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CHALLENGES FACED BY SMEs WHEN ACCESSING FUND FROM FINANCIAL INSTITUTIONS IN GHANA

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TIIVISTELMÄ

Tekijä	Eric Elikplim Avevor
Otsikko	PK-yritysten kohtaamat haasteet rahoitusyritysten rahastoihin pääsemiseksi Ghanassa.
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Pieniä ja keskisuuria yrityksiä (PK-yrityksiä) pidetään monesti jokaisen maan talouden selkärankana. Suurin osa tämän päivän suurista yrityksistä on kehittynyt PK-yrityksistä. Pienet ja keskisuuret yritykset eivät ainoastaan toimi maan talouden selkärankana vaan myös tukevat suurempia yrityksiä alihankkijoina, valmistusmateriaalin toimittajina tai asiakkaina. Ghanassa pienet ja keskisuuret yritykset ovat pelanneet suurta osaa työttömyyden alentamisessa 51.7 prosentista vuonna 1993 39.5 prosenttiin vuonna 1999 sekä alentaneet äärimmäistä köyhyyttä 36.4 prosentista 27 prosenttiin samana ajanjaksona (UNDP Action plan, 2010). Huolimatta valtavasta panoksestaan taloudelle, Ghanalaiset PK-yritykset kohtaavat paljon vaikeuksia yrittäessään päästä käsiksi rahoitusyritysten kassoihin.

Tämän opinnäytetyön tarkoituksena on ottaa selvää useista haasteista joita PK-yritykset kohtaavat hakiessaan varoja rahoitusyhtiöiltä. Lisäksi tutkimus esittää suosituksia teoreettisten sekä empiiristen tutkimustulosten pohjalta kasvattaakseen PK-yritysten mahdollisuuksia päästä käsiksi rahoituslaitosten varoihin Ghanassa.

Tutkimuksen teoreettinen viitekehys selittää useita määritelmiä PK-yrityksille ja kuinka Ghana luokittelee PK-yritykset. Lisäksi tutkimus selittää monenlaisia haasteita jotka viivyttävät PK-yritysten kehittymistä Ghanassa, PK-yritysten tarjoamia tukia Ghanan taloudelle ja saatavissa olevia rahoituslähteitä PK-sektorilla.

Tutkimuksen tulosten mukaan pienet ja keskisuuret yritykset kohtaavat paljon haasteita hakiessaan rahoitusta muodollisilta rahoituslaitoksilta Ghanassa. Lisäksi tutkimus selvitti rahoituslaitosten pitävän PK-sektoria riskialttiina alana, jonka vuoksi ne tarjoavat luottopalveluja suurella korolla suurempiin yrityksiin verrattuna.

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ABSTRACT

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Small and Medium Enterprises (SMEs) are regarded by many as the backbone of every country's economy. Most of the large corporations of today were developed from SMEs. Small and Medium Enterprises do not only serve as the backbone of a county's economy but also support the larger corporations in a form of sub-contractors, suppliers of manufacturing materials or customers. In Ghana, Small and Medium Enterprises have played a major role the reduction of poverty from 51.7% in 1993 to 39.5% in 1999 and also reducing extreme poverty from 36.4% to 27% over the same period (UNDP Action plan, 2010). In spite of the tremendous contributions to the economy, SMEs in Ghana have a lot of difficulties when accessing funds from financial institutions.

The objective of this thesis is to find out the various challenges faced by SMEs in getting funds from financial institutions. The research will also make recommendations based on the findings in both theory and empirical parts of the research in order to help increase the chances of SMEs having access to finance from the formal financial institutions in Ghana.

The theoretical framework of the study explained the various definitions of SMEs and how Ghana as a country classifies SMEs. It also explains the various challenges that hinders the development of SMEs in Ghana, the contributions made to the economy of Ghana by the small and medium enterprises (SMEs) and the available sources of finance to the SME sector.

The results of the research shows that small and medium enterprises do face a lot of challenges when accessing funds from the formal financial institutions in Ghana. The study also find out that financial institutions consider the SME sector as a risky industry thereby offering them credit facilities at a high interest rate as compared to the larger corporations.

Keywords SME financing, SMEs Ghana.

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1. INTRODUCTION

This research is divided into five chapters; the introduction, the theoretical framework, the research methodology, the empirical study and the conclusion. The first part includes the background of the research topic, research problems and objectives, limitations and the importance of the research topic. The research outline is also included in this section.

1.1 Background of Study

Small and medium-scale enterprises (SMEs) come from very diverse industries or group of businesses. They mostly operate in the service, agricultural/agribusiness, trade and the manufacturing sector. They include a wide range of firms such as village handicraft makers, small machine shops, and computer software firms that possess a variety of skills. Some of these companies are very innovative and have a vision of growth and expanding in the future while others seem to be satisfied with their size and only work to maintain both revenue and market size. It is usually the size of the employees and the value of a company's assets determines its classification as an SME. The topic is very broad and many researchers, as well as firms, tackle it from a different perspective. The objective of the research is to find out challenges faced by SMEs when accessing funds from financial institutions and provide possible solution to reduce them in order to improve the rate at which SMEs have access to credit facilities from the formal financial institutions in Ghana.

The size classification varies within regions and across countries depending on the size of the economy and its endowments (Edit Lukacs, 2005). In Ghana, the various institutions also define or classify SMEs differently. Ghana Statistical Service, the Ministry of Trade and the National Board for Small Scale Industries all have a different classification of SMEs with regards to their employee size, assets, and turnover.

According to Andah (2005), the support for SMEs was intensified in the 1990s following the establishment of the National Board for Small Scale Industries (NBSSI). The major financial scheme operated by the NBSSI was a credit line financed by the World Bank's small and medium enterprises project. The fund gave credit to enterprises in the Small and Medium sector excluding large businesses of the economy except

agriculture sector, real estate, and trading. The government also established a credit assistance scheme under the Program of Action to Mitigate the Social Cost of Adjustment (PAMSCAD), which was intended to cushion the effects on small-scale businesses of the Structural Adjustment Program (SAP). Structural Adjustment Program (SAP) is a special program/policy promoted by the World Bank and International monetary fund to provide loans to developing countries that have experienced financial crisis. The credit facility which was managed by the NBSSI was intended to assist entrepreneurs in procuring scarce but essential raw materials.

The contribution of the SMEs to the economy cannot be over-looked, they serve as major source of income to most households in Ghana and thereby reducing poverty. In 2006, the Action Plan of United Nation Development Project (UNDP) indicated that the overall poverty in Ghana was reduced from an incidence rate of 51.7% in 1993 to 39.5% in 1999 because of SMEs existence. Extreme poverty also fell from 36.4 % to 27% over the same period. (UNDP Action Plan 2010). The SME sector has also contributed tremendously to the export earnings of the country from the non-traditional export sector and creates more jobs at a lower cost. SMEs played a major role in the attainment of Ghana's middle-income status.

The government, being aware of the tremendous contributions of the SMEs to the economy, has put in various efforts to improve the sector and help reduce the various challenges that face them and be able to tap into its numerous potentials.

1.2 Importance of the Research

The impact of SMEs on the economy and the human capital of Ghana over the past decades cannot be overlooked. SMEs played a major role in various area of the economy including but not limited to:

- Poverty reduction
- Tax revenue to the state
- Improvement in infrastructure
- Gross Domestic product (GDP)

Apart from the significance of this study that can be linked to the economy, it will also serve other purposes for example, as a reference point for academia for further research and SMEs can also use it as a point of reference to improve their chances of accessing funds from the formal financial institutions in Ghana.

1.3 Research Problem

It is a known fact that most of the formal banking institutions do not prioritize doing business with individuals and small business customers since they consider them to be high-risk clients. SMEs are considered high-risk businesses because they lack the necessary collateral to serve as a security for loans and the loan process is costly because applicants from the informal sector tend to apply for small loans which require the same administrative procedure and cost/oversight that are required for the relatively larger loan requests made by medium and large scale firms. This has been a major problem to SMEs and as such have it difficult in getting enough support to operate and as a result depend on personal savings and support from family and friends. Also at times is hard to find.

In spite of the enormous contributions of SMEs to the national economy, access to credit facilities from banks and other formal financial institutions has been one of the main bottlenecks to SME development in the country (Asare, 2007). There are various constraints or bottlenecks that hinder the smooth access to credit facilities from the formal financial institutions by the SMEs in Ghana. These constraints include collaterals, high-interest rates, cash flows and turnovers among others.

Though previous government and other non-governmental organizations made efforts and interventions to help SMEs develop through various programs and policies, there seems to be a long way to go in order for SMEs in Ghana to attain their full efficiencies due to the fact that they do not have access to finance from the formal financial institutions with ease.

It has become a necessity to be able to find out the main problems that are faced by SMEs when it comes to seeking funds from the various financial institutions and conditions that allow these problems to persist. It is against this background that this

research is been conducted, the aim is to find these factors and possible solutions to improve the rate of which funds can be easily accessed by SMEs in the country.

1.4 Research objectives

The SME sector remains one of the key contributors to the country's economy. Their contributions to the poverty reduction, tax revenue, and improvement of GDP, infrastructure, and many others cannot be overlooked. The objective of this thesis is to find out the various challenges faced by SMEs in getting funds from financial institutions.

1.5 Research questions

In addition to the research objective, the study will look into to the following:

- To determine whether SMEs actually seek funds from banks.
- To find out the credit facilities banks have for SMEs
- To find out the processes and procedures involved in accessing credit.
- To determine the effects of credit on SMEs in Ghana.
- To assess the challenges associated with SMEs in accessing credit.
- To find out the factors that limit SMEs access to credit from banks.
- To make recommendations based on the findings of the research.

1.6 Research Limitations

In spite of the all the available information available about the topic, the research is still has to deal with the following limitations.

- Inadequate time to grant us interview by respondents since the interviews were conducted during business time.

- Unwillingness of respondents to give in-depth information or lack of sincerity due to fear and confidentiality.
- The financing of the project was also a constraint.
- Data collected was not a representation of the whole country.

1.7 Structure of the study

The research is structured in five chapters or sections. The first chapter provide background information, the significance of the study, the research problem statement, the objectives of the research and also the research limitations.

The second chapter provides the theoretical framework of the research. This chapter describes the definitions of SMEs, existing literature review and the current structure of SMEs in Ghana.

Chapter three explained the research methodology used in the research in details. This includes the various data sources, methods used in collecting the study data and the validity & reliability of the research.

Then in chapter four, the empirical study is introduced. It includes the analysis and presentation of data collected from the respondents.

Lastly, chapter five brings the research to an end with a summary of the various findings and appropriate recommendations are also made.

2. LITERATURE REVIEW

This chapter will look into the existing literature on small and medium scale enterprises especially in Ghana. The review of existing literature will serve as a good reference upon which ‘prudent and objective’ conclusions can be drawn. The chapter includes: definition of SMEs, other definitions, SME definition in Ghana, constraints to SME development in Ghana, sources of finance for SMEs in Ghana, SME financing from financial institutions and existing literatures on SME financing.

2.1 Definition of SME

An Enterprise is an entity that undertakes an economic activity in any form. This includes, in particular, self-employed persons and family businesses engaged in crafts or other activities, and partnerships or associations regularly engaged in an economic activity (EU 2003/36). The term SME is used to describe businesses in the private sector. There is no single definition for SMEs because of its diversity of businesses. What exactly SME means is dependent on the number of employees and business’ turnover and assets. Small business is regarded as one whose scale of operation is less than the industry average (Quaye, Abrokwah, Sarbah, Osei (2014). A lot of institutions and well-known academicians have defined Small and Medium Scale Enterprises differently and some have been criticized by others.

