

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF HUMANITIES AND SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

KNUST

FINANCING OF SMEs IN GHANA.

A CASE STUDY OF BANKS IN KUMASI.

BY

NKUKPORNU, Etse

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FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF
MASTER OF SCIENCE IN ECONOMICS.**

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DECLARATION

I hereby declare that this thesis is my own original work towards the award of master of science in Economics and that, to the best of my knowledge, it contains no material published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been in my work.

Nkukpornu, Etse (PG2728014)
(Student & PG) Signature Date

Certified by:

Prof. Joseph, Ohene-Manu
(Supervisor) Signature Date

Certified by:

Dr. Kennedy kwabena Abrakwa
(Internal Supervisor) Signature Date

Certified by:

Hadrat, Mohammed Yusif (PhD)
(Head of Department) Signature Date

DEDICATION

I dedicate this project work to my wife Theresah Abla Ahiavor and my son Mawufemor Cofi Nkukporu and the entire family.

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I am grateful to my supervisor (Prof. Joseph, Ohene - Manu) for his intensive supervision and guidance. I wish to also thank the entire lecturers and the administrative staff in the department of Economics. I am also grateful to Nuworkpor Victor who doubled as my study partner and someone who encourages me at all times through thick and thin. I wish to also thank all my course mates for their contributions and advice towards the success of this work. I also want to thank Elliot and Mary Amponsah of Economics department for their support in device ways.



ABSTRACT

This research work examines financing of SMEs by Banks with emphasis on Owner Characteristics (that is Age, Education, Gender, Personal attributes). This is as a result of the fact that most banks concentrate on collateral as one of the determinant of loans assessment by SMEs.

Most SMEs are unable to meet these collateral requirements by banks hence a hindrance to the loan acquisition by SMEs. This current study revealed that amidst the challenges, SMEs owner characteristics was identified as a variable that banks could depend on to some extent to grant credit facilities to SMEs.

A structured questionnaire was employed with a sample size of 120 respondents among banks with interest in SMEs activities to gather data in Kumasi. A simple linear regression was used in the analysis of data to generate the desired or appropriate results.

The results of the analysis showed that Education, Age of Business, Personnel attributes are a significant variables that influence SMEs access to loans from banks. Gender did not play a role to influence SMEs access to loan unless the SMEs loan is gender specific.

The policy direction for this research work is that banks and non-banks financial institutions should also pay attention to SMEs owner characteristics even though collateral forms a major part in access to loans by SMEs.

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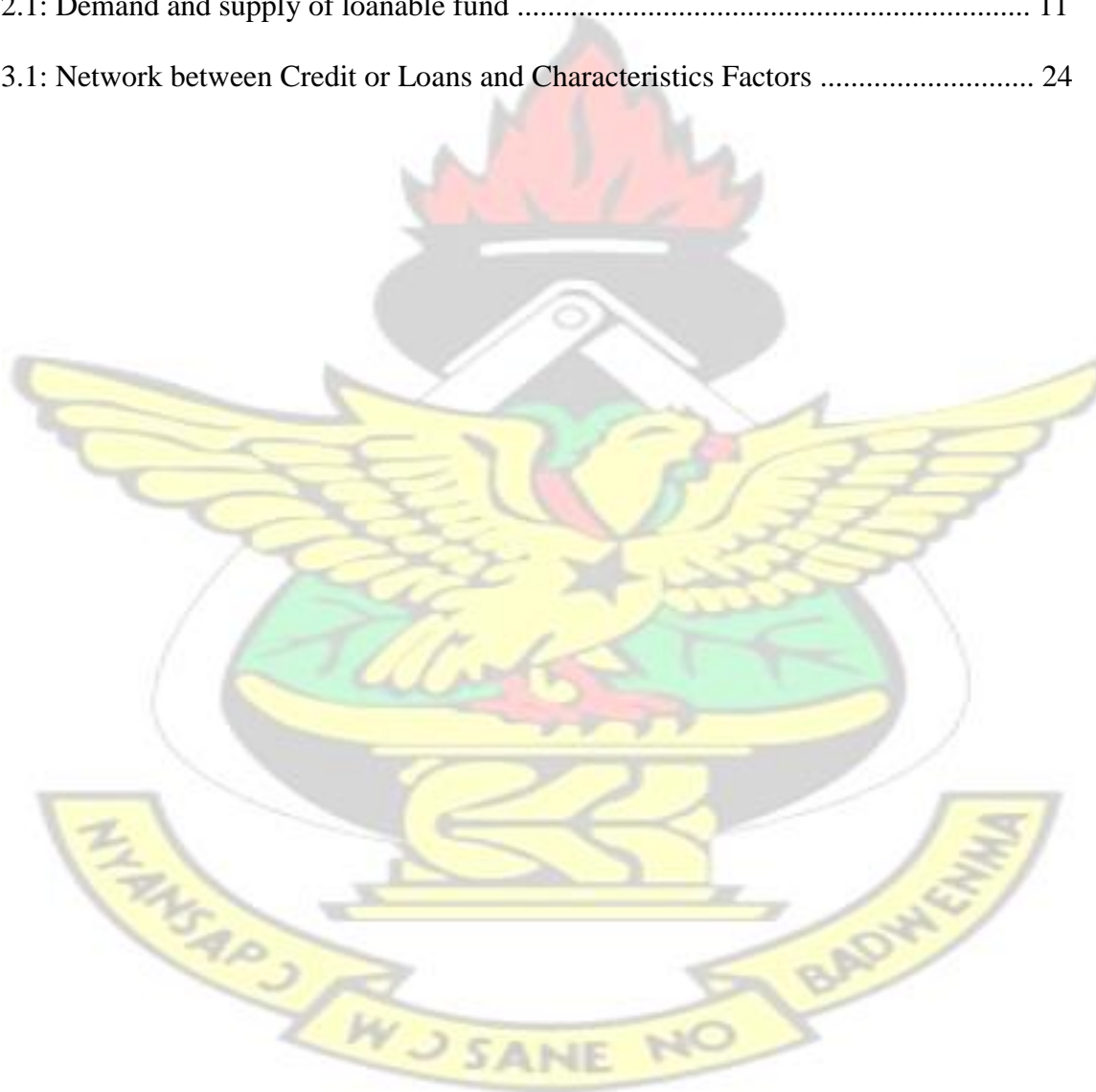
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CHAPTER ONE

INTRODUCTION

1.1 Background Issues

Small businesses play important role among underdeveloped and developed countries (Mead & Liedholm, 1998; Aremu, 2004). According to Agwu and Emeti (2014), the activities of small enterprises help in the generation of income to the country. Furthermore, Abor & Quartey (2010) argue that, SMEs provide base for government revenue through the tax payment obligations which aid in redistribution of income through public spending.

In developing economies, the impact of SMEs are more conspicuous to the extent that they dominate the economic activities and this situation is not different from the Ghanaian context.

