THE EFFECT OF SAVINGS AND LOANS COMPANIES ON THE OPERATIONS OF SMALL AND MEDIUM ENTERPRISES (SMEs) IN KUMASI METROPOLIS

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DECLARATION

I hereby declare that this submission is my own work towards the MBA 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

Savings and Loans industry has become a major backbone in the sustenance and survival of SMEs in Ghana. The incapability of SMEs to meet the credit requirement of the formal banking sector provides an avenue for SLCs to fill the gap. Nonetheless, the interest rates of the SLCs are higher than the traditional banks. It is against these backdrops that the current study seeks to assess the effect of SLCs on the performance of SMEs in the Kumasi Metropolis. The study employed both qualitative and qualitative approaches to survey 95 SMEs owners/managers and 20 Credit Officers of SLCs in an attempt to employ a questionnaire investigate the adequacy of loans given by SLCs, identify the challenges of SMEs in accessing credit facilities, determine the credit utilisation of SMEs and assess the influence of SMEs access to credit on performance. The result of the study shows that SMEs in the Kumasi metropolis sourced start-up capital from personal savings, friends and relatives. The operational credit of the SMEs is also sourced from personal savings, friend and family, and SLCs. The average maximum annual credit facility of GH¢77,500 was obtained in 2014 at a high average interest rate of 6.3% per month. This interest rate partly contributed to the default rate of 6.28% per annum among the SLCs. Another major factor for the high default rate was credit diversion among the SMEs. Basically the amount of credit accessed from the SLCs was inadequate and so such efforts needed to be complemented by personal savings. The SMEs predominantly utilized the accessed credit facilities for the payment of labour wages, purchase of raw materials, the purchase of production machine and the purchase of new technology. The sourced credit facilities led to the growth of SMEs through improved assets, investment, employee size, profits, production and sales. However, SMEs were confronted by several challenges in accessing credit facilities including bureaucracy and huge volume of paper work, lack of opportunity to take second loan, high risk and uncertainty, high level of interest rate on credit, low level of knowledge about credit sourcing, high cost of financing, non-availability of start-up capital, shorter repayment period, and others. Based on these findings, the study makes several recommendations including reduction in the credit accessing process and paper work, reduction in the interest rate charges, provide a negotiable repayment period, and educate SMEs on credit sourcing and the need for government to expand its assistance to SMEs.

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LIST OF ACRONYMS

SME	Small and Medium Enterprise
SLC	Savings and Loans companies
AGI	Association of Ghana Industries
MFI	Microfinance Institution
BOG	Bank of Ghana
RCBs	Rural and Community Banks
NGO	Non governmental Organisations
FINSAP	Financial Sector Adjustment Programme
RASCA	Rotating and accumulating savings and credit association
UNDP	United Nations Development Project
SHG	Self-help groups
USAID	United States Agency for International Development
KMA	Kumasi Metropolitan Assembly
NBSSI	National Board for Small Scale Industries
GHAMFIN	Ghana Micro Finance Institutions Network
RII	Relative Importance Index

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Small and Medium Enterprises (SMEs) are essential driving force to most to economies in the world, especially in developing countries. SMEs contribute immensely to job creation and productivity which normally serve as a nursery for bigger firms as some may advance and turn out to be multi-national establishments. In addition, SMEs tend to utilize more labour per unit capita than larger enterprises in that way creating more jobs in the economy. In Africa, SMEs constitute an average of 90% of all businesses; contribute to 63% of Gross Domestic Product and 50% of employment (International Journal of Finance and Economics, 2010; cited in Akuffo, 2012).The vast majority of businesses in Ghana are dominated by the SME market and has evolved as the key supplier and service provider to large corporations over the years. In Ghana, small enterprises are said to be a characteristic trait of the production landscape and have been noted to provide about 85% of manufacturing employment of Ghana (Abor&Quartey, 2010). SMEs are also believed to contribute about 70% to Ghana's GDP and account for about 92% of businesses in Ghana (Ahiawodzi&Adade, 2012).

However despite the enormous benefits of SMEs to developing countries, access to funds and other factors of production are of a great challenge to many SMEs. Access to capital for business operations all over the world is not easy to come across as investors are usually interested in multi-national firms that have already made impact in their field of operation. Due to this, SMEs and new businesses struggle in their quest to make an impact in the world of commerce. A World Bank report showed that about 90 percent of small enterprises are robbed of new investment opportunities due to limited credit facilities (Asani & Darkwa, 2013). Levy (1993) cited in Nyarko et al. (2013) also that there is inadequate access to financial resources available to smaller enterprises compared to larger organisations and hence the grave consequences for their growth and development.

The role of finance has been viewed as a vital element for the development of SMEs (Nyarko et al., 2013). A large segment of the SME sector does not have access to sufficient and appropriate forms of credit and equity, or indeed to financial services; and this impedesSMEs growth (Carpenter, 2001; Anyawu, 2003; Owualah, 2007; Lawson, 2007). The reason is that provision of financial services is an important means for mobilizing resources for more productive use (Watson & Everett, 1999). The extent to which small enterprises could access fund is the extents to which small firms can save and accumulate own capital for further investment (Hossain, 1988). However, small business enterprises in Ghana find it difficult to access formal financial institutions such as commercial banks for funds. The Association of Ghana Industries (AGI) stated that inadequate access to credit is the prominent issue stifling the progress of small businesses in Ghana (Nkua, Tanyeh&Gaeten, 2013). In Ghana, only about 5percent of the population have access to the banking sector (Akorsu & Agyapong, 2012). It is further showed that about 90% of SMEs are declined loans in Ghana when applied for loans from the formal financial intermediaries, due to failure to satisfy conditions such as collateral requirement (Bigsten et al., 1999; cited in Addotei, 2012).The inability of the SMEs to meet the standard of the formal financial institutions for loan consideration provides a platform for informal institutions such as savings and loan companies to attempt to fill the gap usually based on informal social networks, and this is what gave birth to micro-financing. However, it is reported that “the interest rates of these institutions are higher than the traditional banks (Mensah, 2009). It is against these backdrops that the current study seeks to assess the effect of Savings and Loans companies on the Performance of Small and Medium Scale Enterprises in the Kumasi Metropolis.

1.2 Problem Statement

The concept of SME’s growth is an important area of study in many developing countries as there is yet to be a conclusive approach and definite factors of business growth despite the fact that it is every entrepreneur’s wish to have their businesses grow. The Savings and Loans industry has become support institution in the sustenance and survival of SMEs in Ghana. Savings and Loans Institutions as part of their core business, provide credit to SMEs. An informal discussion with entrepreneurs in the SME industry revealed that there is great reliance on credit as tool for business growth and profitability. However, most entrepreneurs acceded to the fact that they are faced with a challenge of inadequate capital in their businesses and this inhibits their growth. Some Savings and loans institutions also argue that credit obtained by entrepreneurs are misappropriated. Another constraint is that many SMEs lack managerial and business skills. There is the need to build these capacities in addition to financial resources in order to achieve growth. The number of Savings and Loans institutions in Ghana continues to grow rapidly. However, their wide presence does not correspond with the extent of reduction in the major challenges that affect the growth of SMEs in the country. Despite the wide spread of Savings and Loans companies in Ghana, managers and entrepreneurs of SMEs are still lamenting about inadequate credit for their operations. This study is designed to analyze the effect of Savings and loans companies operation on the performance of SMEs in Ghana and to propose a more effective approach that Savings and Loans companies can adopt in order to meet the growth-oriented needs of SMEs.

1.3 Research Objectives

The main objective of the study was to investigate the effect of savings and loans companies on the performance of SMEs in the Kumasi metropolis; with particular interest in the role SLC's play in the performance of SMEs. The study specifically sought to:

1. To examine the adequacy of loans given by Savings and Loans companies to SMEs;
2. To assess the challenges SMEs face in accessing credit facilities;
3. To assess the utilisation of credit facilities by SMEs; and
4. To assess the influence of credit on, current investment, start-up capital and annual turnover on the performance of SMEs.

1.4 Research Questions

Based on the direction and emphasis of the study, numerous critical questions are required to be answered. These critical questions include:

1. Do SMEs receive adequate credit facilities from Savings and Loans companies?
2. What are the challenges SMEs face in accessing credit facilities?
3. How do SMEs utilise credit facilities?

