KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

INSTITUTION OF DISTANCE LEARNING

FINANCIAL CONSTRAINTS AFFECTING ENTREPRENEURSHIP DEVELOPMENT IN THE GA EAST DISTRICT OF ACCRA, GHANA

By

ERIC KWABENA APAM

BA (HONS) POLITICAL SCIENCE AND PSYCHOLOGY

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CERTIFICATION

I hereby declare that this submission is my own work towards the CEMBA 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 acknowledgement has been made in the text.

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ABSTRACT

The study was undertaken specifically with the aim to find out whether inadequate access to finance is a major constraint inhibiting the development of entrepreneurship and identify factors militating against acquisition of finance by entrepreneurs. Information was obtained from EMPRETEC Ghana Foundation and. Database of entrepreneurs from National Board for Small Scale Industries (NBSSI). The study was conducted mainly by the use of structured questionnaires among entrepreneurs in the Ga East District of Ghana. Findings from the study demonstrate that the inadequacy of access to finance pose a major constraint to the development of entrepreneurship. Thus even if entrepreneurs are able to access credit for their business, these finances are barely inadequate and these tend to create a lot of developmental issues as well as a decrease in the line of products they deal in. Finally, the study in an attempt to identify ways of improving access to finance, the researcher recommend that, the issues with collateral should be reconsidered as this poses a major threat to job creation in general.

TABLE OF CONTENTS

		Page
CERTIFICATION		**i**
ABSTRACT		**ii**
TABLE OF CONTENTS		**iii**
LIST OF TABLES		**vi**
LIST OF FIGURES		**vii**
ACKNOWLEDGEMENT		**viii**
DEDICATION		**ix**
CHAPTER ONE		
1.0	INTRODUCTION	1
1.1	Background to the Study	1
1.2	Statement of the Problem	7
1.3	Objectives of the Study	9
1.4	Research Questions	9
1.5	Brief Methodology	9

1.6 Significance of the Study 9

1.7 Scope and Limitation of the Study 10

1.8 Organization of Work 10

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION 12

2.1 Concepts of Microfinance 12

2.2 Theoretical Framework and Empirical Review 18

2.3 Access to Finance 20

2.3.1 Financial Market Development and Entrepreneurship 21

2.3.2 Financial Market Depth 22

2.3.3 Competition between Financial Intermediaries 25

2.3.4 Structure of Financial Intermediaries and their Relationship with Firms 27

2.3.5 Personal Wealth and Entrepreneurship 29

2.4 Entrepreneurship 31

2.4.1 Elements of Entrepreneurship 32

2.4.2 Reasons for Growth of Entrepreneur 34

2.4.3 Why Start a Business? 37

CHAPTER THREE

METHODOLOGY

3.0 INTRODUCTION 41

3.1 Research Design 41

3.2 Population and Sample 41

3.3 Research Instrument 42

3.4 Procedure for Data Collection 42

CHAPTER FOUR

RESULTS AND DISCUSSION

4.0 INTRODUCTION 44

4.1 Data Processing Procedures including Computer Procedures and Coding Instruction 44

4.2 Background Information of Respondents 44

4.3 Access to Finance 47

4.4 Financial Constraints 53

4.5 Improving Access to Finance 55

4.6 Summary of Results 56

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 INTRODUCTION 58

5.1 Summary 58

5.2 Conclusions 62

5.3 Recommendations 63

REFERENCES 65

APPENDIX 72

LIST OF TABLES

Table **Page**

1	How did you then start your Business with the Insufficient Loan?	52
2	Adequacy of Startup Finance for your Business	52
3	Constraints Faced in Accessing Loans	54
4	Effect of Financial Constraints on your Business	55

LIST OF FIGURES

Figure		Page
1	Age Distribution of Respondents	45
2	Sex Distribution of Respondents	46
3	Highest Educational Level Attained	47
4	Source of Startup Capital	48
5	Reasons for not Accessing Loan/Venture Capital	49
6	Money Accessed	50
7	Was the Amount of Loan Sufficient for a Start?	51
8	Opinion on Ease of Access to Loan from Financial Institutions	53
9	Minimizing Financial Constraints	56

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To you all, I say God Richly Bless You.

DEDICATION

To my lovely wife, Sroda Apam and children, Nikita Sedem Apam & Kinsey Senam Apam with Love and Gratitude

CHAPTER ONE

1.0 Introduction

This chapter looked at the introduction which took care of the background of the study, statement of problem, objectives, methodology, significant of the study, scope, structure and organization of the study.

1.1 Background to the Study

Entrepreneurship has been the backbone of most gigantic and growing economies of the 21st century. Any country that refuses to take peculiar attention to unleashing and enhancing the entrepreneurial initiatives would be left behind. Empowering people to take entrepreneurial initiatives and helping them to build formidable businesses has been one of the most effective ways of reducing poverty and putting the peoples life into their own hands. Like the proverbial Chinese saying goes “do not give a man fish rather teach him to fish” Oduro–Nyarko, (2000).

The entrepreneurial spirit has been described as the most significant development in recent economic history. Heightened levels of entrepreneurial activity are being witnessed across the globe. Earlier, entrepreneurs used to be prevalent amongst some socio-ethnic groups and the majority of educated Ghanaians used to prefer working for a salary. This mindset has undergone a change and many educated youth are turning their attention to emerging business opportunities. Many more are opting for an entrepreneurial venture midway through their career. Employees of many state-owned enterprises and privately held companies are choosing to give up their jobs to start their own ventures.

There are also a number of empirical and conceptual studies on the consequences of entrepreneurship. It is now widely accepted by society in general that the benefits of entrepreneurial activity are not restricted to entrepreneurs alone. Rather, entrepreneurs have impact on the well-being of the economy as a whole. Entrepreneurial firms are reshaping the business ecosystem, creating on environment where they play a major role in introduction innovations, commercializing new technologies, creating new jobs, opening new markets, and creating value by combining resources in exciting new ways Oduro–Nyarko, (2000).

Entrepreneurship processes or practices have been and continue to be undertaken in the Ga East District over the years. In the earlier centuries there had been entrepreneurs who had been involved in agriculture, retailing, merchandising, manufacturing and other services. For about two decades after Ghana's Independence (1957), the government played a major role in the economic activities of the country as a regulator and a player. In all the sectors of the economy the government was a key player. These included financial institutions, housing, agriculture, transportation and food distribution among others. This therefore, resulted in the setting up of institutions like state transport corporation, state insurance corporation, state construction corporation, just to mention a few.

Such economic and social policy with greater government participation had is strengths and weaknesses. However, the weaknesses turned to out weigh the strengths. The situation therefore culminated in the downturn of the economy.

The economy of Ghana suffered a protracted decline in the three decades following independence particularly in the 1970's and the early 1980's. Gross Domestic product or output grew at a modest rate of 2.2% between 1960 and 1970 but declined at a rate of about 0.50% per annum during the following decade, with a fast growing population Oduro–Nyarko, (2000).

In view of the negative economic situation, it became necessary to put in place measures to arrest and reverse the negative trend in the macro-economic indicators. Therefore, major economic measures were planned, packaged and implemented in the 1980's. These included Economic Recovery Programme (ERP) and Structural Adjustment Programme (SAP) Oduro–Nyarko, (2000).

The underlying goal of the measurers was to liberalize the economy from a greater control by the state or government. This was accompanied by devaluation, tighter fiscal management, trace liberalization and the divestiture of state enterprises among others. The liberalization of the economy and the divestiture programme was aimed at encouraging greater participation by the private sector since it is generally believed that the private sector is an engine of growth at an economy. The shift in the role played in economic activities from the government to the private sector presents its prospects and challenges. A liberalized economy driven by the private sector brings about accelerated and sustained economic growth due to the efficient allocation of resources.

However, one of the greatest challenges facing the private sector and for that matter entrepreneurial development is the financial constraints, lack of accessibility of sufficient supply of finance for setting up, operations and growth of business in the Ga East district. Kerr and Nanda (2009) found that, only 5% of startups are formed with more than 20 employees in the first year.

In the absence of credits from the bank potential entrepreneurs sometimes resort to the informal sources of finance such as the traditional money lenders. These informal money lenders charge exorbitant interest rates. In view of this problem among others, one sometimes are not able to transform their ideas and plans into reality due to the financial constraints. Inadequate capitalization or poor financial management can destroy a business, even where the basic idea behind the business is good Kerr and Nanda, (2009)

A cursory observation in the Ga East district indicates that they face constraints in accessing finance they are therefore not able to develop in terms of assets size and employment. These constraints may emanate from the fact that those potential entrepreneurs have no capital base and also lack the appropriate collateral and other requirements to access credits from the banking institution. According to Megginson (1997) sufficient capital is essential not only for small business startups but also for their continued operation. According to Oduro–Nyarko (2000), Even though within the past decade, a lot of economic policies seek to strengthen existing financial institutions and the setting up of new relevant bodies and institutions aimed at reducing the financing constraint of entrepreneur in Ghana had been put in place. These include:

i. An increase in the number of banks

ii. The financial sector adjustment programme

iii. The enactment of the financial institutions (Non-banking) law, PNDC Law 328 of 1993 to regulate the setting up and operation of the following institutions:

   a. Credit unions
   b. Savings and loans companies
   c. Discount companies
   d. Mortgage financing companies
   e. Leasing and Hire-purchase companies
   f. International finance corporation
   g. Government policies that encourages Foreign investors to team up with local entrepreneurs among others.

iv The establishment of Entrepreneurial support institutions include

   a. National board for small scale industries
   b. Empretec Ghana Foundation
   c. Women's World Banking

In an era of unprecedented incidence of both economic and non-economic shocks across the globe, governments of developed and developing have turned to enterprise development to anchor a reversal of the slow-down in economic growth. This in part is evidenced by the creation of conducive and enabling policy and regulatory environment;

institutionalization of global databases on enterprise and increasing academic and policy discourse on the relationship between entrepreneurship and economic development Naude, (2010) on one hand and identifying barriers inhibiting the growth of enterprises. Tolentino, (ILO 1996) argue that promoting entrepreneurship is one of the viable strategies for achieving national development goals such as economic development: poverty alleviation: democratization of economic participation: employment creation; strengthening the industrial base and local production structure: developing depressed areas and balancing development among economic sectors and sub-sectors, and a host of other social, economic and political objectives of national development. In the context of identifying barriers, while a number of factors have been observed Beck T. et al., (2002), financial constraint has been unanimously evidenced as a major constraint. However, while the evidence that lack of access to finance is a barrier to both start-up and growth of enterprises, little is known about the relationship between financial constraint and efficiency of firms. To this end, this paper in view of the expected stronger relationship between efficiency and sustainability of firms relative to the association between the latter and growth of enterprises test the hypothesis of an inverse relationship between perceived financial constraints and efficiency of firms. The findings are then compared with the relationship between output and perceived financial constraints of firms.

It is now widely accepted that access to finance is crucial to the growth and expansion of entrepreneurship in developing nations. However, despite the fact that in recent years most governments have launched a variety of policies, programmes and projects geared towards promotion of businesses in most developing countries, entrepreneurship in

Ghana continue to have an inferior status Spath, (1993: 22-23). In addition to the perceived financial constraint, Acemoglu and Johnson (2005), Levine (1998), Nickell (2003); Besley and Burgess, (2004) are also of the view that legal institutions and labour market institutions, the economy, regulations, competition and skill shortages are some of the major barriers to entrepreneurship growth and this affect production efficiency of a firm. On infrastructure Aschauer (1989), Caldero´n, Moral- Benito, and Serve´n, (2010) finds that infrastructure capital has a large impact on aggregate total factor productivity (TFP). This means that an increase in in infrastructure provision would yield an increase in output per worker. Pande and Udry, (2005), Dollar, Hallward-Driemeier, and Mengistae, (2005) concluded in their studies that long run institutions and policy environment, such as better law enforcemt, increase protection of private property right, improved central government bureaucracy, increase level of democracy and others has positive impact of firm productivity and entrepreneurship growth of a country. In addition to these factors other factors such as corruption, tax administration, access to land, cost of energy and political instability all have serious implications in the growth and competitiveness of the entrepreneurship in Ghana in the long run.