Bolton Committee (1971) was the first institution to try and produce a generally accepted definition for SMEs. They came up with two types of definition from two different points of view namely “economic” and “statistical” definitions.

Under the “economic” definition, a firm is classified as small if it meets the following criteria:

- I. It has a relatively small portion of the market share.
- II. It is managed by owners without any formal management structure.
- III. It is independent and do not form part of a larger organization

When it comes to the “statistical” definition, the following criteria are used for classification.

- I. measuring the size of the small firm sector and how much it contributes to GDP, employment, exports etc.;
- II. comparing the extent to which the small firm sector’s economic contribution has changed over time;
- III. Applying the statistical definition in a cross-country comparison of the small firms’ economic contribution.

The Bolton committee, therefore, classifies small and medium firm base on different characteristics in different sectors. Table 1 shows the various criteria used in different industries to define SMEs by the committee.

Table 1: The Bolton committee definition of small firms

SECTOR	DEFINITION
MANUFACTURING	200 employees or less
CONSTRUCTION	25 employees or less
MINNING & QUARRYING	25 employees or less
RETAILING	Turnover of 50,000 pounds or less
MISCELLANEOUS	Turnover of 50,000 pounds or less
SERVICES	Turnover of 50,000 pounds or less
MOTOR TRADES	Turnover of 100,000 pounds or less
WHOLESALE TRADES	Turnover of 20,000 pounds or less
ROAD TRANSPORT	5 vehicles or less
CATERING	All excluding multiples and Brewery-managed house.

Source: The Bolton Committee (1971)

2.1.1 Criticism of the Bolton Committee definition “economics”.

Some weaknesses were identified with the Bolton Committee’s definitions. Firstly, the economic definition classified a small business as managed by its owners or part owners in a personalized way, and no formal management structure is used, is incompatible

with its statistical definition of small manufacturing firms having not more than 200 employees. As small firms expand, owners do not make all principal decisions but delegate authority and responsibility to various team leaders. For instance, it is not probable for a firm with more than hundred employees to be managed in a personalized way, indicating that both definitions 'economic' and 'statistical' are contradictory. (Kayanula & Quartey, 2002)

Another shortcoming of the Bolton Committee's economic definition is perceiving small firms to be operating in a market that the Committee believes is perfectly competitive. However, the idea of a perfectly competitive market may not exist here; a lot of small firms exist to satisfy specific segment and provide a unique service or product in a remote location and do not face any direct competition (Wynarczyk et al, 1993; Storey, 1994).

On the contrary, (Wynarczyk et al; 1993), established the features of the smaller firms rather than the number of employees. They argued that there are three ways of differentiating small firms from large firms. The smaller firm experiences:

- I. uncertainties accompanying being a price taker;
- II. restricted consumer and product base;
- III. Instability associated with the greater diversity of objectives as compared to larger firms.

Storey (1994) on the other hand argues that there are three main distinctive characteristics of larger and smaller firms. To begin with, the lack of certainty of the market in which the smaller firm exist and the greater internal constancy of its motives and actions.

Second, both small and large firms have a different role in innovation; small firms are able to produce a unique product or service which differs from the systemized product or service provided by large firms. The last area of distinction between the two types of firms is the higher probability of growth and transformation in the smaller firm; smaller

firms which become large undergo a number of transformation through the various stages.

The following are some of the criticism of the 'statistical' definition of the committee competition (Wynarczyk et al, 1993; Storey, 1994).

- I. The term "small" was not specifically define by any criteria, instead classifications like, number of employees, total value of turnover, ownership and the value of the company assets.
- II. The second criticism is regarding the upper limits for the number of employees and total turnover. There are three different limits for different sectors and two different upper limits for the size of employees. This complicated the definition and made country comparison a bit difficult.
- III. When comparing monetary units over a period of time, there is a need to construct index number to cater for price fluctuations. But the changes in currency makes it complicated to compare internationally.
- IV. The definition claims that the small firm industry is homogeneous but some of the firms expands to become medium and even large corporations.

2.2 Other definitions.

Since there is no institution or person that is able to provide a generally accepted definition for Small and Medium Scale Enterprises (SMEs), several organizations and countries including individuals define SMEs differently.

The World Bank from 1976 defined a small firm as that with a total fixed asset value without land of 250000 USD.

Grindle et al (1987:9-10) classified firms with not more than 25 permanent members and a non-current asset less land of value not more than 50000 USD.

The United states Agency for International Development (USAID) refers to small firms as firms with not more than 50 employees and sells more than half of its output (Mead, 1994).

The United Nations International Development Organization (UNIDO) distinguish the definition or classification of SMEs between developing and developed or industrialised countries. Table 2 & 3 below shows UNIDO's definitions of SMEs in both developing and developed countries respectively.

Table 2. UNIDO's classification of SME for developing countries

CLASSIFICATION	DEFINITION
Micro enterprises	Having less than 5 employees
Small enterprises	Having from 5 to 19 employees
Medium enterprises	From 20-99 employees
Large enterprises	More than 100 employees

Source: UNIDO

Table 3. UNIDO's classification of SMEs for industrialized countries.

CLASSIFICATION	DEFINITION
Small enterprises	Firms with less or equal 99 employees
Medium enterprises	Firms with between 100-499 employees
Large enterprises	Firms with greater or equal 500 employees

Source: UNIDO

The United Kingdom (U.K) classifies an enterprise to be small if it satisfies two of the following conditions according to the Companies Act 1985 Section 249.

- I. Company turnover of less or equal to 2.8 million GBP.
- II. Total balance sheet value of up to 1.4 million GBP
- III. Employee size less than 50

A medium size firm has to satisfy the following conditions:

- I. Company turnover of less or equal to 2.8 million GBP.
- II. Total balance sheet value of up to 5.6 million GBP

III. Employee size less than 250.

The U.K Department of Trade and Industry for the purpose of statistics, set limits for the various types of industries using the number of total employees that could qualify and distinguish the various sectors. The definition and number of employees for the various sectors is shown below in table 4.

Table 4. U.K's Department of Trade and Industry classification of SMEs

SECTOR	DEFNITION
Micro	0-9 employees
Small	From 0-49 employees includes micro sector
Medium	Between 50 and 249 employees
Large	Above 250 employees

Source: U.K's Department of Trade and Industry.

The European Commission in an attempt to unify the various definitions of SMEs by member States, in 1996 decided to adopt a single definition which will be generally used. Table 5 below shows the definition of SMEs by the European Union based on the employee size, annual turnover, balance sheet value and percentage of ownership by an individual.

Table 5. European Commission SME definitions

CRITERIA	MICRO	SMALL	MEDIUM
Upper limit of employee size	10	50	250
Upper limit of annual turnover	-	5.25 million GBP	30 million GBP
Upper limit of annual balance sheet total	-	3.75 million GBP	20.25 million GBP
Maximum percent owned by individual	-	25%	25%

or jointly by several			
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Source: European Commission (1996-8)

In 2009 at the G-20 summit, there was an agreement to increase financing for SMEs and hence the question “what exactly is the definition of SME?” It was this question that prompted two researchers to propose a definition.

An SME is a formal business or a company with an annual revenue or turnover (US \$), of between ten to thousand times the average per capita Gross National Income at the level of income of the country in which the enterprise operates (Gibson and Varrt, 2010). This definition seems perfect due to the use of turnover as a measuring tool. This can also be a good way to measure the contribution of SMEs to the Gross Domestic Product (GDP) of a country.

In spite of this definition being regarded as less imperfect, there are few challenges that it faces. According to Khrystyna (2010), after a practical research in over 120 countries, it was difficult to obtain data for the annual turnover of SMEs. Secondly, the informal types of SMEs far outnumber the formal by about eight times. Formal business is the type of business that has regular hours, wages etc. and is regulated and taxed by the government. It is regulated and monitored while the informal is the opposite of the formal.

2.3 SME in Ghana

Ghana is a country with a very diverse economy with manufacturing, service, export and other sectors. In addition to the exportation of natural resources, Ghana exports digital technology goods and automotive including industrial minerals. In the year 2015, service was a major driver of the economy constituting about 50.2% of total Gross Domestic Product (GDP) and employed about 28% of the working force in the country. The Industrial and agricultural sector also contributed 28.4% and 19.9% respectively being the second and the third largest contributors (Ghana Statistical Service, 2015.).

The total Gross Domestic Product (GDP) of Ghana in 2014 was 36.61 billion US dollars which was a decrease from the previous year of 47.8 billion US dollars. The GDP of

Ghana is projected to improve by 5.9% from the previous year in 2016 (Africa economic outlook, 2016.). This projection is influenced by the new oil exploration due to begin in the second quarter of the year.

In spite of all the interesting economic figures from the various statistical bodies, the SME sector which is the backbone of the economy is still lacking financial backing and needs special attention.

2.3.1 SME Definition in Ghana

There have been different definitions given to SMEs from different geographical locations and with different criteria. In spite of all the disagreements in the various definitions, the universal criterion used was the number workers or employees. Practically, there are complications when applying this definition with regards to the upper and lower limits which apply to different official sources. The statistical service of Ghana (GSS) (1987) defines small enterprises as those firms which employ less than ten (10) workers and firms with more than ten (10) employees are considered medium and large scale enterprises. Controversially, the GSS contradicts itself in the national accounts describing enterprises with employees between 0-9 as small and medium enterprises.

Another characteristic used in defining small and medium enterprises is the total value of fixed assets of the company. The Ghana national Board of small scale industries (NBSSI) used both criteria that are "employees and fixed assets" in its definition. The NBSSI considers a small enterprise as a firm with less than ten (10) employees and having a total fixed asset value of not more than ten million Ghana cedi (10,000,000 Cedi) (US\$ 9506) not including buildings, land, and vehicles. The exchange rate used was 1994. The Commission of Ghana Enterprise Development (GEDC) also used the 10 million Ghana cedi as the upper limit for the value of plant and machinery that classifies a firm to be regarded as small scale enterprise. However, the valuation methods used for the fixed assets is questionable and also, the consistent depreciation of the Ghanaian currency (GH cedi) renders the definition impracticable.

According to Steel and Webster (1990), the upper limit of total employees number of that classifies an enterprise as small is thirty (30). Osei et al (1993) on the other hand, used three separate sections for a small enterprise in Ghana.

- I. Micro enterprises employ less than six (6) employees.
- II. Very small firms employ between 6-9 employees
- III. Small enterprises have between 10-29 employees.

2.3.2 Importance of SMEs to Ghana economy

The contributions of SMEs to the economy of Ghana cannot be over-emphasized. It is so obvious that every government that comes to power try their best to support this sector. The Small and Medium Enterprise sector is regarded as the engine for the Ghanaian economy by many scholars.

CONTRIBUTION TO GDP: Gross Domestic Product is defined as the value in monetary terms of all goods and service produced in a country within a specific period. GDP measured the overall economic activities of the country and is one of the most widely used quantitative measure of a country's economic performance. The Small and Medium Scale Enterprise sector has contributed immensely to the GDP growth of the economy of Ghana. Over 70% of the national GDP comes from the SME sector (Villars, 2004).

EMPLOYMENT: The SME sector serve as a major employer in Ghana's economy. A large number of the urban population in Ghana is employed by this industry. It is estimated that the SME sector gives employment to about 22% in most developing economies (Daniels, 1994). It was reported by the Business and Financial Times on 13/07/2009 that the SME sector contributes at least half of the national output and employs around 60% of the Ghanaian labour force.

In addition to the vast contribution to the national GDP, employing the labour force and contributing to almost half of the total national economic output, the SME sector helps utilize resources such as undesirable raw materials that might not yield any substantial foreign earnings to the country and hence would be wasted. The SME sector also helps

develop and promote local know-how. Small indigenous information technology firms help develop systems and software that support the local economy.