4. What is the influence of access to credit on, current investment, start-up capital and annual turnover of SMEs?

1.5 Significance of the Study

The study contributes to the body of knowledge in numerous ways including research and policy. With regard to policy, the findings of the study seeks to provide policy makers and stakeholders of both SMEs and Savings and Loans companies with empirical information on the significance and impact of savings and Loans companies on the businesses of SMEs. It could as well inform Savings and Loans companies to take practical steps towards bringing flexible services that would maximise their cooperation with the SMEs. Furthermore, research results could be used as a guide for policy formulation and decision making with regards to financial accessibility to SMEs in Ghana. The study could provide policy makers with substantive possible alternative policy interventions which might help micro and small enterprises to achieve growth objectives. The research could also add to the existing literature on SMEs and Savings and Loans companies and make appropriate recommendations for future studies.

1.6 Scope of the study

The study was confined to investigating the adequacy of credit facilities for SMEs, the challenges of SMEs in accessing credit facilities, and the utilisation of credit facilities by SMEs. Other thematic areas of the study included assessing the influence of access to credit, current investment, start-up capital and annual turnover on the performance of SMEs.

Geographically, the study was confined to 95 SMEs and 4 SLCs in the Kumasi metropolis. The sampled SMEs were categorized into manufacturing, wholesale/retailing, and Service. Four tier 2 MFIs in the Kumasi metropolis including Best Point Savings and Loans, Sinapi Aba Savings and Loans, Utrak Savings and Loans Ltd, and Union Savings and Loans Ltd were further sampled for the study.

1.7 Limitation of the Study

Funds is the number one limiting factor for the successful completion of this research as the person embarking on this research is a student and does not have in his disposal grants which may help in a small way for its successful completion. Another factor may be time. Time is too short to complete the work of this magnitude. This work would require that one reads through hundreds of journals and write a review on each, but due to deadline given to complete the work; one may not have the time to read through all the vital journals. Being that as it may, the researcher will do the best to make sure that the impact of these aforementioned limitations are limited and strive to come out with a fantastic research work.

1.8 Organization of the Study

The study is organised into five chapters. Chapter one comprise the background to the study, problem statement, research objectives and questions, significance of the study, methodology as well as scope and limitation of the study. The Chapter two of the study reviews pertinent literatures related to SMEs accessibility of credit facilities from SLCs. The Chapter three of the study discussed research design, and methodology, population, sample size, sampling technique, materials for data collections, procedure involved in data collection as well as ethical considerations.

The Chapter four of the study constitute the presentation of the result and analysis of data gathered for the study. The Chapter five of the study constitute the summary of the findings, conclusions and recommendations

CHAPTER TWO

REVIEW OF LITERATURE

2.0 Introduction

In relation to the study objectives and research questions, the chapter reviews appropriate related studies on the effect of MFIs on SMEs growth. This chapter addressed some of the concepts of Savings and Loans Companies and their major contributions in the growth and sustainability of SMEs. In addition, the study further went to recount the developmental issues concerning the Savings and Loans concept. The last area of focus was the growth and development of SME. This provides the role, an idea of the characteristics, contributions to economic growth, constraints of SME and overall contributions.

2.1 An Overview of the Financial System in Ghana

The financial system in Ghana falls into three main categories: formal, semi-formal and informal. Formal Sector Financial Institutions are those that are incorporated under the Companies Code 1963 (Act 179), which gives them legal identities as limited liability companies, and subsequently licensed by the Bank of Ghana (BOG) under either the Banking Law 1989 (PNDCL 225) or the Financial Institutions (Non-Banking Law 1993) PNDCL 328) to provide financial services under Bank of Ghana regulation. Most of the banks target urban middle income and high net worth clients. Rural and Community Banks (RCBs) operates as commercial banks under the banking law, except that they cannot undertake foreign exchange operations, their clientele is drawn from their local catchment area, and their minimum capital requirement is significantly lower. Some collaborate with NGOs using micro finance methodologies. Among the nine specified categories of Non-Bank Financial Institutions (NBFIs), the Savings and Loans Companies (S&Ls), which are restricted to a limited range of services, are most active in micro and small-scale financial intermediation using microfinance methodologies. Informal Financial System covers a range of activities known as Susu, including individual savings collectors, rotating savings and credit associations, and savings and credit "clubs" 18 run by an operator. It also includes money lenders, trade creditors, self-help groups, and personal loans from friends and relatives. Money lenders are supposed to be licensed by the police under Money Lenders Ordinance 1957. The commercial banking system, which is dominated by a few major banks, reaches only about 5% households, most of which are excluded by high minimum deposit requirements. According to (Owusu T. 1993), the implementation of the Financial Sector Adjustment Programme (FINSAP), under the Economic Recovery Programme (ERP) was aimed at strengthening the overall financial system, including the informal non-bank sector in Ghana. In the late 1980‟s quite a number of Susu and finance companies sprang up and their objective was to mobilize savings ostensibly for on-lending to their customers. Owusu (1993) states that the generous credit overtures made by these companies enthused many petty traders, mostly women, to make colossal deposits with them. However, it turned out that the companies had fraudulent intentions and the millions of cedis mobilized were misappropriated by the owners and the employees without any recourse to redress by depositors. In an effort to in still sanity into the system, the Bank of Ghana took steps in 1990 to license the Susu/Finance companies under the classified name of Savings and Loans Companies. The effort being made to regulate and modernize/institutionalize the traditional/informal savings societies is aimed to achieve higher growth in mobilization of savings for supporting economic ventures as a complement to the improvement in the formal banking sector (Owusu, 1993). The non-bank financial institutions, under which the subject of this study falls, form an integral part of the financial system and the fact that they were registered under a different law does not detract from their importance.

2.2 Evolution of Savings and Loans Companies in Ghana

In Ghana the concept of Savings and Loans is not new. The tradition of individuals or groups saving and/or taking small loans from individuals and groups within the framework of self-help to start businesses such as farming ventures has been in existents before the evolution of Savings and Loans Companies in Ghana. A typical example can be sited as far back as 1955, where there is an evidence suggesting that the first credit union in Africa was established in the northern region of Ghana by Canadian Catholic missionaries. Nonetheless, susu which is one of the Savings and Loans schemes is considered to have originated from Nigeria which later spread to Ghana in the early twentieth century (Asiana, 2007). The Savings and Loans sector has thrived and evolved over the years into its present state due to the financial sector programmers and policies that were undertaken by different governments since independence. Some of them are;

1) Provision of subsidized credits in the 1950s.
2) Establishment of the Agricultural Development Bank in 1965 purposely to address the fiscal needs of the agricultural and fisheries sector.
3) Establishment of Rural and Community Banks (RCBs) and the introduction of rules and regulations and an example is commercial banks being obligatory to set aside 20% of overall portfolio to encourage lending to small and medium enterprises and agriculture in the 1970s and early 1980s.

4) Shifting from a provisional financial sector regime to a liberalized regime in 1986.
5) Promulgation of a law in 1991 by the PNDC Law 328 to permit the establishment of various categories of non-bank financial institutions which includes savings and loans companies and credit unions (Asiama, 2007).

There are three broad categories of Savings and Loans institutions that have surfaced under these policies. These policies are:

1) Formal suppliers such as rural and community banks, savings and loans companies.
2) Semi-formal suppliers such as financial non-governmental organizations (FNGOs), credit unions and cooperatives.
3) Informal suppliers such as rotating and accumulating savings and credit associations (ROSCAs and ASCAs), susu collectors and clubs, moneylenders, traders and other individuals (Asiama, 2007)

2.3 Overview of Savings and Loans Company (Microfinance Institution)

Microfinance is seen as a developmental tool that provides or grants financial services and products. These financial services and products include savings opportunities, small loans, micro leasing, money transfer and micro insurance and also to assist the low income earning households and poor entrepreneurs in establishing or expanding their businesses. In developing economies where majority of the population do not have access to affordable sources of financial assistance, microfinance is popular (Robinson, 1998). Some Savings and Loans Companies offer social intermediation services as indicated by financial intermediation Lidgerwood (1999). An example is the formation of groups, training of members or clients on financial literacy, development of self-confidence and management. He further argues that there are different providers of Savings and Loans products and services. Some of them are savings and loan cooperatives, non-governmental organizations (NGOs), non-bank financial institutions and credit unions. The targeted group of Savings and Loans Companies are the low income entrepreneurs who are self-employed such as traders, carpenters, seamstresses, street vendors, hair dressers, small farmers, rickshaw drivers and artisans. A variety of products and services offered by Savings and Loans Companies help their clients who are predominantly women slightly below or above the poverty line. The most well-known of these services is financial aids that they often provide to their clients without tangible assets for which majority may be illiterate. Formal financial institutions do not frequently offer these services to small informal businesses which is normally run by the poor as their profitable investments. They usually request for small loans and the financial institutions find it difficult getting information from them to facilitate the loan process but because they are illiterate and cannot express themselves or because of the difficulties to assess their collateral (farms) due to distance, the process is often slowed down (CIDA, 2001).