In Ghana, about 85% of jobs in the manufacturing sector is created by SMEs (Aryeetey, 2001; Abor & Quartey, 2010). It is worth noting that, about 92% of Ghanaian businesses are SMEs based and also in terms its contribution to GDP is about 70% and its impact on employment is about 80% (Gumede, 2000). For example, in the furniture industry specifically, Sokoban wood village and artisans in Suame magazine all located in Kumasi in the Ashanti Region in Ghana employs sizeable number of Ghanaian hence reducing unemployment rate in the country contributing to economic growth. The above argument gives an indication that the growth and improvement in the economy of a country depends to a larger extent on the activities of small businesses. (Abor & Quartey, 2010).

Notwithstanding the numerous achievements, it is very challenging for SMEs to access credit from formal institutions compared to large corporation. (Beck & Demirguc-Kunt,

2006). This is because large corporations are able to meet the banks credit assessment requirements setup by the financial institutions. However, the dynamics in the financial market institutes certain constraints which inhibits the growth of SMEs and this results in government coming in to support.

The definition of Small and Medium Sized Enterprises is subject to elastic interpretation.

In Ghana, according to the National Board for Small Scale Industries (NBSSI), SMEs are business with at most nine (9) workers with non-current assets totaling not more ten thousand Ghana cedis (GHS 1000.00).

The activities of SMEs can be categorized under organized or unorganized businesses. The organized SMEs exhibit the following characteristics; they have registered names and premises and also their employees are paid salaries. On the other hand, unorganized SMEs notably operate in open spaces, temporary wooden and metallic structures, they usually operate from the home, and also typical of them is that they work mostly with family members as apprentices (Kayanula & Quartey, 2000).

Several studies have attributed the failure of SMEs to their inability to access credit facilities from financial institutions (Atieno, 2009; Abor & Quartey, 2010). The reason is that they lack proper accounting records, difficulty in separating their personal finances from that of the business and this makes their financial statement unreliable for banks to depend on as a basis for credit assessment (Nkuah et al., 2013).

In the 21st century, financial institutions have designed systems to reduce credit risk (Angelini, Tollo & Roli, 2008). In recent times financial institutions adopts the ‘5 Cs’

criteria namely Capacity, Capital, Collateral, Character and Conditions which they use as a yardstick to grant or reject credit facilities to the applicants (Orser & Foster, 1994).

According to Nkuah et al. (2013), an important element which enhance growth and sustainability of SMEs is availability of credit facilities which is still a major challenge in our part of world. This is because most SMEs are unable to meet the targets set up by financial institutions in terms of access to credit. Other, problematic area have to do with banks over concentration on collateral as a basis for granting credit facilities which most SMEs failed to meet such a requirement (Abor & Quartey, 2010). In the light of these, Mallick and Chakraborty (2002) suggested that, banks should take into consideration the SMEs owners characteristics (Character) when offering credit facilities to the SMEs.

It is therefore on this premise that; this current study wants to investigate among the 5Cs the influence of owner characteristics on SMEs loan acquisition in the Ghanaian context.

1.2 Problem Statement

The major challenge that confronts the operations and expansion of SMEs activities is financing.

The World Bank report highlighted that, large firms are granted credit both domestic and foreign compared to small firms (Cull, Davis, Lamoreaux & Rosenthal, 2006). The small and medium enterprises are observed as strong force in the development of the economy and reduction of poverty and unemployment. As a wake-up call successive governments introduced financial packages such as Microfinance and

Small Loans Center(Masloc) with the prime motive of helping revamp the activities of SMEs yet these institutions are unable to turn over the capital that will lead to economic growth and reduce poverty in the country.

Most SMEs are unable to access credit from the formal financial institutions (Nkuah et al., 2013). This is due to the over demanding requirements and the bureaucratic lending procedures by formal financial institutions. According to Nkuah et al. (2013) most financial institutions in Ghana employ a “5C” criteria in assessment of credit to SMEs. These are collateral, character, capacity, condition and capital. Among the 5Cs, most banks place premium on collateral as a major basis for granting or rejecting SMEs access to credit even though the other criteria must be satisfied. At the practical level most SMEs are unable to satisfy the premium requirement and this also confirmed the above by Abor and Biekpe, (2006) who argue that SMEs inability to provide collateral is a hindrance to their access to formal credit from banks. In spite of the above challenges, little attention has been given to SMEs owners’ characteristics as important determinant of SMEs credit acquisition. This research work examines SMEs owner characteristics in terms of gender, age, knowledge, personal attributes in assessing credit facilities from the banks.

1.3 Research Questions

1. What are the effects of gender driven or gender oriented business setup on SMEs access to loan from banks?
2. What is the effect of knowledge in terms of level of education of the entrepreneur on credit assessment?
3. What is the effect of age in terms of how long the business has been in operation?

4. What is the effect of personal attributes in terms of ethical practices, corruption and proliferate spending on SMEs access to credit?

1.4 Objectives of the study

1.4.1 General objective

To identify the influence of SMEs owner characteristics on access to credit from the bank.

1.4.2 Specific objectives

1. To examine the impact of gender driven or gender oriented business setup on SMEs credit assessment.
2. To find out the effect of knowledge in terms of level of education of the entrepreneur on SMEs loan acquisition from the bank.
3. To ascertain effect of age in terms of how long the business has been in operation on SMEs credit acquisition.
4. To determine the impact on personal attributes in terms of ethical practices, corruption and proliferate spending on SMEs access to credit from the bank.

1.5 Justification of the study

In this era of our country where unemployment is on the ascendency. The severity of the unemployment issue is evidenced in the freeze of employment by government in the public sector as a result of international monetary fund (IMF) conditionality's. Government attention has been driven towards the growth and sustainability of SMEs and therefore introduce policies like; MASLOC, Youth Enterprise and Skills Development Programme (YESDEP), and Local Enterprise and Skills Development

(LESDEP) which are aimed at empowering and sustaining SMEs through financial support and the skills acquired through training programme will help people establish their own businesses.

This study is therefore timely and appropriate since the findings of this research will contribute to knowledge and literature on SMEs financing which will enhance their growth and survival.

1.6 Scope and significance of the Study

This research will be conducted within Ashanti Region of Ghana specifically Kumasi. The reason is that Kumasi is known as the center of business activities which is predominant by SMEs.

Some examples of SMEs in Kumasi which are worth mentioning include; wood workers at Sokoban wood village, Artisans of Suame magazine, Serwaa Kobi market at Abinkyi, fish mongers at Asafo market. SMEs with not more than nine workers were considered for this study (NBSSI). Also, banks and financial institutions that were considered for this study were those that accepted that they grant credit facilities to SMEs notably Unibank Ltd, UT Bank, Bank of Africa, Access Bank, Stanbic, Multi Credit, and First Allied Savings and Loans Ltd.

This study is timely because over the years SMEs are constrained with access to credit facilities. Their inability to get credit could be attributed mostly to their failure to provide collateral. This research will look at how owner characteristics of SMEs will influence their access to credit.

