THE DEMAND, SUPPLY AND ULTILISATION OF CREDIT FOR SMALL ENTERPRISES DEVELOPMENT: A CASE STUDY OF THE AKUAPEM SOUTH MUNICIPALTY

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DECLARATION

I hereby declare that, this submission is my own work towards the MSc and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgment has been made in the text.

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ABSTRACT

The dynamism of small enterprises in developing countries, particularly Ghana, as engines of growth in developing countries has long been recognised. They have been one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low income countries. The ability of them to exploit highly profitable opportunities would be enhanced if external financing were more accessible. It is essential that they obtain the necessary funding to remain active. However, enterprises are more often than not, denied credit from financial institutions. Banks often deem small enterprises as too risky to finance. Credit terms are becoming increasingly harder and qualifying for financing is subject to much stricter guidelines.

The general objective of the study was to assess the demand, supply and utilisation of credit for the development of small enterprises in the Akuapem South Municipality of the Eastern region of Ghana. The study was carried out in three towns in the municipality: Nsawam, Adoagyiri and Aburi. Two (2) traditional banks i.e. Ghana Commercial Bank, Nsawam and Aburi, three (3) rural banks i.e. Akuapem rural bank (Nsawam), Citizens rural bank (Nsawam) and South Akim rural bank (Adoagyiri) and one Microfinance company, namely Gains microfinance (Adoagyiri), were studied to determine the supply dynamics of credit in the municipality. One hundred and eight (108) small enterprises were studied to assess the type and quantity of credit demanded by enterprises. Furthermore, four departments of the Municipal Assembly, namely: the Department of Cooperatives, the National Board for Small Scale Industries, the Ministry of Food and Agriculture and the office of the Municipal Planning and Coordinating Unit, were also interviewed to determine their role in the demand, supply and the effective utilisation of credit by small enterprises.

The study established that, small enterprises are weak in their demand for credit, due to high interest rates, high number and type of guarantors required, lien requirements equivalent to a quarter of credit sum applied for, managerial incompetence, lack of registration of enterprises, low level of education of entrepreneurs and lack of an acceptable collateral. The research revealed that, supply of credit was short of demand

in most instances and financial institutions would often not grant a credit request when it was in doubt of the enterprise's track record.

The study concludes with some policy perspectives and suggestions that will improve upon the demand and supply of credit in the municipality. Recommended strategies and interventions such as educate entrepreneurs to increase the volume of savings and register their enterprises, cuts in interest rates and bank charges and the extension of repayment schedules will enhance the demand for credit among enterprises. On the supply side, the transformation of activities by banks to meet the needs and aspirations of small enterprises and ensuring post disbursement field visits and monitoring of credit will be an added advantage to the supply and utilisation of credit by enterprises.

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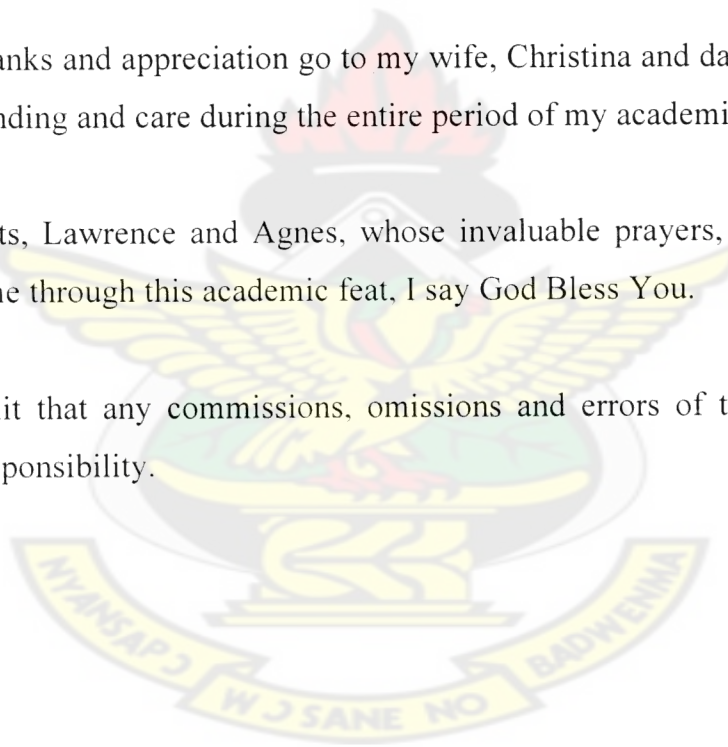
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Finally I admit that any commissions, omissions and errors of this piece of work remain my responsibility.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

NBSSI	-	National Board for Small Scale Industries
ASM	-	Akuapem South Municipality
MTDP	-	Medium Term Development Plan
MOFA	-	Ministry of Food and Agriculture
MPCU	-	Municipal Planning and Coordinating Unit
USAID	-	United States Agency for International Development
UNIDO	-	United Nations Industrial Development Organization
GSS	-	Ghana Statistical Service
FUSMED	-	Funds for Small and Medium Enterprises Development
PAMSCAD	-	Program of Action to Mitigate the Social Costs of Adjustment
IDA	-	International Development Association
UNCDF	-	United Nations Capital Development Fund
FINSAP	-	Financial Sector Adjustment Programme
MDGs	-	Millennium Development Goals
ERP	-	Economic Recovery Programme
SPRING	-	Special Planning for Regions in Growing Economies
NGOs	-	Non-Governmental Organizations
GEDC	-	Ghana Enterprise Development Commission
IFAD	-	International Fund for Agricultural Development
FSAC	-	Financial Sector Adjustment Credit

CHAPTER ONE
INTRODUCTION

1.1   Background of The Study

The private sector has been identified as the "engine of growth" in the Ghanaian economy since the year 2001. This implies that state participation in the economy has been deemphasized. Government's major role now is to create the enabling environment in which entrepreneurship by private industry and individuals can operate and succeed. The State institutions that have the mandate to provide the necessary training, guidance and support for the operators of the Small Enterprises include the National Board for Small Scale Industries (NBSSI). Small enterprises play a very crucial role in the economic development of any country. Countries that have achieved significant economic growth have used the small enterprises as the tools for growth (Evans, 2008). Although they form 96% of all manufacturing activities in Ghana, the sub-sector continues to face a plethora of problems, especially difficulties in accessing capital which is often drowned by the cost of credit (Kosiba, 2008).

In Ghana, there is the predominance of small enterprises across the nook and cranny of the country. It is estimated that there are about twenty-six thousand (26,000) enterprises that provide various services and products in Ghana yet these enterprises are still weak in terms of finance (Evans, 2008). The sub-sector, apart from being the largest among manufacturing concerns, also created about 45,000 jobs every year employing more than 60% of workers in the industry (Osafo-Addo, 2008). At present, there is a general recognition of the importance of SSEs for democratic, social, political and economic stability of countries.

For the past several decades, the majority of developed countries have recognised this reality by formulating policies and promoting strategies to address small enterprises development (UNCRD, Report Series No. 8, 1994). The report continued that, in the world, they play a fundamental role in the development and consolation of the economies, contributing to a more equitable distribution of resources in society, and to the diversification and decentralisation of economic activity. Also important, is

their role in the production of quantities compatible with the demand of internal markets, and to resolve unemployment problems.

Furthermore, those small enterprises contribute to the spread of the economic and political power of nations. The presence of many small enterprises, in one sector is a condition to achieve open competition in that sector – the efficiency of the enterprise, is stimulated with a tendency towards lower prices and better services for consumers – preventing concentration for benefits and political power. The great variety of social and educational successes, by small enterprise entrepreneurs, is an example which motivates others, thus creating an opportunity to increase social mobility. Small enterprises enhance economic growth by acting as agents for channelling savings of the entrepreneur himself, his relations and friends (their principal financing resource) as well as banks and financial institutions. Besides, they are the channel for savings of their employees (pension funds, etc.) resulting from their own economic activity. The report argued that, a traditional small enterprise originates in a worker who has some technical knowledge and wishes to work independently.

Thus considering the origin, they have the following characteristics: the owner performs the sales, leads to production and is in charge of the management, helped by an accountant in few cases; there are no divisions or sharing of responsibilities; generally production overviews, are based on a few products, without innovations and in consequence, in danger of losing markets; their capital is insufficient; The entrepreneur has difficulties in gaining access to the credit market, she/he lacks resources required for loan guarantee; the owner underestimates the relevance of the administrative and sales functions for effective development of the enterprise and finally the entrepreneur is unable to evaluate the weak and strong capacities assessed, so as to establish strategic business plans.

The paper indicated that enterprises are faced with difficulties including management, promotion and above all finance. In general the report revealed that they present a low level of management reflected in deficient or unsatisfactory organisation, a weak administrative financial system, lack of conviction regarding the necessity to innovate in products and processes, low consciousness about the importance of technical and management training.

The report explained that even considering credit resource availability in the financial system of countries operating small enterprises, the relationship between private and state banks with them is still inadequate. High guarantees are required and traditional concepts are used in evaluating potential clients by banks which appears to be the main reason of insufficient financing. Apart from above, other factors include the lack of financial management systems, insufficient capacity in the formulation of credit applications and the lack of complete antecedents by the enterprises themselves.

Operationally, Ghana uses the number of employees, as one criterion in defining small enterprises. Consequently, all firms employing between one and twenty nine (1-29) workers, are classified as Small Scale Enterprises. In terms of capital, firms with fixed capital of value between 2,500 Ghana cedis and 25,000 Ghana cedis, excluding land and buildings, are considered Small Enterprises (Ghana Government, 2000).

1.2   Statement of The Problem

Banks still feel   that small enterprises represent a high credit risk apparently because they are often unable to provide the various forms of collateral required by them. As a result, they find it extremely difficult to raise credits [especially working capital] and even if they do, they usually pay a higher rate of interest than larger enterprises

Past researchers reached erroneous conclusions because the issue of finance or credit was not critically examined. A response by an Entrepreneur ranking lack of finance or credit first among the preferred list of needs does not signify an effective demand. Even merely applying to a bank for credit does not by itself constitute effective demand for credit. An effective demand is one backed by at least preparedness to meet a spectrum of requirements such as a liquidity cushion in the form of equity financing, a loan purposely related to a technology and economic activity, measures to contain the effects of a probable risks, interests' rates, collateral requirements and others. This spectrum of requirements is what constitutes the price vector of credit. The central point is whether loan applicants meet the requirements of this price vector (Gockel and Akoeda, 2002). The inability of small enterprises to meet this price vector of credit implies that volume of credit required by enterprises will certainly fall short of supply from financial institutions and banks, and in some cases, not delivered at all .The consequential effects are that enterprises will operate under severe financial

capacities, unable to expand, adopt appropriate technologies for production and offer employment to large numbers of the population.

Gockel and Akoena (2002) argued that, most small enterprises do not meet these requirements. The study cautioned against merely increasing the availability of funds to small enterprises without at the same time dealing with other constraints to their effective performance. The willingness and ability of small enterprises to access different quantities or volume of credit from financial institutions at different cost (price), during a specific period of time is referred to as demand for credit which is also a function of price, taste and preference and income.

The volume of credit that is demanded by small enterprises for development at any given time is subjected to the supply situation of credit institutions and the prevailing price of credit within the same period of time. Gockel and Akoena (2002) in their study established strong evidence that the general belief that capital shortage has been the single most important constraint to the development of indigenous small enterprises in Ghana is an illusion created by spurious demand for bank credit. They argued that, from the perspective of banks, there is shortage of viable projects that are bankable. The result is not wholly unexpected given that there has been a high level of excess liquidity in the banking sector while at the same time small enterprises are complaining of credit scarcity.

Small enterprises still wallow in poverty and adopting rudimentary methods of technology in their production process even though they might have accessed several forms of credit to expand their businesses. A considerable number of these enterprises have benefitted from financial interventions from banks, governmental, non governmental and micro-finance institutions, but have been unable to utilize these funds meaningfully to improve upon their enterprises (ASM, MTDP, 2006 – 2009). Repayment arrangements of loans, is not adhered to by beneficiaries (Government of Ghana, 2001), and where the fund is a revolving one, the lack of repayment, not only lead to the collapse of the fund but also deprive genuine small enterprise owners to benefit from it.

The demand and supply of credit, as well as the utilisation by beneficiaries, directly relate to enterprise development. It is for this reason that this study examines the extent to which these factors affect enterprise development in the Akuapem South Municipality.

1.3   Research Questions

To operationalise this research and assign it an overall sense of purpose, the following research questions were put forward:

1. What type and quantity of credit are demanded by small enterprises?
2. What is the quantity of credit supplied to small scale enterprises vis-à-vis the demand for it?
3. How do small scale enterprises utilise the credits obtained?
4. What are the challenges in the demand, supply and utilisation of credit for small enterprises development?
5. What measures can be put in place to ensure sustainable delivery and utilization of credit for small enterprises development?

1.4   General and Operational Objectives of the study

The general objective of the study was to assess the demand and supply of credit for small enterprises development and to propose measures at ensuring sustainable credit delivery and utilisation.

The specific objectives on the other hand, focused on the following:

1. To identify the type and quantity of credit demanded by small enterprises;
2. To assess the quantity of credit supplied to small scale enterprises vis-à-vis the demand for it;
3. To assess the various modes in which small scale enterprises utilise the credits obtained;
4. To identify the challenges in the demand, supply and utilisation of credit for small enterprises development?
5. To suggest measures that can be put in place to ensure sustainable delivery and utilisation of credit for small enterprises development.

5

6. To identify the roles of government agencies involved in the development of small enterprise

1.5   Justification for the Study

Small enterprises are viewed among others, as potential creators of new employment opportunities and sources of additional incomes for the poor that contribute to improved social and economic development of any country or society. Literature have revealed that, there is a direct relationship between rural poverty, general poverty and demand for credit, hence any effort at helping small enterprises to improve their demand for credit for the purpose of production and expansion, would be an affront on poverty. Therefore, the study will provide adequate information and a better analysis of the market in which financial institutions in the Akuapem South municipality operate to enable them understand and respond to the financial needs of their customers.

Furthermore, the study will assist financial institutions, to design appropriate measures and policies in the provision of sufficient, timely, sustainable and effective financial services to customers.

It is expected that this study will offer policy makers, the opportunity to access useful information for future policy formulation towards the development of small enterprises.
Entrepreneurs will find this study useful, in the sense that, it will help them make informed choices regarding contracting of loans from financial institutions.

Finally, the study will contribute to existing literature in the financial sector of Ghana, support future academic exercises, scholars, researchers and institutions in the financial sector with similar plans to undertake such studies.

1.6   Scope of the Study

Spatially the study was restricted to the Akuapem South Municipality in the Eastern region of Ghana, even though relevant information from other parts of the country and the world were used in making some inferences and generalizations.

In terms of content, the study was restricted to small enterprises in the agricultural, industrial and service sectors because most financial service providers including the traditional banks are targeting small enterprises as the engine of growth for the economy. The study sought to investigate how the interplay of the factors of demand and supply influenced the type and volume of credit advanced to small enterprises.