2.3.3 Constraints to SMEs development in Ghana

Upon the various contributions made by the SME sector to the economy of the country, there are still a lot of constraints faced by the industry. These constraints hinder the development and progress of the various SMEs in Ghana. SMEs in Ghana do not enjoy economies of scale and hence find it difficult to cope with large fixed costs and main production factors.

INPUT CONSTRAINTS: Inputs are the various factors needed for the production of goods and services. The SME sector in Ghana faces a lot of challenges with regards to those factors. The constraints are not only limited to the high cost of the inputs but also the availability of the inputs. According to a research conducted, at least 5% of the sample chose input constraint as major challenge (Aryeetey et al, 1994).

FINANCIAL CONSTRAINTS: The major challenge faced by the SME sector in Ghana is ready access to finance. Every business needs cash as a working capital in order to exist. However, small enterprises in Ghana do not have such an opportunity. Access to credit has remained a major block for the SME sector in the country. About 38% of respondents in an SME survey mentioned lack of credit as a major constraint to their development (Aryeetey et al, 1994).

TECHNOLOGY CONSTRAINTS: In today's economy, the use of the most current technology and equipment gives a competitive advantage. The SME sector in Ghana is faced with the constraint of new and advanced technology and equipment. This lack of access to the most current technology has left the sector behind in today's competitive economy. Technology is a major factor that is shaping the economy of today (Kotler and Keller, 2006). Most SMEs lack knowledge and the necessary skills required to use the needed technologies and that remain a major problem (Duan et al, 2002).

MARKET CONSTRAINTS: The SME sector in Ghana is faced with not only lack of available international markets but also the local markets too. There is always a certain

level of uncertainty in the local market due to instability from macroeconomic factors. Apart from not having the financial and technological muscle to compete with foreign companies in the international market, the SME sector in Ghana also faces competition for foreign businesses in the local market (Abor J. & Peter Q. 2010).

REGULATORY AND LEGAL CONSTRAINTS: The SME sector Ghana is faced with a lot of regulatory and legal constraints (Abor et al, 2010). In spite of previous efforts by governments and other stakeholders, getting a company registered in the SME sector is still far from perfect. A lot of legal fees are demanded for processing documents required to register a small enterprise in Ghana. Fees such as licencing, registration requirements, expensive legal claims and delay in court rulings all have negative impact on the operations of SMEs.

MANAGERIAL CONSTRIANTS: Most SMEs in Ghana are managed by owners or part-owners or they are family businesses. The majority of these owners do not have the necessary skills and knowledge to run the businesses successfully according to Abor J & Peter Q. (2010). Though some wish to hire experienced managers to run their businesses, they either lack the financial muscle to pay the hefty salary package demanded by the prospective employees or the uncertainty in the SMEs sector discourages the candidates to take up the jobs for the fear of job security. Most of the SMEs don not take advantage of the various consultancies in the country in order to improve their managerial skills and knowledge.

ASSOCIATION CONSTRAINTS: The SME sector in Ghana does not have any strong and respectable associations that will serve as a voice in their interest. Since they are individuals and do not bond together, it is very difficult for them to make any meaningful impact with regards to policies and regulations that might turn their fortunes around. Though there are few entrepreneurial associations in the country, they are yet to develop their policies from protecting their interests to becoming competitive in the international market (World Bank, 1993). In addition, the small enterprises in Ghana do not take advantage of economies of collaborating and sales among themselves and thus depends heavily on the larger corporations for survival. About 17.6% of small

enterprises with expanding output have other small firms as customers while 8.4% of small enterprises whose outputs are stagnant have other small firms as customers (Osei et al 1993).

2.3.4 Sources of finance for SMEs in Ghana

These are the various places or means by which small and medium enterprises can have access to finance for either start-up or for operational purposes. There are various sources of finance available in Ghana for SMEs (Quaye & Sarbah, 2014).

PERSONAL SAVINGS AND BORROWING FROM FAMILY & FRIENDS: This is the most common source of finance to the small businesses in Ghana. They come in a form of personal contributions like ‘SUSU’ (‘SUSU’ is a term which refers to a traditional group contribution scheme where individuals come together and agree on an amount of money to be contributed on regular intervals and given to one member at a time which will continue until the last person takes his/her contribution) and another form of cash balances that can be accumulated by the entrepreneur. It can also come from friends and family in a form of an informal loan without interest. . This source of finance is the cheapest and comes at no cost to the entrepreneur (Frimpong & Antwi, 2014).

SHARE CAPITAL AND RETAINED EARNINGS: Share capital is the amount of money an investor or entrepreneur is willing to invest as a seed capital to start a business while retained earnings is the amount of profit that is made from business operations and kept for potential re-investment into the business or to cover poor cash-flow (Frimpong & Antwi, 2014). The entrepreneur can also raise this finance by selling some of the rights to other interested parties. The buyers of this right are now part owners of the business and have the power to make decisions in the interest of the business. This source of finance is also cheap but not more than the personal savings. The shareholders are entitled to the yearly dividend but this entitlement cannot be enforced if the business had a bad season.

BANK LOANS & OVERDRAFT: This is also a common source of finance to the small businesses in Ghana Coffie AA, (2012). Bank loans are sometimes too expensive for

small start-ups since they come with fixed interests and repayment of principal over a particular period of time. In spite of the high interests charged by the banks for the loan, they also request for collaterals in the form of fixed assets that can be liquidated in case of default in payment. Overdrafts are monies withdrawn in excess of savings and can be paid back with interest within a particular period. Overdrafts are usually for shorter periods than a loan but they are more expensive than bank loans. Overdrafts are more flexible and help businesses meet immediate cash needs when there is not enough time for loans to be processed.

BUSINESS ANGELS: Business angels are individual professionals who invest money in start-up companies. Business angels typically prefers to invest in young companies that have good prospects. They usually invest capital into the start-up companies in exchange for ownership right or in a form of convertible bonds. Convertible bonds are bonds with an option to turn or convert them at a later period into equity at an agreed price (Quaye & Sarbah, 2014).

VENTURE CAPITAL: This is an amount of money invested or is made available to be invested into a start-up company. Venture capitalists usually invest in businesses with high risks and high returns and do it in exchange of owner equity. Though the definition states that they are invested into start-ups, this is usually not the case. Venture capitalists invest large sums of money and hence the small start-up businesses are too small for them which forces them to invest in medium firms which are already established (Quaye & Sarbah, 2014).

2.4 SME financing from financial institutions

As at the end of 2015, there were thirty (30) major banks in Ghana with twenty-nine in universal banking while one is into both universal and offshore banking. We also have one hundred and thirty-seven (137) rural and community banks across the country by the end of last year. There are 24 finance houses, 3 remittance companies, 3 credit reference bureaux, 27 savings and loans, 5 leasing companies and 1 mortgage finance firm totalling 63 Non-banking financial institutions in the country. Over 468 microfinance companies were licenced and listed as of November 2015 and 67 money

lending institutions as at same date by the Bank of Ghana. There are also 11 financial Non-Governmental organizations in the country (Bank of Ghana annual report, 2015).

In recent times, the banking industry has been fiercely competitive (Akuffo-Duah B, 2011). In an attempt to expand the loan portfolios, the SME industry has become very attractive to the various banks and other financial institutions. . In the past, the banking industry was not competitive (Thierry B & Johan M, 2005) and they regard the SME sector and too much of a risky path to trade but the trend has changed in recent times. This was due to the high default rates among the various SMEs in the country with regards to credit facilities offered to them by the banks and other financial institutions. In spite of their attractiveness, only a handful of banks in the country have developed a unique policy for the SME sector considering their needs and requirements. Many of the loans offered by this banks to the small enterprises are from donor funds and not many of them has created an SME department or desks in their establishments. There are no customised products designed for the SME sector and most of the financial institutions treat the small enterprises just like the large firms when offering their loans service to them. There are specialized trainings provided to their employees in handling small enterprises (Osei et al 1993).

There was a research conducted by the Gesellschaft Für Technische Zusammenarbeit (GTZ) which provided insight into the business practices of financial institutions with regards to the SME sector. The following are the findings from the survey.

Majority of banks and other financial institutions still consider the SME sector to be risky and hence no special policies are made for them and also their loan requests are always well scrutinized. Some of the financial institutions only consider overdrafts for a maximum of half a year which will only be renewed after further considerations. These overdrafts can only be granted with the help of a collateral provided by the small enterprises in a form of fixed deposit or risk-free investments. Usually 95% of the collateral is granted to reduce the default risk involved.

The terms and conditions offered to the small enterprises are worse than those of the larger firms by offered the financial institutions. While the larger corporations are given

longer time periods to pay back their credit facilities, the small enterprises, on the other, hand have limited time frame as little as a year and sometimes less. In most cases, the small enterprises have to provide collaterals in form of deposits or in other forms that satisfies the Bank of Ghana (BoG) classification of a secured loan.

Most commercial banks still do not have any customized policy for the SME sector. About seven banks that were surveyed, only four out of these seven provided a special desk for small business and there are differences in the solutions they provide to the small businesses hence there is no generally accepted procedures laid down for the SME sector by the financial institutions. The banks with an SME desk usually provide the sector with minimum loan facility just to create a relationship in order to take considerably huge deposits from the small businesses.

Since most of the banks and other financial institutions do not have any customised or unique products for the small businesses, they attempt to serve the small businesses with a modified product designed for the so-called 'small' corporate clientele. Due to that, they always require detailed business and financial documentation from the small enterprises. Most financial institutions tend to treat small businesses like large corporations, hence demanding all necessary documents required by the large firms.

The surveyed banks are working towards creating a long-term business relationship with the small businesses but instead of maintaining the same credit officers and avoiding changing the staff that deal directly with the small businesses, this research proves otherwise.

2.5 Existing literature

There have been many types of research conducted by individuals, institutions and other non-governmental organisations in this field. The SME sector and its challenges with regards to finance have been a hot topic for many researchers in the past decade. In this chapter a look will be taken at the various researches conducted by other institutions and individuals which are similar to this study.

“Access to finance remained a dominant constraint to small scale enterprises in Ghana. Credit constraints pertaining to working capital and raw materials were cited by respondents (between 24% and 52% in Parker et al, 1995). Aryeetey et al (1994) reported that 38% of the SMEs surveyed mention credit as a constraint. This stems from the fact that SMEs have limited access to capital markets, both locally and internationally, in part because of the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms. As a result, SMEs often cannot obtain long-term finance in the form of debt and equity”.

According to the above researches conducted by (Parker et al, 1995) and another by Aryeetey et al, 1994, it is obvious that the small and medium scale enterprises have a major difficulty in accessing fund/credit from the formal financial institutions in the country.

Another research by (Quaye, Abrokwah, Sarbah, Osei, 2014) was conducted to find out the financing gap that exist in the between the SME sector the large corporations in Ghana. In their research, it was concluded that there exist a financing gap in the country as most small enterprises are denied access to finance by the formal financial institutions in the country.

There are many other researches such as (Abor j & Biekpe N, 2006.), which concluded with the similar findings as the above ones and that is why it is of great importance for this study to be conducted to find out why those financing gaps exist and the forces that cause them to exist.

3. RESEARCH METHODOLOGY

This chapter deals with the research methodology. It entails the various research methods available and the particular one used in this study. The chapter also explains the sources of data and the reliability and validity of the study.

3.1 Definition of Research

The business dictionary describes research as a planned or systemized process of investigation that is aimed at improving existing knowledge or uncovering new facts. Research generally falls into two categories namely basic research and applied research. Basic research is usually for the purpose of improving scientific knowledge while applied research uses the basic research knowledge acquired for the development of new techniques, products and helping solve problems (The business Dictionary).