1.7 Chapter organization

This studies will be organized in five chapters. Chapter one includes background of the study, problem statement, research questions and objectives, scope of the studies and chapter organization. Chapter two will take into consideration relevant literature in the subject area. Chapter three will be the research methodology. Chapter four will look at data analysis. Chapter five will show summary of findings, conclusions and recommendation.



CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical Review

This section reveals the theory which underpins the study. Prior to the review of literature on the neoclassical theory of capital accumulation, literature on some basic concepts in this study was first discussed.

2.1.1 Definitions of Concepts

□ What is SME?

Discussions on Small and Medium Enterprises (SMEs) abound in literature. However, as to what exactly is SME is a subject to elastic interpretation. Different institutions have diverse views as far as the meaning to SMEs are concern (Australian Fair Works Act, 2009; Nigerian National Development Plan; European Commission; Ghana Statistical Service (GSS); and National Board for Small Scale Industries (NBSSI). Existing literature depicted that, the definition of SMEs have different meanings. This is because, the meaning of SMEs varies in respect of geographical boundaries and dependent on view point of others (Taylor & Adair, 1994).

For instance, the Australian Fair Works Act (2009) defines SMEs as businesses with employees fewer than 15 people. However, in the United States, businesses with employees less than 500 qualifies under SMEs. According to the European Commission SMEs are business with not more than 250 employees and annual turnover not more than EUR 50 million and annual balance sheet of not more than EUR 43 million (Fatai, 2011). In Nigeria, SMEs are businesses with not more than 10 employees and non-current assets of six hundred thousand naira.

In Ghana, NBSSI defines SMEs as business with at most nine (9) workers and noncurrent assets of GHS 1000.00.

SMEs and their operations vary from one geographical location to the other. As a result, certain definitions and operations of SMEs from one region might not be applicable to other regions.

The Registrar General Department reveals that 90% of businesses registered are SMEs but it is very difficult to get data about them (Mensah, 2004).

□ The 5 C's of Credit

According to Allen, DeLong, and Saunders (2004), credit officers of various banks or non-bank institutions use the 5C's of credit approach in order to determine the right business for the loan. Allen et al. (2004) argue that there is an element of subjectivity in the evaluation of the 5C's of credit since professionals can be bias in some cases during the assessment. The five Cs of credit comprises of capacity, collateral, capital, condition and character as yardsticks for loan assessment in financial institutions.

CHARACTER: This is where the applicants is examined based on past credit records and this helps the financial institution to ascertain whether applicant was able to meet past obligation. Knowledge of past credit record about the entrepreneur helps the financial institution to give a good impression about how committed the entrepreneur is in fulfilling their financial obligations as they fall due.

CAPACITY: This is an indication of the applicant's ability to repay debts based on their current income and variable investment.

CAPITAL: This is where the bank or the lender considers how much of the business activities is financed by either debt or equity. If the debt is greater than the equity then it becomes a threat to the lender to further advance credit to the borrower.

COLLATERAL: This is where fixed assets or other valuable items which can easily be converted to cash are used as securities to back the loan to be obtained from the financial institutions. The collateral forms a major component of lenders assessment in granting credits facilities to borrowers. This is because in the event of default, they can sell the asset to pay off the amount.

CONDITIONS: It indicates how much is the cost of borrowing on the loan in terms of interest rate and also the period for the repayment of the loan.

2.1.2 Roles and Functions of SMEs

Scholars have argued that the role played by SMEs cannot be over emphasized (Snodgrass & Winkler, 2004; Asiedu & Agyei-Mensah, 2008; Okpukpara, 2009; Agbor & Quartey, 2010). According to Asiedu and Agyei-Mensah (2008), SMEs contribute significantly to the economies of both developed and developing countries. Poverty minimization is a key role played by SMEs in developing economies (Snodgrass & Winkler, 2004; Agbor & Quatey, 2010). Snodgrass and Biggs (1996) argue that, SMEs create employment opportunities than large firms because SMEs are more labour intensive. Okpukpara (2009), also argues that, SMEs in most African countries, contribute significantly towards poverty alleviation through production and employment creation.

However, micro businesses such as street traders are not formally recognized yet they contribute significantly to Gross Domestic Product (GDP) and they create employment

in the informal sector in developed and developing economies (Liedholm & Mead, 2013).

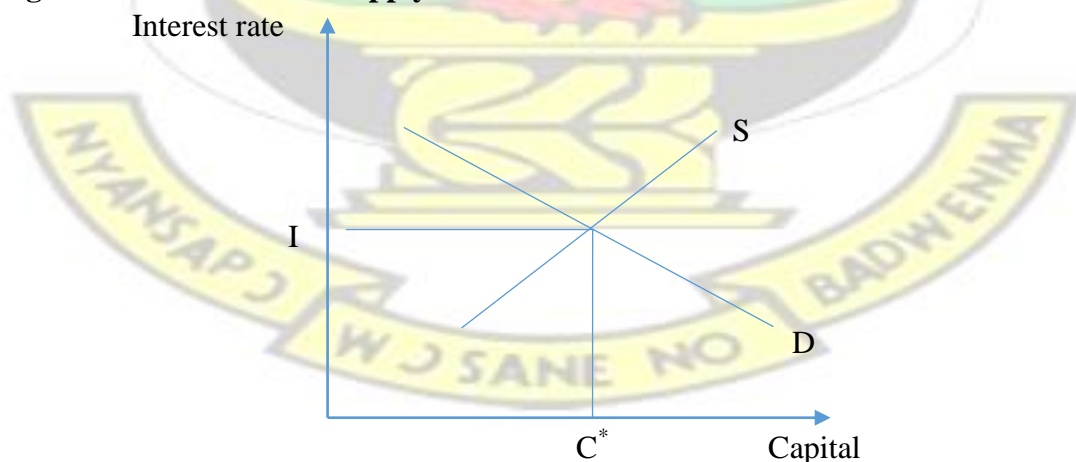
Other functions of SMEs include training and equipping unskilled labour for the development of informal sector of the economy. They contribute to the total revenue generation of government through the payment of taxes and other income levies. SMEs also help increase the standard of living of individuals since they realized some income from their work.

2.1.3 Neoclassical Theory of Capital Accumulation

Financial capital is the key stimulant to business growth and access to financial capital is influenced by personal attributes, age of the entrepreneur, education background and gender. Therefore a review of the theory of capital accumulation is of foremost interest in terms of availability of loanable funds for promoting and expanding business enterprise.

In this case, it is in order to review the neoclassical theory of capital accumulation.

Figure 2.1: Demand and supply of loanable fund



The diagram shows that, the demand for loanable fund is therefore a function of interest rate. From Neoclassical theory as interest rate falls there will be a switch from less capital intensive method to more capital intensive method of production.

In the same way, as interest rate falls there will be a switch from less capital intensive enterprises to a more capital intensive enterprise. In essence as more and more of capital is utilized (i.e. as capital stock expands) the marginal productivity will decline to define downward sloping capital demand curve.