The study also examined how effective these credits were being utilized, vis-à-vis the original purposes for which these loans were contracted and critically assessed the role of the Akuapem South Municipal Assembly in the development of small enterprises.

1.7   Research Methodology

1.7.1   Research Design

This research employed the case study approach. It was an empirical enquiry that allowed the researcher to investigate and understand the dynamics of the phenomenon being studied. This approach was preferred especially when WHY and HOW questions were asked and also because it was frequently used in planning research where the researcher learnt from practice in order to inform the theory on which the practice was based. This was looked at within the framework of qualitative-quantitative approach. The approach has the advantage of enhancing an in-depth description and explanation of issues as well as the analysis of not only the financial and economic issues but also the social, cultural and political dynamics of demand and supply of Small Enterprises financial services in the Municipality.

1.7.2   Sampling Techniques

Purposive sampling was used to identify the sample frame. The sample frame consisted of only those small enterprises that were registered with the NBSSI at the Municipal Assembly. A Sample size of one hundred and eight (108) enterprises was then drawn from the sample frame using stratified sampling procedure, at a confidence interval of 95%. The formula used to determine the sample size is as stated below.

$$n = N/1+N\,(\alpha)^2$$

Where:

n = sample size

N = sample frame

α = significance level

The sample frame as determined comprises the following:

a -Service and Trade enterprises	125
b- Industrial enterprises	21
c- Agro-based enterprises	7

Illustration 1: application of formula for service and trade enterprises

$n = 125/1 + 125 (0.05)^2 = 95.2 = 95$

Illustration 2: industrial enterprises

$n = 21/1 + 21(0.05)^2 = 5.98 = 6$

Illustration 3 = Agro-based enterprises

$n = 7/ 1 + 7 (0.05)^2 = 6.8 = 7$

Therefore, total sample size = 95 + 6 + 7 = 108

The sample size will be taken from Nsawam, Adoagyiri and Aburi, which are the three major towns in the municipality where small enterprises are dominant.

1.7.3 Data Collection

Both primary and secondary sources of data were collected. Some of the methods applied include the following:

  (i)   Focus Group Discussions (FGD) – FGD was held with some credit beneficiaries especially the Afumkrom cooperative fruits and vegetables farmers society.

  (ii)   Questionnaire administration

  (iii) Desktop research

  (iv)   Interview

1.7.4 Primary data

Primary data was collected using questionnaires and both structured and unstructured interview. Three categories of questionnaires were designed for enterprise holders, directors/managers of financial institutions/ banks and staff of the Municipal assembly.

1.7.5   Secondary data

Secondary data was obtained from books, journals, magazines, newspapers and the internet among others. Secondary data research method was used to review existing documents of related institutions in other districts in Ghana and some National and international records and experiences on small enterprises development to ensure that research outcomes and experiences on small enterprises demand, supply and utilisation of credit are logically explained. Furthermore, information was gathered from records of NBSSI, the Department of cooperatives, Ministry of Food and Agriculture (MOFA), Microfinance institutions, Banks and the office of the Municipal Planning and Coordinating Unit (MPCU)

1.7.6   Analytical Tools

Quantitative variables collected during the field survey were analysed using tables, percentages and charts whereas descriptive data such as social, cultural and political variables captured during the research survey were qualitatively analysed

1.8   Organization of the Study

The research report has been organized into five chapters as follows

Chapter one deals with the introduction of the study and it covers the background of the study, statement of the problem, significance of the study, research questions, objectives, justification of the study, scope of the study, research methodology and design and organization of the study. Chapter two consists of a framework for the study and it includes key concepts and linkages between them and literature review on issues relevant to the study

Chapter three highlights the profile of the study area with emphasis on credit for small enterprises development. Chapter four presents a discussion and analysis of the field data while chapter five covers the findings, recommendations and conclusion of the research. Also presented in chapter 5 are recommendations on policy relevant issues as well as suggestions from managers of financial institutions and banks and entrepreneurs of small enterprises on how to ensure effective demand, supply and utilization of credit

CHAPTER TWO

A FRAMEWORK FOR THE STUDY OF THE DEMAND, SUPPLY AND ULTILISATION OF CREDIT FOR SMALL ENTERPRISES DEVELOPMENT

2.1   Introduction

Inkoom (1999) observed that concepts are not universal in definition but relative to the context. He further argues that, concepts help to delimit the study and improves the clarity of issues under discussion. For these reasons, this chapter seeks to provide the conceptual framework and attempts to define the key concepts of the study and their operational limits.

In view of the finding that access to credit is a major constraint to small enterprise development, the study will also assess the demand of credit by small enterprises vis-à-vis the supply situation to meet the demand. In this chapter also the researcher pulls together the theoretical issues related to the demand, supply and utilization of credit for small enterprises development.

2.2   Concepts of Small Enterprises

Small scale enterprises are severally defined. The World Bank (1976) refers to firms with fixed assets (excluding land) less than US$ 250,000 in value as Small Scale Enterprises. Grindle et al (1989) use the number of employees and the capital worth as indicators for defining Small Scale Enterprises. They argued that, small enterprises are firms with less than or equal to 25 permanent members and with fixed assets (excluding Land) worth up to US$ 50,000. In a similar vein, the United States Agency for International Development (USAID) defines Small Enterprises as firms with less than 50 employees and at least half the output is sold while UNIDO refers to firms with employees ranging from 5 to 19 as Small Enterprises in developing countries (Kayanula, 2000).

In Ghana, various definitions of Small Scale Enterprises can be identified from literature. According to Kayanula (2000), the National Board for Small Scale Industries (NBSSI) in Ghana applies both the 'fixed asset and number of employees' criteria. It defines a Small Scale Enterprise as one with not more than 9 workers, has plant and machinery (excluding land, buildings and vehicles) not exceeding one

thousand Ghana cedis. The Ghana Enterprise Development Commission (GEDC) on the other hand uses a 1000 Ghana Cedis upper limit definition for plant and machinery.

In the light of the foregoing, it can be observed that Small Scale enterprises have been variously defined. As a result, an operational definition is required. The most commonly used criterion as has been identified from the various definitions is the number of employees of the enterprise. In applying this definition, confusion often arises in respect of the arbitrariness and cut off points used by the various official sources. As contained in its Industrial Statistics, The Ghana Statistical Service (GSS) considers firms with less than 10 employees as Small Enterprises (Kayanula, 2000) and it is this definition that would be considered in the course of the study. The employee criterion adopted in this study is also similar to the definition of Small Scale Enterprises adopted by the National Board for Small Scale Industries (NBSSI).

The employee criterion has been adopted for this study in part because firms can easily be identified by their number of employees and in part because the process of valuing fixed assets in itself, poses a problem since continuous depreciation in the exchange rate often makes such definitions out-dated.

2.2.1 The Role and Characteristics of Small Enterprises in Ghana

The choice of small and medium scale enterprises within the industrial sector is based on the following propositions that Large Scale Industry has not been an engine of growth and a good provider of employment; the industry has already received enormous support through general trade, finance, tax policy and direct subsidies. small enterprises mobilise funds which otherwise would have been idle; Have been recognised as a seed-bed for indigenous entrepreneurship; Are labour intensive, employing more labour per unit of capital than large enterprises? Promote indigenous technological know-how; Are able to compete (but behind protective barriers); Use mainly local resources, thus have less foreign exchange requirements; Cater for the needs of the poor and; Adapt easily to customer requirements (flexible specialisation)

The dynamism of small enterprises in developing countries, particularly Ghana, as engines through which the growth objectives of developing countries can be achieved

11

have long been recognised. Small enterprises have been one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low income countries. These enterprises have been recognised as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries. It is estimated that small enterprises employ 22% of the adult population in developing countries (Daniels, 1994; Daniels & Ngwira, 1992; Daniels & Fisseha, 1992; Fisseha, 1992; Fisseha & McPherson, 1991; Gallagher & Robson, 1995) and over 60% of workers in Ghana (Osafo Addo, 2008).

However, some authors have contended that the job creating impact of small scale enterprises is a statistical flaw; it does not take into account offsetting factors that makes the net impact more modest (Biggs, Grindle & Snodgrass, 1988). It is argued that increases in employment Small Enterprises are not always associated with increases in productivity. Nevertheless, the important role performed by these enterprises cannot be overlooked. Small firms have advantages over their large-scale competitors. They are able to adapt more easily to market conditions given their broadly skilled technologies. Due to their flexible nature, Small Enterprises are able to withstand adverse economic conditions. They are more labour intensive than larger firms and therefore, have lower capital costs associated with job creation (Anheier & Seibel, 1987; Liedholm & Mead, 1987; Schmitz, 1995).

Small Enterprises perform useful roles, such as ensuring income stability, growth and employment. Since Enterprises are labour intensive, they are more likely to succeed in smaller urban centres and rural areas, where they can contribute to the more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Because of their regional dispersion and their labour intensity, the argument goes; small scale production units can promote a more equitable distribution of income than large firms. They also improve the efficiency of domestic markets and make productive use of scarce resources, thus, facilitating long term economic growth.

2.2.2 Constraints to Small Enterprises Development in Ghana

Despite the wide-ranging economic reforms instituted in the region, small enterprises, face a variety of constraints owing to the difficulty of absorbing large fixed costs, the absence of economies of scale, scope in key factors of production, and the higher unit costs of providing services to smaller firms (Schmitz, 1982; Liedholm & Mead, 1987; Liedholm, 1990; Steel & Webster, 1990). Access to finance remained a dominant constraint to small scale enterprises development in Ghana. Credit constraints pertaining to working capital and raw materials were cited by 24% and 52% of respondents (Parker et al, 1995). Aryeetey et al (1994) reported that 38% of the enterprises surveyed mentioned credit as a constraint. Most small enterprises lack the necessary collateral to obtain bank loans. To address this issue, the Central Bank of Ghana established a credit guarantee scheme to underwrite loans made by Commercial Banks to small enterprises. Unfortunately, the scheme did not work out as expected. It was against this background that the Bank of Ghana obtained a US$28 million credit from the International Development Association (IDA) of the World Bank for the establishment of a Fund for Small and Medium Enterprises Development (FUSMED). Under the Programme of Action to Mitigate the Social Cost of Adjustment (PAMSCAD), a revolving fund of US$ 2 million was set aside to assist Small Enterprises.

2.3 Assessing the Demand for Credit

Valid and reliable data is a pre-requisite for measuring access to credit by small enterprises in Ghana. However without any better information flow, it would be difficult for credit institutions to meet the financial capacity needs of small enterprises. The United Nations Capital Development Fund (UNCDF)/ World Bank (2004, cited by Momoh, 2005) observe that, any measures of access should take account of the different functions of finance, which are; transaction payments, savings allocation of capital (credit) and transfer of risk insurance. She argues that, an issue of indicators of access to credit by small enterprises remained difficult because of the different dimensions involved. She mentioned these dimensions as; the price vector of credit services, interest rates spreads availability of information on alternative credit sources and the quality of credit design and delivery. Other relevant dimensions include; reliability, convenience, continuity and flexibility.

13

Meyer et el (2000), enumerated some access indicators as; the percentage of enterprises that are benefiting from credit facilities, the percentage of enterprises that have been refused access to credit services in less than twelve months, the number of savings accounts by small enterprises, the value of savings and borrowing by small enterprises, sizes and terms of loans as well as loan repayments periods, interest rates paid, credit portfolios of individual firms, distance covered by small enterprise operators for loans and the responsiveness of the loans contracted to the needs of firms among others, constitute factors that influence the demand for credit by small enterprises.

2.3.1 The Demand for Credit: The Macro Policy Framework Approach

Gockel and Akoena (2002), indicated that, to support institution building in Ghana, supply-leading finance path of economic development strategy, a policy regime was put in place to ostensibly, enable the banks make credit to designated priority areas to promote accelerated economic development. The policy framework focused on Keynesian models that the interactive mechanism between finance and economic development proceed from low interest rates to increased investment to high rate of output/income growth, and subsequently to higher savings rates.

It must be emphasized that within the framework of the pre-independence and immediate post-independence financial structure, savings were not considered as constraints on credit creation. Historically, banks were exporting funds to the UK and other overseas countries within the framework of branch banking. Until FINSAP, the excess liquidity ratios of the DMBs further suggested that credit flows to the various private sector agents were not constrained by unavailability of funds. Banks in Ghana appeared to have adequate funds. It was therefore a paradox that a believed excess demand for credit co-existed with large amounts of surplus funds at the banks. The essential issue was thus reduced to how much investment was needed to achieve target increases in output. This led policy makers at both the Bank of Ghana and the Ministry of Finance and Economic Planning to define credit demand in terms of incremental output and proportional output.

2.3.2 The Incremental Output Approach

The fundamental assumption of the Incremental Output Approach is that credit is required to support economic growth in the same proportion that it is used to fund present levels of economic activity. Current credit requirement figures begin with the amounts of credit disbursed during a recent period for the economy as a whole and for the respective sectors. These amounts are multiplied by one plus a projected fractional increase in the sector's output. The fraction decided on depends on the monetary authority's overall macroeconomic objectives.

In this scheme, new credit demand is defined as the difference between the amount of credit disbursed in the previous year and that derived for the current year. Thus, for each year until 1990, Bank of Ghana's Research Department prepared a Monetary and Credit Plan, taking into account the actual economic developments during the year, the major trends in monetary and credit developments and the estimated expansion of the money stock, other bank liabilities and net foreign assets in the ensuing year. Based on these estimates, the Bank of Ghana derived its expansion coefficient for total credit, which was then broken down into the respective sectoral credit needs according to the sectors' projected percentage increases in output. In determining the shares of the various sectors in total credit, Government financing needs were taken as given and the shares of the other sectors as a residual:

2.3.3 The Proportional Output Approach

The proportional output approach derived credit demand from a sector's contribution to the economy. In this respect, GDP was analyzed in terms of the relative importance of the different sectors' contribution to economic activity. The ratios obtained were then used as bases of credit policy where the total amount of credit disbursed in the previous year was multiplied by the ratio to quantify the sector's credit demand, or the amount of credit which ought to be flowing to the sector in the ensuing year. Unlike the incremental output approach which defines credit demand in terms of some target output, the proportional output approach generally indicated credit insufficiency rather than an exact amount of credit to be made available to a sector. By their very nature, both the incremental and proportional output methods of estimating credit demand by Bank of Ghana did not take into account other binding constraints on

15

investment, particularly in the sectors designated as priority sectors and which were to be apportioned the greatest credit demand.

Fundamentally, the reasons why a sector has difficulty in attracting credit were not taken into account by such measures. Credit demand targets did not contain measures for discriminating against proposals of credit applications likely to lead to bad investments and bad loan Gockel and Akoena, (2002) concluded that, in substance, the incremental approach could be reduced to officials making decisions about priority sectors and what they felt was desirable.

