and Small Loans Center (MASLOC)
    iv. Others (Specify)………………………………………………………………………………….
28. Would you say the nature of requirements demanded by these institutions is less stringent? YES / NO
29. What information was requested? (tick all that apply)
    vii. Collateral
    viii. Cash flow statement
    ix. Total Assets
    x. Audited financial statement (account)
    xi. Business plan
    xii. Other (specify)…………………………………………………

Please state if you agree or disagree to the following statements by ticking the appropriate box below.

	Strongly agree	Agree	Not sure	Disagree	Strongly disagree
30. I would like to employ more hands In the future	☐	☐	☐	☐	☐
31. I would like to establish more branches In the major cities of the country	☐	☐	☐	☐	☐
32. I would welcome professional help from banks when given credit to help mange it.	☐	☐	☐	☐	☐