As capital stock accumulate or expands there will be more loanable funds available for business expansion.

2.2 Empirical Review

Studies conducted globally show that, the SME sector are face with challenges in access to credit (Kauffmann, 2005; Abor & Biekpe, 2006; Hass & Horen, 2010; Nkuah, Tanyeh & Gaeten, 2013; ECB, 2013). For instance, in Europe, the report by the European Commission Bureau revealed that SMEs are faced with crises in their quest to access finance from banks than large firms. The report alluded their inability to the absence of detailed financial statement and short track records by SMEs (ECB, 2013).

Kauffman (2005) also suggested that, in the African context, SMEs find it difficult to access credit facilities from the formal banking sector. This according to Kauffman (2005) is due to the high risk of default and inappropriate financial facilities among SMEs. A study conducted in Zimbabwe in terms of SMEs owner characteristics influencing loan assessment, age of the business was found to be important in influencing SMEs access to credit (Makoni & Ngcobo, 2014). Their study found out that, the older the business the likelihood of their chances of accessing credit since the banks could have access to their credit performance history. Makoni and Ngcobo (2014) also found that, negative credit history of the owner hinders to a large extent the firm's access to loan.

The situation discussed earlier in other geographical settings are not different in the Ghana. In the Ghanaian context, the reason for SMEs inability to access credit for development were their inability to provide collateral security, managerial incompetence and inadequate credit worthiness (Abor & Biekpe, 2006; Nkuah et al., 2013). Even though, microfinances institutions are established to support the SMEs sector, Kanayo, Jumare and Nancy (2013) argue that numerous SMEs are unable to acquire financial assistance from other financial institutions like the microfinance due to the fact that they charge high interest rate on their loans.

Also, a study conducted by Eyiah and Cook (2003) dubbed “financing small and medium scale contractors in developing countries a case study in Ghana,” found out that, Banks for Housing and Construction was willing to give credit to small contractors yet due to contractors managerial incompetence’s, delay in payment by their clients, inability to obtain contract and their deliberate attempt of not paying the loan were the reasons that accounted for the failure of SMEs access to loan.

Extant literature reveals that some SMEs inability to access credit were as a result lack of managerial skills, equipment and technology (Bebczuk, 2004; Slotty, 2009). Kauffman (2005) also argues that SMEs at their teething stages encounter a lot of problems such as lack of credibility and collateral. Similarly, Gbandi and Amissah (2014) confirmed the argument made earlier by Kauffman (2005) and opine that, SMEs are unable to acquire loans from financial institutions because of the fact that they do not have collateral to serve as a security for the loan. Mensah (2004), also argue that, most SMEs have limited formal education and as a result have inadequate managerial skills to enable them design a strategic business plan to attract financial assistance from the financial institutions.

Finally, reasons for some SMEs inaccessibility to financial assistance from the formal financial sector involves complex measures used in lending coupled with the cost associated with processing the loan (Bakhas, 2009). Studies have also showed that, SMEs are constraint with accessing debt and equity finance (Mazanai & Fatoki, 2012; Richard & Mori, 2012).

2.3 Institutional Review of Participating Banks

2.3.1 UniBank Ghana Limited

UniBank (Ghana) Limited was incorporated as a private company and licensed to operate as a bank in December 1997. It is a wholly owned Ghanaian bank licensed to undertake wide range which opened its door to customers in January 2001.

The vision of the bank is “To be the leading and preferred Bank offering comprehensive financial solutions to our chosen customers (SME and Personal Banking markets) in a professional, caring, responsive and profitable way”.

The mission of the bank are: to ensure customers get value for their services; Ensure congenial working conditions and environment; maximize the wealth of shareholders; and undertake corporate social responsibilities.

This bank has thirty-six (36) banking branches. During, the Banker-Africa, West Africa Awards 2015, UniBank was awarded Ghana’s Best SME Bank. The financial performance indicates that they made a profit before tax of GHS41.3 million in 2014 compared to 2013 figure of GHS31.6 million an indication of 30.5% growth over the previous year 2013. Their total assets stand at GHS1,299 million in 2013, as against 2014 figure of GHS2,147.2 million, an increase of 65.30%.

2.3.2 Access Bank

Access Bank started its operations in Ghana on August 19, 2009 which has provided universal banking services to almost the population in Ghana and has acted as a facilitator for growth and development. The Bank in collaboration with government and other local businesses help deliver exceptional banking services and also support financially the key sectors of the economy.

The vision of the bank is “To be the world’s most respected African Bank”, and their mission include, Setting standards for sustainable business practices that; unleash the talents of our employees, deliver superior value to our communities we serve and provide innovative solutions for the markets and communities we serve.

The financial performance indicates that they made a profit before tax of GHS123.2 million in 2014 compared to 2013 figure of GHS71.8 million and their total assets stand at GHS999.1 million in 2013, as against 2014 figure of GHS1,710 million.

Currently, Access Bank has forty-five (45) branches across the country. Access Bank adherence to standard practices in the industry makes it won an award as the “Bank of the Year, 2013” in Ghana.

2.3.3 UT Bank Ghana Limited

UT Bank Ghana Limited started its operation in 1997 as a Finance house and graduated as a lending company to a Universal Bank. It is traded on the Ghana Stock Exchange. UT Bank focuses basically on meeting the financial needs of small and medium sized enterprises (SMEs). UT Bank delivers credit to its clients in less than 48 hours and this distinguishes them from other financial institutions in terms of credit delivery and are known ‘Unique Bank for Real People’.

The vision is “Redefining Banking” and its mission is “to be the preferred bank for businesses and individuals, and to provide quality and outstanding products and services with speed and efficiency in order to generate customer satisfaction and build shareholder value”.

It won an award in 2012 Ghana Banking Award as the 1st runner up in Agricultural Financing and Corporate Social Responsibility and also won the Bank of the Year in 2011. As at 2014, the bank has thirty (30) interlinked branches.

The Bank’s interest income increased from GHS189 million in 2013 to GHS226 million in 2014, representing a 20% growth. Profit after tax increased by 12% to GHS11 million. The Bank’s total assets stood at GHS1.6 billion, representing a 22% growth over the previous year amount of GHS1.3 billion. Our loans and advances increased by 31% to GHS1.2 billion. This growth was attributable to a combination of new loans disbursed and the currency translation of our foreign currency loan book.

The sharp cedi depreciation experienced during the year caused an artificial increase in the value of our US dollar loan book when translated into Ghana cedis.

2.4 Owner Characteristics of the Entrepreneur

Scholars have argued that, SMEs and the activities mostly depends on the owner (Nooteboom, 1994; Carson, Cromie, McGowan & Hill, 1995). Nkuah, et al. (2013), argued that it would be difficult to separate the activities of the SME owner from the business since the operations of the business are control and dominated by the sole proprietor. Verhees and Meulenbergh (2004) said that SMEs are entities that are operated and controlled by the owner. It is based on these premise that; the characteristics of the owner should be considered as a prerequisite in granting credit facilities to SMEs.