In view of this background, the present study will therefore identify the factors that limit potential entrepreneurs from accessing finance.

1.2 Statement of the Problem

Entrepreneurial development is being increasingly encouraged in Ghana because it serves as a source of employment to the growing number of working class of the economy. As real incomes fell and employment opportunities in large firms and public sector diminished in the late 1970's, many people initiated part-time businesses or became self-employed. However, obtaining adequate funds at the inception or growing stages of the business has been difficult and in some instance not available at all. Most startups in Ghana begin business with their own contributions in the form of savings which is mostly inadequate to support any expansion and growth.

More recently, capital constraints have been offered as an explanation for the pattern in the size distribution of firms and the relation between capital access and growth. Cabral and Mata (2003) developed a model of firm growth that depends upon investments and access to capital. Their model predicts that in the presence of capital constraint, the firm becomes small in size. As capital constraints worsened, firm size distributions will be smaller and this inhibits growth.

The researcher's observations made in and around the Ga East District, appears to show that entrepreneurs face constraints in accessing finance, emanating from the fact that they have no capital base and also lack the appropriate collateral and the requirement to access credit from the banking institutions. Furthermore, the question is: are financial institutions willing to give enough money to entrepreneurs to start their own businesses?

With the scenario above, this study therefore seeks to investigate and analyze the effects that financial constraint faced by entrepreneurs, have on the development of their business in the Ga East District

1.3 Objectives of the Study

The general objective of the study is to examine access to finance by entrepreneurs. The study was undertaken specifically with the aim:

1. To find out whether inadequate access to finance is the major constraints inhibiting the development of entrepreneurship
2. To identify factors militating against acquisition of finance by entrepreneurs.
3. To identify ways that can help improve access to finances by entrepreneurs.

1.4 RESEARCH QUESTIONS

1. Is inadequate access to finance a major constraint inhibiting the development of entrepreneurship?
2. What factors militate against the acquisition of start up money by entrepreneurs?
3. What measures can be put in place to improve access to finance by entrepreneurs?

1.5 Brief Methodology

The study was conducted mainly by the use of structured questionnaires among entrepreneurs in the Ga East District of Ghana. Database of entrepreneurs and other information was obtained from Empretec Ghana Foundation and the National Board for Small Scale Industries (NBSSI).

1.6 Significance of the Study

The study is very important due to the critical role that the private sector, especially the small and medium-sized enterprises play in the economy of Ghana and for that matter the

District. It has been commonly agreed that the private sector is the engine of growth of an economy since they usually make efficient use of resources.

In the study, various finance sources and institutional finance schemes would be identified which could be accessed by entrepreneurs. The study therefore hopes to come out with efficient ways of financing startup by way of assisting the banking institutions to be aware of the problems being faced by people who want to enter into the private sector in the country. Knowledge of this problem would enable the banks to re-arrange their operations to meet the credit needs of actual and potential entrepreneurs. These would then be accessed to carry out growth in projects which would lead to the creation of more jobs and thereby contribute to the growth of the national income. In addition, policy makers and business planners would be assisted immensely by the study. This is because information and data are crucial for planning and controlling enterprises that would be developed.

1.7 Scope and Limitation of the Study

The study concentrated on the institutional arrangements which have been established with the aim of equipping up and coming entrepreneurs within the Ga East District. This is due to limited time and resources to cover the entire country.

1.8 Organization of Work

The study is structured and reported in five chapters:

Chapter One looked at the introduction which took care of the background of the study, statement of the Problem, objectives, methodology, significance of the study, scope, structure and organization of the study.

The Chapter two reviewed literature of other research works both theoretically and empirically. Chapter three focused on the methodology and procedures used in the study as well as how questionnaire of the survey were administered. Chapter Four dealt with presentation and analysis based on data obtained from survey respondents. Chapter five which is the last chapter summarized the findings of the study, drew Conclusions and made the appropriate recommendations based on constraints faced by small-scale Enterprises; startups in accessing finance.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This Chapter presents the review the various theories and relevant literature of microfinance, its structure and the definitions associated with it.

2.1 Concepts of Microfinance

Microfinance is defined as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses. It is mostly used in developing economies where SMEs do not have access to other sources of financial assistance Robinson, (2001). In addition to financial intermediation, some MFIs provide social intermediation services such as the formation of groups, development of self confidence and the training of members in that group on financial literacy and management Ledgerwood, (1999). According to Robinson (2001) microfinance refers to small scale financial services for both credits and deposits- that are provided to people who farm or fish or herd; operate small or microenterprise where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries in both rural and urban areas. Microfinance has also been defined as the means by which poor people convert small sums of money into large lump sums Rutherford, (1997).

One cannot however make meaningful contribution without properly defining terms such as, Microcredit, micro saving, micro insurance and what a microfinance institution is. Microcredit is the extension of small loans to entrepreneurs or businesses that are too poor to qualify for traditional bank loans. In developing countries, micro-credit enables very poor people to engage in self-employment projects that generate income, thus allowing them to improve the standard of living for themselves and their families. Micro saving is also a microfinance service that allows poor individuals to safeguard money and other valuables items and even earn interest. It allows a lump sum to be enjoyed in future in exchange for a series of savings made now. Insurance is an important service in every aspect of life. It therefore not surprising that micro insurance is also a component of microfinance. It is the provision of insurance to low income households. Poor households are especially vulnerable to risk, both in the form of natural disasters as well as more regular occurrences of illness and accidents. Microfinance Institutions (MFIs) have played an active role in reducing or protecting against this vulnerability through providing credit for increasing income earning opportunities and through providing savings services to build up resources that can be drawn down in cases of emergencies.

Finally, a microfinance institution (MFI) is an organization, engaged in extending micro credit loans and other financial services to poor borrowers for income generating and self employment activities. An MFI is usually not a part of the formal banking industry or government. It is usually referred to as a Non-Government Organization (NGO).

In literature, the terms microcredit and microfinance are often used interchangeably, but it is important to highlight the difference between them because both terms are often confused. Microcredit refers to small loans, whereas microfinance is appropriate where NGOs and MFIs supplement the loans with other financial services (savings, insurance, etc). Therefore microcredit is a component of microfinance in that it involves providing credit to the poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services. The microfinance as a product has several characteristics. Some of the characteristics put forward by Mohammed and Mohammed (2007) have been explained in ensuing paragraphs.

The key characteristic of microfinance entails little amounts of loans which are given to individuals and groups to help them start some income generating activities. Little savings over time is also an integral aspect of microfinance as it serves as security for the poor households and also helps them accumulate substantial capital to overcome their capital constraints. The loan which are given out are also short- terms loan which is usually up to the term of one year. Payment schedules are usually on week basis. Installments are made up from both principal and interest, which amortized in course of time. Easy entrance to the microfinance intermediary saves the time and money of the client and permits the intermediary to have a better idea about the clients' financial and social status. In terms of application the clients need not go through the cumbersome procedures which are required in the traditional commercial banks. There is also short processing periods between the completion of the application and the disbursement of the loan. No collateral is required contrary to formal banking practices. Instead of collateral, microfinance intermediaries use alternative methods, like, the assessments of clients' repayment potential by running cash flow analyses, which is based on the stream of cash flows, generated by the activities for which loans are taken. The use of tapered interest rates decreasing interest rates over several loan cycles as an incentive to repay on time. Large size loans are less costly to the MFI, so some lenders provide large size loans on relatively lower rates. The clients who pay on time become eligible for repeat loans with higher amounts.

According to Ledgerwood (1999), MFIs can offer their clients who are mostly men and women who could be below or slightly above the poverty line a variety of products and services. The most prominent among their services is financial, that they often render to their clients without tangible assets and these clients mostly live in the rural areas, a majority of whom may be illiterate. Formal financial institutions do not often provide these services to small informal businesses run by the poor as profitable investments. They usually ask for small loans and the financial institutions find it difficult to get information from them either because they are illiterates and cannot express themselves or because of the difficulties to access their collateral due to distance. It is by this that the cost to lend a dollar will be very high and also there is no tangible security for the loan. The high lending cost is explained by the transaction cost theory.

The transaction cost can be conceptualised as a non financial cost incurred in credit delivery by the borrower and the lender before, during and after the disbursement of loan. The cost incurred by the lender include; cost of searching for funds to loan, cost of designing credit contracts, cost of screening borrowers, assessing project feasibility, cost of scrutinising loan application, cost of providing credit training to staff and borrowers, and the cost of monitoring and putting into effect loan contracts. On the other hand, the borrowers may incur cost ranging from cost associated in screening group member (group borrowing), cost of forming a group, cost of negotiating with the lender, cost of filling paper work, transportation to and from the financial institution, cost of time spent on project appraisal and cost of attending meetings. The parties involved in a project will determine the transaction cost rate. They have the sole responsibility to reduce the risk they may come across Stiglitz, (1990).

Microfinance triangle comprise of financial sustainability, outreach to the poor, and institutional impact. There are costs to be incurred when reaching out to the poor and most especially with small loans. The financial institutions always try to keep this cost as minimum as possible and when the poor are in a dispersed and vast geographical area, the cost of outreach increases. The provision of financial services to the poor is expensive and to make the financial institutions sustainable requires patience and attention to avoid excessive cost and risks Von Piscke, (1992).

The deliveries of MF products and services have transaction cost consequences in order to have greater outreach. Some microfinance institutions visit their clients instead of them to come to the institution thereby reducing the cost that clients may suffer from. For MFIs to be sustainable, it is important for them to have break-even interest rates. This interest rates need to be much higher so that the financial institutions revenue can cover the total expenditure. The break-even rate which is higher than the market rate is defined as the difference between the cost of supply and the cost of demand of the products and services. The loan interest rates are often subsidised Robinson, (2003).

The loans demanded by smaller enterprises are smaller than those requested by larger ones but the interest rates remain the same. This indicates that, per unit cost is high for MFIs targeting customers with very small loans and possessing small savings accounts. Robinson, (2003). Even though the interest rate is high for applicants requesting very small loans, they are able to repay and even seek repeatedly for new loans. The social benefits that are gained by clients of MFIs supersede the high interest charged explains. The high interest rate is also as a means to tackle the problem of adverse selection where a choice is made between risky and non risky projects. Microfinance clients admit that convenience is more important to them than return Schmidt & Zeitinger, (1994).

Low-income men and women have a serious hindrance in gaining access to finance from formal financial institutions. Ordinary financial intermediation is not more often than not enough to help them participate, and therefore MFIs have to adopt tools to bridge the gaps created by poverty, gender, illiteracy and remoteness. The clients also need to be trained so as to have the skills for specific production and business management as well as better access to markets so as to make profitable use of the financial resource they receive. In providing effective financial services to the poor requires social intermediation. This is the process of creating social capital as a support to sustainable financial intermediation with poor and disadvantaged groups or individuals. Some microfinance institutions provide services such as skills training, marketing, bookkeeping, and production to develop enterprises. Social services such as health care, education and literacy training are also provided by some MFIs and both enterprise development and social services can improve the ability of the low-income earners to operate enterprises either directly or indirectly Legerwood, (1999).