2.3.4 Critique

Apart from its simplicity, the approach failed to go beyond the mathematical relationship between output and credit. According to them the approach did not deal with the substance of transactions or the financial calculations it sought to influence. It also did not provide an indication of the quality of the credit in use or expected to be used. Worst still, it did not take cognisance of the larger amounts of non-performing loans carried by the banks. Indeed, it failed to analyze why the priority sectors have difficulty attracting credit in the first place. In fact, while the non-performing loans indicated that lending could not have been sustained without policy changes in the credit system, the incremental output approach to credit demand always indicated that more credit should be made, regardless of the borrowers' potential and of the incentives to repay such loans

2.4 Supply of Credit to Small Enterprises

While it is essential that small scale businesses obtain the necessary funding to remain active, they are often denied credit from financial institutions. Banks often deem Small Enterprises as too risky to finance. Credit terms are becoming increasingly harder and qualifying for financing is subject to much stricter guidelines. There are things that Small enterprises can do, however, to increase their chances of finding financing (Trehan, 2008).

Trehan (2008) argued that, financial institutions look for small enterprises that can provide them with a sound business plan. Applying for a loan with just a basic idea will only result in denial. It is an absolute necessary for small enterprises to take the

16

time and effort to create a business plan that takes into account all variables. They will need to show that the idea is workable. The inclusion of how the plan will be put into action will also be required.

Trehan (2008) further argues that, having a high credit rating is another essential factor in getting credit for Small enterprises. A larger financial institution is likely to be more willing to face the risk than a smaller one. Financial institutions are not as quick to take the risk on someone who is a high risk. At one point, a low credit rating could be compensated for with collateral and a sound business plan. With more and more people defaulting on loans, it is difficult to find an institution that will disregard a low rating. Working with a financial advisor can help a Small Enterprise establish a higher credit rating. Having showed longevity in the life of the business will also help in the procurement of loans.

The most common type of Small Enterprise loan available today is an asset-based or collateral loan. With this type of loan, the Small Enterprise basically agrees that should the loan go into default, the bank can be assured to receive their money by taking possession of what the business currently has of value. The bank will assess the financial records of the business and determine whether or not it has enough value in the way of assets to cover the amount of the loan. If the Small Enterprise assets are not enough, the bank may consider allowing for a co-signer. Someone who does have the available assets can agree that if the Enterprise fails to meet the terms of the financing, they will cover the bank's loss.

While the supply of Small Enterprise financing is dwindling, it can still be found with the proper preparation. Attention to improving credit rating, enough in the way of assets to cover the amount of the loan and a sound business plan will all contribute to approval. Supply of credit may be viewed in terms of percentage of eligible potential clients served with desired credit (loans) by financial institutions at a particular price within a specific period of time. The price vector refers to interest rates, cost of doing business with financial institutions and other transactional costs, incurred by small enterprises when contracting loans from financial institutions.

17

2.4.1 Global Supply of Credit

Momoh (2005) indicated that, credit has become one of the key driving mechanisms towards meeting the Millennium Development Goals (MDGs) target of halving poverty and hunger by 2015. She argues that, interest in credit as an instrument for alleviating poverty, has increased immensely and this is evident in the efforts by multilateral lending agencies, bilateral donor agencies, developed and developing governments, Non-Governmental Organisations, involved in supporting the development of small enterprises through credit provision all over the world.

In a relatively recent rural Asia study, the Asia Development Bank (2003), cited by Momoh, 2005), concluded that rural financial markets in Asia are ill-prepared for the 21st century and that about 95% of some 180 million people households/small enterprises in the Asia and Pacific Region, still have little access to institutional financial services

2.4.2 Supply and Access to Credit in Africa

Millions of Small Enterprises still lack access to credit facilities and small enterprises still rely on meagre and self-sourced finances, which undoubtedly limit their capacity to fulfil their business obligations (UNCDF, 2003). Basu (2004), argues that, small enterprises in sub-Saharan African countries have very little supply of financial deposits, credit facilities and other financial services, from formal financial institutions and indicated that in Ghana, about 5-6% of the population has access to the banking sector. This scheme of things is quite disturbing when one considers that in Ghana the informal sector is an integral part of economic development.

2.4.3 Supply of Credit in Ghana

International Fund for Agricultural Development (IFAD, 2000 cited by Momoh, 2005), estimates that, supply of micro credit by small enterprises in Ghana, was around 8% in 1998 and that in the case of rural enterprises in particular, supply was very low. The World Bank Postulated that, 7-10% of the total number of small enterprises that applied for micro credit services in Ghana was successful. Meanwhile the UNCDF (2003), indicated that in 1999 micro credit institutions managed to serve only 7% of the total clientele of about 3.6 million small enterprises in Ghana.

18

2.5   Financial Liberalization and Small Enterprise Finance in Ghana

The dynamic role of small enterprises in developing countries has been highly emphasised. These enterprises have been identified as the means through which the rapid industrialisation and other developmental goals of developing countries can be realised. However, Small enterprises in developing countries typically cite lack of access to finance as an important constraint on their operations. This lack of access is often associated with financial policies and bank practices that make it hard for banks to cover the high costs and risks involved in lending to small firms Aryeetey et al (1994).

They argue that, access to finance remained a dominant constraint to small enterprises development in Ghana. According to them, credit constraints pertaining to working capital and raw materials were cited by respondents in a survey conducted by Parker. (Parker et al, 1995). Aryeetey et al (1994) reported that 38% of the small enterprises surveyed mentioned credit as a constraint. In the case of Malawi, it accounted for 17.5% of the total sample (Daniels & Ngwira, 1993:30-31). This stems from the fact that Small Enterprises have limited access to capital markets, 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, small enterprises often cannot obtain long-term finance in the form of debt and equity.

2.5.1 Financial System in Ghana

The financial system in Ghana includes commercial banks, insurance companies, discount houses, finance houses, leasing company's savings and loans associations, credit unions, stock exchange and several rural banks widely dispersed throughout the country. Hettige et al (1994) indicated that, before 1983 the formal banking system of the Ghanaian economy was dominated by the state owned banks and there existed a monopoly over the entire banking sector as regards their spread and operations.

They argue that, with the exception of two banks – Barclays and Standard Chartered, the country could not boast of any other foreign banks in the entire financial system. The number of branches of these foreign banks was limited to about four cities as opposed to the numerous branches of the state owned banks particularly the Ghana Commercial Bank which operated at least three branches in each of the ten regions of

19

the country. With the exception of the State Insurance Corporation (SIC) and the Great African Insurance Company there was no other non-bank financial institution. The SIC was wholly government owned Brokerage houses were simply non-existent.

There were several policy interventions which made it virtually impossible for business dealings to be as fluid as it should, for instance a currency conversion was undertaken in 1979, where individual households were made to send their foreign currencies to the central bank for local currency. This was followed in 1982 by a demonetization of the 50 Cedi note (the highest denomination of the Ghanaian currency at that time). There was also the freezing of bank deposits in excess of 50,000 cedis, whiles bank loans for financing trade inventories and business deals of more than 1,000 cedis was required to be conducted by cheque, all in an attempt to reduce money supply and hence inflation. (Bank of Ghana and Quarterly Digest of Statistics).

2.5.2 Pre- Reform Era of Ghana's Financial System

Aryeetey et al (1994), revealed that, in the pre-liberalisation era, interest rates were controlled and monitored not by the market but by the Bank of Ghana and a variety of controls were also imposed on the asset allocations of the banks, such as sectoral credit directives. The motivation for these policies was based on the fact that, market imperfections and the nature of the financial system inherited from the colonial rule would make it difficult for the desired pattern of investment to be achieved, hence the need for government intervention in the financial market. According to them, these policies were motivated by three objectives: 1. to raise the level of investment, 2. to change the sectoral pattern of investment, and 3. to keep interest rates both low and stable. Until recently real interest rates on deposits have been negative. This gave individuals little incentives to hold savings in bank accounts. People preferred to hold cash. The Ghanaian economy seems not to have enjoyed any of the benefits and advantages that go with positive interest rate.

Low rate of financial innovation and poor quality of service throughout the financial sector could also be identified as another attribute of the pre-liberalization era of the Ghanaian financial system. Two reasons account for this development. In the first place, the financial system itself is a very young institution in Ghana. The first bank in

Ghana was established just after independence that is 1959. Since financial development is a gradual process it is only natural that the amount and rapidity of innovating financial instruments were lacking in the Ghanaian financial sector. Secondly the lack of competitiveness in the system as a result of the controlled environment under which the sector was operating was enough reason for the disappointing performance of the sector as regards its innovation and ability to render quality service. After all there did not seem to be incentives, anyway for such qualities under a restricted financial system. There were thus a limited variety of financial instruments.

The several obstacles and restrictions served to undermine private sector confidence in the system as a whole. What is inferred from the foregoing is that the financial sector reforms were needed. Apart from the state of the financial sector outlined above, reforms were actually needed to encourage the development of the financial market: the deepening of financial intermediation, the creation of new instruments for the people to invest in and the establishment of new financial institutions which will all go to make the economy much more competitive in the world economy. The liberalization of the system therefore could not have come at a more opportune time.

2.5.3 Reform Era of Ghana's Financial System

Financial liberalization is usually an important component of a country's strategy for economic growth. The contribution of the financial reform to the economic growth of the country has been immense. Financial Sector reforms have been implemented since the late 1980s as part of the ongoing Economic Recovery Programme (ERP). They began with the partial liberalisation of interest rates in 1987 and removal of sectoral credit ceilings in the following year. This was accompanied by liberalisation of access to foreign exchange and the licensing of foreign exchange bureaux. In 1989, the Financial Sector Adjustment Programme (FINSAP) was started, supported by a Financial Sector Adjustment Credit (FSAC) from the World Bank.

The objectives of the FINSAP were to address the institutional deficiencies of the financial system, in particular by restructuring distressed banks, reforming prudential legislations and the supervisory system, permitting new entry into the financial markets by public or private sector financial instruments, and developing money and

capital markets. Further liberalisation of the financial market took place in 1992 with the adoption of indirect instruments of monetary control which entailed the introduction of market determined Treasury bill rate.

Since 1994, a second phase of FINSAP has been underway, major objectives of which are privatisation of the public sector banks and development of non bank financial institutions to fill the gabs in the financial markets not served by the banks. The financial markets have therefore been progressively liberalised in Ghana. Liberalisation has entailed the removal of controls on interest rate and the sectoral composition of bank lending, and the introduction of market based instruments of monetary control. New financial institutions, including several merchants' banks with private sector participation, have been licensed and the latest phased of liberalisation involves the partial privatisation of government own banks.

Many financial as well as non-bank financial institutions were established. From a pre-liberalization number of about two foreign and five states owned banks with virtually no non-bank financial institutions, the sector has now widened. As at 1990, the Ghanaian banking sector comprised of the central bank-the Bank of Ghana, 9 commercial banks, and 3 merchant banks. One of the most useful innovations was the establishment of the unit rural banks. It numbered about 100 after the liberalization of the sector

The non bank financial institutions was made up of a stock exchange, 21 insurance companies, the Social Security and National Insurance trust, two discount houses, the Home Finance Company, a venture capital company, a unit trust and a leasing company. There has also been the influx of foreign banks into the country. There are four wholly owned foreign banks operating in the country and two others which are partnerships between foreign investors, the government and local private investors as well. At the end of the year 2002 there were seventeen banking institutions operating in Ghana, in addition to several rural banks widely spread all over the country. Foreign investors hold a majority of the shares in eight of the banks. There are nine purely commercial banks, five merchant banks and three development banks. These findings were based on a survey of 133 enterprises identified as successful and therefore as potential candidates for bank financing. These enterprises ranged from

micro (1 to 9 workers) to small-scale (10 to 29 workers) to medium-scale (30 to 140 workers).

The study conducted by Aryeetey et al (1994) emphasised that reforming financially repressive policies had little immediate effect on the conditions that inhibited banks from financing small enterprises, leaving their demand for credit largely unsatisfied. On the other hand, the study found that:

a. Many successful small enterprises did have at least some access to bank finance;

b. That other forms of external finance, such as customers' advances and supplier's credit, were at least as important as bank credit; and

c. That some small firms achieved rapid growth through reinvestment of profits.

Survey results reveal the overwhelming importance of equity finance in the start-up of small enterprises in Ghana. On the other hand, credit for start-up is relatively rare. Banks do not normally risk lending to new investors, large or small, who do not have a track record. Many small entrepreneurs begin with very small amounts of capital from personal savings (their own and relatives' or friends') and steadily build up their enterprise by reinvesting profits. As firm size grows, the likelihood of obtaining external finance rises, although internal financing dominates even the largest size group in the survey.

Many small enterprises do manage to finance rapid growth from their own profits and from non-bank sources. Most important among these non-bank sources for start-up was supplier's credit usually for equipment. The study revealed that, supplier's credit was used as frequently as bank loans for start-up (10 percent of sample firms) and more frequently for working capital (15 percent), at least by micro enterprises. Once a small enterprise was established, advances from customers become the most important source of finance after retained earnings, and was used by 29 percent of sample firms. Furthermore, that supplier's credit and advances are important sources of finance for small enterprises, since at least 10% Of the sample confirmed that they use supplier's credit as a source of initial finance, as compared to the 2% for advance (World Bank, 1994).

It must be noted that lack of access to finance dominated respondents' perceptions of constraints on their businesses. Overall, 23 percent saw inadequate credit for working capital as their most important constraint and another 21 percent stressed lack of loans for expansion. The smaller the firm, the more likely the entrepreneur was to complain about lack of credit and to be rejected if he or she applied.

The high growth rates of small enterprises and their important use of non-bank finance in Ghana make it difficult to conclude that lack of access to bank loans has prevented them from entering and growing in response to the Economic Recovery Program (ERP), although they might well have grown faster with easier access. Additionally, 44 percent of the entrepreneurs had obtained at least one bank loan and 74 percent had saved in a bank. So, many of them did have some access to bank services, even if their credit demand was not adequately satisfied. Half of the small enterprises in the sample that had received a loan were clients of the Program of Action to Mitigate the Social Costs of Adjustment (PAMSCAD), whose loans are administered by a commercial bank.

While this program has demonstrated that special efforts can broaden access to finance and help establish viable enterprises, its repayment rates have remained too low to demonstrate to banks that micro enterprise lending is profitable. Lack of credit may be overstated as a constraint because entrepreneurs tend not to view their own management weaknesses as limiting their ability to use credit effectively. Furthermore, the financial problems of some firms would not be solved by borrowing. For example, for many micro enterprises, weak demand and strong competition may be the main causes of a tight cash flow situation.

The ability of many small enterprises to exploit highly profitable opportunities would be enhanced if external financing were more accessible. High rates of application for loans among sample firms and their willingness to pay above-market rates of interest indicate strong excess demand. Two thirds of respondents had applied for at least one bank loan for their present business out of which 44 percent had their applications approved, though usually for less than requested. 17 percent had inquired but were discouraged by the bank from applying.

2.5.4 Role of Ghana government

Access to credit has been one of the main bottlenecks to small enterprises development. Steel et al (1994) indicated that, most small enterprises lack the necessary collateral to obtain bank loans and that to address this issue, the Central Bank of Ghana established a credit guarantee scheme to underwrite loans made by Commercial Banks to small enterprises but the scheme failed to work as expected. It was against this background that the Bank of Ghana obtained a US$ 28 million credit from the International Development Association (IDA) of the World Bank for the establishment of a Fund for Small and Medium Enterprises Development (FUSMED).Under the Programme of Action to Mitigate the Social Cost of Adjustment (PAMSCAD), a revolving fund of US$ 2 million was set aside to assist small enterprises development.