“Research is the systematic and objective identification, collection, analysis and dissemination of information for improving decision making related to the identification and solution of problems and opportunities in marketing” (Naresh M, 2008). This definition has two phases thus explaining how a research is done and the reason why research is conducted. The first aspect that answers how to conduct a research involves systemizing planning, identifying the research problem with accuracy, using the right data sources for collecting data, accurate analysis of data and its interpretation and final presentation of findings. According to Rajasekar (2006), the following are the steps or stages in a formal research process.

1. Choosing a research topic
2. Defining the research problem. It includes identifying various literature and references, and the chosen topic
3. Designing the research
4. Research investigation. This where the validity and reliability of the study are conducted as well as both data collection and sampling techniques.

5. Data analysis

6. Final interpretation of findings.

The second part of the definition explains the purpose or reason for conducting a research. A well-structured and conducted research should be able to help improve the chances of making a better decision and be applicable. A study is said to be applicable if it provides an insight for subsequent studies. Information is the main component for the research process and hence, there is a need to use the best technique for finding and collecting the most useful information that will support and help solve the research problem.

In chapter 1 of this study, the research topic and the problem statement were dealt with and hence this chapter will concentrate on the research design, various sources of data, and the different types of research methods including the differences between them as well as reliability and validity of the research work.

3.2 Population

The population used in this research was derived from the SMEs in the Greater Accra metropolis. It includes small enterprises from various industries such as agri-business, manufacturing, both retail and wholesale. The financial institutions selected are also from the same location.

3.3 Sample size

To be able to get a wider picture and a broader knowledge of the research, fifty (50) SMEs and twenty (20) financial institutions were sent research questionnaires, but only twenty (20 SMEs) and ten (10) banks were able to respond to the questionnaires. The SME sample vary among small and medium enterprises to ensure reasonable generalization.

3.4 Sample techniques

The sampling technique used in this study is non-probability sampling. This is the method where the probability of a particular sample being selected is unknown. Non-probability sampling is defined as 'a sampling technique where the researcher selects

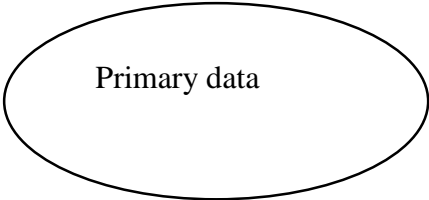
the sample units based on subjective judgement (Saunders et al. 2009). Available data at National Board of Small Scale Industries (NBSSI) on SMEs was used in the sampling process.

3.5 Sources of data

A source is regarded as the origin of something and hence sources of data are the origin where data is derived. In research, data source serves as a medium that enables the transit of research information. There are two types of data sources of types of data in research. These are primary data and secondary data, which will be explained in details in the following paragraphs.

3.5.1 Primary data

Primary data is also regarded as first-hand data. It is the type of data collected by the researchers themselves and hence no intermediary. The aim of a research is either to improve an existing knowledge or solve a particular problem and hence researchers have a good idea of which type of data is needed and where to get them. This allows researchers to focus on the research problem and collect data that is relevant to the research objective (Hox & Boeije, 2005). The various approaches to collecting a primary data are influenced by the subjective behaviour of the researcher, which includes but is not limited to experiments, observations and communication (Ghauri & Gronhaug, 2010). Communication arises as a result of interviews and surveys conducted by the researcher with his/her respondent. Apart from being first-hand information, primary data is easy to handle and very feasible, which might be the reason why most researchers consider it as the first choice source of data collection. Table 6 shows the approaches of collecting data. Primary data can be collected through observation, in-depth and group interviews and also by the use of structured questionnaires.



Primary data

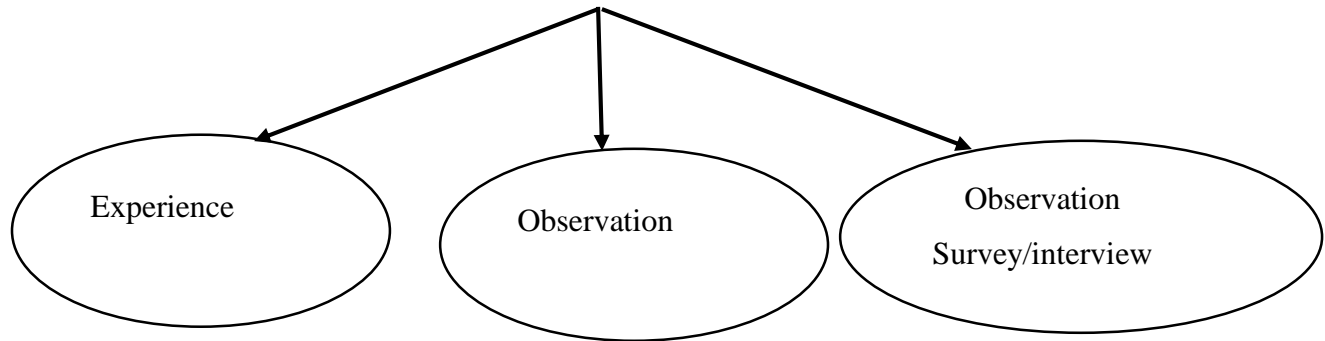


Table 6. Sources of primary data (Ghauri & Gronhaug, 2010).

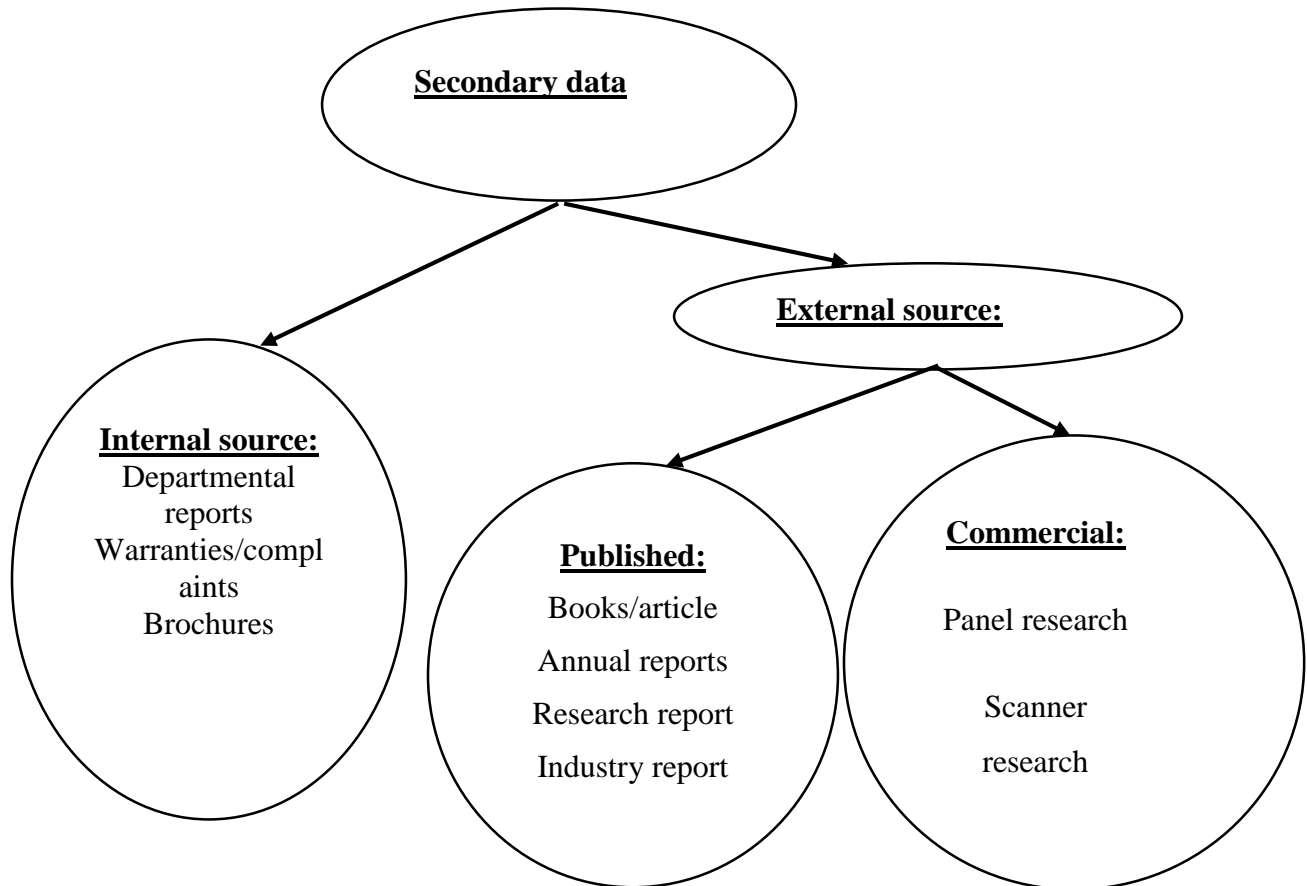
The various sources of primary data are of great help in enhancing the reliability and validity of a research due to its consistency with the research questions. In spite of that, the various ways to collect primary data can be time-consuming and comes at quite a high cost. However, there is a need for researchers to pay adequate attention to the efficiency of data collection and other factors such as unwillingness of respondents and insincere answers given by them which are beyond the control of the researcher.

3.5.2 Secondary data

The word “second” in the secondary literally explains what it means. Secondary data is data collected from a secondary or other sources other than the primary source. This means that the researcher has no hand in the collection of data from the original source. According to Ghauri & Gronhaug (2010), secondary data is a data that is indirectly collected by the researcher from someone else who collected the same data for different purposes. A typical scenario is when a company in country A wants an information on the market size and buying behaviour of a particular product in country B, often the easiest and fastest way to get such information within a limited time period is using a secondary data. These secondary data can be obtained from either an online source or from professional research organisations like International Social Survey Program (ISSP).

There are many sources of secondary data made available for the researcher. It is the type of data needed that determines the particular source to be used. There are both internal and external sources of secondary data (Ghauri & Gronhaug, 2005). Internal sources of data include information within the organisation while external sources can either be a published source or commercially used source. Published sources include books, journals and articles while commercially used sources include the researcher having to pay for the information. Table 7 shows the sources of secondary data according to Ghauri & Gronhaug, 2005.

Table 7. Sources of secondary data (Ghauri & Gronhaug, 2005)



Secondary data usage is very common among researchers especially for academic writing. It is mostly used in the literature review providing theoretical basis for the research. The use of secondary data is less expensive and time consuming which saves time and money (Ghauri & Gronhaug, 2005). Secondary data is also easily accessible to others if there is a need for them to check it (Denscombe, 2007). In spite of the various advantages in using secondary data, it might be collected in the first place to serve a different purpose and hence it is not likely to meet the research objectives (Denscombe, 2007). Though secondary data may be readily made available, most of them are not cheap to have access to. Market data collected for commercial purposes may be very difficult and costly to have access to. It is therefore, of importance for the researcher to be aware of the cost of various sources of secondary data when using them.

3.6 Research methods

A research method is a technique used in collecting and analysing data for a particular purpose. There are two basic ways of collecting primary data for research purposes, namely qualitative and quantitative methods. The type of method chosen by the researcher depends on the objective of the research. The data can also be either collected in advance or during the study process (Creswell, 2003).

3.6.1 Qualitative methods

“Qualitative data refers to all non-numeric data or any data that have not been quantified and can be a product of all research strategies” (Saunders, Lewis, Thornhill, 2009, p480). It usually has an emphasis on different types of representations and descriptions and has nothing to do with numbers. Its main aim to explain features of events, people, interactions and cultural experiences (Tewksbury, 2009). Qualitative methods provide room for flexibility, which is suitable for less structured studies. Usually, the questions asked are sort of very open and can be adjusted to suit the study at any given time.