2.2 Theoretical Framework and Empirical Review

Proponents of microfinance argue that small loans to poor people could serve as a powerful tool for alleviating poverty Khan & Rahaman, (2007). This is consistent with the Ausberg's (2008) claim that microcredit for farmers provides a potent tool for expanding economic opportunities and reducing the vulnerabilities of the poor. Asiama and Osei (2007) have noted that this is possible because microfinance helps the poor to meet their basic needs and therefore and improve household income. Similarly, Robinson (2001), arguing from a sociological perspective, asserted that access to credit provides the poor with productive capital that helps to build up their sense of dignity, autonomy, and self-confidence, and hence are motivated to become participants in the rural economy. Likewise, Pronyk et al. (2007) argue that microcredit presents the poor with income, food, shelter, education and health and can therefore have immediate and long term consequences.

Gender activists also argue in favour of microfinance as a means of empowerment by supporting women's economic participation. Boyle (2009) claims that by supporting women's economic participation, microfinance helps to improve household well-being.

Littlefield (2005) reports that the opportunities created by credit availability helps a lot of poor people to invest in their own businesses, educate their children, improve their healthcare and promote their overall well-being. In a study by Khan and Rahaman (2007) in the Chittagong district in Bangladesh, recipients of microfinance facilities were reported to improve their livelihoods and moved out of poverty. More importantly, Khan and Rahaman (2007) reported that microfinance recipients had empowered themselves and become very active participants in the economy. Further, using a regression model to examine the impact of microfinance, Priya (2006) found that there is significant positive relationship between credit recipients and income; the findings suggest that program participation led to a 10% increase in income. However, the UNCDF (2009) report suggests that though microcredit may be helpful in reducing poverty, it is never a panacea and that it is only one of such tools to reduce poverty or the vulnerabilities of the poor. Buckley (1997) has also noted that microfinance may not always be the best tool to help the poorest of the poor. A similar argument is made by Hashemi and Rosenberg (2006) who claim that microfinance does not reach the poorest in the community.

Further, Sachs (2009) claims that microfinance may not be appropriate in every situation and advices against one size fits all strategy in the use of microfinance in poverty alleviation. Sachs explained that the poor governance infrastructure, dispersed populations in the rural areas might limit the potential benefits of microfinance in Africa. In these cases, grants, infrastructure improvements or education and training programmes could be more effective. Empirically, Buckley (1997) studied micro enterprises in three African countries (Kenya, Malawi, and Ghana), and questions whether the extensive donor interest in microenterprise finance really addresses the problem of micro-entrepreneurship or just offers a quick fix to the problem. The study's findings suggest that the fundamental problem is lack of infrastructure rather than the injection of capital. On the other hand, Chemin (2008) using a matching strategy to examine the impact of microfinance in Bangladesh reported a positive, but lower than previously thought, effect on expenditure per capita and school enrolment for boys and girls. In another study to examine the impact of microfinance on rural farmers in Malawi, Aguilar (2006) reported that farmers who borrow from microfinance institutions were no better off than those who did not borrow. Like Aguilar (2006), Ausburg (2008) argues that there is the need for a plus component (training in financial management, marketing and managerial skills and market development) for microfinance to succeed.

The studies reviewed above indicate that the promised benefits of microfinance are not always realized and that many other factors including client characteristics, microfinance structure and functional arrangements may mediate the impact of microfinance. Thus, the effect of microfinance is context specific.

2.3 Access to Finance

Surveys of current and potential entrepreneurs suggest that obtaining adequate access to capital is one of the biggest hurdles to starting and growing a new business. Given the important role that entrepreneurship is believed to play in the process of creative destruction – and hence economic growth – it is not surprising that attempts to alleviate financing constraints for would-be entrepreneurs is an important goal for policy makers across the world. For example, the U.S. Small Business Administration funded or assisted in the funding of about 200,000 loans in Fiscal Year 2007, at an administrative cost of about $1,000 per loan (SBA 2008). Financial assistance for entrepreneurs is also high on the agenda in the European Union and OECD, where member states are urged to promote the availability of risk capital financing for entrepreneurs (OECD 2004).

The underlying premise behind these policies is that there are important frictions in the credit markets precluding high-quality entrepreneurs with good ideas (i.e., positive net present value projects) from entering product markets because they are unable to access adequate capital to start a new business. Much of the academic literature has therefore focused on analyzing the nature of these frictions, the effect they have on access to finance, and the impact of reduced financing constraints on rates of entrepreneurship.

2.3.1 Financial Market Development and Entrepreneurship

Metrics of financial market development quantify the ease with which individuals in need of external finance can access the required capital and the premium they pay for these funds. The role entrepreneurship plays in linking a country's financial market development to its subsequent economic growth is highlighted by Levine (1997). The work brought prominence to the role of finance in Schumpeter's creative destruction, whereby entrepreneurs with new ideas and technologies displace incumbents with old technologies, leading to a continued increase in productivity and economic growth. This contrasts with the view, put forth by Joan Robinson and others, that development of financial sectors and institutions simply follows economic growth.

Central to this idea is the notion that a large fraction of the productivity growth in the economy may take place at the extensive margin such as the birth of new firms and the closure of unproductive firms rather than on the intensive margin (firms becoming more productive internally). Since most startups need to raise capital in order to implement their new ideas, cross-sectional differences in the ability of capital markets to select and finance the most promising entrepreneurs may lead to important differences in entrepreneurship and productivity growth across economies Greenwood and Jovanovic (1990)

Thus a growing line of research has examined the sources of friction in the capital markets that may lead to financing constraints (or the misallocation of capital more broadly) and hence negatively impact productivity growth. In the following sub-sections, we outline three important mechanisms through which frictions in the capital markets lead to financing constraints for entrepreneurs.

2.3.2 Financial Market Depth

Perhaps the most important factor governing the ability of startups to raise sufficient capital for their projects is the depth of the local capital markets. This depth is therefore a natural starting point for measuring financial market development for funding new capital-intensive projects, through metrics like the ratio of bank deposits to GDP or stock market capitalization to GDP. For example, Rajan and Zingales (1998) show that industrial sectors with a greater need for external finance develop faster in countries with deeper capital markets. Fisman and Love (2003) find that, in particular, startup firms struggle with overcoming weaknesses in financial market development, even where established firms are able to use trade credit as a substitute for formal financing. Comin and Nanda (2009) show how the difficulties faced by startups in raising capital might adversely impact the commercialization of new technologies. Using historical data on banking-sector development and technology diffusion, they find that capital-intensive technologies are adopted much faster relative to less capital-intensive technologies in countries that are over a certain threshold in banking-sector development.

Why do some regions have greater financial depth than others? The lack of financial market liquidity has been traced to several related factors. At the most basic level, the willingness of financial intermediaries to lend to entrepreneurs and the willingness of depositors to save with intermediaries depends on financial and securities laws in a country. While the issues of financial market depth may be particularly acute in emerging markets, startups in advanced economies are not immune to these issues. For example, Berkowitz and White (2004) find that entrepreneurs are less likely to get credit for their startups in U.S. states with stronger bankruptcy protection for individuals. When banks are less certain of recovering their loans in the event that a startup fails, they are less likely to extend credit in the first place. Guiso et al. (2004) examine local variation in the supply of credit across regions in Italy. They find that even in a well-developed and integrated financial market like Italy, regions with deeper capital markets promote the entry and growth of new firms and increase the propensity of individuals to start new businesses. These findings are important in that they underscore the importance of local capital markets for entrepreneurship. The degree of asymmetric information associated with small, entrepreneurial ventures is very high. As a result, the intermediaries who are best able to overcome the costs of screening and monitoring these ventures are often local. Deep, national capital markets alone may not be sufficient to alleviate financing constraints for startups.

The importance of access to local finance seems equally relevant for venture capital (VC) financing as it is for bank financing. Sorenson and Stuart (2001) find that VC firms are much more likely to fund entrepreneurs located within a short geographic distance from where they are based (or to provide funding on the condition that entrepreneurs move closer to the VC firms). Similarly, Black and Gilson (1998) relate the lack of a large biotechnology industry in Germany to the local institutional environment for VCs. They argue that the institutional environment in Germany, which is more bank oriented compared to the U.S.'s market orientation, reduces the ability of German startups to achieve liquidity events via stock listings. As a consequence, the VC community in Germany is less developed, and the flow of risk capital to good biotechnology projects in Germany is weaker. Other studies find that VC investors appear particularly effective in funding innovative startups Kortum and Lerner (2000) and that the ebbs and flows in the capital markets may have important follow on consequences for rates of innovation in the economy Nanda and Rhodes-Kropf, (2009).

While capital market depth is a key factor impacting the ability of entrepreneurs to finance their startups, the organization of the financial sector can also have profound effects on financing constraints for potential entrepreneurs. In the next two sub-sections, we explore two related dimensions in which the organization of the financial sector can impact startup activity – the level of competition between financial intermediaries and the internal structure of the financial intermediaries.

2.3.3 Competition between Financial Intermediaries

The level of competition between financial intermediaries can impact the terms of credit to startups as well as the degree to which capital is allocated to the highest-quality projects Levine (1997). This issue is particularly acute in developing countries where the banking system may be subject to political capture Banerjee et al. (2003); Cole 2009). However, bank deregulation is shown to have first-order effects on the *ex ante* allocation of capital to large firms in France and on entrepreneurship in the U.S. (Black and Strahan (2002). For example, Bertrand et al. (2007) find that banks were less willing to bail out poorly performing firms in the product markets after the French banking reforms of 1985. As a result, French firms in sectors with a greater reliance on bank finance were more likely to restructure. The U.S. branch banking deregulations provide a particularly useful laboratory to study the effect of bank competition on entrepreneurship. Prior to liberalization, U.S. banks faced multiple restrictions on geographic expansion both within and across states. The most restrictive of these, known as unit banking, limited each bank to a single branch. From the 1970s through the mid 1990s, banks experienced significant liberalization in the ability to establish branches and to expand across state lines, either through new branches or acquisitions.

Greater bank competition and markets for corporate control due to U.S. deregulations are thought to have improved allocative efficiency by allowing capital to flow more freely towards projects yielding highest returns. Moreover, although the number of banks fell over this period, the number of bank branches increased considerably, reflecting greater competition and increased consumer choice in local markets. From a theoretical perspective, these reforms would have had a strong positive effect on entrepreneurship if startups faced substantial credit constraints. Moreover, since entrepreneurs typically would have faced fewer non-bank options for financing their projects relative to existing firms (e.g., internal cash flow, bond markets), more efficient allocation of capital within the banking industry should have led to larger increases in startup entry relative to facility expansions by existing firms if startups faced barriers in their ability to raise sufficient external capital to grow.

Black and Strahan (2002), Cetorelli and Strahan (2006) and Kerr and Nanda (2009a) find dramatic increases in startup activity subsequent to inter-state branch banking deregulation. Moreover, Kerr and Nanda (2009a) show that these increases continue to be significant when compared to the baseline of facility expansions by existing firms – particularly so for firms entering at a smaller size where financing constraints are most likely to be most acute. In addition to these changes at the extensive margin, Kerr and Nanda (2009b) also find that startups were likely to be larger at entry relative to their maximum size in the first three years of operation, suggesting intensive margin effects of the reforms as well. These results are particularly strong in light of theories suggesting that an increase in bank competition has the potential to impede startup activity. For example, Petersen and Rajan (1995) argue that startups may benefit from concentrated banking markets because monopolist banks can engage in intertemporal cross-subsidization of loans. As a monopolist bank can charge above-market interest rates to mature firms, it can, in turn, charge below-market rates to potential entrepreneurs. By doing so, the bank can maximize the long-term pool of older firms to which it lends. Increased competition weakens the market power of local banks, reducing their ability to charge above-market rates, and thereby weakening the incentives for subsidizing new entrants as well. Despite this possibility, the strong elasticity of entry with respect to the reforms suggests that the overriding impact of the increased competition between banks was to facilitate the provision of cheaper credit and better allocation of capital to new projects.