The passage of Financial Institutions (Non-Banking) Law in 1993 (PNDCL 328) to regulate NBFIs has helped the advent of SLCs and their speedy growth in Ghana. However, Aryeetey (2008) opined that long before reforms, attempts were made by some governments in sub-Saharan to vary the institutional structures of the formal financial system through the establishment of specialized banking and non-banking institutions. Hence, the UNDP Human Development Report (1991) indicated that the last decade has witnessed a incredible change of the financial landscape in Ghana with reference to the diversity of institutions and the focused area. Savings and

Loans companies are most efficient in getting large numbers of savers because of their targeted clients whom are strategically located in urban and peri-urban centers. According to Johnson (1993), SLCs are classified as thrift institutions because they encourage moderate income workers to save money on a regular basis. According to Steel and Andah (2003), SLCs utilize the traditional Susu collection procedure to raise their savings mobilization and to provide lower-income households' with greater access to financial services. Besides, SLCs also make use of Savings and Loans strategies which are highly innovative in reaching relatively poor clients with very small, short-term transactions but which remain both costly and risky (GHAMFIN, n.d).The clientele of SLCs are mainly females based in the urban centers (Goldstein et al., 1999). The SLCs deal with clienteles who are capable of contributing to their savings mobilization strategy. The clienteles are made up of people with unique financial needs and low social status. However, the default rate of clients in the SLCs is very high (Boateng, 2009). Availability of credit to savers also aids the savings mobilization process. According to Steel and Andah (2003), Citi SLC for example gained Susu club operators as customers by providing a safe place for their weekly sums mobilized and also providing loans that would enable the operators to offer more advances than they would have been able to make out of their own accumulated savings. Thus, from the foregoing discussion, it is apparent that SLCs are important vehicles for deposit mobilization and credit creators for medium to low level employees in the Ghanaian economy.

There are different providers of Savings and Loans (MF) services whose target group are self-employed low income entrepreneurs who are; traders, seamstresses, street vendors, small farmers, hairdressers, rickshaw drivers, artisans blacksmith etc. (Ledgerwood, 1999).

2.3.1 Products and Services of Savings and Loans Company

According to Ledgerwood (1999), Savings and Loans institutions provide various services and it is grouped into four broad different categories:

a) The provision of financial services and products or financial intermediation such as credit cards, savings, insurance, credit, and payment systems that requires no ongoing subsidy.

b) Public intermediation is the practice of building human and social capital that is required by sustainable financial intermediation for the poor. Subsidies must be eliminated even though social intermediation may necessitate subsidies for a longer time than financial intermediation.

c) Enterprise growth and developmental services or non-financial services that support micro entrepreneurs comprise business guidance, marketing skills, development and technology services, and subsector examination. These may or may not necessitate subsidies and they also depend on the willingness and ability of the clients to pay for these products and services.

d) Non-financial services or social services that focus on promoting the welfare of micro entrepreneurs some of which are nutrition, education, health and literacy training. Most of the social services are expected to involve ongoing subsidies and are constantly provided by the state or donor supporting NGOs (Bennett, 1997; Ledgerwood, 1999).

2.4 Organisations of Savings and Loans Companies

Several organisations fall into the category of savings and loans companies. These categories of companies include cooperative group lending, financial institutions, Self-help groups (SHG), individual lending and village banking.

2.4.1 Cooperative financial institutions

Cooperative financial institution is a financial institution that can be seen as a semiformal institution. It comprises savings and loan cooperatives, credit unions as well as other financial cooperatives. Twenty credit unions or savings and loan cooperatives have been generally identified to provide savings and credit services to its members. They run the same as a cooperative and there are no external shareholders and also their implementation so are all based on its principles. Policy of the cooperative is made by members who are at the same time customers the cooperative. The members are either work on voluntary bases or elected. They have their own regulations and are under the supervision of the ministry of finance of the country but are not often subjected to banking regulations.

Individual financial cooperatives in most countries are principally regulated by a league that coordinate activities of these credit unions, trains and support its affiliates, provides inter lending facilities and act as a place of accepting deposit and act also linking between external donors and the cooperative system (Schmidt, 1997) . To receive loans is not easy but they raise most of their capital through savings. Loans are delivered following the minimalist approach and with this approach, the requirements for the application of loans are not difficult to be met by the clients or customers. All what is needed is little collateral, character and cosigning for loans between members. These loans are typically loans within the savings of the member (Schmidt, 1997). There are several lending approaches by Savings and Loans Companies. Some of the major lending approaches include Group lending, individual lending, and self-help groups. These approaches have been expatiated in sub-section below:

2.4.2 Group Lending

It's a method used to provide small credits to the poor which is mostly used by Savings and Loans Companies who provides loans without collateral. The interest charge is often not different from that of commercial banks but far lower than interest charge by individual money lenders (Natarajan, 2004). A typical example of Savings and Loans institution using this method is Graeme bank. There is a very high repayment rate since each member is responsible for the debt of a member within the group (Stiglitz, 1990). Group formation is made by members who have some social ties or know each other well enough. Loans are giving to individuals belonging to a group but not granted to individuals on their own since the group acts as collateral which in this regard is known as social collateral. This helps in the avoidance adverse selection which is seem as a major problem in the financial industry and also reduce the costs incurred by the financial institution in monitoring loans since that duty will now be in the hands of the members who must make sure the loan is paid or held liable for any default by an individual within the group (Armendariz, 1994).

2.4.3 Individual Lending

As the name suggest, individual lending is a personal loan giving to individuals with some form of collateral. Besley and Coate (1995) in their paper were of the view that, despite the ease and numerous advantages of group lending, some of the group members or persons may fail to pay back their loan. Montgomery (1996) also emphasized that individual lending avoids the pressure of social costs of repayment that is exerted by some group members. Stiglitz (1990) postulated that persons or individuals involved in group lending bear high risk and the major reason was that, each person within the group is not only liable for his/her loan received but also liable for any default made by any member within the group .Navajas et al. (2003) and Zeitingner(1996) made some suggestions on the significance of routine visits to the clients to make sure the loan is used for its intended purposes for which it was applied for. Monitoring and visits paid to clients are vital but the disadvantage to the Savings and Loans institution is that it increases the operational cost.

2.4.4 Self-help groups (SHG)

This method is practiced mostly in rural communities and common among women who are involved in one income generating activity or another (Ajai, 2005). Most often, women are empowered by making credit through SHGs. These forms of group is an institution that enables its members to sustain with the necessary inputs their foster their living standards or lives.SHG provides its members information on awareness of health hazards, environmental problems, educating them etc and not only the financial intermediation services. These SHGs are also giving both financial and technical support which will enable them to engage in income generating activities which will serve as a means of employment to them such technical supports are tailoring, weaving, bee keeping, hairdressing and many more. The management style adopted by this method is the bureaucratic approach of management and considered as an unregistered group. The members normally comprise about 10-20 members with most of them having main priority on savings and credit in mind (Ajai, 2005). The members of the SHG set a fix date for the members to contribute a constant and equal amount of money as savings. These savings are purposely given out as loans to members in need at a fixed interest rate (Bowman, 1995).