In the qualitative method, the researcher is encouraged to vary his techniques in order to improve the in-depth understanding of a particular issue and expand his knowledge in other areas of the study. Techniques such as interviews, observations and focus groups are used in implementing qualitative method.

An observation is when a researcher or an observer watches the participant perform his or her duties without interacting with each other. It is used to learn about the behaviour of people in a naturally occurring environment. Usually, the participants have no idea of been watched in order not to influence his/her actions or performance. This method is very helpful if a researcher wants to find out how things are done. When using observation, there is a need for the researcher to be aware that there are other factors than the awareness of the participant that can influence the result in a particular moment.

A focus group is where individuals share information and interact freely in a group setting on a particular topic or issue. The individuals involved are expected to have a good knowledge of the topic under discussion and to provide useful information on the topic. There are a lot of uncertainties in using this method and hence the researcher should have a plan in advance for any of such uncertainties.

An interview is considered to be a meeting or a conversation between or among people where one party asks the other questions about any particular topic. According to Ghauri & Gronhaug (2010), an interview is “a real interaction between a researcher and a respondent”. An interview can either be structured or unstructured. A structured interview involves specified formats and order to follow and usually pre-prepared questions while in an unstructured interview there are no restrictions. An in-depth interview is cheap and flexible, it can be done via email or phone for example without any distance barrier and also, when done face-face it can provide the respondent enough time to give an in-depth answer to the questions asked and any clarification can be done by the researcher.

Though there is no standardised procedure for the qualitative method, the following are the possible three main processes to group data (Saunders, Lewis, Thornhill, 2009, p490).

- Summarize meanings
- Grouping of meanings
- Ordering of meanings using narratives

3.6.2 Quantitative methods.

The quantitative research method is defined as a research process that is objective, formally structured and a systematic process in which information is obtained using numeric data about a particular research topic. It is the collection of numeric data and explanation of the correlation between theory and research with an objective conception of social reality (Bryman & Bell, 2007). The main characteristic of the quantitative method is the use of statistics to analyse data. Qualitative method is a result oriented approach to analysing data which ignores the perspectives of the researcher thereby reducing the influence of subjectivity.

The quantitative method is very popular with a testing hypothesis which is more scientific on measurement. Different types of quantitative research exist which include structured questionnaires, experimental research and correlation methods. The most popular type is the use of a structured questionnaire which usually requires researchers to use a population sample and both probability and non-probability sampling method. There is a difference that exists between the quantitative and qualitative research method which is shown in table 8 below.

Purpose	To understand & interpret social interactions	To test hypothesis, look at cause & effect & make predictions.
Group Studied	Smaller and not randomly selected	Larger and randomly selected
Variables	Study of whole and not variable	Specific variables are studied
Type of data collected	Words, images, or objects	Numbers and statistics
Type of data analysis	Identify patterns, features and themes	Identify statistical relationship

Results	Particular or specialised findings that is less generalizable	Generalized findings that can be applied to other populations
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Table 8. Differences between qualitative and quantitative methods (Johnson, B 2008, p34 & Lichtman, M 2006 p7-8).

According to Saunders et al, 2009, the following represent the distinctions between a qualitative and quantitative data as shown in table 9.

Quantitative data	Qualitative data
Based on meanings derived from numbers	Based on meanings expressed through words
Collection results in numerical and standardised data	Collection results in non-standardised data requiring classification into categories
Analysis conducted through the use of diagrams and statistics.	Analysis conducted through the use of conceptualisation.

Table 9. Distinction between qualitative and quantitative data (Saunders et al, 2009, p482, Dey, 1993, Healey & Rawlinson, 1994).

3.6.3 Mixed method.

This is the use of the combination of both qualitative and quantitative methods in a single study. There are various weaknesses mentioned in the earlier definitions of both the qualitative and quantitative research method. It was noticed that the qualitative method relies on the judgement of the researcher and hence, the trustworthiness and the objectivity of the research becomes questionable. The quantitative method on the other hand, is being criticised for relying on numeric or quantification of data, thus paying little or no attention to interpretations, descriptions and interactions of a quantitative research. It therefore makes it difficult for the result to suit reality.

The use of the mixed method in a single study helps to reduce or eliminate the inherent weaknesses in the individual methods and improve the inherent strengths in the

individual methods, and thereby offsetting any individual method biases (Greene 2007, p13).

In this study both quantitative and qualitative methods are used to collect and analyse data. An in-depth interview method is used in collecting the qualitative data, the interview is conducted in an unstructured way with the various managers of both SMEs and financial institutions. It is in the face-face format that allow both the interviewer and the interviewee to interact and share an in-depth knowledge about the study topic.

The in-depth interview questions were not only meant gather information about the individual industries from the respective managers but also to collect information from the opposite direction in respect to offering and accessing of service between the two sectors. In addition to the in-depth interview, a structured questionnaire was created to be used in collecting quantitative data. The questions in both the interview and the structured questionnaires were well arranged in the right context, which was aimed at reducing or eliminating the unwillingness of the respondents to answer, thereby increasing the respond rate. The structured questionnaire was developed to systematically analyse numerical data and explain the relationship between individual variables.

3.7 Reliability and Validity

Reliability is referred to as the ability of an item, apparatus, and idea etc. to perform consistently its intended or expected function. “The extent to which measurements are repeatable –when different individuals perform the measurements, on different occasions, under different conditions, with supposedly alternative instruments which measure the same thing” (Drost, 2011).

According to Saunders et al. 2009, reliability is mainly concerned with consistency and stability of results and measurements respectively. According to them, threat to reliability may be caused the following possible sources of errors.

- Subject error: this occurs when the respondent or participant is not interested in responding to the survey questions. This might be as a result of personal troubles or being met at the wrong time.
- Subject bias: It occurs when the participant feels to be under pressure. When this happens, the respondent might not freely and willingly express his/herself.
- Observer error: this is where the researcher commits mistake by him/herself. It arises from ignoring little details that should be considered relevant in the data collection process like time control and improper construction of research questions.
- Observer bias: the interpretation method used for the findings is dependent on the choices of the researcher. This can be a threat to reliability since the objectivity of the interpretation can also be questionable.

Validity measures how well an outcome of a research reflects reality or intended measurement. Validity is the test of whether a study truly measures that which it was intended or how true the research results are (Joppe, 2000). It also refers to how well the research outcome answers or satisfies the research objective. Mostly, researchers measure the validity of their work by asking number of questions and look for the answers in the work of other researchers.

Three types of validity exist namely: internal, content and criterion-related validity. Internal validity aims to “measure what the researcher intends to measure” (Saunders et al. 2009), content validity focuses on the relationship between the measuring device and coverage of questions. Criterion-related validity looks at the ability of future predictions, if the research can be valuable in the future.

In this study several attempts are made to ensure reliability and validity:

Firstly, various references are used to support the theoretical study of the thesis. It differs with different topics to help provide insight into the empirical study.

In designing the questionnaire, there were few but important questions that were included. This aims to improve the response rate of the questionnaires. The questions are well arranged, the language used in the questionnaire is easy to understand. The in-depth was conducted in a manner that does not restrict the respondents but permits them to express themselves freely and willingly.

The used of mixed method in this study improved the inherent weaknesses in the individual methods and improve their strengths thereby increasing the reliability and validity of this study.

4. EMPIRICAL FRAMEWORK

This chapter reports on the empirical findings of the research. The various data collected from the SMEs and the financial institutions is analysed. Tables and various charts are used in the analysis to make it easy to follow and understand the results.

4.1 Data analysis

The analysis will be divided into two groups. The first group will deal with the interview with the various financial institutions while the other group will analyse the interviews of the Small and Medium Enterprise (SMEs).

4.1.1 Data from financial institutions

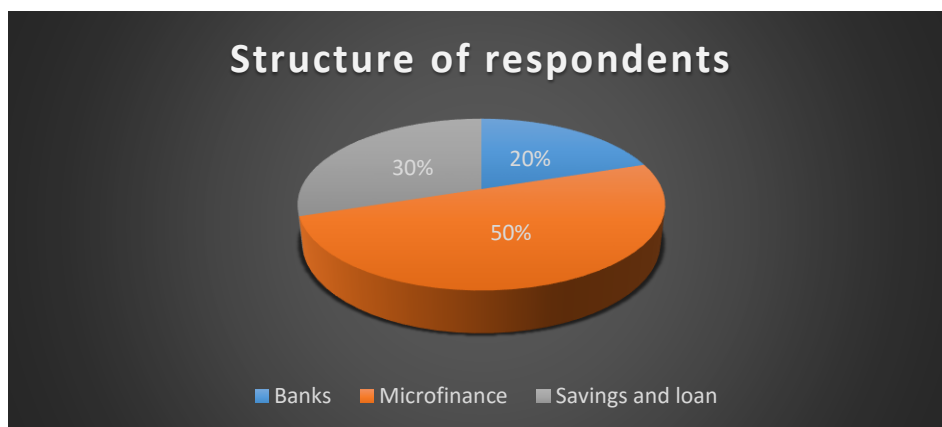
Questionnaires were sent to a total of twenty (20) financial institutions but only ten (10) responded. This represents a 50% response rate and it is quite remarkable considering the country's culture with regards to sharing information. These financial institutions are combinations of Banks, Microfinance and Savings & Loan companies. Table 10 shows the rate of respondents and figure 1 illustrates the structure of the financial institutions.

Table 10. Questionnaire response rate.

Total Questionnaire	Number responded to	No response	Percentage response
20	10	10	50

Source: Field data Dec. 2015.

Figure 1. Structure of financial institutions



Source: Field data Dec. 2015.

The banks are Ghana Commercial Bank (GCB) & Unibank Ghana Limited, the Microfinance companies are Beige capital, Ideal microfinance, Advans Ghana Ltd, Procredit & TI microfinance Ltd and the Savings & loan companies include Midland Savings and Loan, Multicredit Saving and Loan & Unicredit Savings & loan. A total of two banks, five microfinance companies and three savings & loan companies as represented in figure 1 above.

All the financial institutions that responded to the questionnaires and undertook the interview, said to have a special package for the small enterprise industry. They also confirm that the SMEs access these financial packages on a regular basis. The financial institutions make efforts to inform the SMEs of the various financial packages through different promotions and advertisements.

The various packages offered to SMEs include bank overdraft, export and import financing, working capital loan/financing, local purchase order, business expansion financing, letter of credit and business instalment loan.

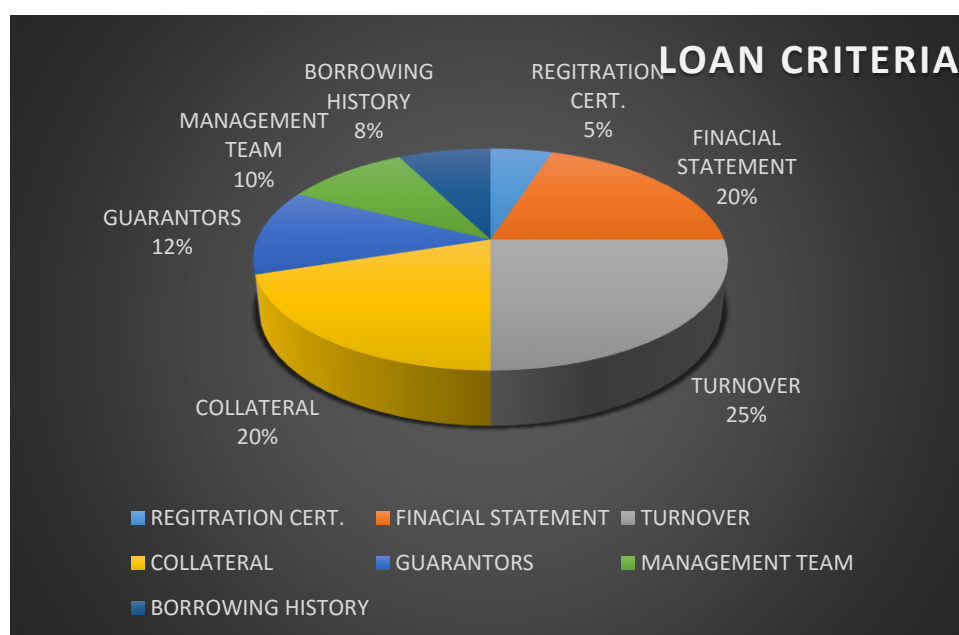
Based on the data collected from the financial institutions, the following criteria were the ones that the institutions used in making decisions with regards to giving a particular enterprise a credit facility or not.