2.3.4 Structure of Financial Intermediaries and their Relationship with Firms

Financial intermediaries provide an important role in deciding which projects to fund and in monitoring these projects after funding them. As the costs of acquiring information about borrowers increase, it becomes harder to fund them profitably. Established firms have several advantages in this respect such as history of audited financial statements, greater collateral to pledge against loans, and potentially the ability to partially fund expansion through retained earnings. On the other hand, information asymmetry and limited assets are particularly acute for potential entrepreneurs, resulting in good projects going unfunded because intermediaries are unable to evaluate them effectively. Stiglitz and Weiss (1981) outline why these large costs of screening and monitoring startups cannot be completely overcome by raising interest rates. They observe that raising interest rates may lead to adverse selection, where only entrepreneurs starting the most risky projects would agree to the bank's loan terms. In such an instance, the banks would face greater default probabilities, making the loans unprofitable in expectation.

They show theoretically that in such an instance, banks may be forced to ration credit rather than raise interest rates to market clearing levels. Credit rationing causes entrepreneurs to face financing constraints. Thus, innovations within the financial sector that lower information costs can have important effects on reducing financing constraints for entrepreneurs.

A large body of work finds that close ties between financial intermediaries and firms reduce information asymmetries and lower financing constraints. For example, Petersen and Rajan (1994) and Berger and Udell (1995) show that borrowers with longer banking relationships are less likely to pledge collateral, less likely to rely on expensive trade credit, and hence are less constrained in their investment decisions than firms with shorter banking relationships. Related work suggests that small or decentralized banks – where branch managers have greater authority to make adjudication decisions – are much more likely to lend to startups and small businesses. These banks are more likely to have appropriate incentives to act on the information than branch managers in large, hierarchical banks where adjudication decisions are centrally made. Stein (2002).

Berger et al. (2005) find that differences in bank organizational structures impact the credit constraints of small firms across the U.S. Canales and Nanda (2008) demonstrate a similar effect for terms of lending to small businesses in Mexico. In many respects, the recent innovations for microfinance in developing countries can be seen as reducing monitoring cost for opaque micro-businesses. These innovations enable financial intermediaries to lend smaller amounts to entrepreneurs at a profit due to the lower fixed costs of evaluating and monitoring projects. Although we have outlined these sources of financing constraints as distinct channels impacting entrepreneurship, they are of course interlinked. For example, Canales and Nanda (2008) show the important effects of the interaction between bank structure and the competitive environment when studying the terms of lending to small businesses in Mexico. Bozkaya and Kerr (2007) show that countries with strong employment protection laws – where firing workers is more difficult – are associated with weaker VC and private equity markets. Their findings suggest that institutional environments can have first-order effects on the presence and structure of certain types of financial intermediaries and hence on the availability of startup capital in certain types of industries.

2.3.5 Personal Wealth and Entrepreneurship

While one stream of research relies on cross-sectional differences in the institutional environment to study the impact of financial development and financial frictions on entrepreneurial activity, the second stream analyzes the propensity of individuals to become entrepreneurs depending upon their financial resources. Entrepreneurs tend to be significantly wealthier than those who work in paid employment. For example, Gentry and Hubbard (2004) find that entrepreneurs comprise just fewer than 9% of households in the U.S., but they hold 38% of household assets and 39% of the total net worth. Not only are entrepreneurs wealthier, but also the wealthy are more likely to become entrepreneurs.

The canonical model to understand this relationship between individual wealth and entrepreneurship was developed by Evans and Jovanovic (1989). In their model, the amount an individual can borrow to fund a new venture is a function of the collateral that he or she can post, which in turn is a function of personal wealth. If the amount the entrepreneur needs to borrow is sufficient to cover the capital required to start the business, then the entrepreneur is said to be unconstrained. On the other hand, if the entrepreneur needs to invest more than he or she can borrow, then a financing constraint leads to sub-optimal investment for the project at hand. Since returns to projects are a positive function of the capital invested, some projects that would have been profitable for an unconstrained entrepreneur become unprofitable for a constrained entrepreneur. Thus, the propensity to become an entrepreneur is a function of personal wealth if potential entrepreneurs are credit constrained. Wealthy individuals are less likely to be constrained for a given project. On the other hand, a null relationship between wealth and entrepreneurship would suggest that borrowing constraints are not binding for potential entrepreneurs.

Looking at whether there is a strong association between personal wealth and the propensity to become an entrepreneur may thus shed light on the nature of financing constraints in the economy. Evans and Jovanovic (1989) estimate their model using data from the National Longitudinal Survey of Youth (NLSY) and find significant support for the presence of financing constraints in their data. They argue that the positive relationship between personal wealth and entry into entrepreneurship can be seen as evidence of market failure, where talented but less wealthy individuals are precluded from entrepreneurship because they lack sufficient wealth to finance their new ventures. This finding has been extremely influential in both academic and policy circles. While a null relationship between personal wealth and entrepreneurship points to a lack of financing constraints, Evans and Jovanovic (1989) note that unobserved heterogeneity may lead to a spurious correlation between personal wealth and entrepreneurship in empirical studies even if individuals do not face financing constraints. Subsequent work in this second strand of research has built on this canonical model, while attempting to better control for sources of endogeneity in order to understand the causal relationship between personal wealth and the propensity to enter into entrepreneurship.

It can be seen from the above that access to finance is mainly discussed in the western world. This research will thus examine the concept of access to finance in the Ghanaian environment.

2.4 ENTREPRENEURSHIP

Although there have been a number of generally acceptable definitions most of which vary a lot in focus and scope, there is no official definition of entrepreneurship. Entrepreneurship may be defined as the assumption of risk and responsibility in designing and implementing a business strategy or starting a business. On the other hand, increased academic interest in the entrepreneurship is bringing a sharper focus on the subject.

The word entrepreneur is derived from the French word entre and prende, which means ‘to undertake.’ The Webster Dictionary explains that the term entrepreneur is applicable to ‘one who organizes manages and assumes the risks of a businesses or enterprise.’ The general perception of the entrepreneur as a starter of businesses is reflected by the definition in the BBC English Dictionary, which refers to an entrepreneur as ‘a person who sets up a business.’

The Irish economist Richard Cantillion (1680-1734) defined an entrepreneur as ‘someone who takes the risk of running an enterprise by paying a certain price for securing and using resources to make a product and reselling the product for an uncertain price. Perhaps one of the most important definitions of an entrepreneur was given by the Austrian economist Joseph Schumpeter (1883-1950) in his work The Theory of Economic Development. The Schumpeterian view of an entrepreneur is that of ‘an innovator playing the role of a dynamic businessman adding material growth to economic development.’

2.4.1 Elements of Entrepreneurship

Starting a business

This is the setting up of a business venture from the scratch. Sometimes it is presumed that the starting up of a business is synonymous with entrepreneurship. It must be noted that just because a new business is started does not mean that it is entrepreneurial. The venture must involve a considerable amount or substantial planning, risk-taking and personal capital.

Creativity and Innovation

Innovation is the development and introduction of a new product, a new process, or a new science to a market. An innovative process is one that replaces an old way of doing something with a more efficient, effective or less costly method. Creativity is the force behind innovation. It is the link between pure imagination and the introduction of an innovative product, process or service. Both creativity and innovation are necessary ingredients for entrepreneurship. In fact Drucker (1985) believes that innovation is so critical that entrepreneurship cannot exist without it. Creativity by itself does not define entrepreneurship. Creativity without innovation does not produce results. Besides, innovation, without effective management does not produce marketable products, processes or services.

Managing for Growth

Creating, managing and maintaining growth in a new venture are key aspects of entrepreneurship. Growth separates entrepreneurial ventures from non-entrepreneurial ventures. The amount of entrepreneurial activity requires maintaining growth may be as great as that required to launch the venture in the first place. Thus in a broad sense, managing growth is indeed synonymous with entrepreneurship. And that growth can be started or maintained long after a company has ceased being a "new venture"

Seeking Financing

Seeking financing for fast-growth ventures is also evidence of entrepreneurship. This financing can either be debt financing or equity financing and may be either traditional or venture capital. In fact, a significant characteristic of growth-oriented venture is the use of multiple source of financing. However, many ventures are successful without infusions of venture capital. Internally generated funds may in some cases, be sufficient to achieve the growth desired by the entrepreneur.

Assuming Risk

According to Roy (2008), one of the most popular views of entrepreneurs is that of risk-takers who invest all they have to start new ventures in uncharted waters. It is believed that the willingness to take risks is the primary difference between entrepreneurs and corporate managers.

2.4.2 Reasons for Growth of Entrepreneur

With growing academic interest in entrepreneurship, a lot of recent research has concentrated on the reasons for the apparent spurt in entrepreneurship. The Global Entrepreneurship Monitor (GEM) report in 2007 observed very high incidence of entrepreneurship throughout the world, particular in Asia, with Thailand and India leading the way. Admittedly, a lot of this entrepreneurship from the developing and underdeveloped countries was at a subsistence level and the result of lack of employment opportunities. Nonetheless, some of the major macro-level reasons for the current growth in entrepreneurial activity are discussed below.

Industry Structure

Performance, in terms of economic growth, is shaped by the degree to which the prevalent industry structure efficiently utilizes scarce resources. Technological changes in the first three quarters of the previous century had favoured the performance of large centralized units. Now recent technological changes have led to industry structure that is generally shifting towards a bigger role for small firms. The employment share of large companies has been steadily decreasing Carlsson, (1999). Growing competitiveness of small firms lowers entry barriers for new entrants. Concentration on core competencies leads to corporate spin-offs and divestment Jovanovic (1993). Many larger companies would find it much more desirable to promote ancillaries and vendors than to get into the activity directly.

New Technologies

This factor is related to the changes in industry structure. Fundamental changes in nature of technology development have led to diseconomies of scale. Piore and sable (1984) states that instability in the markets led to the decrease of mass production and the move towards flexible specialization. Small technology-based firms are now able to challenge large companies still dependant on economies of scale. Acs and Audretsch (1987) provide empirical evidence that small firms have an advantage over large firms in highly innovative industries.

Deregulation and Privatization

Phillips (1985) gives evidence that small firms dominate in the increase of entrepreneurial activity in sectors that have been recently deregulated. Liberal economic policy in china has led to phenomenal growth fuelled by entrepreneurs. The collapse of communism in Eastern Europe has led to thriving entrepreneurship in new free-market economies. Even in the rest of the world, conservation economic policy has given way to a brave new approach that has led to broad level deregulation across industries. Now companies have to deal with fewer licenses and fewer Governmental controls. Many state-owned enterprises have also been privatized leading to a greater role for the private sector in general and entrepreneurs in particular.

Formation of New Business Communities

Efficiencies across market, primarily result from use of new technologies, have led to declining cost of transactions. Jovanovich states that recent advances information technology has made inter-firm coordination relatively cheaper compared to intra-firm coordination. Business exchanges such as alibaba.com help smaller firms to be competitive. This promotes setting up of new firms in the new business communities.

Increasing Demand for Variety

Increased wealth has led to increase in the demand for variety. Jackson (1984). The increasing demand for new products is of advantage to smaller firms. A number of studies have shown the comparative advantage of smaller firms in being innovative and coming up with new products. Rothwell (1989). Changes in consumer tastes are a major reason for growth for entrepreneurship. People are inclined to products that are specifically designed to meet their special needs. Mass produced homogenous goods do not enjoy as wide an appeal anymore. Jovanovich (1993) states that large firms have not been comfortable entering in to niche markets.

Services Sector

Increase in per capital income leads to a greater share of the service sector in the national economy. Inman (1985). The average size of firms in many sections of the services sector is relatively small. This in turn promotes entrepreneurial activities across a number of service sector industries. Currently, services account for over 60 percent of the GDP of developed economies. Interestingly, even for some developing countries such as India, services account for over half of the total GDP. Growing importance of services in the overall economy has paved the way for entrepreneurial activity. New industries such as software and business process at outsourcing have emerged and these have a large number of entrepreneurial firms.