Ahmed (1997) identifies that knowledge acquired from the business as the constituent of the owner characteristics among SMEs. Meanwhile, Hankinson (2000) suggested that the level of knowledge, the skills of the owner, the motivation, the attributes, the technical and managerial competencies are some of the features of SMEs owners. In addition to the above, Nkuah et al. (2013) also added age and gender as some of the characteristics of SMEs.

This current study focus on the age of the entrepreneur, the level of education, , the gender and personal attributes of the owner as the constructs representing some of the characteristics of the owner as suggested by (Ahmed, 1997; Hankinson, 2000; Khurruum et al., 2008; Nkuah et al. 2013). Below are the explanations to each construct of the owner characteristics;

2.4.1 Gender of the Entrepreneur

A study conducted by Nkuah et al., (2013) in the Wa Municipality on owner character and their impact on loan acquisition from bank revealed that, gender was a significant factor in SMEs owners' access to credit from banks. More specifically, their studies showed that male were given loans in the Wa municipality than female. The reason was that, in their culture, women were not empowered to embark on commercial activities which will warrant them to access credit from banks hence they seek financial assistance from family and friends. Meanwhile earlier studies conducted by Pearson and Greef (2006) in a different context argued that women should be given priority in terms of access to credit than their male counterparts because women have the ability to manager close-fitting budgets coupled with their lower default rate.

Also, on the flip side Bennet and Goldberg (1993) found that, women inability to acquire credit from banks could be due to their inability to acquire land titles in their

own name. It must be noted that, the type of business operations also has influence on the type of loan whether male will be favoured or female (Robb & Wolken, 2002).

2.4.2 Age of the Entrepreneur

Regarding age of the entrepreneurs and their influence on credit accessibility, Bougheas & Ruiz-Porrás (2005) argued that, the length of time a business has been in existence can help it overcome a lot of challenges in terms of difficulties. This is so because businesses that are new may encounter a lot of financial challenges during bad economy. Nkuah et al. (2013) indicated that the older the business the more knowledgeable the entrepreneur when it comes to managing resources as compared to younger business. Therefore all things being equal older business will be favoured when it comes to credit assessment.

2.4.3 Educational Level of the Entrepreneur

Education to a very large extent enhances the competence of the managers and this have a positive relationship when it comes to performance of SMEs (Leitao & Franco, 2011). This is because education helps the SME owner the requisite knowledge in terms of keeping proper books of account, management of assets and funds of the business. It also helps the entrepreneur to adopt proper standards of business practices.

2.4.4 Personal Attributes

It is argued that no matter how nice the financial statement may indicate the liquidity position and how juicy the balance sheet may present the assets of the business does not stop the SME owner from default when he or she is a crook (Baiden, 2011).

Personal attributes such as honesty, transparency, worthiness, and moral beliefs cannot be easily measured due to information asymmetry between the entrepreneur and bank. Evidence of a bad character in terms of arrest on criminal activities hinders assess to loan.

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CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.0 Introduction

This entails the research approach; research design; sources of data; and sampling design, which includes the study population, the sampling size and the sampling technique. Data collection instruments and data analysis are also included.

Johnson and Onwuegbuzie (2004) posit that, there are two main approaches to research, namely, qualitative and quantitative. The choice of a particular research approach according to Coll and Chapman (2000) should be based on the purpose or the objective of the study rather than commitment to a particular paradigm. It is on this premise that the current study adopts a quantitative approach which according to De Coster and Lichtenstein (2007) provides replicable evidence to support theoretical predictions.

3.1 Research Design

A Cross-sectional survey was used in the study in Kumasi to depict a snap shot of the influence of the SMEs owner characteristics on accessing credit from Banks and some financial institutions in the Kumasi metropolis (Neuman & Robson, 2004). This was to determine the influence of gender, age of the entrepreneurs, education background and the personal attributes (character) of the SMEs owner in loan accessibility and asks individual questions at one point in time (Saunders, Saunders, Lewis & Thornhill, 2011). The justification was that, a cross-sectional survey provides quick, and less expensive, efficient, and accurate means of collecting information about a population (Zikmund, Babin, Carr & Griffin, 2010).

This study believes in the positivist paradigms which are of the view that there is only one truth irrespective of the perception people hold about a particular situation

(Jirojwong, Johnson & Welch, 2011). Hopkins (2008) argues that quantitative study seeks to ascertain the relationship between one thing (independent variable) and the outcome variable (dependent variable). In this study, the independent constructs are gender, age of the entrepreneur and business, education and the personal attributes (character) and the dependent variable is the access to loan.

Finally, multiple regression was used to analyse the dependent and the independent variable and their effect on each other (Pallant, 2010).

3.2 Data Sources and Sampling Techniques

Primary data was used for the study. The reason was to get an objective response from the credit officers and managers of various banks in the Kumasi metropolis to determine their dealings with SMEs regarding credit facilities. These questionnaires were administered face-to-face to collect primary data in various banks and financial institutions. This method was chosen with the notion to elicit favourable responses and get a high response rate.

The target population for this study comprised of banks within the Kumasi metropolis.

Also, Neuman (2006) argues that quantitative studies are known to be scientifically asking a large number of individuals the same question which is used to generalize the decision of the whole population. This study used a sample of 150 respondents who are credit officers of banks within the Kumasi metropolis. The choice of the sample size was motivated by Kent (2007). For instance, Kent (2007) argues that a sample size of 100 respondents and above are acceptable in quantitative studies. During the

administration of the questionnaires, 120 of the respondents representing 80 % were willing and participated in the survey.

In addition, Non-probability purposive technique was employed to select banks who are SME friendly.

3.3 Data Collection and Method of Analysis

Primary data were collected for the study with the aid of a structured questionnaire. The instrument used has two sections in which the first section indicates whether respondents give loans to SMEs or not with each question with one correct response. The second section comprises the constructs of the owner characteristics consisted of 20 items formed from 5. The questionnaire was designed based on 5-point Likerttype response choices: from strongly agree (a scores of 5 points) to strongly disagree (1 point). This was to reduce the statistical problem of extreme skewness (Champion, 1987).

Before designing the questionnaires, there was a thorough review of other study questionnaires and a review of the relevant literature. Care was taken in designing the questionnaire to reduce measurement error (Howell, Shea, & Higgins, 2005).

Response time for the questionnaire was about 5 minutes. All questionnaires were checked to make sure that responses were completed.

In quantitative research, statistical analysis and interpretation is an essential part of answering the hypotheses or research questions (Creswell, 2013)). Out of the total questionnaires (150), 120 were retrieved. This was alluded to the fact that most banking official did not have the time to respond to the questionnaires. The retrieved

questionnaires were coded into SPSS (version 20) and this was done in order to perform analysis on the data.