- Business registration certificate
- Strong financial statement balance

- Revenue/Turnover
- Good collaterals
- Guarantors
- Capable management team
- Good financial background of borrowers.

Figure 2 below shows how often financial institutions use the various criteria in granting credit to SMEs.

Figure 2. Loan accessing criteria



Source: Field data, Accra. Dec. 2015

In spite of the several laid down criteria, not many of these financial institutions follow them strictly. Apart from the banks, both microfinance and savings & loan companies are very flexible when it comes to applying these criteria. They give priority to the management team and the company's financial balance sheet other than business registration certificates and other background checks of borrowers. The banks, on the other hand, give detailed attention to almost everything that is required of the client.

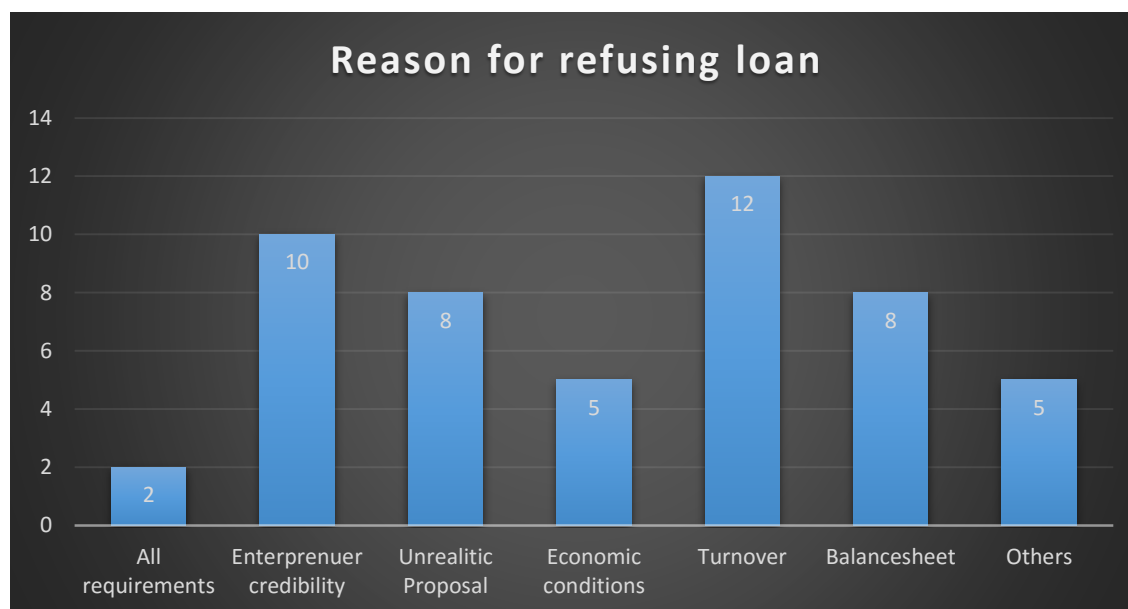
All the financial institutions interviewed have specific requirements for the different sectors of the economy and also preferences. They have particular sectors which are

regarded high risk and not favouring the liquidity strategy of the institution, hence no credit facility is awarded to those sectors. A particular sector is the road construction industry where the funding is done by the government.

All the financial institutions have once or more times refused giving credit facilities to various SMEs based on different reasons. Some of the reasons were given by the financial institutions include: inability to meet all needed requirements, the credibility of the entrepreneur, unrealistic proposals, general economic conditions, unfavourable turnover, weak balance sheet and others. The ratio of how many times a particular reason was the base for rejection can be seen as illustrated in figure 3 below.

From the figure 3 it can be seen realised that most of the attention were given to the turnover of the enterprise requesting for the loan. This was followed by the credibility of the entrepreneur. This includes a background check on the ability of him/her to pay back loans or if there are any outstanding loan in his name. Little priority was given to the SMEs fulfilling all needed requirements and the general economic condition in the country.

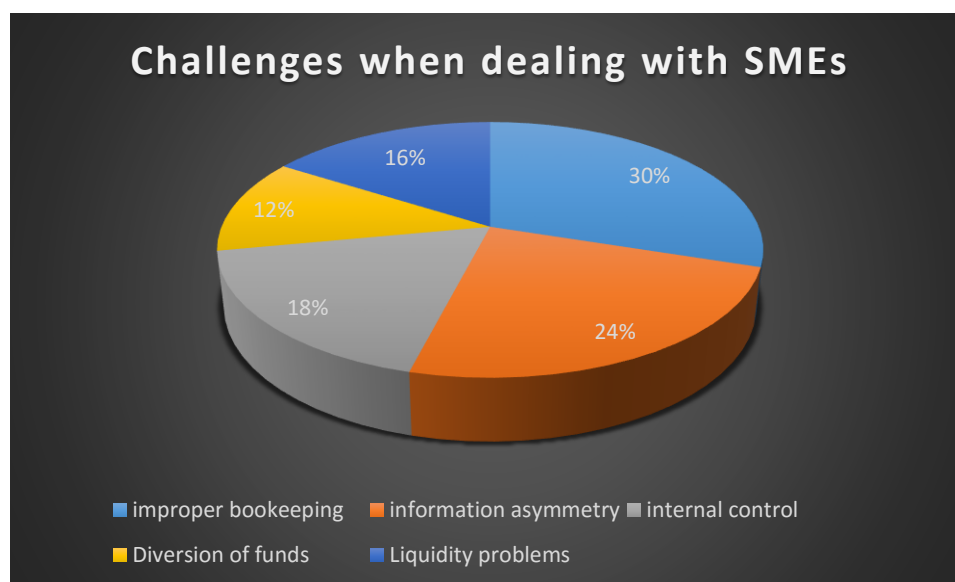
Figure 3. Reasons for refusing loan to SMEs



Source: Field data Dec. 2015

The financial institutions further reveal the various challenges they encounter when assessing the credit reliability of the small and medium enterprises. Different institutions have given different reasons and these includes: improper record keeping, information asymmetry, weak internal controls, diversion of funds and cash management problems. The re-occurrence of these individual challenges is analysed in figure 4.

Figure 4. Challenges faced when dealing with SMEs



Source: Field data Dec. 2015

The predominant challenge is improper record keeping by the various enterprises. This does not come as a surprise as most of the entrepreneurs have little or no formal education. The other challenge was the issue of information asymmetry but the rest of the challenges seem evenly distributed.

4.1.2 Data analysis from SMEs

In spite of the numerous small and medium enterprises that exist in the country, only twenty (20) out of the targeted fifty (50) responded to our questionnaires. Though it might seem small in proportion to the available number, it is quite encouraging to see the small enterprises opening up and giving out information to researchers. Table 11 shows the percentage of received responses.

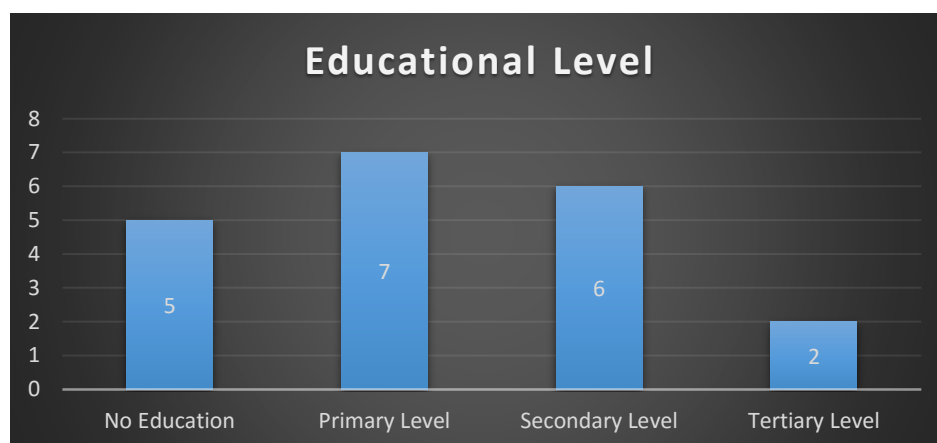
Table 11. Sample size and response rate

Sample size	Response	No Response	Rate of response
50	20	30	40%

Source: Data field Dec. 2015

It was also considered having a gender balance in the selected enterprises for the research but due to lack of responses by some SMEs, 30% and 70% of the respondents being male and female respectively. The level of education attained by the owners/managers of the various enterprises was also ascertained. This ranges from no formal education to tertiary level education. This information was necessary because the level of education can sometimes give an advantage in the success of business and borrowing from lenders (Simanowitz & Brody, 2004).

Figure 5. Level of education by SME owners



Source: Field Data Dec. 2015

From figure 5, the majority of the owners have only primary and secondary education, which together contributed 65% of the sample. Tertiary education is the list representing 10% and no education as much as 25%.

The study targeted a variety of industries/businesses in the small and medium enterprise sector. The selection was done randomly based on the popularity of the businesses in the Ghanaian economy. This was aimed at getting a broader understanding of the

various businesses and not just a few but the respondents were from only five industries. These include retailers, hair dressers, food vendors, spare part dealers and dressmakers/Tailors. Table 12 shows the various industries and total number of companies from each industry.

Table 12. Types of SMEs operated by respondents

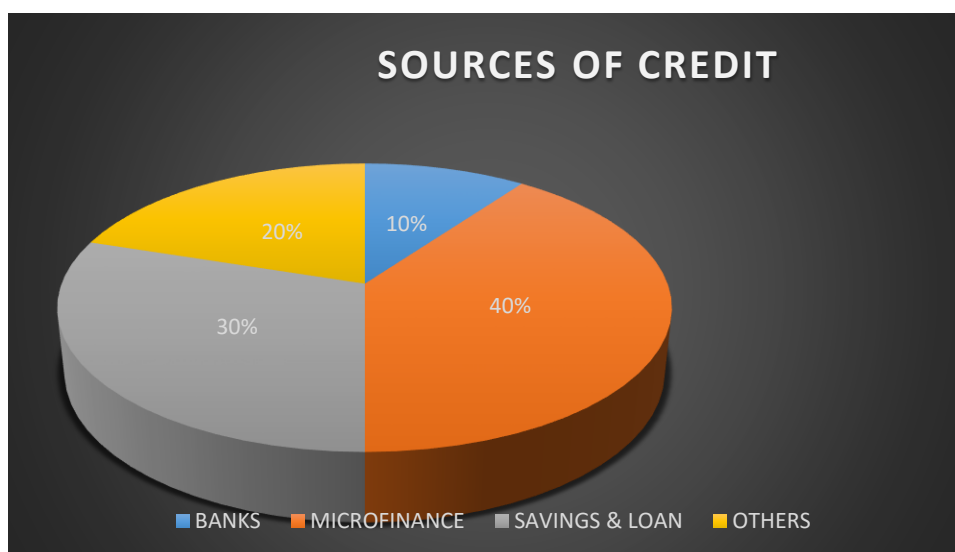
Type of SME	Frequency	Percentage
Retailing	6	30
Hair Dressing	5	25
Food Vendor	2	10
Spare Parts	3	15
Dressmaker/Tailor	4	20
Total	20	100

Source: Field data Dec. 2015

Retailing represents the majority of the sample businesses with 30% of the total sample. This is followed by hair dressing and dressmaking with 25% and 20% respectively. Spare part dealing and food vendors are the least in that order. The low response from food vendors is due to high illiteracy and total exclusion from any financial benefit from the various institutions.