Duggleby et al (1994), observes that enterprise finance is an important barrier to the development of small enterprises in Ghana, even after the introduction of the financial liberalisation in Ghana .Notwithstanding these drawbacks, they recommended that in order to help increase small enterprises access to credit banks should focus initially on working capital credit as against investment loan
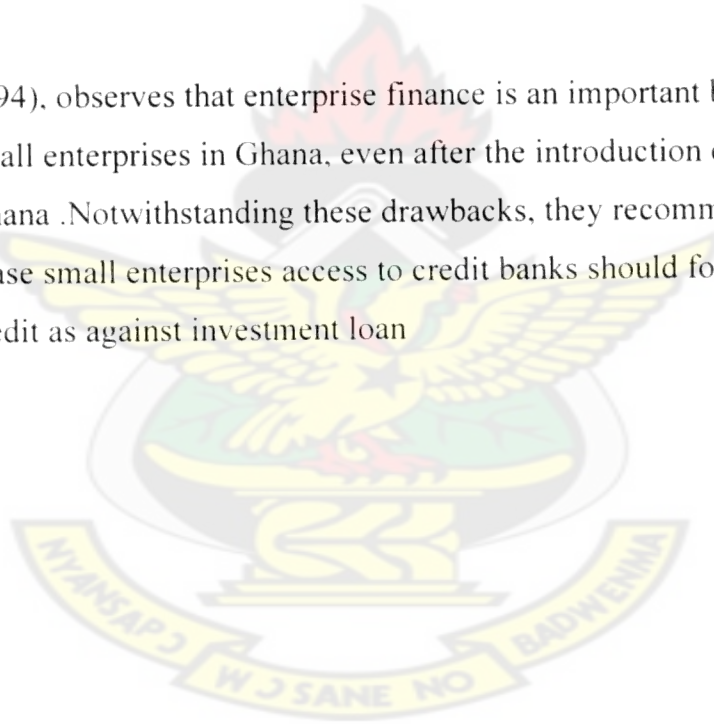
Figure 2.1: Conceptual Framework

Small Enterprises (SEs) Development

Demand for Credit

i) Efficiency and quality of financial system
ii) Percentage of SEs benefiting from credit
iii) Percentage of SEs refused credit
iv) Customers develop alternatives to property as collateral

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Supply of Credit

i) Price vector (interest rates, cost of doing business and transaction costs with financial institutions
ii) Sound business plan
iii) High credit rating
iv) Assets based/collateral loan
v) Efficiency of financial system
v) Longevity in the life of the business
vi) Character based lending entrepreneurs who have a good track record

Utilization of Credit

Training of local branch officers to conduct periodic close on-site monitoring of loans to ensure effective usage

Source: Author's Construct

26

2.6 Conceptual framework for the demand, supply and utilisation of credit

This section underscores the need to establish a framework of the study as a basis for validating the findings of the field survey. The concept is that there exist a direct relationship between small enterprises development and the demand, supply and efficient utilisation of credit. The concept anticipates that given effective demand of credit by small enterprises alongside a responsive supply of credit by banks and other financial institutions, coupled with an effective monitoring and evaluation of how these loans are applied by managers, will lead to the development of small enterprises. Figure 1 is an illustration of the conceptual framework of the demand, supply and utilisation of credit for small enterprises development.

2.6.1 Demand

Moving clock wise, the concept pre supposes that an efficient and quality financial system will lead to the effective mobilisation of savings from the general public and with the increase in the volume of savings, financial institutions would be capable of meeting the loans demand of customers.

The excess demand over supply of credit by small enterprises would be determined by establishing the percentage of enterprises that applied for credit and the percentage that was given and/or refused credit within the last six months. This will establish whether indeed there was any effective demand by customers or otherwise – that is, demand backed by the ability of the customer to meet banks requirements, such as the price (interest rate) and other costs as well as any other causality to the shortfall in supply.

2.6.2 Supply

The concept attests that banks and financial institutions, charge high interest rates on loans and transaction costs that serve as a barrier small enterprises demand for credit. However, if banks could reduce these charges considerably, most small enterprises will be able to contract responsive credits from banks to expand production and create jobs. This will lead to an increase in revenue margins of enterprises and that in turn will increase the volume of savings made by small enterprises and consequently enhance more disbursements of credit by banks.

Secondly, to expand small enterprise lending, banks need to develop alternatives to property as collateral to secure loans. These alternatives could include: personal guarantors, sales contracts, and liens on equipment financed. All of these, however, may depend on improvements in the ability of the legal system to enforce commercial contracts.

Thirdly, training of local branch bank officers and providing them with incentives to undertake small enterprise lending and savings mobilization will ensure the availability of credit for disbursement. Risk could also be controlled through character-based lending to entrepreneurs who have a good track record.

2.6.3 Utilisation of Credit

Well trained local branch officers to carry out frequent close on-site monitoring through greater decentralization of responsibilities could ensure effective utilisation of loans contracted from banks by owners of small enterprises.

CHAPTER THREE

PROFILE OF AKUAPEM SOUTH MUNICIPALITY – THE CASE STUDY AREA

3.1 Introduction

The purpose of this chapter is to underscore the relevance of choosing the Akuapem South Municipality for the research and also present a brief discussion of the study area vis-à-vis the demand, supply and utilization of credit in relation to the geophysical setting, demographic characteristics, available economic activities and financial institutions, support from line agencies and NGOs and the role of the NBBSI and the Municipal Assembly in the development of small enterprises.

Several factors accounted for the selection of the Akuapem South Municipality as my study are:

- First the municipality has been chosen for the SPRING programme 2009 Development Planning Workshop and considering the short duration of the research, the researcher found it expedient and propitious to carry out this research in the municipality so that data collected for the workshop would complement that of the researcher.

- Having acquainted with the staff of the Municipal Assembly, communities and members of the general public in the area during the workshop, it was easier to re-establish these contacts to facilitate the smooth collection of data and other relevant information for the study.

- Another important factor that led to the selection of the municipality was its location. It shares a boundary with Accra and Tema thus making the municipality a dormitory for migrants. With regards to its peri-urban nature and the interplay of both urban and rural characteristics, there is increased demand for goods and services leading to the sprouting of small enterprises in the municipal capital, Nsawam, Adoagyiri and Aburi.

29

3.2   Location and size

The Akuapem South Municipality (ASM), was established by a Legislative Instrument (LI) 1487 of 1989 exists to improve the living conditions of the people through the mobilization of human, material and financial resources in the provision of basic amenities, infrastructural facilities and essential services/facilities (ASM, 2006). The Municipality (ASM) is one of the 22 administrative districts/municipalities in the Eastern Region of Ghana. It is located in the South-eastern part of the region and lies between latitudes 5^0 27^lN and 5^0 58^lN and longitudes0^0 07^lW and 0^0 27^lW. It covers an estimated land area of about 503 square kilometers. The Municipal capital, Nsawam, is located along the Accra-Kumasi highway and is about 23km from the national capital, Accra. The ASM shares boundaries to the south with Ga West Municipality and Tema Metropolis (which are part of Greater Accra Region). It is bordered on the north-west by Suhum-Kraboa-Coaltar Municipality, to the north by Akuapem North Municipality and on the west by the West Akim Municipality. The study area (ASM) in the National and Regional contexts are shown in Figures 3.1.

Figure 3.1 Akuapem South Municipality in the Regional and National context
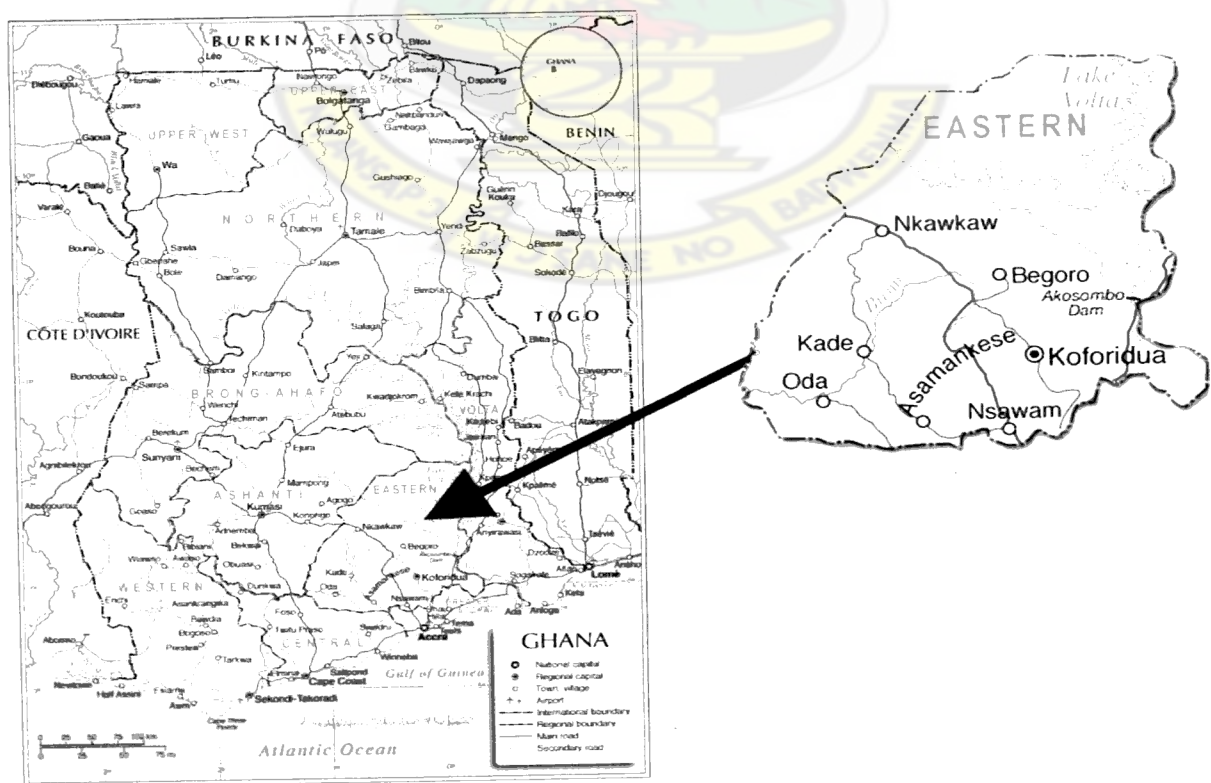
The strategic location of ASM especially the capital, Nsawam, which lies only 23 km of Accra, the national capital, and the existence of the Kumasi-Accra trunk road and railway offer a lot of potentials that foster the development of marketing activities and the diffusion of information and innovation. In particular, the proximity of ASM to Accra has contributed in making the major towns such as Aburi, Nsawam and Adoagyiri as dormitory towns where people reside and commute daily to the national capital. This has led to the increase in population in the major towns and consequently increases in the demand for goods and services leading to the sprouting of various small enterprises.

The existence of the major highway in the country (Accra-Kumasi trunk road) through some of the major towns (Nsawam and Adoagyiri) has attracted especially brisk informal businesses such as food vending, petty trading (confectionery). The increase in demand as a result of the increase in population warrants the provision of additional resources, such as raw materials, production levels and packaging. To do so, the injection of a responsive level of money/credit to meet inputs and outputs levels, is required.

About 60 percent of the labour force is engaged in the agricultural sector making it the major economic activity. Commerce, services and industry employ 40 percent of the population. It is important to note that, with the implementation of the millennium challenge project, the industrial sector has potential to employ more people. Commercial activities have been concentrated at Nsawam, Adoagyiri and Aburi. Agriculture and commerce are the backbone of the Akuapem South Municipality in terms of employment generation.

3.3   Small and Medium Scale Enterprises

There are a number of small enterprises in the Municipality. These enterprises range from agro-processing, stone quarrying, artefacts/craftworks production, batik tie and dye, bread bakers, traditional caterers (chop bar operators), service providers, fabricators, beauticians, dressmakers, among others.

Farming is currently the leading occupation of people throughout the municipality cultivating vegetables, tubers, pineapples and oranges. The municipality pineapples exports represent 60% of the total national exports that accounts for about $12million

in 2002 while at the same time the municipality produces about 55% of total quality of pawpaw exported from Ghana.

The commercial sector which employs about 28% of the labour force includes activities such as the sale of clothing, electrical gadgets, foodstuffs, and plastic wares. The service and industrial sectors employ 20% and 15% of the labour force respectively. A closer look at the municipality revealed that many fractured goods are imported while foodstuffs and agro-processed items are exported. The introduction of the Rural Enterprise Project which operates as a Business Advisory Centre (BAC), facilitated in the training of small enterprises in the use of appropriate technologies and counselling people in other areas of employable skills like mushroom cultivation, snail rearing, bee-keeping, baking and confectionery while also enforcing the managerial training of small enterprises in order to enhance their managerial skills so as to manage their businesses more profitably to increase employment levels.

3.4   Commerce

Commerce is an important activity in the municipality. The sector employs 28% of the total labour force and these activities include the sale of clothing, foodstuffs, plastic wares, chemicals, beverages and toiletries. However, the maximum benefits of marketing activities in the municipality have been hampered by high cost transport fares.

3.5   Agriculture

Agriculture is the major economic activity in the municipality in terms of employment and income generation .The sector provides employment to about 37% of the total population out of which 40% are females and 60% males. Other major vegetables cultivated include okro, tomatoes, garden eggs and pepper. .Available data from the field indicated that, majority of the working population are engaged directly or indirectly in the sector. Major crops cultivated include maize, cassava, cocoa, coffee, oil palm, citrus, pineapple and pawpaw.

3.6   Access to Credit

From field survey, 95% of small enterprises have no access to credit facilities. The rest constituting 5% depends on friends and/or banks. However large scale

commercial enterprises are able to access some loans from some financial institutions because they are credit worthy and are able to satisfy collateral requirements. One of such institutions is Farmapine limited. Money lenders and traders also offer farmers credit under very stringent conditions such as: loans with 100% interest from money lenders and traders purchasing from farmers at extremely cheap prices.

3.7   Financial Services

The presence of brisk economic activities like agriculture, commerce, quarrying, services, among others, is a motivating factor to attract a number of financial institutions. In contrast however, there are only three commercial banks in the municipality. These are: the Ghana Commercial Bank, Nsawam, Ghana Commercial Bank, Aburi and the Akuapem Rural Bank, Nsawam.

3.8   National Board for Small Scale Industries (NBSSI)

The NBSSI has one hundred and fifty three small enterprises operating with the board. The NBSSI supports small enterprises by way of providing technical and managerial training after their needs assessment. The board also facilitates links between enterprises and financial institutions in the municipality and offers business advisory support to customers. Clients pay 30% of the total cost of technical training offered. Some challenges identified by the board confronting small enterprises include lack of funds, lack of collateral requirements by banks, lack of proper book-keeping, the inability of enterprises to cultivate banking culture and lack of skill to manage funds.