2.5 Explanation of Small and Medium Enterprise (SME)

There has been a lot of debate and arguments on the real definition of SME therefore making its definition very difficult to define from one country to another. There is no definite satisfactory definition of small and medium enterprises (Storey, 1994).to add up to the argument, Ward (2005) stated emphatically that can't be a single universal definition for SMEs because the definition of SMEs depend on where it is being defined, who is defining it and which firm is being considered since firms differ in their level of employment, capitalization and revenue. Some of the definitions employ measures of size (profitability, turnover, net worth, number of employees, etc.).There is a lot of discrepancies with the definition with reference to size since when applied to one sector the firm can be categorized as small, while at the same time it can be categorized as medium with respect to its turn over or net worth. (Act 680) of the venture capital trust fund Act, 2004 defines a small and medium scale enterprise (SME) as an industry or any economic activity whose total asset base does not exceed the cedi equivalent of US$1 million in value excluding land and building whiles the USAID defines SME as any firm, enterprise or industry with fixed assets not exceeding US $250,000 not including building and land.

An important issue with respect to SMEs formation and development is the relationship between founder's motives and SME characteristics. The forces that stimulated founders to start up SMEs are likely to influence the nature of the SME they founded. Those starting SMEs because of enforced entrepreneurship, possession of expertise, and to some extent, the desire for independence are more likely to operate small firms, no doubt because they are less inclined to engage in risky expansion which might make them lose what they already have. Conversely, those who started up SME of perceived market potential or to increase or maintain income are more likely to pursue objectives of growth and expansion, and hence wish to make their firms grow (McCormick, Pedersen, 1996). There is a significant difference in productivity and performance between those SMEs that had access to formal sector credit facilities and those that did not. This shows how access to Finance determines the growth of SMEs.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Overview of the Research Methodology

The research methodology adopted in this study will be looked at in this chapter. Basically, discussions will be centered on the research design, approach of the study, the research population, the sample and sampling technique of the study. The chapter further outlines the reasons for the methods used for the study and also gives an overview of the methods used in data collection for the study, as well as the means used to analyse the data. Finally, discussions on the validity and reliability issues which enhance the quality standard of the study were looked at in the last section.

3.2 Research Design

The research design gives an outline used in conducting the study. Several forms of research design are available to researchers depending on the direction and objectives of their study. Such forms of research designs include exploratory, explanatory, descriptive, quantitative, and qualitative and combination of designs. With reference to the objectives of the study, a combination of the quantitative and qualitative approaches to study was adopted. Amaratunga et al. (2002) provides in their article that qualitative and quantitative research can be used in combination. Amaratunga et al. (2002) further explain that, the focus of quantitative and qualitative methodologies is on the different dimensions of the same observable fact and not antithetic. They also emphasize that quantitative and qualitative research can be combined in a way that one can cover the weaknesses of the other. The qualitative approach involved gathering data which explain events and its organisation, tabulates and describes the data collection (Hyde, 2000). It also uses visual aids like charts and graphs to help the reader in understanding the data distribution of the study.

3.3 Approach to the Study

The study also adopted a case study approach to investigate the effect of savings and loan companies on the performance of SMEs in the Kumasi metropolis. A case study is ‘an empirical enquiry that investigates an existing observable fact within its real-life situation, particularly when the limits between context and phenomenon are not clearly evident and it depends mostly on multiple sources of evidence (Yin, 1994). Case study typically combines data collection techniques such as questionnaires, interviews, observations, documents and text analysis. The case study is usually useful in a field-based research to develop and describe data that are based on knowledge and fact from the real world situation which aim to bridge the gap between management practice and theory (Flynn et al., 1990; McCutcheon & Meredith, 1993). In this context, the study relied on questionnaire and interview and volumes of financial reports.

3.4 Population or Universe

A population is a complete group of persons or individuals, objects, or units from which sample is taken for measurement (Saunders et al., 2009). Target population is the total group of individuals about whom information are gathered. To design a useful research project, there is the need to be specific about the size and location of your target population. Based on this, the targeted population for the study comprised all tier 2 microfinance institutions (MFIs) and SMEs in the Kumasi Metropolitan Area (KMA) of Ashanti Region. From the regional office of the Bank of Ghana in the

Kumasi metropolis, list of 44 provisionally approved tier 2 MFIs as at September 2014 was collected. The total SMEs registered under the Kumasi Metropolitan Assembly considered by the study is 2034 (KMA, 2010). Out of this registered number, 89 are manufacturers, 1,147 are retailer/wholesalers (distributors), 98 are within the agricultural sector, and 700 are service providers. The various categories or classification of SMEs sampled for the study is revealed in Table (3.1).

Table 3.1: Sample Distribution among sectors

SMEs	Frequency	%	Sample distribution
Manufacturing	89	4	4
Retailing/wholesaling	1,147	56	53
Service sector	700	34	33
Agro-Business	98	5	5
Total	**2,034**	**100**	**95**

Source: Field Survey, 2015

3.5 Sample Size and Sampling Techniques

The appropriate sample size of SMEs for the study was obtained using the deVaus (2002) sample size proportion formula approach as shown below:

$$n = \frac{N}{1 + N\left(\alpha^{2}\right)};\ n = \frac{2034}{1 + 2034\left(0.10^{2}\right)};\ n = {}^{2034}\!/_{21.34};\ n = 95 \text{ SMEs}$$

$n = Sample\ size$

$N = Population$

$\alpha = Error\ Level$

The study therefore collated data from 4 tier 2 MFIs and 95 SMEs sampled from the Kumasi metropolis. The researcher utilizes the multi-stage sampling procedure in the collection of the required data on the SMEs. A multistage sampling procedure is appropriate in an attempt to avoid the use of all sample units in all selected clusters (Saunders et al., 2009). The study began by obtaining a list (sampling frame) of all SMEs registered in the Kumasi Metropolis from the Kumasi Metropolitan Assembly (KMA) as shown Table 3.1. To obtain a fair representation of the study population in order to improve the validity of the study, the SMEs were stratified into homogeneous categories such as manufacturing, retailing/wholesaling (distribution), services and agro-business in the first stage. The sample from each stratum was drawn proportionately. For homogeneous groups, 10% of the sample is considered as representative (Mugenda & Mugenda, 2004). The reason why stratified sample was used is because it ensures that the sample is more representative of the characteristic used in forming the strata. However, a simple random sampling by balloting was utilized to select 4 manufacturing firms, 53 retailing firms, 32 service firms and 5 agro-businesses as shown in Table 3.1 in the second stage.

Furthermore, four SLCs were randomly sampled through a simple random sampling by balloting procedure. Each picked SLCs was not replaced. This method of random sampling procedure was employed because of the homogeneity of the population.

3.6 Data Collection

Data collection instruments used were questionnaires. Primary data was collected using questionnaires and interview guide that addressed all the issues relating to the research questions. The questionnaires were given to the various heads of the Credit Departments and other heads of department of the sampled SLCs.

The study relied on both qualitative and quantitative forms analysis and hence it can be regarded as mixed approach to the study. The data was obtained from 95 SMEs and 4 SLCs in the Kumasi metropolis. The four SLCs were sampled from 10 SLCs in the Kumasi metropolis through a simple random sampling by balloting. However, convenience sampling technique was employed in selecting the 95 SMEs from the three major categories considered by the study.

The study relied on both primary and secondary data. The secondary data would involve the financial report and statement of accounts and credit facilities allotted to SMEs in the Kumasi metropolis by SLCs over of five year period. The primary data was collected with the aid of a questionnaire and an interview guide. The collated data were analyzed with both descriptive and simple statistical tools. The descriptive tools employed included table bar and pie chart, mean and standard deviation. The trend analysis of the credit facilities accessed over the period of five years was analysed using Microsoft Excel 2010. The inferential analysis was carried out with SPSS Version 17.

3.6.1 Data Collection Approach

The questionnaire was developed and built on closed ended questions. The closed ended questions were used in the rating of various attributes and this helped in the reduction of the number of related responses in order to attain more varied responses. The questionnaire was self-administered with the managers of the sampled SMEs in the Kumasi metropolis.

The questionnaire for primary data was divided into four parts: the first section had to do with the respondent's demographic characteristics such as age, sex, educational level, and years of working experience, the second section of the questionnaire provides items to measure the adequacy and related issues on loans given by savings and loans companies to SMEs, the third section examined the challenges SMEs faced in accessing credit facilities, and lastly, it examines the utilisation of credit facilities by SMEs in the Kumasi metropolis. Some statements or items were measured by using a five-point Likert-type scale.