The respondents were asked where they usually prefer to access credit from and why. There were different responses given and several reasons for their preferences. The various sources of credit facilities mentioned were: Banks, Microfinance, Savings & Loan companies and other non-formal financial institutions like 'susu' companies and individuals. The reason for choosing one source of credit from the other varies and reasons include: high interest rates, stringent requirements, unfavourable terms and others.

Figure 6. Sources of credit

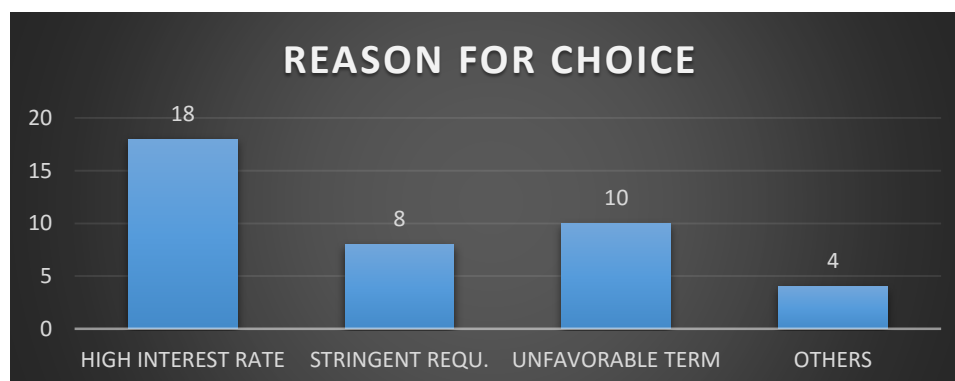


Source: Field data Dec. 2015

As shown in figure 6, most of the entrepreneurs choose microfinance as their main source of credit and banks as the least preferred option. Savings & Loan is the second most preferred and other options like friends & family etc. is the third option representing 30 % and 20% respectively.

High interest rate is the major reason why most SMEs choose one particular source of finance from the other. This represent 45% of the sample and followed by unfavourable terms and stringent requirements which represent 25% and 20% respectively. There are also other non-classified factor that impact their decisions which represents 10% of the answers given as can be seen in Figure 7.

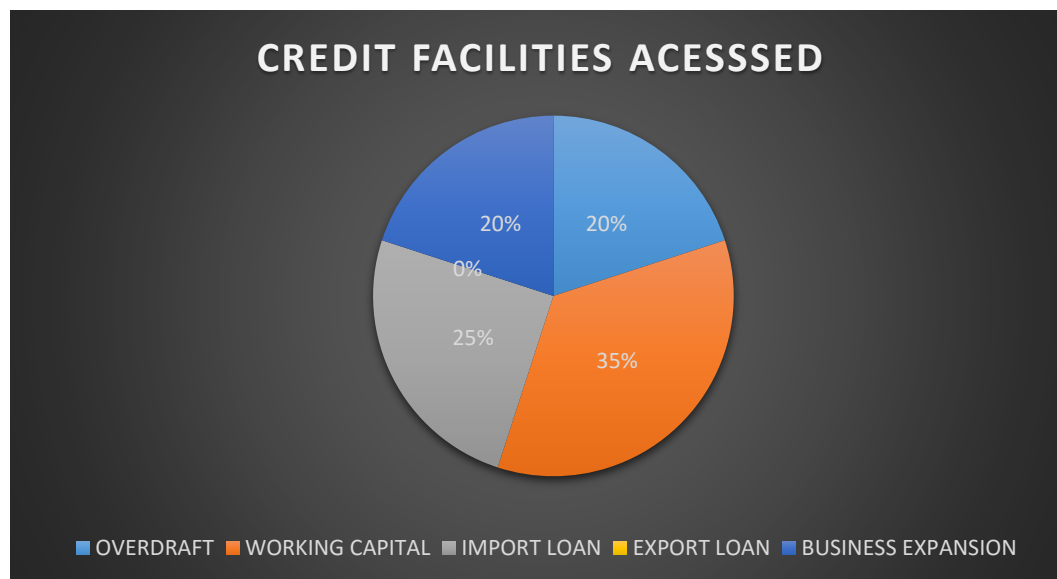
Figure 7. Reasons for choice of sources of credit



Source: Data field, Accra. Dec. 2015

The small enterprises have access to different types of credit facilities made available by the banks. The various choices might be influenced by the type of business or the various factors mentioned earlier.

Figure 8. Credit facilities accessed by SMEs



Source: Field data, Accra. Dec. 2015

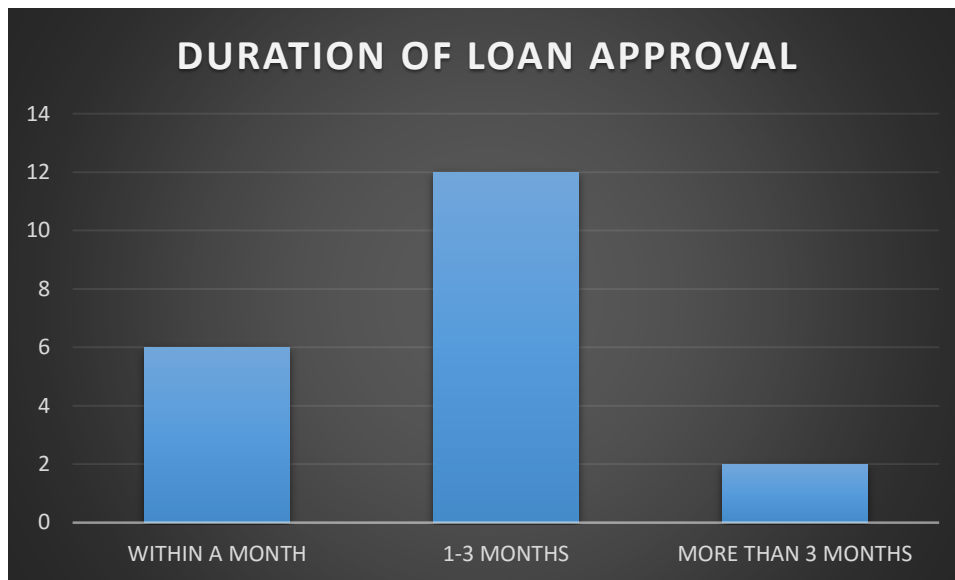
Out of the twenty (20) SMEs interviewed, 35% access working capital credit facility from the financial institutions, 25% access import loans and exactly 20% for both overdraft and business expansion loans as illustrated by figure 8 above. There were no enterprises that access export loans from any of the financial institutions. It might be a result of the type of businesses that responded to the questionnaires and also due the country being an import dependant nation.

Having access to credit facilities from the financial institutions is a good thing for the small enterprises but how fast or urgent the financial institutions respond or grant the SMEs those particular facilities is a major question. The study asks the SMEs how long it takes them to be granted the credit facility after they put in their applications.

From figure 9 it can be seen that most of the loans are approved by the financial institutions between one to three months. This represents 60% of the sample, 30%

representing approvals within a month of application and lastly, 10% of the approval takes more than three months before being granted. The difference in the duration of loan approval maybe influenced by the type of client/SME, the type of financial institution and also the amount/type of loan applied for.

Figure 9. Duration of credit approval.

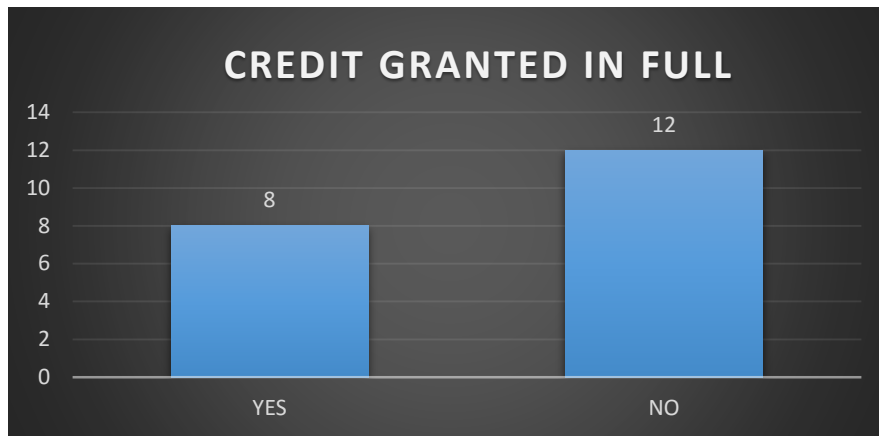


Source: Data field, Accra. Dec. 2015

The study also looks into the effects that the loan granted by the financial institutions has on the small and medium enterprises. The research seeks to know if the loans granted are used in achieving the desired goals of the SMEs.

As figure 10 it shows most of the small enterprises that apply for credit facilities are not granted in full. Out of the total responses from the SMEs, 12 out of 20, representing 60%, are not granted full credit they applied for. The remaining 40% (8) says they have full credits granted by the financial institutions.

Figure 10. Credits granted in full.

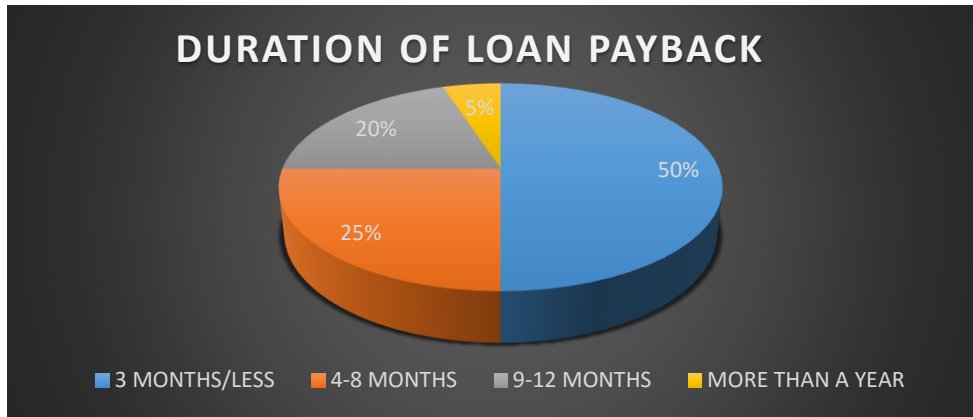


Source: Field data, Accra. Dec. 2015

Since the small and medium scale businesses are regarded as a high risk sector, the most preferred type of lending facilities extended to them is the short term lending. Due to this belief, the study asks the SMEs how many months do they have to pay back their loan.

According to figure at least 50% of the surveyed SMEs have to pay back their loans within three months or less. This confirms the fear financial institutions have when dealing with SMEs. A quarter (25%) of the sample pays back the credit facility between three to eight months and 20% pay back between nine to twelve months after taking the loan. Only 5% of the sampled SMEs have more than a year to pay back the offered loans. These type of SMEs are usually those in capital intensive businesses like spare part dealings etc.