Cronbach's alpha method was conducted to check the internal consistency and accuracy of the data. The Cronbach's coefficient alpha values ranges from 0 to 1. According to Nunnally and Bernstein (1994) reliabilities within the ranges of 0.6, 0.7, 0.8 and 0.9 are acceptable and good. Relationships as hypothesized was analysed through multiple regression analyses. According to Wooldridge (2009 pp, 66), multiple regression is useful for generalizing functional relationships between variables and it follows these assumptions:

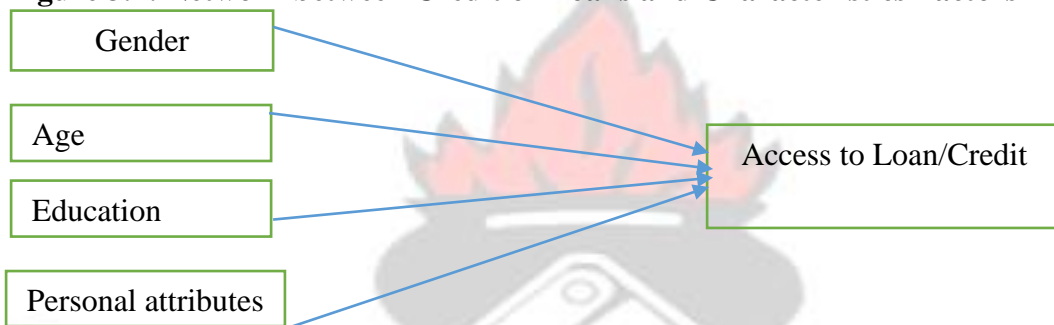
1. Linearity: The relationships between response and each of the predictor variables are linear in the parameters of the specific functional form chosen.
2. Zero mean: Each conditional distribution of the error term has a mean of zero.
3. Homoscedasticity: The variance of the conditional distribution of error term is constant for all such distributions where the variance is not constant; we have a situation of homoscedasticity.
4. Independence: The values of the error terms are serially independent; thus the values of the error terms are independent of each other and their covariance is, accordingly, zero.
5. Multi-collinearity: The predictor variables are linearly independent of each other. They are non-multi-collinear.
6. Normality assumption: The error term is normally distributed with mean 0 and a constant variance

3.4 Conceptual Framework and Model Specification

3.4.1 Conceptual Framework

Variables in these study include the dependent and independent variables. The independent variables in this study include gender, age, education and personal attribute. The dependent variable is access to credit or loans. This is conceptualized in the network form in figure 3.1.

Figure 3.1: Network between Credit or Loans and Characteristics Factors



Source: Researchers framework

Gender as operationalized as male or female influences assess to loan or credit.

Age of the entrepreneur influences access to credit or loan. Minors do not have the capacity to assess credit. All things being equal, the older existence of the business in terms of operations, the more the information can assess from their banking transactions.

The level of education influences assess to loan. The higher the education level enhances the ability of the entrepreneur to keep proper records and enhance efficient management of assets of the company.

Personal attributes also influences assess to loan. A good character such as integrity, commitment to business, honesty, transparency and truthfulness to a large extent could influence assess to loan.

3.4.2. Model specification

The dependent variable used is access to loan (ACL), and the independent variables used are, gender (GEN); age (AGE); education (EDUC) and personal attributes (PATRI) as indicated by the linear function below;

$$ACL_i = \alpha_0 + \alpha_1 GEN_i + \alpha_2 AGE_i + \alpha_3 EDUC_i + \alpha_4 PATRI_i + \varepsilon_i$$

The symbol ε_i represent the error term. The constant $(\alpha_0, \alpha_1, \alpha_2, \alpha_3, \alpha_4)$ are the parameters of the model. The independent variables were measured as follows;

Gender of the entrepreneur was measured using the five point Likert scale from 1 to 5.

Age of the entrepreneur was measured using the five point Likert scale from 1 to 5.

Educational level of the entrepreneur was measured using the five point Likert scale from 1 to 5.

Personal attributes was measured using the five point Likert scale from 1 to 5.

The dependent variable (Access to loan) was also measured with the scale of code for each question was five point Likert scale from 1 to 5.

Where 1 denote strongly disagree (SD), 2 represent disagree (D), 3 indicate neutral (N), 4 agree (A) and 5 denote strongly agree (SA). The method used for the estimation was simple regression model.

Hypothesis Testing Statement

In all 4 hypothesis was to be tested.

Hypothesis A: Relates to Gender.

H₀: Gender does not have any influence on SMEs access to credit from banks.

H₁: Gender influences SMEs access to loan from banks.

Hypothesis B: Related to Age

H₀: Age of the entrepreneurs have no influence on their likelihood of access to loan from bank

H₁: Age of the entrepreneur influences SMEs access to loan from banks.

Hypothesis C: Related to Education.

H₀: Education has no influence on the likelihood of access to loan from banks.

H₁: Education influences SMEs access to loan from banks

Hypothesis D: Related to Personal Attributes

H₀: The character of the owner of the SME does not influence the likelihood of their access to credit from banks

H₁: The character of the owner of the SME could influence their likelihood of access to credit from banks

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter contains the analysis of data and the results of the multiple regression.

4.1 Descriptive Statistics of variable

The table 4.1 below indicates the Mean and Standard Deviation of the dependent and independent variables to signify the magnitude to which the sampled respondents disagree or agree with the items in the questionnaire. The questions asked in this research were scaled from 1 to represent strongly disagree to 5 which represents strongly agree and 3 to denote neutral position.

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Table 4.1 Mean and Standard Deviation of the dependent and independent variables

	N	Mean	Standard Deviation
PERSONAL ATTRIBUTES			
my bank will give loan to SME with good character	120	3.4167	.57370
my bank will give loan to SME owner with bad character	120	3.0833	1.02558
my bank will give loan to SME owner with past good credit record	120	2.8333	2.00140
my bank does not consider personal attributes at all	120	3.0667	1.02681
AGE OF THE ENTREPRENEUR			
my bank considers the number of years the entrepreneur has been in business before granting them loan	120	2.8667	1.04466
age of the entrepreneur does not matter to my bank when granting SMEs credit	120	3.0333	1.02024
my bank will give loan to SME with long years in operation	120	1.9667	1.06063
EDUCATION BACKGROUND			
my bank give loans to SME owners with some level of education	120	3.5167	1.55019
my bank give loan to SME owners with no level of education	120	2.8500	1.99010
the higher the education level of the entrepreneur the higher the loan	120	2.7000	1.52624
the lower the education level of the entrepreneur the lesser the loan	120	2.7333	1.53247
GENDER			
my bank gives priority to women when it comes to granting SMEs loan	120	4.3500	.79547
my bank gives priority to men when it comes to granting SMEs loan	120	2.1333	.67280
women repay their loan when it is due	120	4.8667	.72103
men repay their loan when it is due	120	4.0667	.71870
ACCESS TO LOAN			
my bank approve loans to SMEs	120	1.6000	.86384
SME loan in my bank has increased in recent times	120	4.9167	.52793
Qualified SMEs are granted credit in my bank	120	1.5462	.74502
my bank does not demand complex documentation	120	4.5462	.59301

Source: Field work, 2015

The Mean results of the variables shows how each statement was performed from the

120 respondents. The highest mean was “SME loan has increased in my bank in recent

times’’ with a numerical value of 4.91. This implies that, majority of the respondent (banks) agree that their banks give loan to SMEs. The lowest mean, however, was ‘‘my bank approve loans to SMEs’’ with the numerical value of (1.60), which implies that not all SME loans are approved by the banks.