3.6.2 Field Survey

The researcher began the administration of questionnaires by interviewing various entrepreneurs of the sampled SMEs in the Kumasi metropolis. The questionnaires administration was to take not more than fifteen minutes with each respondent. Thus, to save time and reduce the level of inconvenience to the SMEs, the services of two enumerators were sought to assist in the administration of the questionnaires.

3.6.3 Data Preparation, Collation and Processing

Differentiating, combining data and reflecting on that data is “the stuff of analysis” (Miles & Huberman, 1994: 56). This step in the qualitative research process characteristically involves assigning inferential tags or codes and descriptive to data (Bryman & Bell, 2007; Flick, 2002). After Miles and Huberman (1994) the data analysis for the study commenced with a preliminary set of codes based on the framework, the study aims and objectives, research questions, and the key factors noticeable from the review of literature. Robson and Hedges (1993) also advised on the process of revisiting the data for which it was adopted for the study. The data were persistently re-examined and re-evaluated. The research revised and refined the codes as the analysis progressed. Some of the codes ‘decayed’ so it was discarded, while others eventually proved important to be incorporated in the study. The data responses were coded and fed into the computer based programme. Statistical Package for Social Sciences (SPSS) was used in generating frequencies, figures, percentages and tables to show outcome of the analysis of the data collected.

3.7 Data Analysis

The descriptive analysis conducted involved basic statistical tool such as tables, Bar chart, Pie chart, line graph, mean, mode and standard deviation for the discussion of the key variables used in the study. Some data were analysed using the Kendall's Rank test. The growth of SMEs was assessed by examining entrepreneurs' total investment, access to credit, start-up capital, annual turnover, sales growth, employment growth and profit growth.

3.8 Reliability and Validity of the study

Validity refers to the extent in which measuring device is accurately measuring what it's intended to measure as postulated by Heffner (2004). Burns and Grove (1993) defined the validity of any instrument as a determination of the scope to which the instrument essentially reflects the abstract construct under study. In 1985, Polit and Hungler also gave another definition, "Validity refers to the degree to which an instrument measures what it is supposed to be measuring". The absence of systematic errors in the measuring instrument is termed as high validity. When an instrument truly reflects the concept for which it is supposed to measure, then that instrument is valid. Care in the research design and sample selection is a requirement for achieving a good validity (Fellows & Liu, 1997). A pilot study was carried out to improve upon the validity of the constructs of the study. Furthermore, the supervisor amended the questionnaire and three experts in the taxation environment helped in the evaluation of the questions and the method of data analysis. The experts approved validity of the questionnaire which meant that the questionnaire was appropriate enough to measure the purpose that it was intended for.

An instrument is said to be reliable if the degree to which its measures is consistent with the attribute it is theoretical to be measuring (Polit& Hunger, 1985). Reliability coefficient above 0.7 is considered satisfactory for the most research purposes. In 1993, according to Burns and Groves, two weeks period to a month is recommended between two tests. Due to complicated surroundings of most SMEs, it was apparently not easy to ask to respondents to respond to the questionnaires twice within short period. Barakat (2007) postulated that the double distribution of the questionnaire to measure the reliability of the study can be achieved by adopting Cronbach Alpha coefficient method which can easily be obtained by SPSS software. As a result, Cronbach Alpha coefficient method was use to ascertain the reliability alpha value of the major constructs of the study for which it produced an alpha value of 0.855.

3.9 Ethical Consideration

De Vos (1998) explains ethics as ‘a set of moral values which is recommended by an individual or group which is subsequently commonly accepted and based on rules and behavioural expectations regarding the most correct conduct towards respondents and experimental subjects, other researchers, sponsors, employers, students and assistants .’ Ethical issues considered in the research comprise the scientific honesty on the part of the researcher and the rights of the institution. The goal to which the study is geared towards is to generate knowledge by honest conduct, reporting and publication of a study report. The researcher is fully aware of the fact that data should not be manipulated nor falsified in order to uphold the quality of both the study and report (Burns & Grove, 1993). To accomplish this, a written consent was obtained from the appropriate authorities of the sampled SMEs in the Kumasi metropolis, informing them of the purpose and design of the study. Furthermore, the researcher made the respondents aware of the fact that the study is meant purely to satisfy an academic requirement and not for any other reason. To ensure that confidentiality is observed, the respondents did not write their names on the questionnaire.

CHAPTER FOUR

ANALYSIS AND DISCUSSION OF FINDINGS

This chapter presents and discusses the results of the study in an attempt to address the specific objectives of the study. The major areas the chapter discusses include respondent's background, the profile of the surveyed SMEs, SMEs access, to credit adequacy and utilisation of credit facilities, the effect of access to credit facilities on the growth of SMEs and the challenges SMEs encounter in accessing credit facilities.

4.1 Socio Demographic Characteristics of Respondents

The Socio demographic characteristics of the surveyed respondents of the sampled SMEs in the Kumasi metropolis are discussed in this section of the study. The major socio demographic characteristics of the 95 respondents discussed are the type of respondent, gender, age of respondent, highest educational level, working experience in SMEs subsector and marital status. The result of the section is presented in Table 4.1.

Table 4.1: Socio Demographic Information of Respondents

Socio Demographic	Frequency	Percentage
Type of respondent		
Owner	56	58.9
Employees	39	41.1
Total	**95**	**100.0**
Gender		
Male	29	30.5
Female	66	69.5
Total	**95**	**100.0**
Age of respondent		
Below 20 years	5	5.3
21-30 years	42	44.2
31-40 years	32	33.7
41-50 years	7	7.4
51 years +	9	9.5
Total	**95**	**100.0**
Highest educational level		
Never attended any school	5	5.2
Basic	13	13.7
Secondary	51	53.7
Tertiary	26	27.4
Total	**95**	**100.0**
Working experience with SMEs		
1-3 years	27	28.4
4-6 years	26	27.4
7-10 years	23	24.2
11 years +	19	20.0
Total	**95**	**100.0**
Marital status		
Married	53	55.8
Single	29	30.5
Divorced	7	7.4
Widowed	6	6.3
Total	**95**	**100.0**

Source: Field Survey, 2015

The result in Table (4.1) shows that the majority (59%) of the respondents were owners of the surveyed SMEs in the Kumasi metropolis, whereas 41% were employees of the owners. The majority (69.5%) of the SME respondents were females whereas 30.5% were males. The gender distribution is consistent with the study of Goldstein et al. (1999) that reported that the clientele of SLCs are mainly females based in the urban centres. Furthermore, Kessey (2014) in a study reported that SME activities in Ghana are dominated by women who constitute 75% of total entrepreneurs. Therefore, the dominance of women in the current study is not surprising.

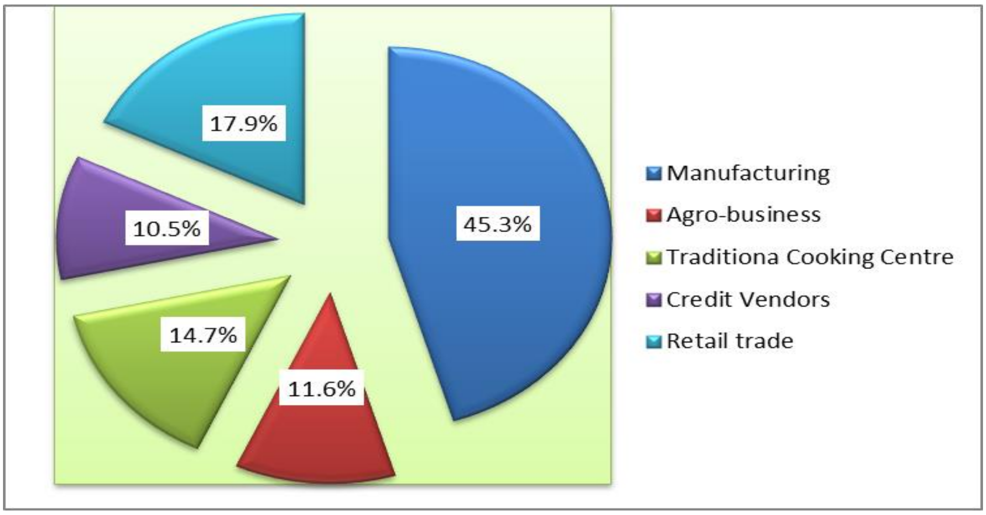
Furthermore, the majority (55.8%) of the respondents are married whereas 30.5% are still single. The majority (44.2%) of the respondents were predominantly between the ages of 21 and 30 years, and 33.7% were between 31 and 40 years and 7.4% were between 41 and 50 years. The level 53.7% have secondary education. This therefore implies that the educational level of the respondents is a little low.