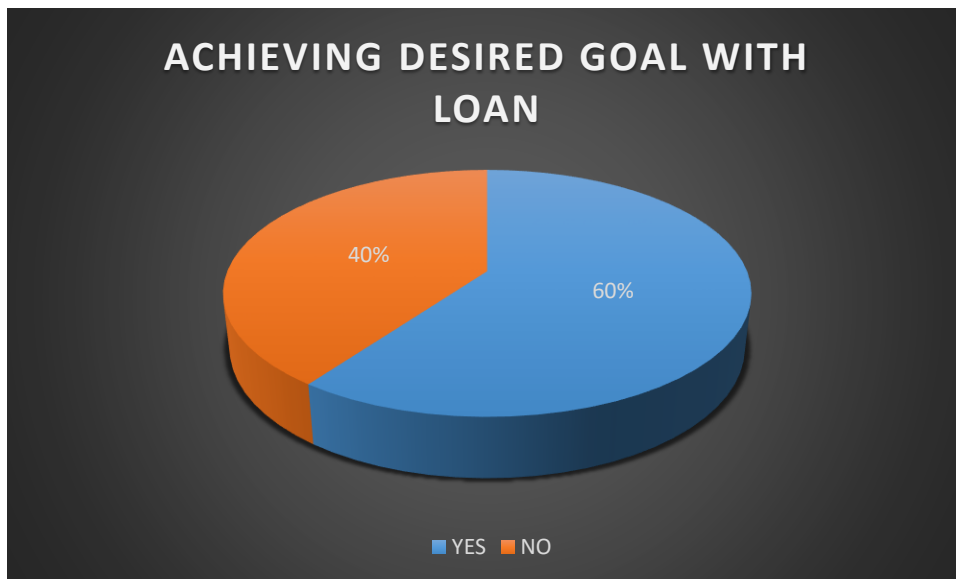
Figure 11. Duration of payback



Source: Data field, Accra. Dec. 2015

From 12 figure only 60% of the SMEs are able to achieve the desired objective the various credit facilities were granted for and 40% still do not meet their targets. This is mostly as a result of factors such as mismanagement, fund diversion and insufficient funds from financial institutions to name some.

Figure 12. Achieving desired goals with loan



Source: Data field, Accra. Dec. 2015

5. Summary, Recommendation and Conclusion

This chapter summarizes the findings in the research, conclusion and various suggestions based on the study as well as provide recommendations made by both the researcher and the respondents.

5.1 Summary of study

The research was undertaken with the main aim of finding out the various challenges that faces SMEs when accessing credit facilities/funds in Ghana. The sample was selected for the study using the non-probability method, a total of fifty SMEs and twenty financial institutions were sent questionnaires but only 20 SMEs and 10 financial institutions responded. The SMEs are from different businesses areas like retailing, hairdressing, food vendors etc. while the financial institutions include banks, microfinance, savings & loan companies. All data collected in the study was analysed and presented using graphs, statistical tables, charts and detailed explanations.

It is an established fact that the majority of the SMEs do not apply/patronise credit facilities from banks. This study conducted among SMEs has provided a concrete evidence to this fact. Out of the total of twenty small enterprises surveyed, only two representing 10%, patronizes credit facilities from banks in the country. The causes of SMEs turning away from one financial institution to another or none at all are, among others, unfavourable terms, high interest rates and collateral.

The commonly preferred credit facilities patronized by small enterprises in the country are overdraft, business expansion loan, import loan and working capital loans. Among these facilities, working capital was the most patronized package representing 35% of the sample.

The study shows that the various requirements/criteria used in accessing loan from financial institutions by the SMEs include collateral, turnover, balance sheet balances, guarantors, business registration certificate, management team and credibility of the entrepreneur/borrower. Among all these requirements; turnover, collateral and financial statement balance were the most common ones, which together represent 65% of the total sample.

The duration of credit approval ranges from less than a month, between 1-3 months and to more than three months. The most common one is between 1-3 months, which was 60% of the outcome. With regards to payback period, half (50%) of the credit facilities taken were required to be paid back within three months after approval. 25% is required to be paid back within eight months while the remaining 25% goes from nine months to over a year. This occurrence has confirmed the fact that financial institutions view the SMEs sector as a risky area of business.

All the financial institutions interviewed confirmed emphatically that they had refused/rejected a credit application from small enterprises in the past. The reasons for the rejections include entrepreneurial credibility, unrealistic proposals, general economic conditions, weak turnover, and balance sheet balance. Turnover, balance sheet balance and entrepreneurial credibility were the frequent appearances among the several reasons why the credit applications were turned down.

The various financial institutions are faced with challenges when dealing with small businesses. These include improper bookkeeping, information asymmetry, weak internal controls, diversion of credits and liquidity problems. Improper bookkeeping and information asymmetry were the most common challenges that is faced by the financial institutions.

The educational level of the managers/owners of the various SMEs is very encouraging considering the illiteracy rate in the country. Only 5 out of 20, representing 25% of the owners/managers, had no formal education. 10% had a tertiary education and the remaining 70% have both primary and secondary education. This is to say that the issue of improper bookkeeping is not as a result of total lack of education but lack of managerial competencies.

Out of the 20 SMEs surveyed, only 8 of 20 (40%) have been granted full credit facilities that they had applied for in the past. 60% were given less than they had applied for based on the sole discretion of the financial institution. In addition, only 60% of the various SMEs were able to achieve the desired results after taking the loans from the financial institutions and 40% were not.

5.2 Recommendations

From the research conducted there is clear evidence that prove SMEs face a lot of challenges when accessing credit facilities from the various financial institutions. It is also obvious that small and medium enterprise sector is the engine of the national economy. Based on the aforementioned observations, the following recommendations are made from the research.

5.2.1 Research into business area of interest

Though some of the SMEs have access to credit facilities, they still were not able to achieve the desired goals for the business. This might be due to lack of significant knowledge about the sector in which they are operating. Small enterprises are therefore advised to conduct an in depth research to have good knowledge and understanding of the sector they intend to invest. If enough information is collected with regards to the interested sector, the SME will be able to draw a better business plan that will improve its chances of acquiring funds from financial institutions.

5.2.2 Other sources of finance

The financial industry in Ghana have considered the small and medium scale industry as a high risk sector and hence it is reluctant to extend credit facilities to the sector. This has a negative effect on SMEs with very good potentials/prospects to be unenticing to the financial institutions. Such SMEs should consider other sources of finance like Venture Capital, Business Angels and Crowdfunding which offer lower cost of capital compared to the financial institutions.

5.2.3 Well-structured management team.

The majority of SMEs in Ghana are owner-managed and all decisions are made by an individual. This means the absence of such individual due to illness or death will lead to the collapse of the business. One of the main requirements/criteria for accessing credit from the financial institutions is a good management team. If the various SMEs put in place good management teams and a good succession plans, financial institutions will see the business as a good prospect and running into the foreseeable future hence having a good chance of been granted credit facilities.

5.2.4 Proper bookkeeping and bank account.

Keeping up to date records of business transactions enable the company to keep track of its operations. Many of the financial institutions give priority to proper bookkeeping as a criteria for accessing funds and, hence, SMEs will be at advantage if they keep good business records. Maintaining a bank account with any of the financial institutions will help the SMEs to have easy access to credit facilities. Having a considerable amount in a bank account with a financial institution means the institution will have an idea of how much of capital the SME operates with, thus serving as a guarantee that SME will be able to pay the credit back in time.

5.2.5 SME managerial education/training

Most of the owners/managers of SMEs in the country do not have the necessary training or education on how to manage their businesses profitably. Equipping the various SMEs owners with the necessary skills such as credit management, cash management, investment decision making and bookkeeping will help improve the returns on their investments. When there is an increase or an improvement in the performance of SMEs, the financial institutions will be flexible when offering them credit facilities. The training can be done by banks, government and other non-governmental organizations (NGOs).

5.2.6 Flexible terms of payment/Alternative ways of giving credit

One of the main constraints to the access of credit from financial institutions is the unfavourable terms and high interest rates offered by the financial institutions. The research recommends financial institutions to provide credit facilities with a lower interest rate to the small enterprises. It is also recommended that financial institutions provide credit through the provision of goods, raw materials etc. instead of giving the SMEs cash which might be diverted.

5.2.7 Government intervention

Though government and other non-governmental organizations have put in much effort to ease access to credit in the country, there is still a lot that needs to be done. The government can by ensuring that the central bank reduce the base rate for loans offered

to SMEs by providing subsidies to the financial institutions supporting the small business sector.

The government with the help of the central bank should designate a financial institution whose sole responsibility should be supporting the small and medium enterprise sector with, for example, credit facilities and training entrepreneurs on business management and credit management.

5.3 Conclusion

It is an undeniable fact that SMEs are the engines of every economy, especially in the developing world. They also form the foundation from which most of the big corporations of today were developed. It is therefore a legitimate argument that, the success of the small and medium enterprises will help improve the entire economy of the country.

In the theoretical framework it was clearly shown by reviewing previous researches that the small and medium enterprise sector is faced with various challenges when accessing credit facilities from the financial institutions. This belief has been confirmed by the empirical framework of this study. Financial institutions have put in place various requirements which are not easily met by the SMEs and both SMEs and financial institutions have some challenges/difficulties each face when transacting business.

The myth about illiteracy rate being the cause of most small business owners not having good bookkeeping records of their business transactions is not in correspondence with the empirical study. The study shows only 25% of the respondents have no formal education, hence the high rate of lack of bookkeeping is due to other factors like managerial skills for example and not solely due to illiteracy.

In conclusion, according to the theoretical framework, financial institutions consider the small and medium enterprise sector to be very risky. This corresponds with the way financial institutions put in several criteria to be met by the SMEs, and also the rate at which they reject loan applications and the high interest rate they usually charge the SMEs which became evident in the empirical study. Again, the theory also stated that

small business owners sometimes divert funds which are meant for the operation of business into other personal projects which corresponds to the fact that about 40% of the respondents had not been able to achieve their desired goal after being granted the credit facilities inquired about in the empirical study. Though the research cannot categorically state that funds were diverted, it can also be a major cause of nonfulfillment of the desired objectives by entrepreneurs.

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APPENDICES

QUESTIONNAIRE FOR SMALL AND MEDIUM ENTERPRISES

1. Which sector of SME do you operate?

YES NO

2. What is your level of educations?

NONE BASIC HIGH SCHOOL TERTIARY

3. Do you access credit facilities from financial institutions?

YES NO

4. If yes, which type of institutions do you access credit from?

BANKS

MICROFINANCE

SAVINGS & LOANS

OTHERS

5. What influences your decision on the choice of institution?

I-----

II-----

III-----

IV-----

6. Which type of credit facilities do you access from the financial institutions?

I-----

II-----

III-----

IV-----

7. How long does it take for your credit to be granted after application

WITHIN A MONTH

1-3 MONTHS

MORE THAN 3 MONTHS

8. What is the duration of payback for your credits?

WITHIN 3 MONTHS

4-8 MONTHS

9-12 MONTHS

MORE THAN A YEAR

9. Are your credits granted in full?

YES

NO

10. Do you achieve your desired goals after being granted the credit?

YES

NO

QUESTIONNAIRE FOR FINANCIAL INSTITUTIONS

1. Do you have any special financial package for SMEs in your financial institution?

Yes

No

2. If yes, do SMEs patronize these facilities?

Yes

No

3. Name the main criteria used by your institution in granting a credit facility to SMEs

I. -----

II. -----

III. -----

4. Have you ever reject/turn down a credit application form SMEs?

Yes

No

5. If yes, what was the reason for rejection?

I. -----

II. -----

III. -----

6. What are the challenges you face when processing credit facilities for SMEs?

I. -----

II. -----

III. -----