4.2 Descriptive statistics of variable Reliability

To check the reliability, this study used Cronbach’s alpha, which ranges from 0 to 1 (DeVellis, 2012). It must be noted that, the appropriate limit for Cronbach’s alpha varies from one study to the other (Pallant, 2010; DeVellis, 2012). Pallant (2010) argues that cronbach’s alpha should be ≥ 0.7 , however, 0.6 and above is acceptable according to Nunally & Bernstein (1994). All the scales indicated a good reliability because they meet the threshold suggested by Nunally and Bernstein (1994). They argued that Cronbach alpha from 0.6 and above is acceptable. To obtain the Cronbach alpha, the items measuring each construct was coded example; variable in the questionnaire measuring personal attribute was coded as; PATR1, PATRI2, PATRI3 and PATR4; gender was coded as; GEN1, GEN2; GEN3 and GEN4, the same coding was done for the other individual items under each construct. Furthermore, these coded items were subjected to the reliability analysis on a five point Likert scale using SPSS version 20. The results are shown in the table 4.2 below.

Table 4.2 Results of Internal reliability of variables

	Items	Cronbach Alpha
PERSONAL ATTRIBUTES	4	.772
my bank will give loan to SME owner with good conduct		
my bank will give loan to SME owner with bad reputation		

my bank will give loan to SME owner with past good credit record		
my bank does not consider personal attributes at all		
AGE OF THE ENTREPRENEUR	3	.682
My bank considers the number of years the entrepreneur has been in business before granting them loan		
Age of the entrepreneur does not matter to my bank when granting SME credit		
My bank will give loan to SME with long years in operation.		
EDUCATION BACKGROUND	4	.675
my bank give loans to SME owners with some level of education		
my bank give loan to SME owners with no level of education		
The higher the education level of the entrepreneur the higher the loan		
The lower the education level of the entrepreneur the lesser the loan		
GENDER	4	.605
my bank gives priority to women when it comes to granting SMEs loan		
my bank gives priority to men when it comes to granting SMEs loan		
women repay their loan when it is due		
men repay their loan when it is due		
ACCESS TO LOAN	4	.682
my bank approve loans to SMEs		
SMEs loan in my bank has increased in recent times		
Qualified SMEs are granted credit in my bank		
my bank does not demand complex documentation from SMEs		

Source: Field work, 2015

4.3 Multiple Regression Results and Analysis

This study used Ordinary Least Square (OLS) regression analysis to determine the significance and importance of each independent variable in the model. In regression analysis, Allua and Thompson (2009) argue that reporting the adjusted R square is

recommended, especially when the number of the independent variables is high. The regression analysis was in three parts:

- The first section deals with the general purpose of the study, thus how significant are the variables in influencing SME owner loan assessment from the banks.
- The second section address the research objectives by finding answers to the research questions; and
- The third section, seeks to address the hypotheses in the study.

Table 4. 3: Multiple Regression Analysis (ACL is the dependent variable)

	Standard errors	Beta coefficient	t statistics	Significant level
(constant)	.171		2.972	.004
Personal attributes (PATRI)	.076	-.827	-10.827	.000
Age of the entrepreneur (AGE)	.070	1.701	24.449	.000
Education background (EDUC)	.023	.552	23.560	.000
Gender of the SME owner (GEN)	.050	.027	.545	.587
R	.961		S.E of estimate	.11111
R-Square	.923		F-statistics	342.574
Adj. R-Square	.921		Prob. (F-stats.)	.000

Source: Field Work, 2015

From Table 4.3, the adjusted R square of (92.1%) signifies that the variables in the model predict 92.1% of variance in influencing SMEs access to loan from the banks.

This also shows the high predictive relevance and suitability of the model.

The table explains the statistical significance of the model. In quantitative analysis, a $\text{sig} < .05$ confirms the statistical significance of a model (Hair et al., 2012).

The statistics showed that personal attribute ($0.00 < .05$), age of the entrepreneur ($0.00 < .05$), education background ($0.00 < .05$) were statistically significant; whereas gender of the SME owner ($0.587 > .05$) were not statistically significant.

However, in terms of predictive ability, age ($\beta = 1.701$, $t = 24.449$, $P = .000 < 0.05$), education ($\beta = 0.552$, $t = 23.560$, $P = 0.000 < 0.05$) and gender ($\beta = 0.027$, $t = 0.545$, $P = 0.587 > 0.05$) the next variable which is the personal attribute ($\beta = -0.827$, $t = -10.827$, $P = 0.000 < 0.05$) show a negative relationship with a loan acquisition.

The entrepreneur's age, the education and personal attributes were statistically significant and a strong predictors influencing SME owners' ability to access credit from the banks.

4.4 General Discussion of Findings

From the analysis table 4.3, it was found that some of the variables (age, education and gender) exhibited high predictive capacity in influencing SME owners in acquiring loan from the banks. Meanwhile (personal attributes) assumed a negative and strong predictive variable that influence the ability of SMEs to acquire credit facility from banks. The implications are that; banks take into consideration age of the entrepreneurs before granting them credit facility on grounds that the older the business the better since the banks could get access to past credit history and also in terms of the owners age, minors by law are not liable to debts in terms of default because they do not have the commercial capacity to enter into contract. The findings of this study is consistent with Serrasqueiro and Nunes (2012). Their study found that age of the business or entrepreneur is important for the acquisition of short-term and long-term loans.

Furthermore, education background of the SME owners was considered relevant before loans are approved by banks. The reason is that some level of education will aid some of the SME owners to keep proper books of account which help the banks to ascertain the assets, transactional flow and the financial position of the business. In addition, personal character was considered a key driver that could influence SMEs access to loan from the banks. The reason is that loans are paid by people. As a result, an individual who is swindler will default payment even though conditions for loan repayment may be favourable. Also, gender of the entrepreneur had a high predictive ability but was not statistically significant. These means that, in terms of businesses that are gender specific, like fish mongering, banks will consider granting credit facility to women than men in that category. However, in general business perspective, gender will not be considered as a pre-requisite for granting SMEs loan. The findings of this study presupposes that there is no financial discrimination as to who could be privileged in terms of gender to have access to credit from banks. The findings of this study is consistent with Hulten (2012). Hulten (2012) found that there is no difference between male and female when it comes to granting of credit facilities from banks.