3.9   Demographic Characteristics

Akuapem South Municipality had a population of 116,344 in 2000 representing 5.5% of total population of the Eastern region. The population as of 2009 is estimated to be 145,442. The population density of the municipality is estimated to be 289 persons per square kilometre as of 2009. Population growth is estimated at 1.6% per annum which is lower than that of the country, which stands at 2.7%, but slightly higher than the region population growth rate of 1.4% per annum. The high population could be attributed to the municipality being used as a dormitory by migrants from Accra and Tema. The implications are that there will be high demand for goods and services

produced by small enterprises in the area. As a consequence, producers will mobilise more credit to vary production levels offset demand by the growing population

The sex ratio for the municipality stands at 97.1 males to 100 females while that of the country is 96.8 males to 100 females. The relatively high population of females can be attributed to the influx of the youth especially the females into the municipality either in transit to Accra or to work in the industries and farms located in and around Nsawam. This implies a large existence of cheap labour in the municipality that can be exploited within the availability of responsive credit demand and supply, to expand production and raise income levels of small enterprises in the agro-based, service and manufacturing sectors of the economy.

3.10 Relief and Drainage

The relief of the municipality is generally categorized into three main divisions and these are: The Densu Plains, The Pompom Narrow Lowlands and the Akuapem Togo Ranges. The Densu Plains cover the western half of the district. The Plains are generally undulating with occasional isolated peaks such as the Amama Hill, which reaches a height of about 5000 feet above sea level. The plains would generally be supportive in terms of construction and also provide a potential for irrigation and mechanized farming by agro-based small enterprises in the municipality.

It is worthy of mention that Nsawam, the municipal capital is located on the plains. Given the topography and inadequate drainage facilities, parts of the town are liable to floods. Areas liable to flooding are often grounds where different species of birds converge. Thus given enough credit, small enterprises could develop marshy grounds to serve as tourist attractions to bird watchers.

The Akuapem Togo Ranges are found to the east of the municipality. The Ranges form part of the South East Greenbelt where developments, especially farming and other non commerce activities along the belt are strictly controlled. The greenbelt appeared to form part of the cosmovision of inhabitants even though the area is so fertile for the cultivation of crops and vegetables by agro-based small enterprises. The hills provide a good view of the Accra Plains and are very attractive sites for tourism

development. If adequate credit is sourced, provided and utilised the sector would provide jobs for the teeming youth in the area and enhance households incomes.

3.11 Climate

The municipality lies within the wet semi-equatorial zone marked by double rainfall maxima; June and October with a mean annual rainfall between 125cm and 200cm. The first rainy season is from May to July (maximum) with the heaviest rainfall experienced in June and the second rainy season is from September to October (minimum) when the municipality comes under the influence of the Wet Maritime Air mass. This has brought about two farming seasons based on rain-fed agriculture. There is a sharp dry season between the two rainy seasons with the main one coming between November and March when the Tropical Continental Air mass in the country sweep over the area. This situation obviously keeps farmers off business during the dry season but with the support of adequate credit, it would be possible for farmers to diversify into commerce during the period to generate income.

Relative humidity is generally high ranging between 75% to 80% during the two rainy seasons and 70% to 75% during the rest of the year. Temperatures are generally high throughout the year with the highest average temperatures of about 30°C recorded between March and April while the least average temperature of about 26°C is usually recorded in August.

CHAPTER FOUR

4.0   RESULTS AND DISCUSSION OF FIELD DATA

This chapter examines the discussions and results of field data on the demand, supply and utilization of credit by small enterprises in the Akuapem South Municipality. It analyses the profiles of the various banks and financial institutions, the types and quantity demanded and supplied of credit by enterprises and banks, the effectiveness of demand, the roles of line agencies in supporting the development of small enterprises and the roles of financial institutions to ensuring effective utilization of credit by customers.

4.1   Institutional Analysis of Data

4.1.1   Municipal Planning and Coordinating Unit (MPCU)

The MPCU in collaboration with the National Board for Small Sale Industries (NBSSI) and the Department of Cooperatives encouraged small enterprises to register their businesses with the Department of cooperatives. They are assisted to write Business Plans and undergo Management training with the NBSSI (CBAC) and are recommended to benefit from European Union (EU) Income Generating Programs under the 6th EU Micro Project Program. Apart from that, the MPCU monitor the activities of small enterprises at the Assembly level through the Divestiture Implementation Committee (DIC) and the NBSSI and reports are submitted to the Zonal Coordinator of the EU Micro Project Unit (EUMPU).

Constraints faced by these enterprise in their demand for credit in the Municipality, include lack of effective collateral to access loans from banks and financial institutions, lack of records on business transactions, inadequate regulatory framework of the business entity, inability to produce a workable business plan, high interest rates and high cost of transactions by financial institutions.

4.1.2   Department of Cooperatives

The department monitors small enterprises by registering them into cooperatives to ensure their credit worthiness, provide them with counseling and training, audit the accounts of small enterprise cooperatives, offer advisory services on government policies and programs settle disputes between small enterprise cooperatives and

liquidates small enterprise cooperatives when they do not perform up to expectation. Marketing was identified as the single major problem hampering the demand for credit among these enterprises since it appeared most of them could not sell their products at good prices as to earn more income and increase their savings to qualify for higher credits from financial institutions in the municipality.

To ensure an effective demand for credits, the department recommended that, small enterprises hire the services of experts to train them on proper book keeping of records and the preparation of income and expenditure accounts which are important requisites in the demand for loans.

4.1.3 Ministry of Food and Agriculture (MoFA)

MoFA facilitated the formation of small enterprises into Farmer Based Organizations (FBOs) to enable agro-based small enterprises access credit more effectively than it was on their individual basis. Apart from above the Agency offered technical advice and introduced new innovations to small enterprises but lack of acceptable collateral, high risks especially poor rains, poor sales and post harvest loses, limited the ability of enterprises to get loan demands through with banks.

Longevity of the life span of the small farm enterprise, such as those engaged in oil palm plantation and citrus production which had long term economic yields (usually after five (5) years), found it difficult demanding credit from financial institutions. Officials of MoFA observed that banks preferred advancing loans to small enterprises engaged in short- term production of less than one year.

4.1.4 National Board for Small Scale Industries (NBSSI)

The NBSSI supports small enterprises by providing them with technical and managerial training after their needs assessment. The board also facilitates links between enterprises and financial institutions in the municipality and offers business advisory support to customers. Clients are expected to pay 30% of the total cost of technical training offered. Some challenges identified by the board that hinder small enterprises demand for credit include lack of collateral requirements by banks, lack of proper book-keeping, the inability of enterprises to cultivate banking culture and managerial incompetence.

4.2 Financial Institutions

4.2.1 Akuapem South Rural Bank

Market women formed the largest category of borrowers and factors considered by the bank while making a loan in order of rank were: the income of the borrower, borrowers credit worthiness, previous credit records, borrowers credit needs and the savings deposit of the borrower. High default risks, lack of collateral and managerial skills were major concerns of the bank in lending to small enterprises. In advancing loans/credit to small enterprises, the bank required collateral in the form of any of these: land, bank deposit and savings balance. Furthermore, the bank required ¼ of the loan demanded for by the customer as lien in addition to a maximum of four (4) guarantors, who are salary earners and saved with the bank. For instance, if a customer demanded an amount of one thousand Ghana cedis (Gh1, 000.00), she/he deposited two hundred and fifty Ghana cedis (Gh250.00) as Lien.

The bank often rejected loan applications when there was no enough information about the borrower. In addition, the absence of acceptable collateral, the non performance of a business entity and the borrower's unproven ability to pay back loan, were also factors that determined the refusal of loan applications. The bank did not give credit to non customers of the bank and those enterprises whose turnover was not sufficient. The bank required that both the debit and credit turnover of the customer be three times the loan requested for before it was approved.

Over the period October 2008 and April 2009, the bank received a total of about two hundred and fifty (250) loan applications from small enterprise holders. Within the above stipulated period, the bank disbursed loans to a total of one hundred and fifty-one (151) customers and rejected ninety-nine (99). Refer to figure 4.1 below:

Figure 4.1 Akuapem Rural Bank, Nsawam
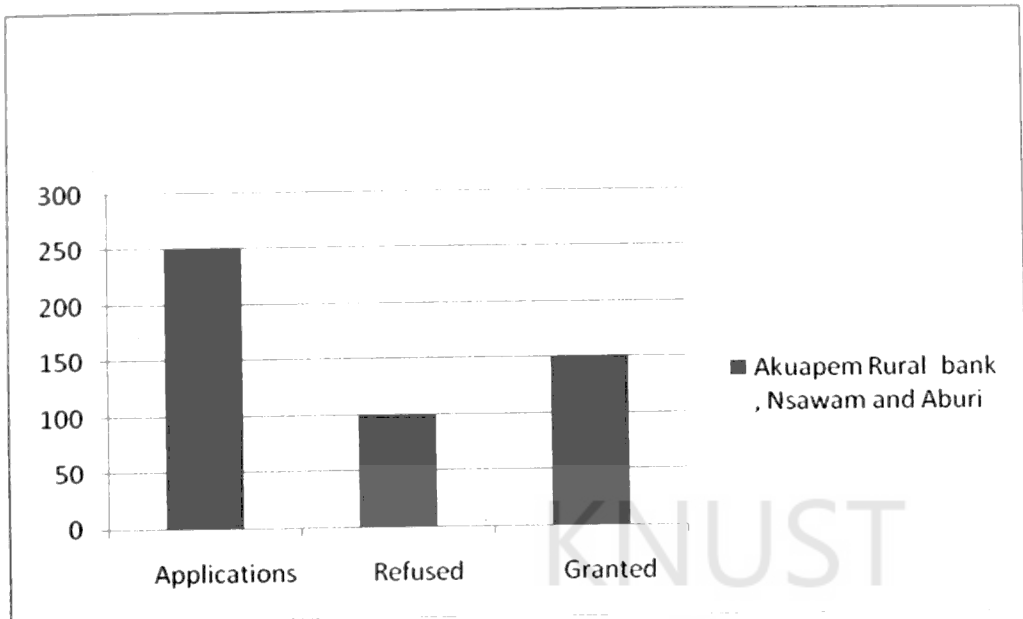
Source: Authors field survey,2009

It takes a minimum of seven (7) days for a credit demand to be approved. Poor performance of small enterprises such as low sales of products was responsible for high default in loan repayments among small enterprises.

Major savings mobilization came from small enterprises and market women who also constituted the target group of the bank. Petty traders and market women formed the major depositors of the bank while a minimum of Gh5.00 is required to open a savings account. Among the measures adopted by the bank to reduce default risks included the provision of lien, provision of a minimum of four (4) guarantors and the effective monitoring of the business activities of small enterprises.

4.2.2   Ghana Commercial Bank

The banks target groups were small enterprises and employees of public and private institutions but the government and small enterprises constituted the largest depositors of the bank. The banks minimum acceptable deposit was Gh5.00 and issues considered by the bank when advancing credit to small enterprises were the enterprise credit worthiness, availability of acceptable collateral and a good demonstration of managerial and credit competence. Collateral requirements by the bank could take the form of the enterprise savings balance and landed properties, including fixed deposits and would refuse to supply credit to any enterprise that was found to perform

poorly. Within a period of six (6) months (October 2008 and April 2009), the Ghana Commercial Bank in Nsawam received five (5) credit applications from small enterprises in the municipality and was able to supply credit to only five (5) of them and turned down five (5) based on all or some of the reasons stated above. Refer to figure 4.2 beneath:

Figure 4.2 Ghana Commercial Bank, Nsawam and Aburi
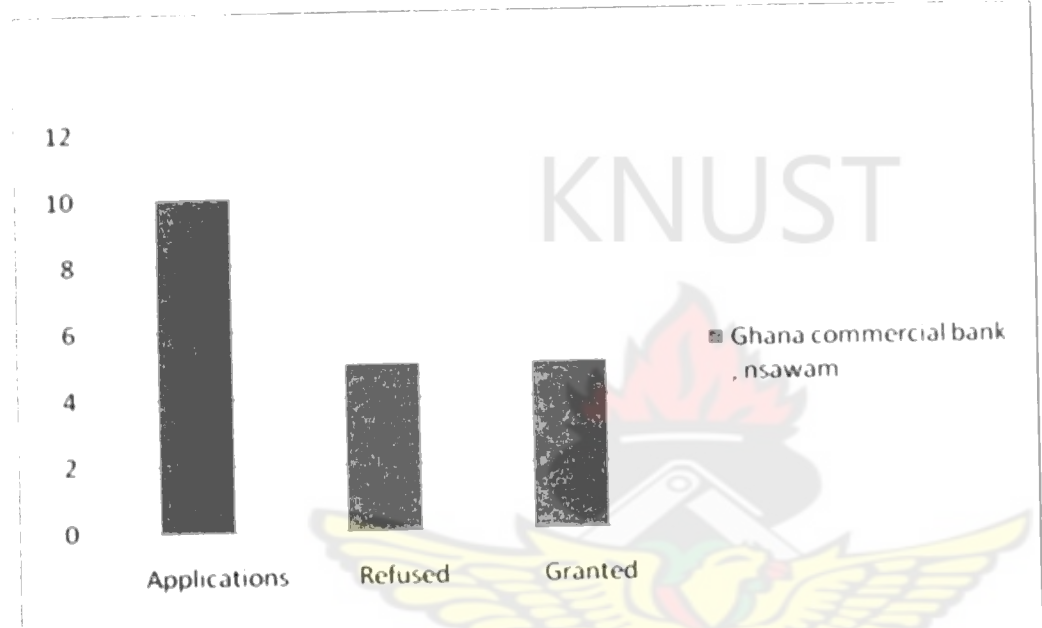
Source: Authors field survey, 2009

Management revealed that, small enterprises often diverted credit because of bad advise or influence from friends/family members into purchasing parcels of land or personal car.

4.2.3 Citizens Rural Bank

The bank operated the Susu type of microfinance alongside the traditional banking activities. The bank's major customers included market women and small enterprises and savings deposits, credit worthiness of enterprises were among factors considered before granting loans to prospective customers. In some instances, a market survey and analysis of the enterprise applying for the loan was conducted by the bank.

Lending to small enterprise took into account the degree of risks associated with repayment of loans, availability of collateral, and the managerial competence of the owner and a minimum of four (4) guarantors who were salaried customers of the bank. Credit was not given when the bank suspected that the enterprise in demand did

not have any acceptable collateral or showed signs of poor performance in the business, among others.