2.4.3 Why Start a Business?

According to Roy (2008), owning your own business is a great dream for most people. It remains a dream for many but some people turn this dream into action and takes the plunge. Owning a Business is a boon, provided you get into the right way and knows what to expect and what to do, otherwise it can be nightmare. *Entrepreneurial motivation* is the term that is used to describe the quest for new venture creation as well as the willingness to sustain the venture. One quickly learns that it is easy to start a business. But running a business is an entirely different ball game. Running your own business is probably tougher than anything you have than before. So, you owe it to yourself to honestly explore the reason you decided to start your own business. Take your time about it and figure it out before you commit your time, money and resources to a new venture. Let us look at the usual or more common reasons people have for starting their own business.

Control

You do not like to have a boss. You want to be your own boss and make you own decisions. That is great as long as you realize that even in your own business, many of your decisions will be dictated by government regulations, customer, and even your employees .But having your own business gives you far greater opportunity to exercise your own free will.

The Idea

You have this one great idea of a product that will revolutionize the world. No one is currently offering it and you think you should not waste any time in going ahead.

Flexibility

You want a schedule that allows you work when you want to and to spend time with your kids when you want to. Running your own business does give you the flexibility if you want it but now probably you will be spending much more time on the job. Remember, now the buck stops with you.

Money

It is the oldest and the most common reason. Most people start a business because the fell that it is the only logical way to become wealthy. Most of the wealthy people have got their money though business, either by starting one or by inheriting one.

Not everybody who starts up business end up being wealthy. The success rate may be around 10 per cent and many of the successful ones would achieve success very late in life. So, it is not them but their children who will enjoy the fruit of their labour.

Many would-be entrepreneurs make a grave mistake. They just want to be in business. They are not sure what that means, but they have some vague dreams of success and think that they will recognize it when they see it. They may hate their job, are bored, or have just been laid off they are moving away from something negative (such as escaping a job or a bad situation) rather than towards something positive (such as building a business with a clear vision for the further). This may not be the right path to entrepreneurship. Many people start their business with what they think are clear reasons (more money, prestige, a sense of accomplishment, more flexible work time, being their own boss, and so on). That is a good first step, but you need more. Begin by defining your primary goal, then work from there. From the very beginning, you should plan and think about what you hope to get out of your business, in short term and in the long term.

What do you hope to achieve by being an entrepreneur personally, financially, and professionally? How much money do you want to make? How much free time you want for you and your family? How many or how few employees do you want to have? When you are ready to retire, will you like to pass the business on to your children, shut it down altogether, or sell it? It may seem Unnecessary to answer these questions before you start, but that is exactly the right time to do it as stated by Roy (2008).

SUMMARY

This chapter thus carefully defined the concepts and discusses theories and other relevant literature in the area of entrepreneurship and micro finance. In view of the above discussions and the problem statement, the study was designed to adequately meet the objectives and provide answers to the research questions.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter focused on the methodology and procedures used in the study as well as how questionnaire of the survey were administered.

3.1 Research Design

This research employs a quantitative research designs to examine the objectives of the study. The design made use of structured questions in eliciting information on access to finance as well as financial constraints encountered by entrepreneurs. This design is adequate for the study such that it allows for the establishment of relationship between variables of interest.

3.2 Population and Sample

With the objective of the present study being to examine the access to finance and constraints among entrepreneurs in the Ga East District, the population for the study automatically includes all entrepreneurs in the Ga East District of Ghana. The research setting is adequate for the study mainly because the district housed one of the main markets in the metropolis.

A representative sample of 50 entrepreneurs was randomly selected in the district. The sampling technique of randomization gave every entrepreneur in the District equal opportunity to be selected as respondents. The age of respondents ranges between 25 and 50 years.

3.3 Research Instrument

The main instrument used in the conduct of the study is the questionnaire. The questionnaire was designed to meet the stated objectives of the research. The questionnaire was divided into four sections. Section A collected information on the demography of respondents such as age, gender, and highest educational attainment. Section B deals with access to finance by entrepreneurs; Section C examined constraints in accessing start up money among entrepreneurs while the final section, Section D, looked at ways of improving financial constraints. A copy of the questionnaire used for the study is found in the Appendix.

3.4 Procedure for Data Collection

The list of entrepreneurs in the Ga East District was obtained from EMPRETEC Ghana Foundation and the National Board for Small Scale Industries (NBSSI). Fifty (50) entrepreneurs were randomly selected from the list for the study. The researcher approached respective respondents and sought their consent to participate in the study. The general objective was discussed with respondents although the specific objectives were not disclosed. The necessary guidelines and explanations were given to direct respondents in completion of the questionnaires for this person-administered survey. Where a respondent was not available on visit, the researcher followed-up with subsequent visits to get respondents complete the questionnaire in his presence. However, 7 out the 50 randomly selected respondents declined to participate and were replaced. The researcher chose the option of person-administered survey of data collection to ensure that all questionnaires are retrieved and this made the data collection session successful. The researcher also got other informal responses from the respondents which assisted in deeper understanding of responses relating to financial constraints.

The collected data was well edited and responses were coded for entry into data processing software. The Statistical Package for Social Sciences (SPSS) was used for the data entry and analysis.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF RESULTS

4.0 Introduction

This chapter dealt with presentation and analysis based on data obtained from survey respondents.

4.1 Data Processing Procedures including Computer Procedures and Coding Instruction

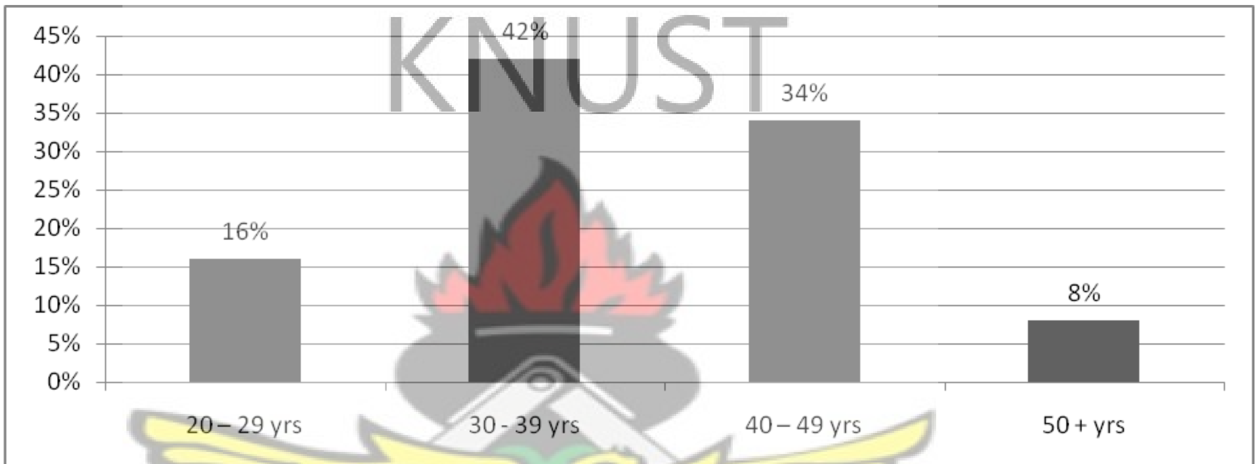
Data collected was coded into numerical data to meet the comprehensive ability of the data processing software application. Data was processed using the Statistical Package for Social Sciences (SPSS) software. The data was processed in order to address the objectives of the study. Results are presented below.

4.2 Background Information of Respondents

The present study was conducted primarily to examine financial constraints among entrepreneurs in the Ga East District of Ghana. The study specifically aims to find out whether inadequate access to finance is the major constraints inhibiting the development of entrepreneurship. In addition, the study seeks to investigate factors militating against acquisition of start up money by entrepreneur. Finally, the study sought to examine ways in which access to finance by entrepreneurs can be improved. Data was collected on 50 entrepreneurs in the Ga East District.

Results from the data analysis shows that majority of entrepreneurs are within the age range of 30 to 39 years. This shows that entrepreneurs are mainly young individuals who have the energy to establish a business venture. Figure 1 below shows the age distribution of respondents.

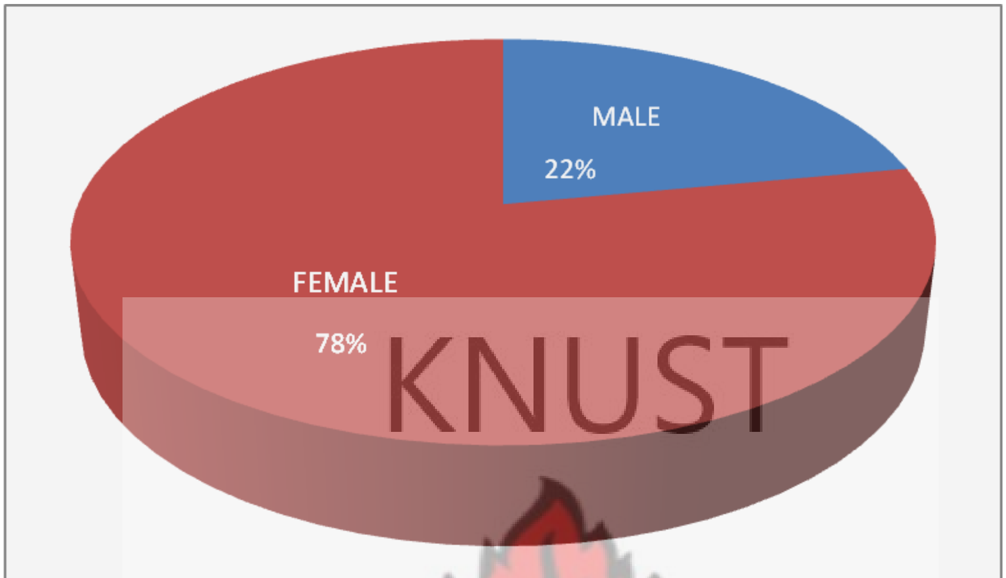
Figure 1: Age Distribution of Respondents



Source: *Survey Data May*, **2011**

In examining gender distribution among entrepreneurs in the district, it was found out that males outnumbered females in entrepreneurship. Results show that 8 out of 10 entrepreneurs are males. Summary results on sex distribution are shown as follows.