Considering the working experience of the respondents in the SME sector; 28.4% have been in the sector for 1 to 3 years, 27.4% have between 4 to 6 years of experience and 24.2% have 7 to 10 years of experience in the SME sector.

4.2 Classification of SMEs

The SMEs for the study are classified as manufacturing, agro-business, traditional cooking centres, credit vending and retail trading. The result of Figure 4.1 shows the distribution of the respondents from these classes of SMEs.

Figure 4.1: SMEs classification



Source: Field Survey, 2015

The result of Figure (4.1) shows that out of the total studied respondents of 95, the majority (45.3%) were from the manufacturing sector, whereas 17.9% were from the retail trade sector. However, 14.7% and 11.6% of the respondents were also sampled from the Traditional Cooking Centres and the Agro-business sector respectively. The remaining of the 10.5% respondents sampled were also Credit Vendors.

4.2.1 General Characteristics of the SMEs

The distribution of the SMEs studied in the Kumasi metropolis is discussed in this section of the study. The major profiles of the SME firms discussed were the type ownership of SMEs, registration of the company, and the number of employees. The result of the section is presented in Table 4.2.

Table 4.2: Business Information of the SMEs (Percentages)

	Manuf.	Agro-Bus.	Traditional Cooking center	Credit Vendors	Retail trade	Total
Ownership of SME						
Family Business	10(23.2)	3(27.3)	5(35.7)	2(20.0)	5(29.4)	25(26.3)
Sole proprietorship	33(76.8)	8(72.7)	9(64.3)	8(80.0)	12(70.6)	29(73.6)
Total	**43(100)**	**11(100)**	**14(100)**	**10(100)**	**17(100)**	95(100)
Company registered						
Yes	26(60.5)	4(36.4)	10(71.4)	4(40.0)	10(58.8)	54(56.8)
No	17(39.5)	7(63.6)	4(28.6)	6(60.0)	7(41.2)	41(43.2)
Total	**43(100)**	**11(100)**	**14(100)**	**10(100)**	**17(100)**	95(100)
Number of employees						
1-4	4(9.3)	8(72.7)	4(28.6)	8(80.0)	13(76.5)	37(38.9)
5-9	24(55.8)	3(27.3)	0(0.0)	2(20.0)	1(5.9)	30(31.6)
10-49	12(27.9)	0(0.0)	5(35.7)	0(0.0)	3(17.6)	20(21.1)
50-100	3(7.0)	0(0.0)	5(35.7)	0(0.0)	0(0.0)	8(8.4)
Total	**43(100)**	**11(100)**	**14(100)**	**10(100)**	**17(100)**	95(100)

Percentages are in parentheses

Source: Field Survey, 2015

The result of table (4.2) shows that the majority of the manufacturing firms studied are predominantly owned by sole proprietors, whereas 23.2% are family businesses. The majority (60.5%) of the studied manufacturing firms are registered with varying organisations in the Kumasi metropolis, whereas 39.5% are not registered. Furthermore, out of the 43 manufacturing firms studied, the majority have employee size of 5 to 9 in the Kumasi metropolis, whereas 27.9% also have 10 to 49 employees. It can therefore be concluded that the studied manufacturing were predominantly small size firms.

The majority (72.7%) of the studied Agro-businesses were also owned by individuals, whereas 27.7% were family owned businesses in the Kumasi metropolis. contrary to the manufacturing firms studied, the majority of the studied Agro-businesses are not registered, whereas 36.4% are registered with the Kumasi Metropolitan Assembly and other organisations. The employee size of the majority (72.7%) of the studied Agro-businesses in the Kumasi metropolis is 1 to 4 employees, whereas the employee size of the remaining 27.3% studied Agro-businesses is 5 to 9 employees. This therefore implies that the Agro-businesses studied are predominantly small scale businesses.

The result of the table (4.2) further shows that the majority (64.3%) of the studied Traditional Cooking Firms are owned by individuals or sole proprietors, whereas 35.7% are family owned businesses in the Kumasi metropolis. The majority (71.4%) of the Traditional Cooking Firms are registered with the Kumasi Metropolitan Assembly whereas 28.6% are not registered. However, out of the 14 Traditional Cooking Firms studied, 28.6% have 1 to 4 employees, 35.7% have 10-49 employees and 35.7% also have 50 to 100 employees.

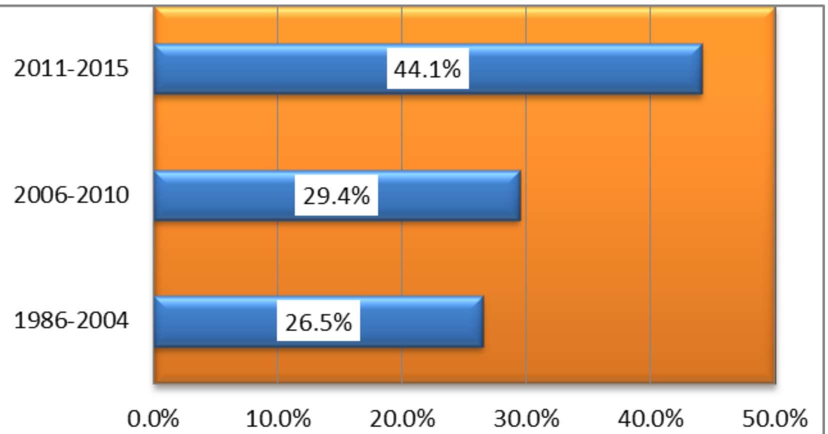
The majority (80.0%) of the studied Credit Vending firms are owned by individuals or sole proprietors, whereas 20.0% are family owned businesses in the Kumasi metropolis. The majority (60.0%) of the Credit Vending firms studied are yet to be registered with the Kumasi Metropolitan Assembly, whereas 40.0% are registered companies. Furthermore, the majority of the studied Credit Vending firms are small scaled businesses employing 1 to 4 persons, whereas the remaining 20.0% have 5 to 19 employees.

The result of the table (4.2) further shows that the majority (70.6%) of the retail trading firms studied are owned by individuals or sole proprietors, whereas 29.4% are family owned businesses in the Kumasi metropolis. the majority of the studied Retail trading firms are registered with the Kumasi Metropolitan Assembly, whereas 41.2% are unregistered. Furthermore, the majority of the studied Retail Trading firms have employee size of 1 to 4, whereas 17.6% also have 10-49 employees. The remaining 5.9% of the Retail trading firms also employ 5 to 9 employees in the Kumasi metropolis.

In conclusion, the studied SMEs are predominantly owned by sole proprietors and registered with the Kumasi Metropolitan Assembly, and also small scale businesses with 1 to 9 employees in the Kumasi metropolis.

The result of Figure (4.2) shows that the majority (44.1%) of these studied classes of SMEs in the Kumasi metropolis were registered between the years of 2011 and 2015, whereas 29.4% were registered between the years of 2006 and 2010. However, the remaining studied SMEs were registered between the years of 1986 and 2004. This therefore implies that the greater percentages of the SMEs are currently registered with the Kumasi Metropolitan Assembly.

Figure 4.2: Year of Registration of the SMEs



	1986-2004	2006-2010	2011-2015
Year of registration of business	26.5%	29.4%	44.1%

Source: Field Survey, 2015

4.3 Access and adequacy of Credit Facilities from Savings and Loans

The access and adequacy of credit facilities from Savings and Loans Companies is important for the survival and growth of SMEs. The major areas discussed were source of start-up capital, source of operational credit, source of information about the financial institution, interest on loan and the amount received by the SMEs, utilisation of credit facilities and the means through which the loan is repaid. The result of the section is presented in Table 4.3.