4.4. The Outcome of Hypothesis Testing

The results from the study are as follows:

In hypothesis A: the study rejected H_0 and concluded that gender has positive relationship with SMEs access to loan but it was not statistically significant.

In hypothesis B, the study rejected H_0 and concluded that age of the entrepreneur influences SMEs access to loan from banks.

In hypothesis C, the study rejected H_0 and concluded that education influences SMEs access to loan from banks.

In hypothesis D, the study rejected H_0 and concluded that the personal attributes could influence their likelihood of access to credit from banks at a confidence level of 95%. Even though Hypothesis D had an inverse relationship, they were statistically significant.

The four (4) hypothesis test results are summarized in table 4.4.

Table 4.4: Summary of Hypothesis testing

HYPOTHESIS	RESULTS	DECISION
Hypothesis A H_0 : Gender does not have any influence on SMEs access to credit from banks H_1 : Gender influences SMEs access to loan from banks	$P > .05$	H_0 is not rejected
Hypothesis B H_0 : Age of the entrepreneurs have no influence on their likelihood of access to loan from banks H_1 : Age of the entrepreneur influences SMEs access to loan from banks	$P < .05$	Rejected H_0
Hypothesis C H_0 : Education has no influence on the likelihood of access to loan from banks H_1 : Education influences SMEs access to loan from banks	$P < .05$	Rejected H_0
Hypothesis D H_0 : The personal attributes of the owner of the SME does not influence the likelihood of their access to credit from banks H_1 : The personal attributes of the owner of the SME could influence their likelihood of access to credit from banks	$P < .05$	Rejected H_0

Apart from the hypothesis specifically relating to gender which was rejected since beta coefficient was not statistically significant implying gender is not significantly related to access to credit or loan, all other hypothesis are significantly related to access to credit or loan because their associated beta coefficients are statistically significant.

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CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter includes a summary of the findings, the conclusions and the recommendations. It also includes future research direction and the limitations of this research.

5.1 Summary of Major Findings

1. The study showed that SMEs have several means through which they raise capital to finance their businesses. However, SMEs are constraint with access to finance from the formal financial institutions.
2. The study also revealed that, among the variables that impede on SMEs access to credit from banks is collateral which was difficult for most SMEs to provide to meet the criteria set by banks.
3. Finally the study also revealed that amidst the challenges, SMEs owner characteristics was identified as a variable that banks could relied on to some extent to grant credit facilities to SMEs.
4. Apart from gender the hypothesis result show that all the other hypothesis are significantly related to asses to credit or loan.

5.2 Conclusions

Findings from this study answers the research questions set out in Chapter One.

Research Question 1: *What are the effects of gender driven or gender oriented business setup on SMEs access to loan from banks?*

The study concluded that gender did not play a role to influence SMEs access to loan unless the SME loan is gender specific.

Research Question 2: *What is the effect of knowledge in terms of level of education of the entrepreneur on credit assessment?*

Education was regarded vital since it help the SME owner to keep appropriate books of account that are of great importance to the banks. This helps the banks to mitigate information asymmetry from the SMEs.

Research question 3: *What is the effect of age in terms of how long the business has been in operation?*

The study concluded that age of the SME owner is considered an important variable that could influence SMEs access to loan. This is because by law children do not have the commercial capacity to enter into any contract. In the event of default, any loan granted to minors who own businesses will be regarded null and void.

Research question 4: *What is the effect of personal attributes in terms of ethical practices, corruption and proliferate spending on SMEs access to credit?*

The study found that loans are paid by people. As a result, the personal attributes of the entrepreneur though cannot be quantified it is a significant variable that influence SMEs access to loans from banks. This is because a swindler could be in a position to provide collateral to qualify for a loan yet will default even if there is favourable condition for repayment.

The results of this research will contribute to literature involving SME financing in the Ghanaian context. It will also help banks to take key not of the components of SMEs owner characteristics in allocating credit facilities to SMEs.

5.3 Specific Recommendations

Banks and non-banks financial institutions should also pay attention to SMEs owner characteristics even though collateral forms an integral part in access to loan by SMEs.

5.4 General Recommendations

- a. Also, banks can use the amount in their current account of SMEs as collateral.
- b. Bank should also routinely check the books of the SMEs to ensure that proper records are kept
- c. Bank can also provide an expert advice to the SMEs in terms of inventory management.

5.5 Limitation and Future Research

This work was limited to SMEs and banks and non-bank financial institutions in the Kumasi metropolis which implies that the result from this study could not be generalised to the whole country. Future research could look at other geographical locations in order to determine the outcome of the study.

This study also limited the constructs of SME owner characteristics to the following: gender, age of the entrepreneur, education of the SME owner and the personal attributes/character of the entrepreneur. Meanwhile, there are a lot of variables in literature that constitute the owner characteristics of SMEs. Future research could investigate the operationalization of the other variables of SMEs owner characteristics.

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APPENDIX

QUESTIONNAIRE

The researcher is an MSc Economics student of the Kwame Nkrumah University of Science and Technology. This survey seeks to elicit responses on the topic “*Small and Medium-Sized Financing in Ghana: The Influence of SMEs Owner Characteristics.*” Information provided for the purposes of this research will be treated confidentially and used for academic purposes only. Please take a few minutes to fill out this questionnaire by ticking (✓) where appropriate. Thank you.

SECTION A: Knowledge about SME Financing:

1. Does your Bank grant credit facility to SMEs? YES () NO ()



SECTION B: Measuring Instrument for SMEs owner characteristics

On a scale of 1-5, please Tick [√] the response that reflect your level of agreement or otherwise in each of the under listed statements.

1= Strongly Disagree (SD) 2=Disagree (D) 3= Neutral (N) 4=Agree
(A) 5=Strongly Agree (SA)

No.	STATEMENTS					
	Personal attribute/ Character	SD	D	N	A	SA
1.	My bank will give loan to SME owner with good conduct					
2.	My bank will give loan to SME owner with bad reputation					
3	My bank will give loan to SME owner with past good credit records					
4.	My bank does not consider personal attributes at all					
	Age of the entrepreneur					
5.	My bank considers the number of years the entrepreneur has been in business before granting them loan					
6.	Age of the entrepreneur does not matter to my bank when granting SMEs credit					
7.	My bank will give loan to SME with long years in operation					
	Education background					

8.	My bank give loans to SME owners with some level of education					
9.	My bank give loan to SME owners with no level of education					
10.	The higher the education level of the entrepreneur the higher the loan					
11.	The lower the education level of the SME owner the lesser the loan					
	Gender of the SME owner					
13.	My bank gives priority to women when it comes to granting SMEs loan					
14.	My bank gives priority to men when it comes to granting SMEs loan					
15.	Women repay their loans when it is due					
16.	Men repay their loans when it is due					
	Access to loan					
17.	My bank approve loans to SMEs					
18.	SMEs loan in my bank has increased in recent times					
19.	Qualified SMEs are granted credit in my bank					
20.	My bank does not require complex documentations from SMEs					

Thank you