Figure 2: Sex Distribution of Respondents

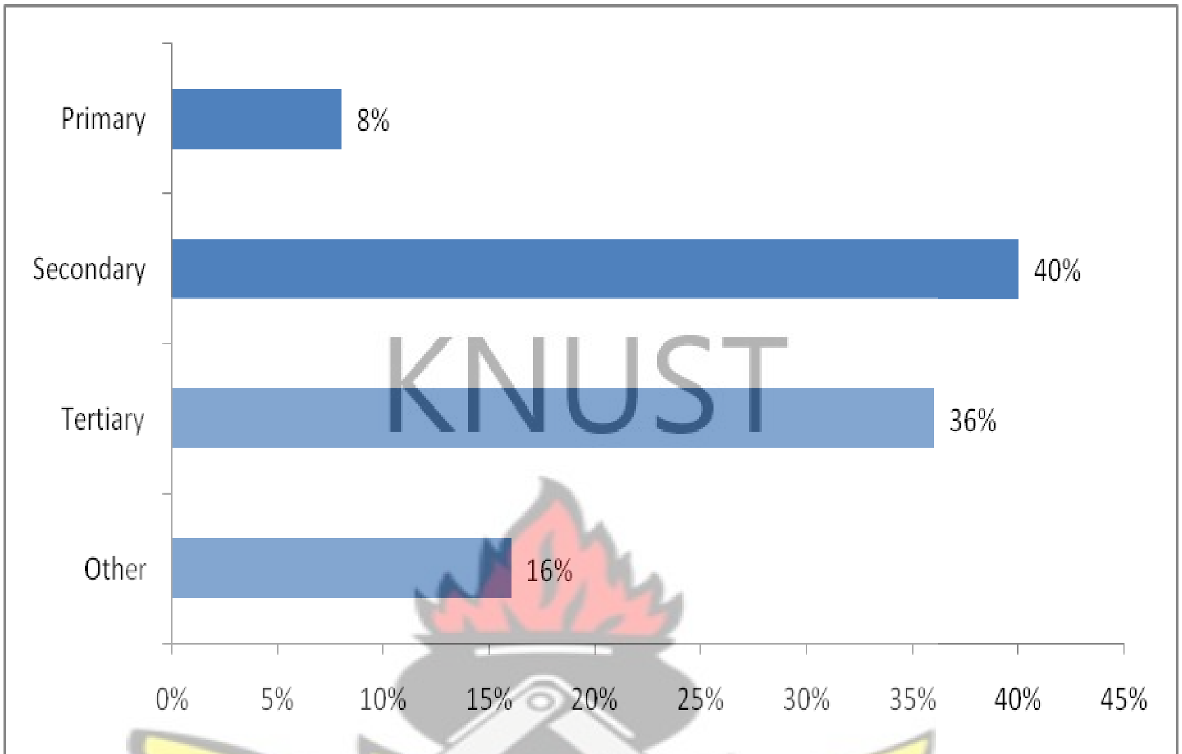


Source: ***Survey Data May,*** **2011**

With the above results, it can be seen that more men are into entrepreneurship than women. This could mainly be due to the fact that men are more adventurous than women and always want to venture into new endeavours. However, it is also essential to note that women need to be encouraged to enter entrepreneurship so as to achieve the equity being preached everyday in society. There is the need for awareness to be created among women to become entrepreneurs in society.

Figure 3 below represents highest educational level of entrepreneurs in the Ga East District. Results show that majority of entrepreneurs (40%) had secondary education as their highest level of education attained. This was followed closely by tertiary education representing 38% of respondents.

Figure 3: Highest Educational Level Attained.



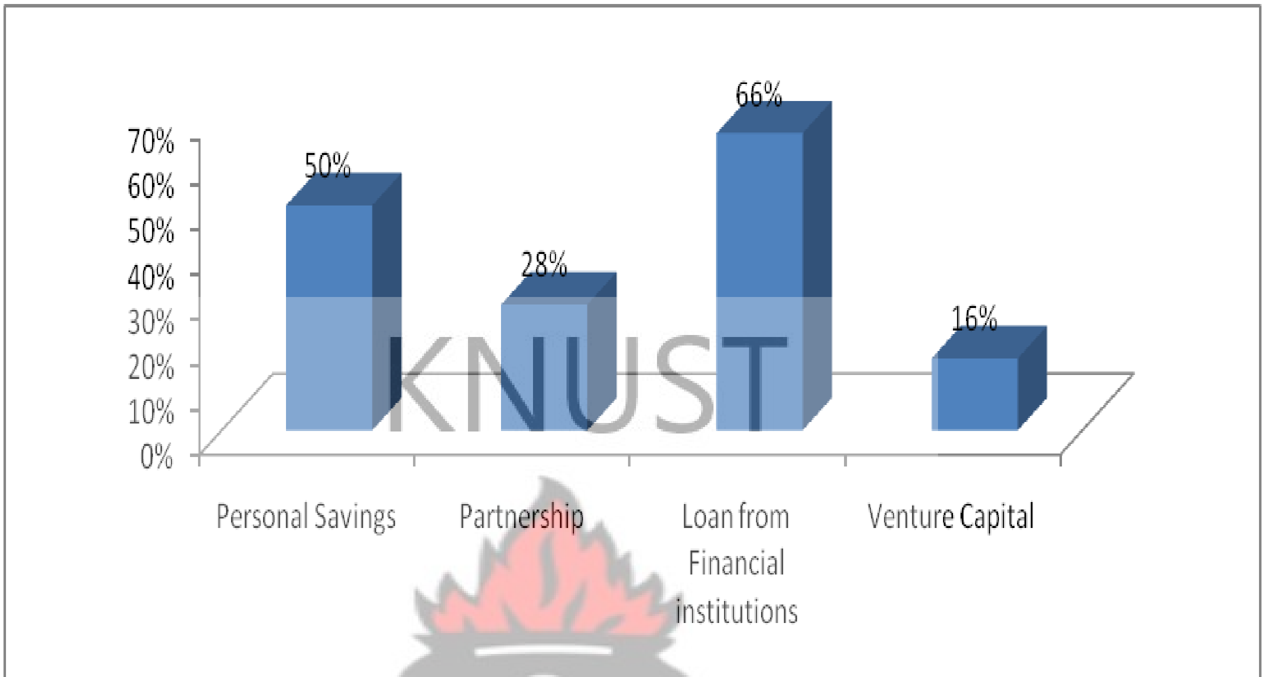
Source: Survey Data May, **2011**

4.3 Access to Finance

This section examines access to finance by entrepreneurs for the start of their business. The section also investigates adequacy of finance and ease of access to finance from financial institutions.

In examining the sources of startup capital by entrepreneurs, Figure 4 below shows that about 66% of entrepreneurs source their startup capital through loans from financial institutions.

Figure 4: Source of Startup Capital

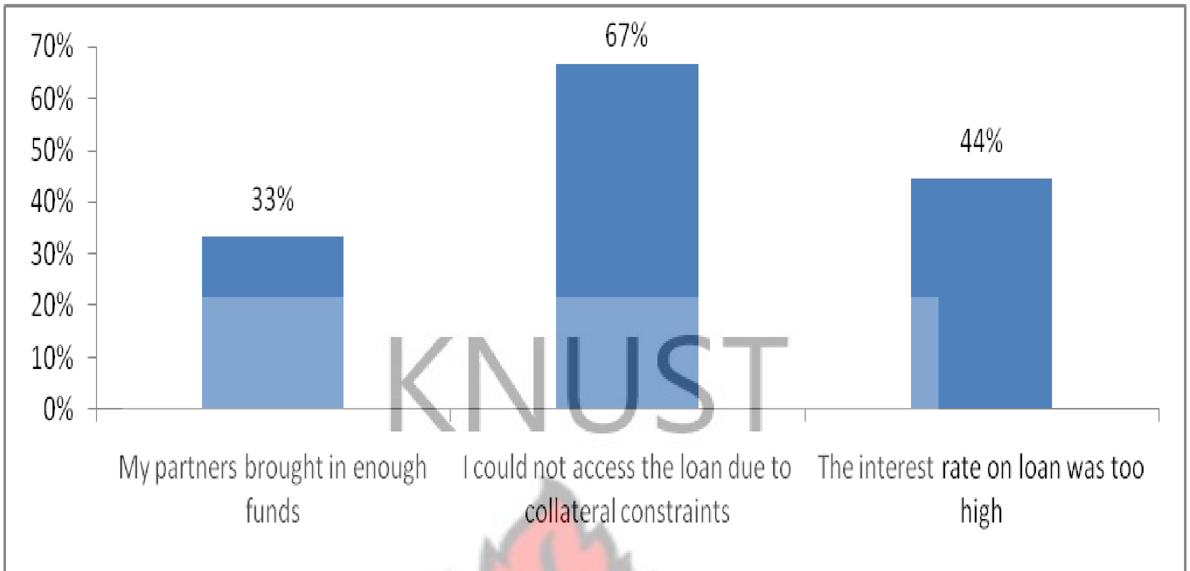


***Source: Survey Data May,* 2011**

From the table above, it can be seen that many entrepreneurs have more than one sources of capital to start their business. It was thus found out that the major source of finance to start business was through loans. This was closely followed by the use of personal savings with venture capital being the least avenue.

With the main focus on the study being around financial constraints, the study continued to examine reasons why some entrepreneurs do not source their startup money through loans from financial institutions. Figure 5 below shows reasons why loan was not a source of startup money for entrepreneurs.

Figure 5: Reasons for not Accessing Loan/Venture Capital

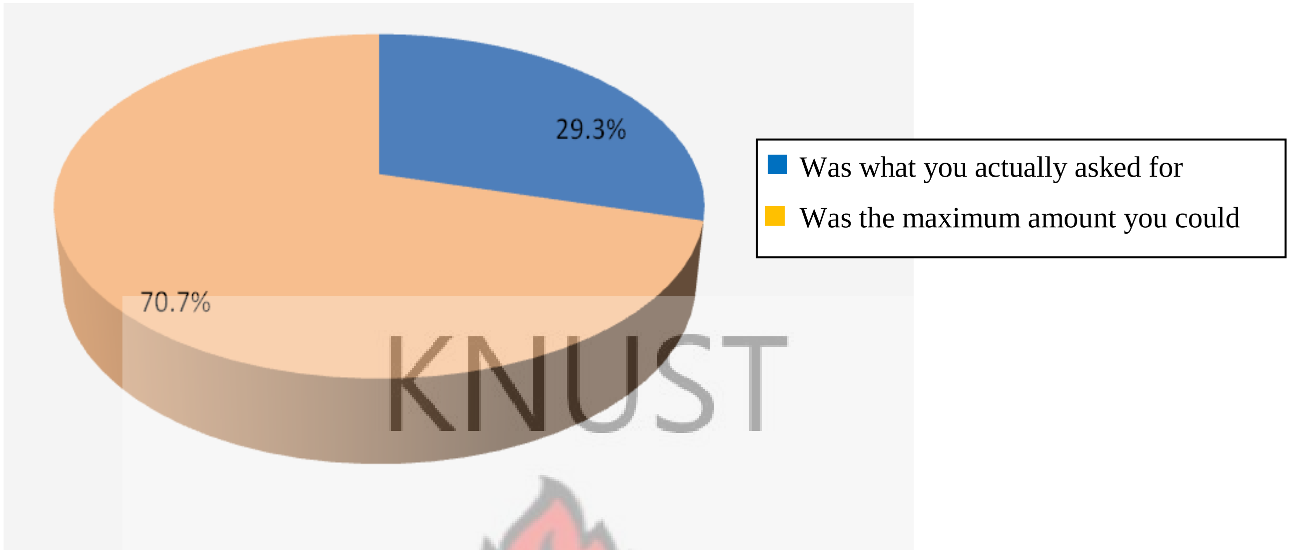


***Source: Survey Data May,* 2011**

From Figure 5 above, results show that most entrepreneurs (67%) did not access loan mainly because of collateral constraints. About 33% of the responses also show that the interest rate on the loan was too high.

In trying to delve into access to loan, the study went on to examine whether the amount of loan accessed was exactly what was requested or that was the maximum they could obtain from the loan granting institution. Figure 6 below shows summary of results.