Table 4.3: Access to loans from Savings and Loans

	Frequency	Percent	Mean
Source of start-up Capital			
Bank	7	7.4	
Savings & Loans	8	8.4	
Friends & family	26	27.4	
Personal savings	54	56.8	
Total	**95**	**100**	
Rate of interest per month			6.4%
Source of operational credit			
Commercial banks	2	2.0	
Rural Banks	5	5.3	
Microfinance	8	8.4	
Savings & Loans	10	10.5	
Money lenders	3	3.2	
Friends & Family	20	21.1	
Personal savings	47	49.5	
Total	**95**	**100**	
Amount received (GH¢)			8,862.10
Heard of the financial institution			
Friends and relatives	50	52.6	
Radio and television	30	31.6	
Others	15	15.8	
Total	**95**	**100**	
Received credit & Payment			
Business earnings	55	57.9	
Personal savings	36	37.9	
Group savings	4	4.2	
Total	**95**	**100**	

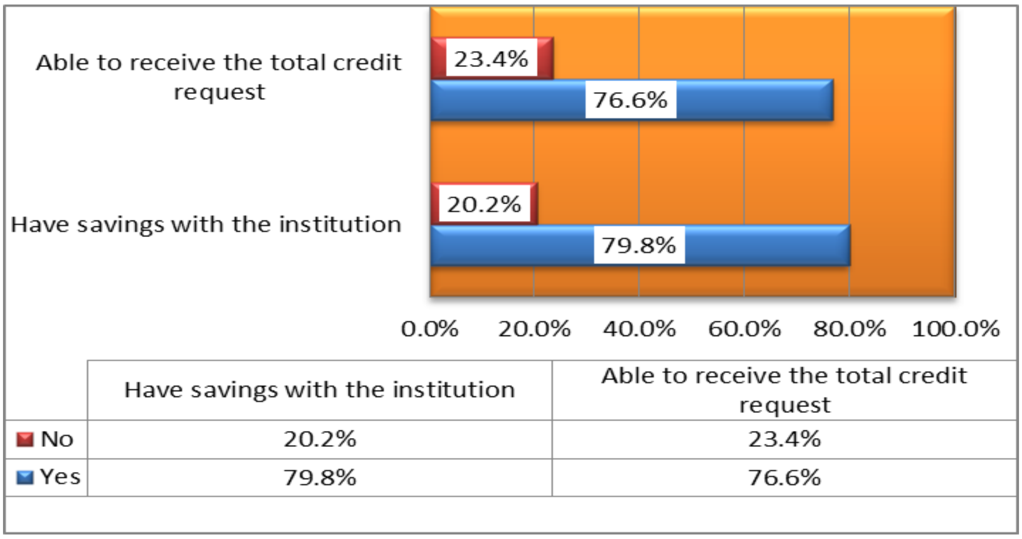
Source: Field Survey, 2015

The result of table (4.3) shows that out of the total SME respondents, the majority raised their start-up capital from personal savings, 27.4% raised start-up capital from friends and family, 8.4% raised start-up capital from Savings and Loans Companies, and the remaining 7.4% raised their start-up capital from Banks in the Kumasi metropolis. This therefore implies that the majority of the SMEs rely on start-up capital from informal financial institutions such as personal savings, friends and family.

The majority (49.5%) of the respondents from the SMEs indicated that the main source of operational credit is from their own personal savings, whereas 21.1% raise operational credit from family and friends. However, 10.5% of the SME respondents also indicated that their main source of operational credit is from Savings and Loans Companies in the Kumasi metropolis. The SMEs further relies relatively more on the informal financial sector than the formal financial sector for operational credit. The average amount of operational credit obtained from the financial institutions was ¢8,862.10. The average interest charged on the received operational credit or loans 6.4% per month.

The majority (52.6%) of the respondents from the SME sector indicated that, they heard of the various financial institutions through friends and relatives, whereas 31.6% also obtained the information about the financial firms on radio and television. The credit or loans received from the formal financial institutions are predominantly paid through earnings of the businesses as indicated by the majority (57.9%) of the respondents. However, 37.9% and 4.2% of respondents also revealed that the received credit facilities are paid through personal savings and group savings respectively.

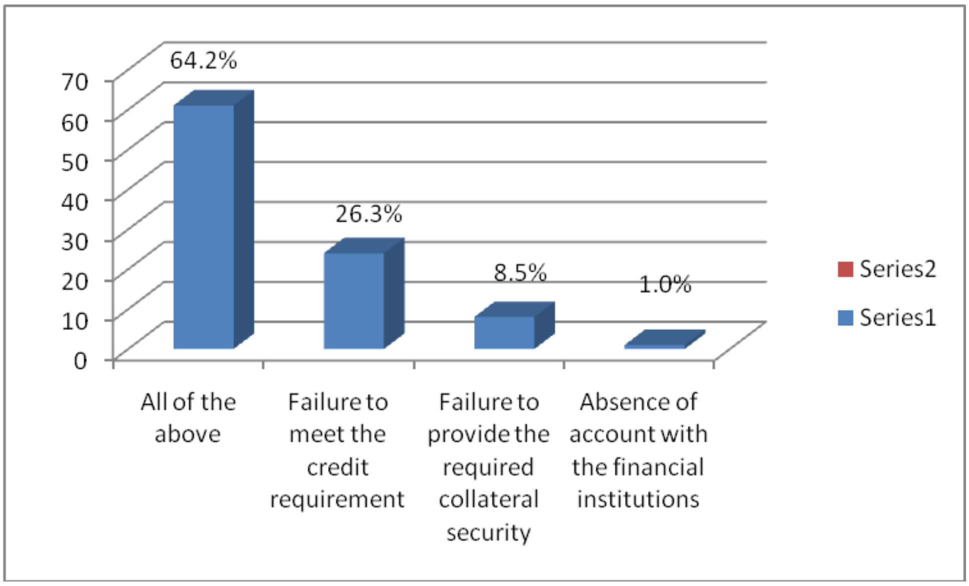
Figure 4.3: Applicants and credit provision



Source: Field Survey, 2015

Figure 4.3 shows that the majority (79.8%) of the SMEs are given loans or credit facilities based on their savings with the financial institutions. The SLCs deal with clienteles who are capable of contributing to their savings mobilization strategy (Gono, 2006). It was further revealed by the majority (76.6%) of respondents that they are able to receive the total amount requested from the financial institutions in the Kumasi metropolis. The 23.4% of the SMEs that are unable to receive the operational credit from the formal financial sector attribute it to their inability to meet requirements of the financial institutions.

Figure 4.4: Proportion of total potential credit approved



Source: Field Survey, 2015

4.4 Utilisation of Credit facilities by SMEs

The means through which the obtained credit facilities are utilized by the SMEs are discussed in this section of the study. The result of the section is descriptively presented in Tables 4.4 and 4.5. These tables present information on the business activities credit was utilized for, the reasons for SMEs inefficient utilisation of acquired credit.

Table 4.4: Utilization of credit by SMEs

	Frequency	Percent
Payment of labour wages	23	24.2
Purchase of raw materials	43	45.3
Purchase of production machine	11	11.6
Purchase new technology	7	7.4
Others	7	7.4
No response	4	4.2
Total	**95**	**100.0**

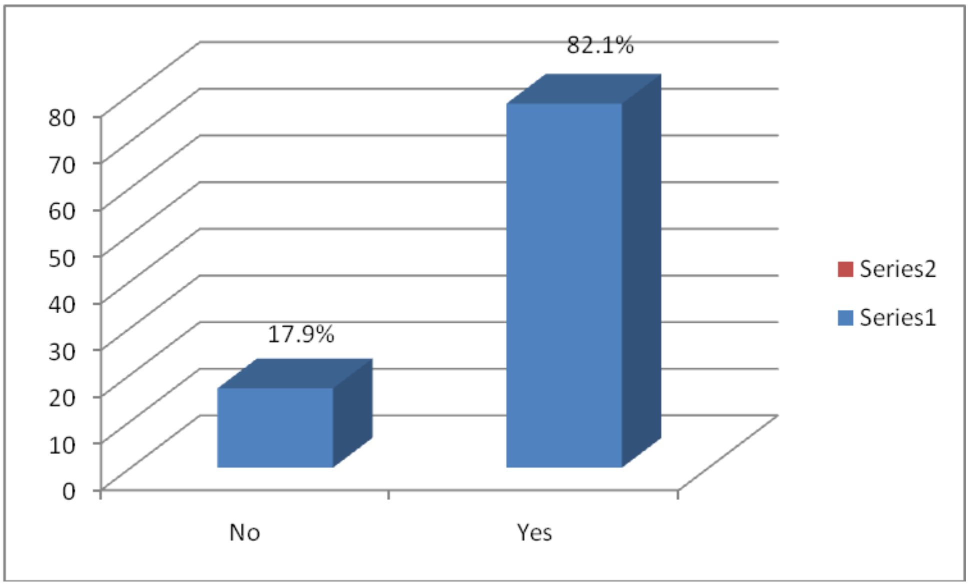
Source: Field Survey, 2015

The result of table (4.4) shows that out of the total 95 respondents, 45.3% utilizes the acquired credit facilities from the formal financial sector for the purchase of raw materials, 24.2% utilizes it for the payment of labour wages, 11.6% utilizes it for the purchase of production machines and 7.4% also utilizes it for the purchase of new equipment. This therefore implies that the SMEs in the Kumasi metropolis predominantly rely on credit from the formal financial sector for the purchases of raw materials and payment of labour wages.