Within a period of six (6) months, the bank received eighty eight (88) applications from clients and approved seventy five (75) of them but refused thirteen (13) others. Please refer to figure 4.3 below:

Figure 4.3 Citizens Rural Bank, Nsawam
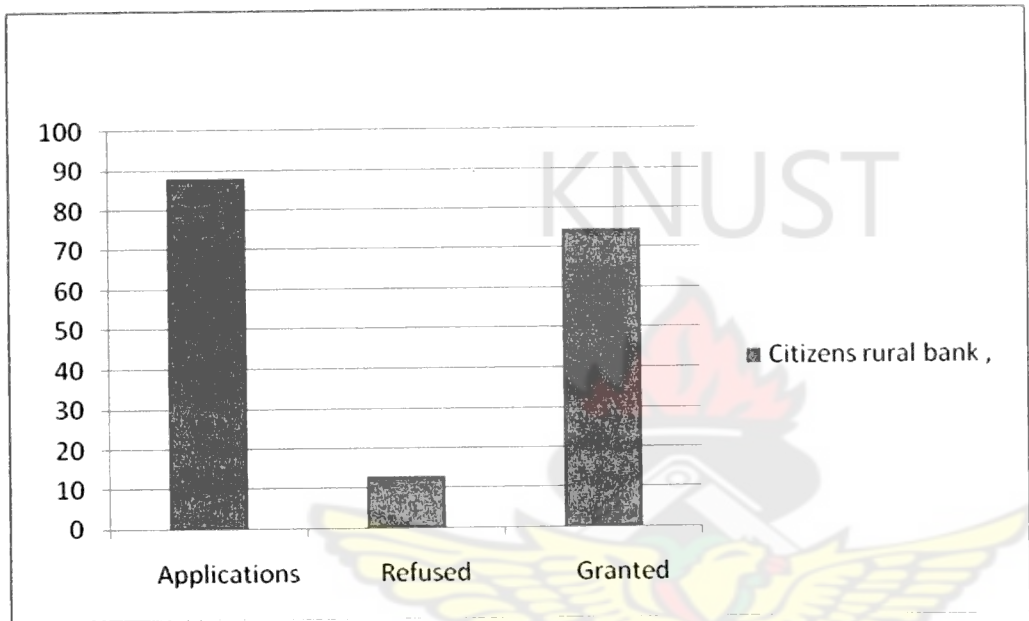
Source: Authors field survey, 2009

It took the bank a maximum of fourteen (14) days to process a loan from application to approval. Major cause of high loan defaulting rate was poor sales of products as a result of limited market. Interest rate on loans charged by the bank was 35% (i.e. 30% interest rate plus 5% processing fee) and the minimum amount of operating a savings/current account with the bank was pegged at five Ghana cedis (Gh5.00).

To reduce credit risks , the bank required the provision of collateral and a minimum of two (2) guarantors and also monitors the businesses of customers. The project officer of the bank engaged in field visits to the premises of beneficiary small enterprises and interacted with them ascertain the viability of the business and learnt at first hand their problems and challenges.

4.2.4   South Akim Rural Bank

The South Akim Rural bank is located at Adoagyiri, near Nsawam, received a total of two hundred loan applications from small enterprises for the period October to April

2009. The average processing time to approve a loan was five (5) days. Of the number of applicants, one hundred of these enterprises were supplied with credit and another one hundred, failed to qualify because the enterprises ability to pay back was not proven. See figure 4.4 below:

Figure 4.4 South Akim Rural Bank, Adoagyiri
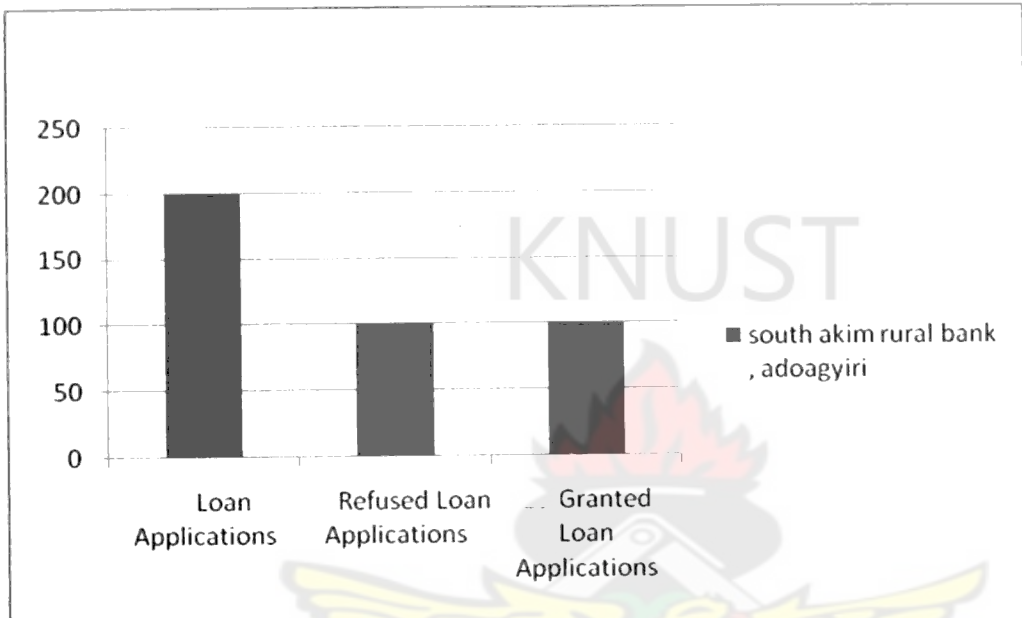
The bank sets mutual standards for enterprises as a measure to reduce default or credit risks among customers. In the view of the bank, small enterprises sometimes diverted credit into other purpse other than the original, perhaps due to delays in credit delivery and the refusal of banks and financial intstitutions to supply the exact customer demand.

4.2.5 Gains Microfinance Company Ltd, Adoagyiri

GMfC is a microfinance company that supported the development of small enterprises in the Municipality. The company accepted applications from twenty (20) enterprises, supplied ten (10) of them with credit and refused the remaining ten (10) over the period October 2008 and April 2009. Reference figure 4.5 below:

Figure 4.5 Gains Microfinance Company Ltd., Adoagyiri
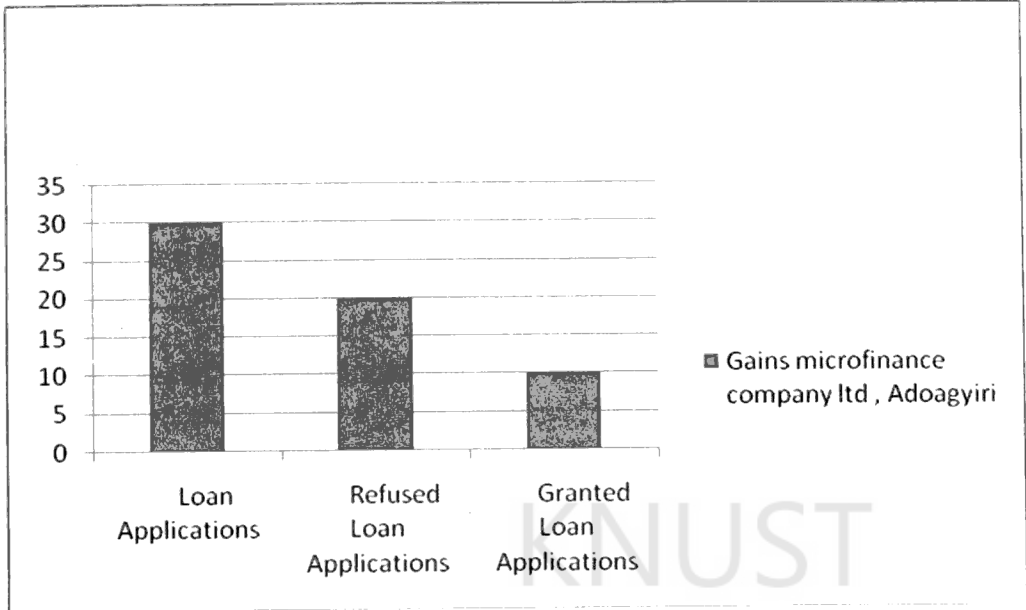
Source: Authors field survey, 2009

GMfC used a minimum of fourteen days to process a credit demand and as a condition for a credit facility, an enterprise should have saved with the company for at least three months out of which, 70% was then supplied to the customer as credit. This formular, according to the company reduced the risks of default. Each credit supplied attracted an interest of 40% and repayment duration of between 6 months and 12 months. Diversion was common among enterprises as some customers reportedly contracted credit to purchase maize only to divert same into purchasing charcoal and as a consequence, defaulted in payment due to poor returns.

4.3 Supply of Credit

Savings mobilisation in the municipality was generally low because the largest category of borrowers were market women and small enterprises. Before an enterprise could borrow from any of these banks, it would first save with the bank and should have a minimum balance of not less than a quarter of the amount of loan applied for. First time enterprises accessing credit without savings accounts with the bank were to provide a lien equivalent to a quarter of the loan applied for in addition to two (2) or four (4) guarantors. The most active financial intitutions that are into small enterprise lending were identified as the Akuapem Rural Bank, South Akim Rural Bank and the Citizens Rural Bank. High default risks was a major concern expressed by these

banks when lending to small enterprises. Average interest rates were between 30% to 39%

The Akuapem Rural Bank received the highest number of loan applications from small enterprises and the bank as expected supplied the highest number of credit to them. This was followed by the South Akim Rural Bank, Citizens Rural Bank, Gains Microfinance Company and lastly the Ghana Commercial Bank. See figure 4.6 below:

Figure 4.6 The Demand and Suppply of Credit by Banks
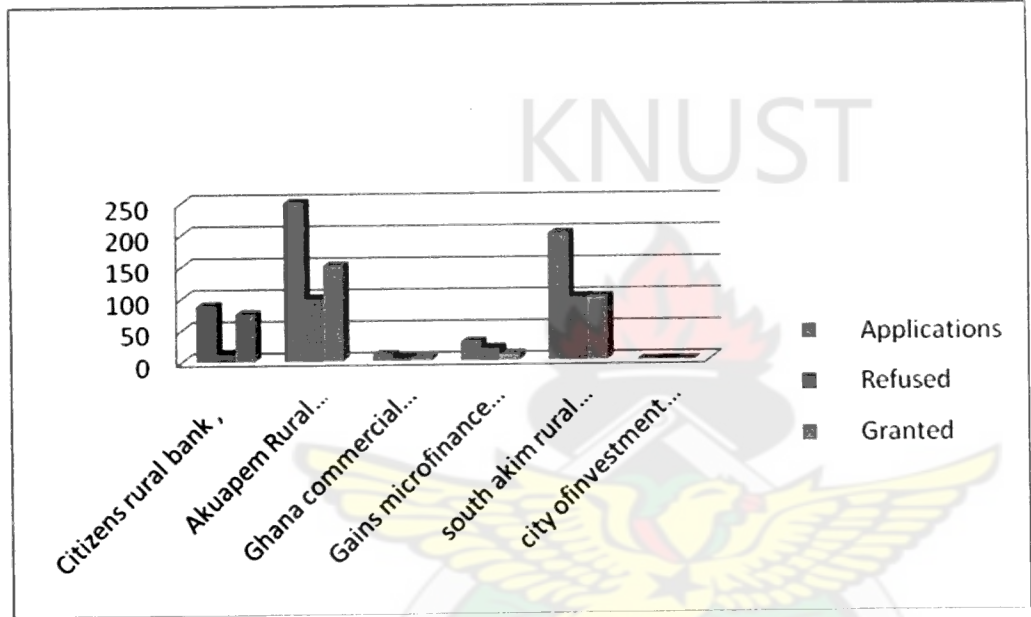
Source: Authors field survey, 2009

4.3.1 Type and Quantity of credit supplied

A sample of one hundred of eight (108) respondents, were interviewed. Of the number, fifty one (51) indicated that they did not access credit for their business, while Fifty seven (57) of them said they did. It was established that 75% of those who obtained credit received cash, 11% in kind while 14% got credit in both cash and kind.

The study revealed that 59% of small enterprises were advanced credit by banks and other financial institutions but 41% were refused credit. Between october 2008 and April 2009, thirty seven thousand, five hundred Ghana cedis (Gh37,500.00) was issued as loans by banks and financial institutions to small enterprises in the municipality. Credit disbursed ranged between one hundred Ghana cedis and three thousand Ghana cedis (GH¢100.00 -- GH¢3,000.00) The highest loan receipient

category were those whithin Gh100.00 and GH¢1,000.00 closely followed by GH¢500.00.

4.3.2 Total Demand for and Supply of Credit

The Citizens Rural bank and the Akuapem Rural Bank, disbursed loans to seventy five (75) and one hundred and fifty one (151) small enterprises respectively, out of a total number of three hundred and thirty eight (338) enterprises that applied for credit. Five (5) enterprises out of ten (10) were supplied credit by the Ghana Commercial Bank over the same period. Further, the South Akim Rural Bank,received a total of two hundred (200) small enterprises but could only supply one hundred (100) of them. The City of Investment Company, a microfinance company did not do business with small enterprises because its target group were workers who drew their salary from the Controller and Accountant Generals Department of the government. In sum therefore, a total number of five hundred and seventy eight (578) small enterprises demanded for credit from banks and financial intitutions over the past six months but only three hundred and forty one (341) of them were supplied, constituting about 41% of the total demand. Refer to table 4.1 below:

Table 4.1 The Demand for and Supply of Credit by small enterprises over the period october 2008 and April 2009

Financial Institution	Credit Demanded	Credit Supplied	Excess Demand over Supply
Citizens Rural Bank, Nsawam	88	75	13
Akuapem Rural bank, Nsawam	250	151	99
Ghana commercial bank , Nsawam and Aburi	10	5	5
Gains microfinance company ltd , Adoagyiri	30	10	20
South Akim Rural Bank , Adoagyiri	200	100	100
Total	578	341	237

Source: Author's field survey, 2009

4.4 Major Sources of Credit for Small Enterprises

Funds from Family and Friends were identified as the major source of credit for small enterprises in the municipality. 55% of these enterprises also used the credit they obtained in the business. 4% of them used their money to purchase a means of transport and paid school fees. 61% of beneficiaries paid a monthly intallment on loans below GH¢49.00.