Figure 6: Money Accessed

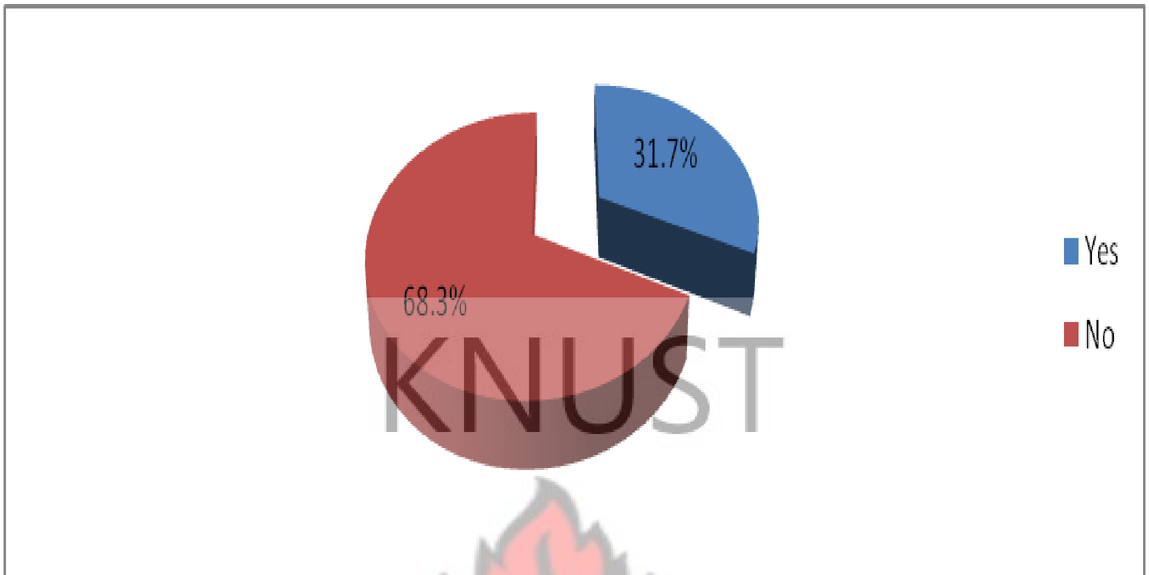


***Source:* *Survey Data May,* 2011**

Results from the figure above show that most of the entrepreneurs actually sought for higher amounts of money but could not access mainly due to collateral constraints as observed in Figure 5.

As to whether the loan amount received was sufficient, respondents have this to say:

Figure 7: Was the Amount of Loan Sufficient for a Start?



Source: *Survey Data May,* 2011

Results from the Figure 7 shows that 7 out of 10 entrepreneurs who accessed loans from financial institutions were of the view that the loan was insufficient for the start of their business. With insufficient funds, the fate of the entrepreneurs is nothing to talk about as most of them have to cut down their start up budget. Table 8 below illustrates the fate of the entrepreneur as a result of insufficient startup capital.

Table 1: How did you then start your Business with the Insufficient Loan?

	Frequency	Percent
Added personal savings	13	33.3
Went to borrow additional money from elsewhere	3	7.7
Cut down the start up budget	23	59.0
Total	39	100.0

***Source:** Survey Data May,* **2011**

While about 59% cut down their budget, 33% added their personal savings to enable them start their business, and a handful (8%) sought for additional money elsewhere.

Table 9 below shows the adequacy of startup finance for the entrepreneurs.

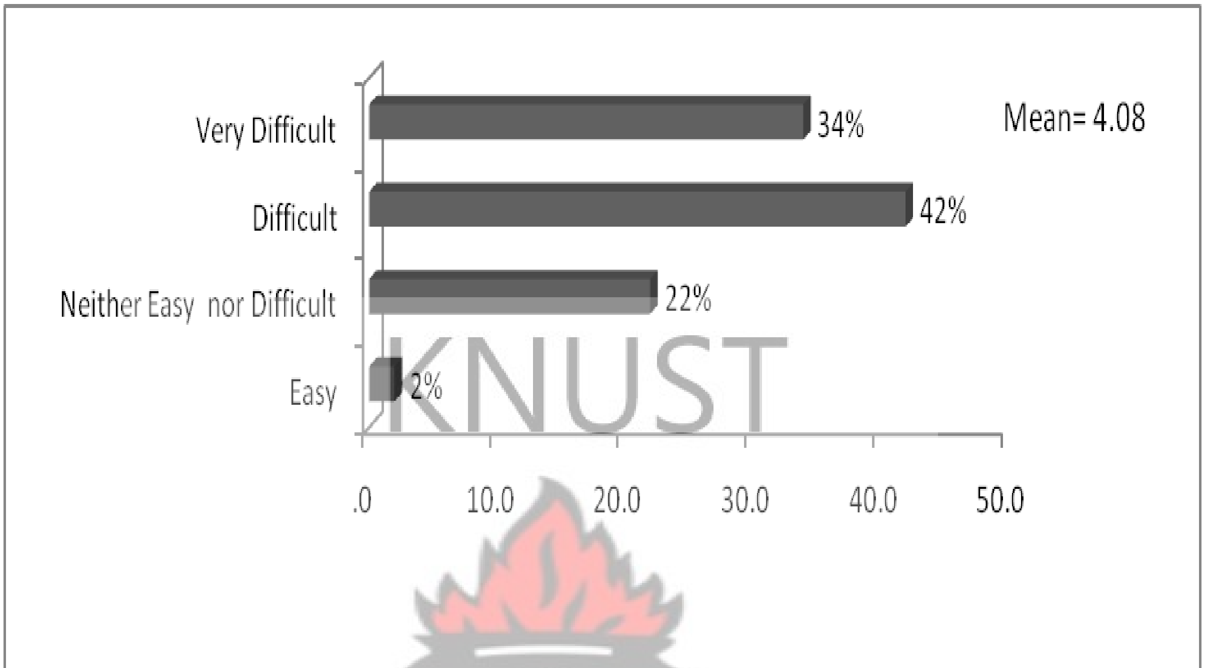
Table 2: Adequacy of Startup Finance for your Business

	Frequency	Valid Percent
Very Inadequate	15	30.0
Inadequate	18	36.0
Neither adequate nor inadequate	14	28.0
Adequate	3	6.0
Total	50	100.0
Mean		2.10

***Source:** Survey Data May,* **2011**

The mean of 2.10 observed in Table 9 above shows that the start up money accessed by entrepreneurs is woefully adequate. This was closely followed by the examination of ease of access of finance from loan granting institutions. Figure 8 below shows the summary of responses.

Figure 8: Opinion on Ease of Access to Loan from Financial Institutions



***Source: Survey Data May,* 2011**

As indicated in Figure 8 above, about 76% of respondents are of the opinion that access to finance for a startup business is difficult. This is underscored by the mean of 4.08 implying that access to finance is difficult.

4.4 Financial Constraints

Financial constraint is the main focus of the study. At this point, the study tries to examine the specific constraints encountered by entrepreneurs that hinder their ability to meet their target objectives. The study found out whether the financial institutions are willing to give enough money. Results show that about 72% of the entrepreneurs agree that the financial institutions are really willing to give enough loans. The question then is, if the institutions are willing to give out enough funds, then why are the entrepreneurs unable to access the loan facilities? Results from this also show that although financial institutions are willing to give enough loan, there are constraints impeding the ability entrepreneurs to assess the loans. The study then continued to explore the specific constraints encountered. Results are shown in Table 11 below.

Table 3: Constraints Faced in Accessing Loan

	Responses		Percent of Cases
	N	Percent	
Lack of collateral	39	26.0%	78.0%
High interest rate	24	16.0%	48.0%
Lack of other requirements such as guarantors	10	6.7%	20.0%
The process is so bureaucratic	25	16.7%	50.0%
Untimely receipt of loan	23	15.3%	46.0%
Sociopolitical nature of the market	29	19.3%	58.0%
Total	150	100.0%	300.0%

***Source: Survey Data May,* 2011**

From Table 11 above, it was seen that lack of collateral was the main constraint faced by entrepreneurs. It is generally known that looking at the age distribution of these entrepreneurs (Figure 1), most of the entrepreneurs are barely in their thirties and as such cannot afford substantive collaterals needed to secure enough funds to set up their businesses. Another constraint which was seen to hinder most entrepreneurs is the sociopolitical nature of the financial system. Most people tend to access the loan as a result of their affiliation to certain political parties at the expense of others. Other constraints include high interest rates, and the bureaucratic nature of the whole process leading to delay in the loan delivery.

Based on the above constraints, the study further examined the effects these constraints have on their businesses. Results are shown in Table 12 below.

Table 4: Effect of Financial Constraint on your Business

	Responses		Percent of Cases
	N	Percent	
Business could not start as scheduled	15	17.4%	30.0%
Maximum profit was not realized	24	27.9%	48.0%
Inability to deal in full range of products	25	29.1%	50.0%
Inability to acquire a better location of my shop	22	25.6%	44.0%
Total	86	100.0%	172.0%

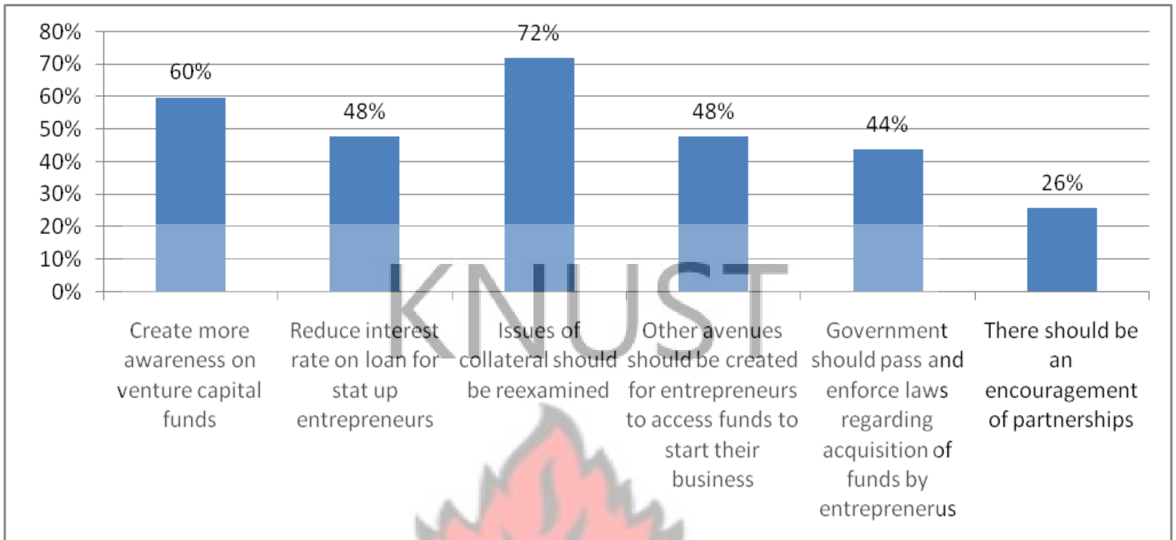
***Source: Survey Data May,* 2011**

As indicated in Table 12 above, the main effect that these financial constraints have on the entrepreneurs was their inability to deal in full range of products mainly because they have to cut down their budget due to inadequate funds. Others, on one way or the other could not realize their projected maximum profits mainly because there was not enough money to acquire their products. Another effect is that due to insufficient funds, some about 44% of the entrepreneurs could not procure a better location for the business. All these in a way lead such businesses not to realize their profits.

4.5 Improving Access to Finance

After examining access to finance by entrepreneurs and the various constraints they encounter vis-à-vis the effect of these constraints, the study cannot be complete without looking for ways through which these constraints will be minimized. The study thus concludes with finding out what can be done to ensure that financial constraints are minimized. Figure 9 below shows suggestions on ways to minimize financial constraints.

Figure 9: Minimizing Financial Constraints



Source: Survey Data May, **2011**

About 72% of respondents are of the view that the issue of collateral be re-examined. 60% think that most entrepreneurs are not aware of the operations of venture capital and as such call for campaigns on venture capital fund. Other ways of improving financial constraints according to the entrepreneurs include reducing interest rates. The government is also called upon to intervene by enacting and enforcing laws regarding the acquisition of funds by entrepreneurs.

4.6 Summary of Results

In a nutshell, results from the data collected shows that entrepreneurs face major constraints with access to finance for their start up businesses. In relating these to the objectives of the study, results show that:

- Inadequate access to finance is a major constraint inhibiting the development of entrepreneurship in the Ga East District.

- Major factors militating against acquisition of startup money by entrepreneurs include lack of collateral, high interest rates, and sociopolitical interference.
- Re-examination of issues relating to collateral is a major way of improving access to finance by entrepreneurs.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.0 Introduction

This chapter summarize the findings of the study drew conclusions and maid the appropriate recommendations based on the constraint faced by small-scale enterprises.