4.4.1 Small Enterprises Means of Credit Demand

Individual demand for credit was dominant among enterprises. 78% of beneficiary enterprises did so on individual basis. 14% and 6% of enterprises contracted loans on the basis of association and group lending, respeectively. All of these enterprises paid interest rates between 30% and 39% and as a result 68% of them found it difficult repaying their loans. See figure 4.7 below:

Figure 4.7 Small enterprises Credit Advance Means
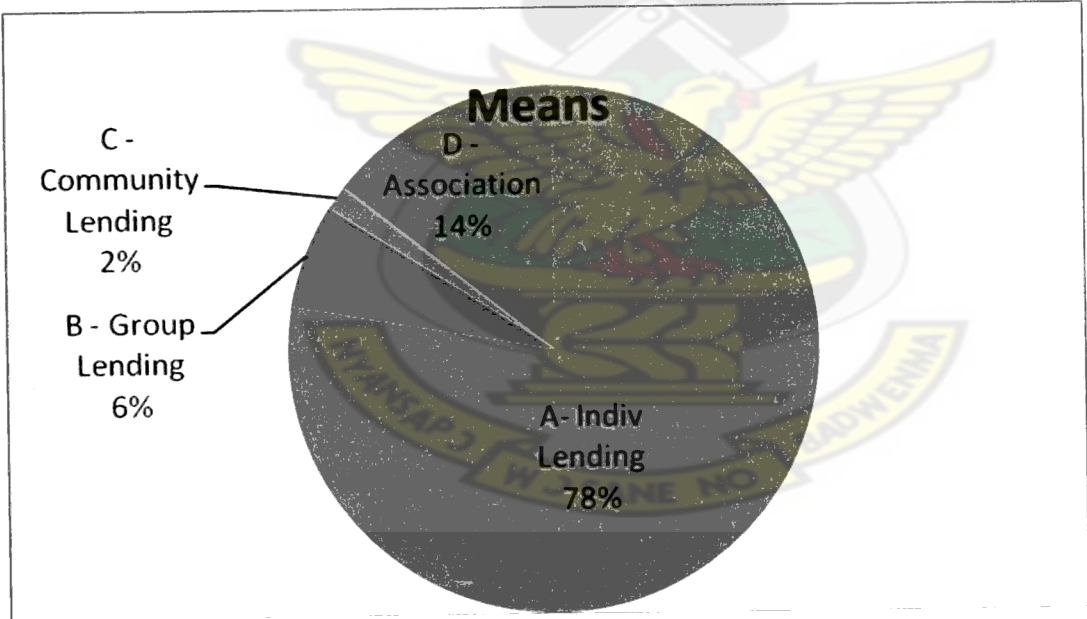
4.4.2 Impact of Non- Registration of Small Enterprises on Demand for Credit

Another observation made was the inability of small enterprises to register their businesses to facilitate their demand for credit. It was established that of the sample, 65% of respondent enterprises did not register their businesses and it was either because they were ignorant about registration procedures or felt that their businesses were too small to be registered. This scenario, negatively affected small enterprises

credibility and bargaining power in the demand for credit from banks and other financial institutions.

Figure 4.8 below, indicated that 65% of small enterprises did not register their businesses while 41% of enterprises did.

Figure 4.8 Registration of Enterprise
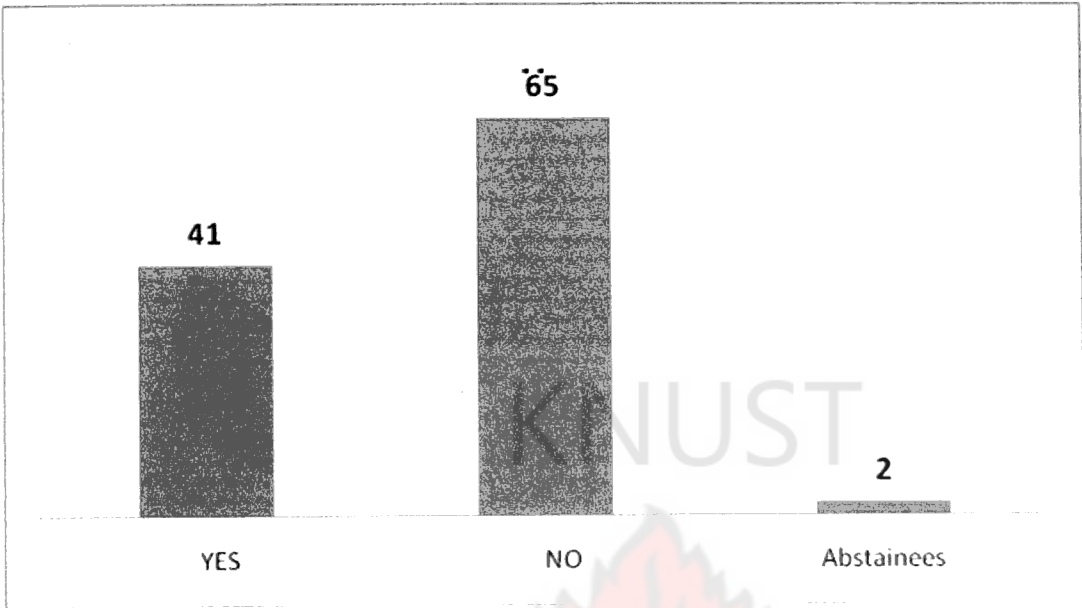
Source: Authors field survey, 2009

4.5   Impact of low level of Education on the Demand for Credit

The study established that, 14% of small entrprise owners either have not been to school or could not go beyond junior secondary school education. 37% of respondents attained primary education, while 47% failed to pursue their education after Senior Secondary /Technical school. One percent (1%) each completed Polytechnic/College and University education.

It was obseved that the level of education impacted heavily on the demand for credit by small enterprises as most of them did not have the managerial competence and trustworthiness required by financial institutions to merit the supply of higher sums of credit. Enterprises could not keep proper records of their daily transactions and did not have any business plan to guide their operations, as part of requirements by banks in the demand for credit. The low level of education incapacited enterprises to take the risks of accessing resposive loans from the banks. See figure 4.9 below;

Figure 4.9 Eductional background of Enterprise Owners vis a vis Demand and Supply of credit
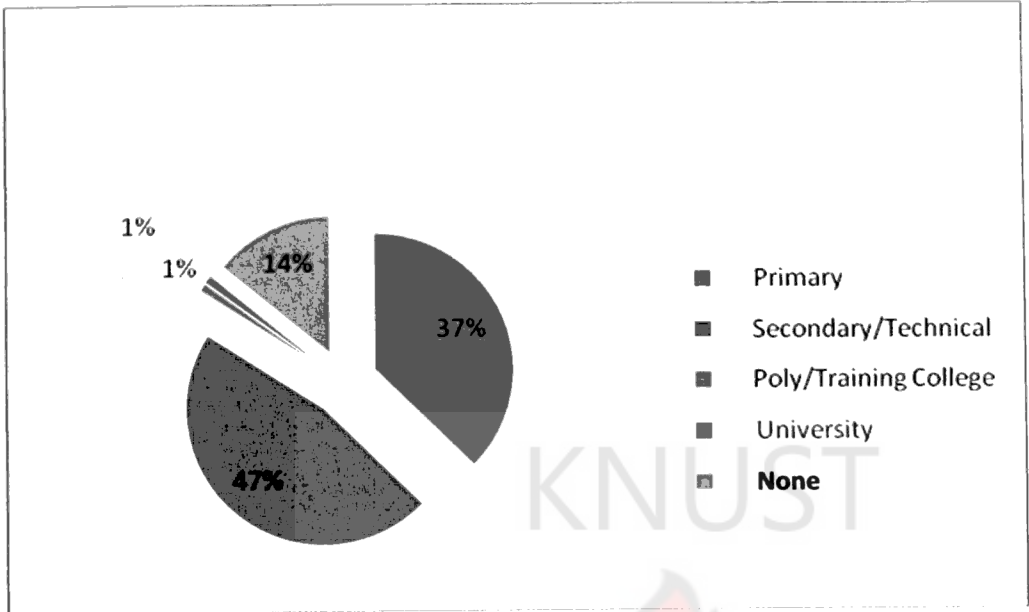
Source: Authors field survey,2009

4.6   Credit Adequacy

The study observed that, the credit supplied to small enterprises was not adequate for the purpose for which the demand was made. For instance, Figure 4.10 below suggested that, 60% of respondents indicated that the credit supplied to them was not adequate, while 40% agreed that it did. Inadequate supply vis a vis demand, small size of business and banks discretion in the disbursement of credit were cited by entrerprises for credit inadequacy. Consequently small enterprises had no regular supply of credit due to the small size of businesses, lack of collateral, the high number of guarantors required by banks and limited access to the market for their products.

Figure 4.10 Loan Adequacy
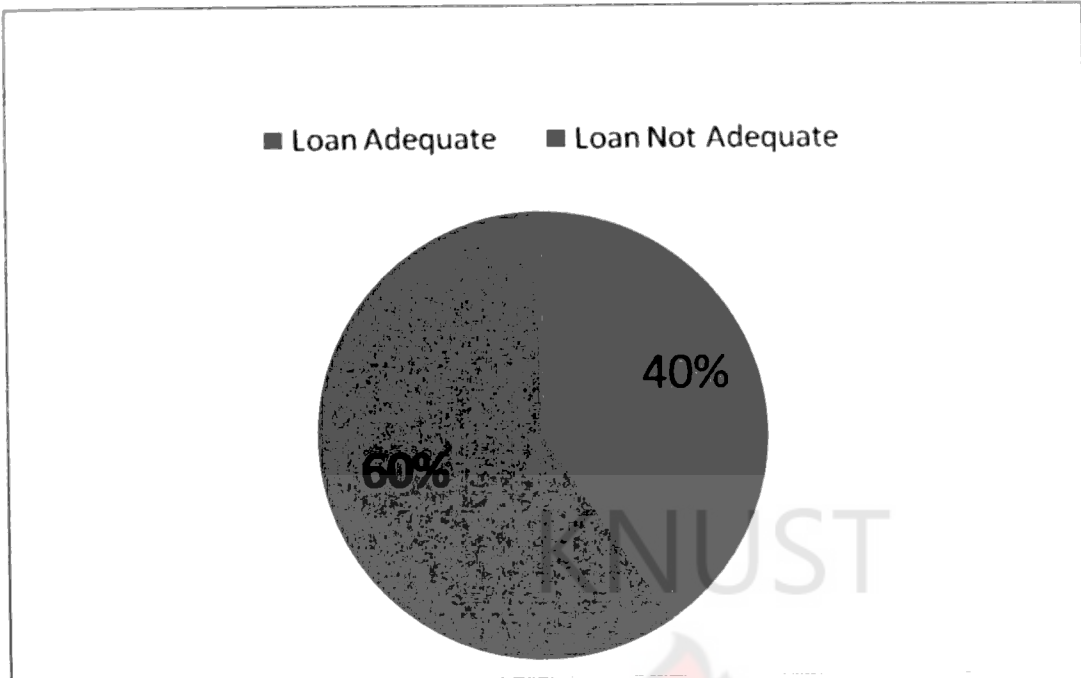
Source: Authors field survey, 2009

4.7   Utilization of Credit Demanded by Small Enterprises

Banks showed interest in small enterprises because they believed that, the successful repayment of loans by customers did not depend on the repayment schedule the bank drew but rather the success of the customers business. In line with that they monitored and evaluated the use of credit supplied to small enterprises to ensure efficient utilization.

4.7.1   Diversion of Credit by Small Enterprises from Original Purpose

Banks condescended that credit diversion from their original purpose into other ventures was rampant among a few small enterprises. The banks explained that, enterprises thought some ventures were more lucrative than theirs and so diverted credit into those ventures.

Furthermore, management indicated that diversion of credit was often instigated by bad advice or influence from friends and family members, delays in credit supply by banks to enterprises and the refusal by banks to supply the exact credit demanded to enterprises. For instance, the Akuapem Rural Bank reported that, a baker demanded a credit of GH¢250.00 to purchase bread flour for her business. She diverted the credit

into the cultivation of pawpaw but unfortunately the yield was poor during that season and she defaulted in payment, so her guarantors were compelled to pay the credit.

Again management of same institution also claimed that a male trader demanded credit of GH¢5000.00 from the bank and used the facility to finance his nephew to travel to the People's Republic of Korea to purchase KIA and Hyundai vehicles but he was deported and the transaction failed. The bank resorted to his savings balance and guarantors to defray the credit supplied.

GMfC reported that, diversion of credit was common among enterprises, as some customers reportedly contracted credit to purchase maize only to divert same into purchasing charcoal. That, returns on the product were very poor and she failed to repay her credit.

CHAPTER FIVE
SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

This chapter deals with the findings related to the demand, supply and utilisation of credit, and on the basis of that some recommendations/suggestions are made to ensure the development of small enterprises in line with the objectives of this research. The results and discussions of field data on the demand, supply and utilisation of credit brought up a number of interesting and challenging findings and these findings are summarised beneath.

5.1   Demand for Credit

The percentage of small enterprises demanding credit from banks and financial institutions is 6% more than those that do not demand credit. 57 enterprises representing 53% of small enterprises demand credit from financial institutions, while 47% do not. A bulk of credit sums demanded are between Gh100.00 and Gh500.00, considered as very low and cannot impact positively on the development of enterprises. Small enterprises are therefore unable to expand and create jobs.

5.1.2   Demand requirements for First time Client

First time customers demanding a loan must provide a lien of up to a quarter of the credit demanded and two or four guarantors depending on the financial institution concerned, before the request is supplied.

5.1.3   Interest Rates and Credit Repayment Duration

Interest rates range between 30% and 39%, and this hinders the demand for credit by enterprises. Credit repayment duration is between 6-12 months. As against a year-on year inflation of 20.56% (GSS, 2009) banks and financial institutions appeared satisfied with the rate but small enterprises found rates charged as very high. Apart from 30% interest rate that the Citizen Rural Bank fixes for every loan supplied, the bank also charges 5% on every credit application processed. Most clients indicated that, the period for loan repayment is short and should be reviewed.

5.1.4 Means and Procedure of Credit Demand

Small Enterprises prefer to demand credit on their individual basis than on the basis of group or association. As a result enterprises are unable to win the confidence of most banks to supply the full amount of the credit demanded to them for fear that the enterprise may default in payment. Therefore, credits supplied are not adequate for the purpose for which the demands were made.

The procedure to access credit involves the fact that one must be a customer of the bank for at least three months. The enterprise applies in writing for the credit to the appropriate financial institution or bank. The bank then gives the customer a form to fill after which the business premise of the owner is assessed to determine the credit worthiness of the applicant. The applicant is asked to submit a minimum of two (2) guarantors who are salary workers and save with the bank. It takes a minimum of seven (7) days and a maximum of fourteen (14) days to process a credit request

5.1.5 Types of Credit Demanded by Small Enterprises

Cash credit is more preferred to credit in kind. The chances of diversion of credit into other ventures other than the original, was more profound in cash credit delivery than credit in kind.

5.1.6 Educational level of Entrepreneurs as a Hindrance to Demand

Small enterprises owners' level of education is very low. For instance, 98% of small enterprise owners have not gone beyond Senior High / Technical school education. 14% of them have not attained any formal education, 37% have completed at least primary education, while 47% have attained senior high/Technical school education. Only two percent (2%) of enterprise owners have had formal education up to college or university level. Level of education is a hindrance to demand for credit because some basic requirements for credit by financial institutions are not adhered to. Most enterprises do not keep proper records of their daily transactions, has no business plan and were not credit worthy as result of managerial incompetence.

5.1.7 Non-Registration of Business as a hindrance to demand for credit

Most small enterprises are not registered, perhaps due to the low level of education. Enterprise owners are ignorant about the benefits of registration of businesses in

facilitating the demand and supply of credit. 65% of enterprises in the municipality are not registered. They cited small size of business, ignorance over registration procedure and inadequate time as reasons for failing to do so.

5.1.8 Role of Line Agencies in facilitating the Demand for Credit

The Municipal Planning and Coordinating Unit, the Department of Cooperatives, the Ministry of Food and Agriculture and the National Board for Small Scale Industries, facilitate the demand for credit by small enterprises by developing linkages between enterprises and financial institutions in the municipality. They also offer managerial and technical training to enterprises after their needs assessment and the formation of enterprises into groups and associations to strengthen their bargaining power for credit, among others.

5.2 Supply of Credit

The most prominent banks supporting small enterprises development by way of supply of credit are the Akuapem Rural Bank, The Citizens Rural Bank and the South Akim Rural Bank. Over the last six months (October 2008 to April 2009), these banks supplied credit to a total of three hundred and twenty-six (326) small enterprises out of a total supply of credit of three hundred and forty-one (341) within the same period by all the banks. Banks do not risk usually supply credit to new enterprises without any track record.

5.2.1 Collateral Requirements by Banks

Collateral requirements are not very favourable to customers. Compulsory savings is a pre condition for credit at an interest rate of between 30% and 35% by all the banks and microfinance companies. An enterprise needed to demonstrate good managerial and financial competence as well, provide a minimum of two (2) guarantors and a maximum of four (4) and a lien of up to a quarter of the loan sum demanded to qualify for credit supply. In addition to these, landed properties and fixed deposits are also required by the Ghana Commercial Bank. Market women and traders also supply credit to small enterprise farmers but on condition that farmers sell proceeds to them at the end of the season. Where a farmer feels reluctant to abide by this condition, an interest rate of 50% and above is charged on any credit advanced.

5.2.2 Banks reluctance to Supply Credit to Agro-Based Small Enterprises

The longetivity of the life span of the agri-business determines access to credit by small farm enterprises. For example, a plantain crop farmer is more accessible to credit than a farmer engaged in citrus/oil palm plantation cultivation where the gestation period of yield is after five (5) years. The apparent high risks involved in farming activities especially drought, lack of market for produce, post harvest losses and the difficulty to reach most of these agro-based small enterprises due to the poor road network linking farmlands, among other factors, discourage banks and other financial institutions from targeting them as viable customers. Therefore small enterprise farmers demand for credit was observed to be low and supply is non responsive to the needs of the enterprise.

5.3 Utilisation of Credit

Banks usually monitor the utilisation of credit supplied to small enterprises through their respective project officers but the exercise is ineffective because of inadequate logistics, inadequate personnel and inadequate funds. It is only when a client fails to meet repayment schedules that the banks attention is drawn to the enterprise and efforts are made to find the possible cause of the default and ensure that the loan is repaid with interest.

5.4 Recommendations/Suggestions

5.4.1 Policy Perspectives

5.4.1.1 Encourage Savings among Small Enterprises

Small entrepreneurs should be educated to develop banking culture and save more than they are currently engaged in. A lien requirement by banks before loan supply is equivalent to a quarter of the credit sum demanded by the enterprise. A customer can demand and be supplied a credit sum equivalent to four (4) times his/her savings balance. This implies that, the volume or quantity of credit an enterprise can demand and be supplied depends on the size of the customer's savings balance. The higher the savings balance, the bigger the credit and vice versa.

5.4.1.2 Policy Framework

Interventions for the demand for credit should focus on the formulation and implementation of development policies directed towards strengthening rural financial

services through the provision of market for proceeds, investments in roads, provision of farm inputs and equipment and managerial and technical training of entrepreneurs. On the supply side, policy framework should focus on the supply of credit in kind instead of cash, to small enterprises to eliminate the risks of misappropriation and diversion of credit into unproductive ventures.

5.4.1.3 Realignment of Operations

Financial institutions and banks, should transform their operations by aligning priorities to the needs and aspirations of small enterprises within their catchment area. Issues such as loan repayment duration, collateral requirements, number of guarantors, interest rates, should be made flexible.

The number of guarantors should be reduced to one (1) and the condition that, the guarantor must be a customer of the bank and a salary worker as well, should be eliminated. Linkages between Line Agencies and financial institutions and banks should be strengthened.

5.4.1.4 Formation of Associations and Groups

The Ministry of Food and Agriculture(MOFA), as part of its interventions to support the growth and development of small enterprises, should be tasked to facilitate the formation of Farmer Based Organisations(FBOs) to enable small farmers access loans on the basis of groups and association. This would strengthen the bargaining power of farmers and increase the confidence level of banks and financial institutions towards small farmers' ability to meet credit repayment requirements. Personnel of MOFA should also be empowered with the requisite tools, training and logistics to carry out this task.

The NBSSI should also facilitate the formation of associations of small enterprises engaged in the same or similar activity to include bread sellers association, carpenters association, chop bar operators association, hairdressers association, association of mechanics and stall operators association, among others, to enhance their chances of accessing appropriate loans

5.4.2 Suggestions

5.4.2.1 Entrepreneurs' views on Improvement in Credit Demand among Small Enterprises

The following suggestions were put forward by entrepreneurs of small enterprises to enhance the demand for credit:

- Reduce interest rates and bank charges
- Financial institutions and banks should be flexible in their request for collateral and accept business documents as collateral.
- Ensure credit supplied meets demand
- Limit the number of guarantors to one (1)
- Ability to repay credit, should be enough collateral for any credit demand
- Being a customer of the bank makes it easier for you to demand credit
- Small enterprises must endeavor own some assets to enhance their chances of securing a loan.
- Effective management and proper book keeping of small enterprises
- Consider track record of businesses
- Extend repayment periods
- Size of business should not be considered.
- Educate enterprises on the importance and benefits of credit.
- Banks should accept non customers and illiterate enterprises for credit

5.4.2.2 Views from Managers of Banks and Financial Institutions to Improve upon the Supply of Credit

The following sentiments were expressed by management of banks and financial institutions to ensure the effective supply of credit by small enterprises, to enhance their development. These include:

- Loans should be supplied in phases
- Ensure that working capital is overdraft and investment in buildings, plant and equipment are loans. This is because interest on loan is fixed and must be paid whether an enterprise utilizes the facility or not but interest on overdraft is only paid when the credit is utilized
- Task small enterprises cultivate credit worthiness

- Banks and financial institutions should be flexible in their request fro collateral. They should reduce interest rates and bank charges and set their priorities in line with the needs and aspirations of their customers.

5.4.2.3 How to ensure effective Utilisation of credit: Views from Managers of Banks and Financial Institutions

The following sentiments were expressed by management of banks and financial institutions to ensure the effective utilization of credit by small enterprises for their development.

- Ensure proper monitoring of credit
- Engage experts to advise enterprises on funds utilization and management
- Embark on post disbursement field visits
- Enforcement of credit purpose as a condition
- Educate customers focus on priorities

5.5 Conclusion

The study concludes among others that, demand for credit by small enterprises is largely unsatisfied by supply. Responsive demand and supply of credit is an integral part of small enterprises development that will propel growth in the Municipality's economy and that of the country as a whole. However, it was established that small enterprises demand for credit is very low and supply of credit more often than not do not meet demand, making it difficult for small enterprises to develop their capacities.

It was observed also that, the phenomenon of insufficient credit is caused by some challenges. On the demand side small enterprises demand for credit is limited by high interest rates, lack of acceptable collateral, low level of education, lack of managerial competence, high risks associated with business (drought) and the non registration of businesses. On the supply side however, banks and financial institutions do not risks lending small enterprises without any tack record.

To address these inefficiencies which impact negatively on the demand and supply of credit to small enterprises, the research recommended some policy interventions and strategies, including the development of infrastructure especially, roads, the provision of market for products of small enterprises, lowering of interest rates and number of

guarantors, post disbursement monitoring of credit and the building of linkages between implementing agencies and financial institutions in the Municipality. It is anticipated that if these policy perspectives, suggestions and strategies are carried out, it would go a long way to developing small enterprises in the municipality and Ghana as a whole through the effective demand, supply and utilisation of credit.

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APPENDICES

APPENDIX A: Questionnaire for Managers of Financial Institutions

A. **General Information**

1   Questionnaire No

2   Name of Interviewer

3   Date and Time of Interview

4   Town or Location

5   Name of financial Institution and Location

B. **Business Information**

6   Who is the largest category of borrowers?

_____ Large companies

_____ Government

_____ Market women

_____ Small Business

_____ Commercial Farmers

_____ Artisans

_____ Others (specify)

7   What are the factors you consider when making a loan?

_____ Borrowers income

_____ Borrowers credit worthiness

_____ Borrowers savings deposit

_____ Borrowers credit needs

_____ Previous credit records

_____ Availability of acceptable credit

_____ A clear business plan

_____ Demonstrate managerial and financial competence

_____ Others (specify)

8   What are some of your concerns of lending to small enterprises?

_____ High default risks

_____Lack of collateral

_____ Lack of managerial skills

_____ Others (specify)

9   Do you require collateral for a loan? (1) Yes   (2) No

10   If yes to question 9, what type of collateral do you require?

_____ Land

_____ Life insurance

_____ Real estate

_____Bank deposit

_____Savings balance

_____Others (specify)

11   Have you ever refused a loan request?   (1) Yes (2) No

12   If Yes to question 11, give reasons for the rejection of the loan

_____ Lack of acceptable collateral

_____No enough information on potential Borrowers

_____Poor performance in Business

_____ No managerial competence seen

_____Ability to pay back not proven

_____Lack of a good business plan

_____Small size of firm compared to large size of loan requested

_____Physical remoteness of enterprise

_____Lack of book keeping or inadequate compliance framework

_____Lender prejudice against small enterprises

_____Others (specify)

13   How many loan applicants in the last six (6) months have you refused their request? --

14   How many loan applicants were you able to serve in the last six (6) months? ---

15   What is the average processing time between receipt of loan application and disbursement?

16   Do your customers default on loan repayment? (1) Yes (2) No

17   If yes to question 14, what are the reasons for loan default?
_____Outright refusal to meet loan obligation
_____Poor performance of Borrower Company
_____Lack of judgment in loan approval
_____political interference
_____Excessive interest charges
_____Others (specify)

18   Which are the major sources of funds?

19   Who are your target group or regular customers?

20   Who are your largest depositors?

21   What is the minimum acceptable amount to open a deposit account?

22   What measure(s) do you adopt to reduce credit/default risk among your customers?

23   What is the maturity profile of loans made?

C.   **Utilization of Credit**

24   Do you acquaint yourself with the business interest of your borrowers?

25   If yes to question24, give reasons for such interest -----------------------
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26   Do you monitor and evaluate the use of loans disbursed to small enterprises? 1- Yes 2- No

27   In your view, do you think that small enterprises divert loans into ventures other than for their original purpose? 1-Yes 2- No

28   If yes to question 27, give reasons why they do so--------------------------
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29   What suggestions would you offer to ensure the effective utilization of loans by small enterprises---
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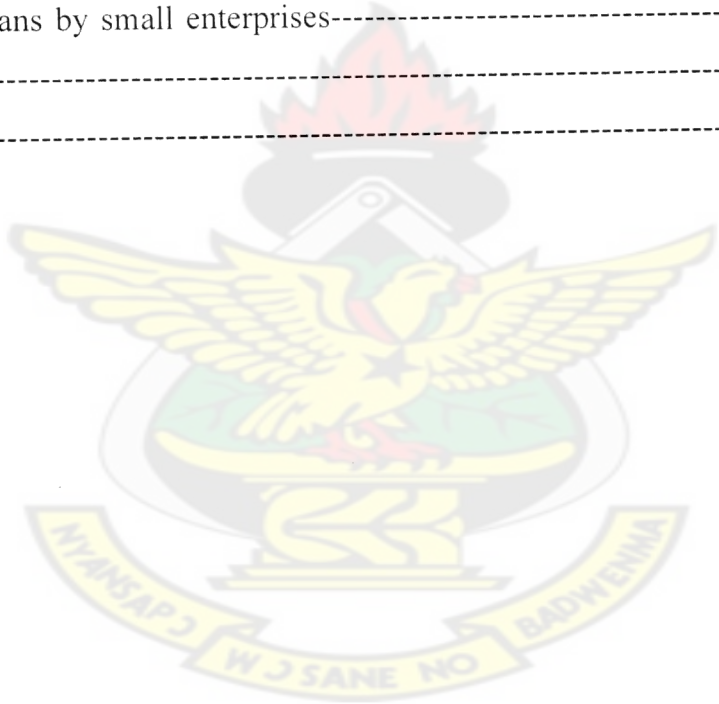
APPENDIX B: Questionnaire for Small Enterprises

A.   General Information

1   Questionnaire No

2   Name of Interviewer

3   Date and Time of Interview

4   Age

5   Educational Background: 1- Primary 2- Secondary/Technical Institute

3-Polytechnic/Training College 4-University 5-Others (specify)

6   Type of business

a) **Retail Trade:** Market stall for food 2-Market stall for non-food 3-scrap metal 4-Spare parts 5-Building materials 6-Electrical materials 7-Pharmacy 8- Store front for non food 9- Others (specify)

b) **Service:** 10-Hotel/Guest house 11-Tailoring 12-Barbering shop 13-Internet Café 14-Hairdressing Saloon 15- Others (specify)   16-Tranportation 17(Taxi 0r trotro) 18-Motor Mechanic 19- Repairer Electrical appliances 20-Car washing bay 21-Entertaiment (video store, cinema etc) 22-Drinking/Chop Bar 23- Restaurants 24-Photocopy services 25-Clock/Watch repairers 26-Street food/bread sellers 27-Others (specify)

c) **Industry:** 28-Food processing 29-Masonry 30-Beverage production 31-Carpentry 32-Construction 33-Blacksmith 34-Bakery 35-Butcher 35-Saw mill 36-Artefacts 37-Batik tie and dye

B.   Business information

7   How many years are you in business?

8   How many employees do you have?

9   What are the sources of income for your business?

C.   Demand for Credit

10   Indicate the main sources of income for your business--------------------
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11   Do you receive credit for your business? 1- Yes 2- No

12   If yes, indicate the name of the credit institution--------------------------
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13   What was the amount of the last loan received?

14   What was the duration of the loan repayment?

15   How much did you pay as monthly installment?

16   What did you use the loan for?

17   Was the adequate for the purpose for which you requested? 1- yes 2- No

18   If No, indicate why it happened so--

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19   Do you have regular supply of funds? 1- yes 2- No

20   If No give reasons why--

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21   What suggestions can you offer to improve upon the demand for
credit?--

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22   What are the constraints on your demand for credit?----------------------

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D.   Conditions/Terms of Credit Delivery

23   What means is used to advance credit to you by the bank

1- Individual lending 2- Group lending 3- Community lending

4- Association 5-Others (specify)

24   What process do you go through to get a loan from banks?---------------

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25   Do you receive credit in kind or Cash? 1-yes 2- No

26   What is the interest rate you paid for the loan? ---------------------------

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27   What are the conditions attached to the loan disbursement? --------------

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28   In your view, what do you think about these conditions? ----------------

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29   Do you have problems repaying your loans? 1- yes 2- No

30   If yes, give reasons---

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31   Is your business registered? 1- yes 2- No

32   If No to question 31, give reasons why ----------------

APPENDIX C: Questionnaire for Staff of the Municipal Assembly

A.   **General Information**

   1   Questionnaire No

   2   Name of Department/Agency

   3   Date and Time of interview

   4   Status

B.   **Role of Municipal Assembly and other Agencies in Promoting the Development of Small Enterprises through the Demand and Supply of Credit**

   5   What interventions do you pursue towards the demand and supply of credit by small enterprises? --

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   6   Do you monitor the activities of small enterprises? 1- Yes 2- No

   7   If yes to question 40, explain and if No, state reasons why

   8   What are the constraints small enterprises face in the demand /supply of credit?