5.1 Summary of Findings

The present research study was conducted to assess financial constraints encountered by entrepreneurs especially as they seek startup capital in their business. The study thus specifically aims to find out whether inadequate access to finance is the major constraints inhibiting the development of entrepreneurship, identify factors militating against acquisition of finance by entrepreneurs, and examine ways that can help improve access to finances by entrepreneurs. These objectives were pursued using Ga East District of Ghana as the research setting. 50 randomly selected entrepreneurs in the sampling unit were interviewed using a structured questionnaire and results analysed in relation to set objectives. The study came out with three major findings.

Firstly, the study determined whether inadequate access to finance is a constraint inhibiting the development of entrepreneurship. According to Besley and Burgess, (2004), efficiency of firms and for that matter entrepreneurs may result when there is a perfect credit market and favourable environment for business. Findings from the present study on the development of entrepreneurship indicate that financial constraints are a major impediment for the growth of entrepreneurship in Ghana. It is true that access to credit would enable entrepreneurs realize their marketing plans. The constraints encountered by entrepreneurs prevent the translation of brilliant ideas into actions. Inasmuch as the entrepreneurs fail to turn his/her ideas into business mainly due to financial constraints, the economy as a whole also suffers since the due percentage of the revenue generated by the supposed entrepreneur will go to government as taxes. Another instance through which the entrepreneur serves the economy is through job creation. It is generally known and accepted that the unemployment rate in Ghana is on the increase day in day out. Should the entrepreneur access finance without any constraints, more jobs will be created which will in turn reduce the national unemployment rate and increasing per capita income. Therefore the answer to the first research question is that inadequate access to finance is a major constraint inhibiting the development of entrepreneurship.

Secondly, the study sought to identify factors that militate against the acquisition of startup money by entrepreneurs. Entrepreneurship is considered a fundamental aspect in the process of development while at the same time being often hindered by financial constraints. Levine, (2005). Hence, one way in which access to finance may promote economic development is by allowing some individuals the possibility to set up their own business. Metrics of financial market development quantify the ease with which individuals in need of external finance can access the required capital and the premium they pay for these funds. The role entrepreneurship plays in linking a country's financial market development to its subsequent economic growth is highlighted by King and Levine (1993a). If the financial market quantifies the ease of accessing required capital, why are entrepreneurs not able to access the required credit for their start of their business? It is in finding answers to the question posed above that the study sought to examine the constraints encountered by entrepreneurs in their quest for startup capital. An earlier posed question was whether the financial institutions are willing to give out loan required by these entrepreneurs. Findings from the present study confirm that the institutions are really willing to give out credit. However, findings indicate that the major restrictive factor is the issue of collaterals which the entrepreneurs hardly can possess. It was noted that majority of the entrepreneurs are individuals in their late twenties or early thirties and barely cannot afford such collaterals.

Another constraint perceived by entrepreneurs is the sociopolitical nature of the financial market. Most people tend to access credit facilities at the expense of others merely by virtue of their belonging to a particular political divide. This is worrying as it deprives deserving entrepreneurs of access to such credit facilities. Some sociopolitical factors do impact negatively on meeting the financing needs of entrepreneurs. Some undeserving entrepreneurs sometimes end up getting the credit facilities at the expense of serious and more enterprising ones due to social and political affiliations. There are cases where loans are granted to people just because they are relatives, friends, or political supporters. Such people might not use the funds for any value added activity. Above all, most of such loans go bad. If such a situation is very pronounced, then a lot of loans and overdrafts would be given but the impact on reducing the financing constraint of entrepreneurs and the output of the economy would be negligible.

Another issue noted includes the high cost of debt these entrepreneurs are faced with. It was realized that although banks and other financial institutions might quote their base rates as low, the interest rate at the end of the day becomes large that it deters most entrepreneurs from assessing such facilities. In this vein, it was seen that financing constraints are one of the biggest concerns impacting potential entrepreneurs.

Finally, the study examined ways that can help improve access to finances by entrepreneurs. Surveys of current and potential entrepreneurs suggest that obtaining adequate access to capital is one of the biggest hurdles to starting and growing a new business. Given the important role that entrepreneurship is believed to play in the process of creative destruction – and hence economic growth – it is not surprising that attempts to alleviate financing constraints for would-be entrepreneurs is an important goal for policy makers across the world. For example, the U.S. Small Business Administration funded or assisted in the funding of about 200,000 loans in Fiscal Year 2007, at an administrative cost of about $1,000 per loan. SBA (2008). Financial assistance for entrepreneurs is also high on the agenda in the European Union and OECD, where member states are urged to promote the availability of risk capital financing for entrepreneurs (OECD 2004). In an attempt to provide entrepreneurs with ease of access to start up capital, The Bank of Ghana has also set up the Eximguaranty Company to provide various credit schemes to businesses and make it possible for banks to extend credit to small scale entrepreneurs who are seen as the backbone of Ghana's economy.

It becomes necessary to assess ways that can be used to help improve access to finances by entrepreneurs. Findings from the present study show that issues with collateral should be relooked at. Earlier findings from the study indicate that one of the issues is the cumbersome and demanding requirements for loan requests. Some banks require a lot of things including immovable properties (collateral) before loans are granted. Sometimes, the processing is so bureaucratic that credit facilities are not received timely or at all and creating additional financial problems to the entrepreneur in terms of the cost for processing the loan application. This issues need to be reexamined to enable easy access to credit by entrepreneurs.

Additional findings from the present study showed that more awareness should be created especially among entrepreneurs on the operations of venture capital funds. Informal discussions with entrepreneurs show that most of them are not so much aware of the operations of venture capital funds. Therefore, there is the need for awareness creation among entrepreneurs about the modus operandi of venture capital funds.

5.2 Conclusions

The study carefully examined its set objectives with the adoption of a suitable methodology. Three main research questions were asked:

1. Is inadequate access to finance a major constraint inhibiting the development of entrepreneurship?
2. What factors militate against the acquisition of start up money by entrepreneurs?
3. What measures can be put in place to improve access to finance by entrepreneurs?

Findings from the present research successfully provided answers to all these questions. In the first instance, findings from the study demonstrate that the inadequacy of access to finance pose a major constraint to the development of entrepreneurship. Thus even if entrepreneurs are able to access credit for their business, these finances are barely inadequate and these tend to create lots of developmental issues to entrepreneurs and their businesses as we witnessed a limit in financial budget of the entrepreneur as well as a decrease in the line of products they deal in. All these occur mainly because of constraints encountered in the acquisition of capital from the financial institutions.

In addition, findings indicate that issues with collateral and other sociopolitical factors are the major factors impeding access to startup capital by entrepreneurs. Finally, the study in an attempt to identify ways of improving access to finance, findings indicate that issues with collateral should be reconsidered as this poses a major threat to job creation in general.

5.3 Recommendations

It is now widely accepted that access to finance is crucial to the growth and expansion of entrepreneurship in developing nations. However, despite the fact that in recent years most governments have launched a variety of policies, programmes and projects geared towards promotion of businesses in most developing countries, entrepreneurship in Ghana continue to lag behind. From the findings of the study, it was found that access to finance is generally a constraint to the entrepreneur. In this regard, it is recommended that policies be put in place to assist entrepreneurs assess startup capital for their business.

It was also found out that sociopolitical factors tend to have an influence in the process of acquisition of finance by entrepreneurs. It is therefore recommended that credit officers and their managers should exhibit professionalism and objectivity in the discharge of their duties by granting loans to properly accessed and growth potential entrepreneurs. Government officials and people in high authority should not use their undue influence, especially with financing schemes from government organizations and financial institutions, to obtain loans at the expense of deserving entrepreneurs.

Finally, concerning the methodology of the study, the study was carried only in the Ga East District of Ghana. This sampling unit is not representative and as such findings might lack external validity and thus cannot be adequately said to be a reflection of Ghana. In view of this, future studies should consider widening the sample space in order to be sure results are reflection of the country as a whole.

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APPENDIX

QUESTIONNAIRE

I am a student of KNUST, Kumasi. I am carrying out a study on Access to Finance by Entrepreneurs. You are kindly requested to complete this questionnaire. Your contribution will be very much appreciated and confidentially treated. Any information given will be used solely for academic purposes. Please tick or write the required responses where appropriate.

SECTION A: Personal Data

1. Age
   a. Less than 20 yrs [ ]
   b. 21 – 29 yrs [ ]
   c. 30 – 39 yrs [ ]
   d. 40 – 49 yrs [ ]
   e. 50 + yrs [ ]
2. Sex
   a. Male [ ]
   b. Female [ ]
3. Highest level of education
   a. None [ ]
   b. Primary [ ]
   c. Secondary [ ]
   d. Tertiary [ ]
   e. Other (please specify)…………

4. Profession
   a. Trader [ ]
   b. Artisan [ ]
   c. Other (please specify) ……………

SECTION B: ACCESS TO FINANCE

I would like you to answer some few questions about financing your business. Kindly feel free to express your view on the status quo of your business as responses may lead to recommendations on the improvement of access to finance for your business.

5. From what sources did you secure finance to start your business (Please tick all that Apply)
   a. Personal Savings [ ]
   b. Partnership [ ]
   c. Loan from Financial institutions [ ]
   d. Venture Capital [ ]
   e. Other (Please specify) [ ]…………………

If loan from financial institutions or venture capital not mentioned at Q5 ask Q6

6. Most people are of the view that loan from financial institutions or venture capital funds are the means through which businesses could startup effectively. Why did you not access loan or venture capital in starting your business?
   a. My savings were enough to start my business [ ]
   b. My partners brought in enough funds [ ]
   c. I could not access the loan due to collateral constraints [ ]
   d. The interest rate on loan was too high [ ]
   e. Other (please specify)…………………………..

Continue if loan from financial institutions or venture capital mentioned, otherwise skip to Q10

7. Was the amount of loan received from financial institutions/Venture capital sufficient for the start of your business?

    a. Yes [ ]

    b. No [ ]

8. If no, will you say the money you received

    a. Was what you actually asked for [ ]

    b. Was the maximum amount you could access [ ]

9. If option 'b' is mentioned at Q7 above, how did you then start your business with the loan?

    a. Added personal savings [ ]

    b. Went to borrow additional money from elsewhere [ ]

    c. Cut down the start up budget [ ]

10. Kindly rate the adequacy of startup finance for your business on a scale of 5, where 1 means very inadequate and 5 means very adequate

Very Inadequate	Inadequate	Neither adequate nor inadequate	Adequate	Very Adequate
1	2	3	4	5

11. Was your business affected in any way due to the fact you were not able to secure enough funds for its start up?

    a. Yes

    b. No

12. If yes, how was your business affected?

   a. Inability to start the business at the required time

   b. Inability to deal in required products at start up

   c. Other (Please specify)……………

13. Thinking of access to finance from financial institutions and venture capital funds, rate your opinion on how easy/difficult the process is on a 5 point scale where 1 means very easy and 5 means very difficult

Very Easy	Easy	Neither Easy nor Difficult	Difficult	Very Difficult
1	2	3	4	5

SECTION C: CONSTRAINTS TO ACCESS TO FINANCE

14. Are the financial institutions willing to give enough money for you to start your business?

   a. Yes

   b. No

15. Thinking about access to start up capital, do you face any constraint in accessing loan from the financial institutions?

   a. Yes

   b. No

16. What constraints do you face in accessing loan from financial institutions?

   a. Lack of collateral

   b. High interest rate

   c. Lack of other requirements such as guarantors

   d. The process is so bureaucratic

   e. Untimely receipt of loan

f. Sociopolitical nature of the market

g. Others (please specify)…………………………….

17. What effect, if any, do these constraints have on your business?

SECTION D: IMPROVING ACCESS TO FINANCE

18. Finally, in your opinion, what measures can be put in place to improve access to finance by entrepreneurs.