4.4.1 Effective utilisation of credit facility by SME

This section of the study assesses whether the acquired credit or loans are utilized efficiently by the SMEs in the Kumasi metropolis and the reason for the SMEs inefficient utilisation of the acquired credit facilities. The result of the section is descriptively presented by Table 4.5 and Figure 4.5.

Figure 4.5: Effective utilisation of credit facility by SME



Source: Field Survey, 2015

From the result of Figure (4.5) the majority (82.1%) of the SMEs utilize the acquired credit facilities efficiently. However, 17.9% of the respondents indicated that their respective SMEs did not utilise the acquired credit facilities from the formal financial sector efficiently. The majority (82.1%) of the respondents that utilized credit inefficiently predominantly attributed it to factors such as lack of financial management knowledge, lack of planning and control, absence of budget and the absence of set objectives as presented by Table 4.5. This finding is consistent with study of Gono (2006) that reports lack of financial management, lack of planning and control, no budgets, no objectives as major characteristics of SMEs owners.

Table 4.5: Reasons for company's inefficient utilisation of acquired credit

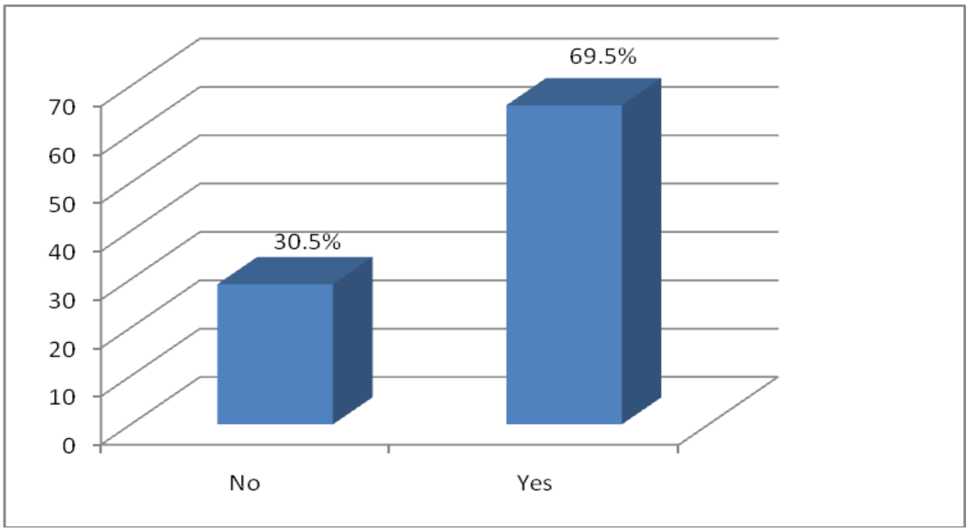
	Frequency	Percent
Lack of financial management	12	12.6
lack of planning and control	14	14.7
Absence of budget	4	4.2
No objectives are set	0	0.0
All the above	65	68.4
Total	**95**	**100.0**

Source: Field Survey, 2015

4.4.2 Utilise all acquired credit facilities for business activities

This section of the study assesses whether the SMEs utilizes all the acquired credit facilities for the business activities for which they were acquired. The result of the section is presented by Figure 4.6 and Table 4.6.

Figure 4.6: Usage of credit acquired for business activities



Source: Field Survey, 2015

The result of Figure (4.6) shows that the majority of the SME respondents indicated that they utilise all the acquired credit facilities for the business activities for which they were acquired for, whereas 30.5% indicated otherwise. The minority (30.5%) of the SMEs that did not utilise all their acquired credit facilities for business activities attributed it to the usage of other activities such as payment of school fees, settlement of other outstanding loans, and the catering of household needs just to mention a few. From the survey it was revealed that some borrowers divert some amount of credit to finance other purposes not included in the reasons for acquiring the loans. This action of the borrowers is the result of poverty and low household incomes among the small and medium entrepreneurs. Some of the activities financed with the diverted funds include payment of fees and taking care of the household. Sambrook (2005) reports that fund utilization by SMEs also requires technical knowledge, skills and experience, which help in planning ahead, timing, managing time, and record keeping and cash management. These technical know-how are required to help avoid default and also ensure the growth and survival of SMEs.

Table 4.6: Other form of activities credit is utilized for

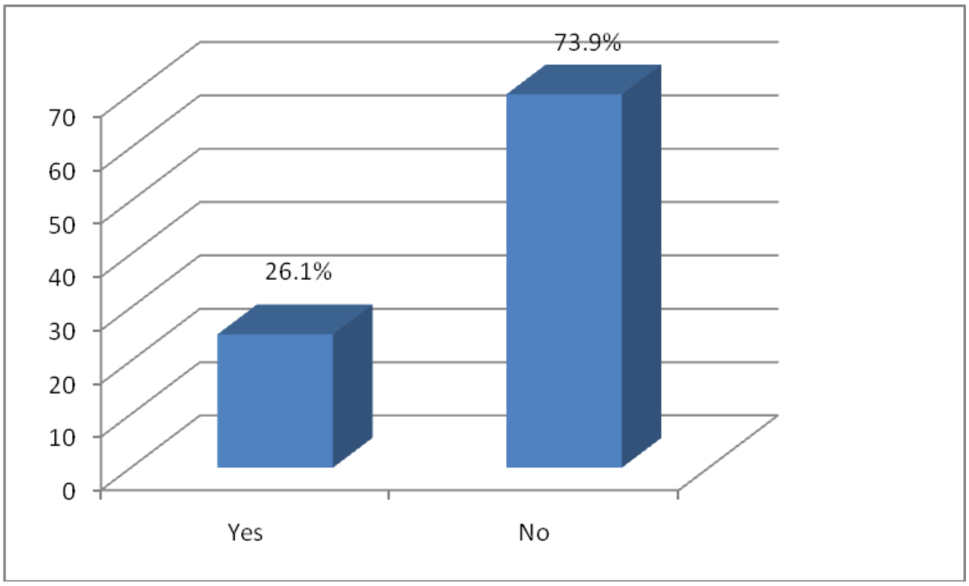
	Frequency	**Percent**
Other form of activities credit is utilized for		
Pay school fees	58	61.0
Take care of the household	35	36.8
Pay for loans owned to others	1	1.1
Others	1	1.1
Total	**95**	**100.0**

Source: Field Survey, 2015

4.4.3 Government provision of credit facilities to SMEs

The issue of government provision of credit facilities to SMEs in the Kumasi metropolis is examined in this section of the study. The result of the section is descriptively presented by Figure 4.7 and Table 4.7.

Figure 4.7: Government Provision of Credit Facility to SMEs



Source: Field Survey, 2015

The result of Figure (4.7) shows that the majority (73.9%) of the SME respondents indicated that the government of Ghana does not provide the SMEs in the Kumasi metropolis with any form of credit facilities. However, 26.1% of the SME respondents indicated that they have received some form of credit facilities from the government of Ghana. Out of the 26.1% of SMEs who have received credit from the government, a majority (63.4%) of the SMEs indicated that they are provided with interest subvention loans, whereas 23.3% are also provided with credit facilities by the National Board for Small Scale Industries (NBSSI). However, 13.3% revealed that they were provided with collateral free loan facilities. This clearly indicates that there is less effort from the Government of Ghana to support SMEs in the Kumasi metropolis. The government of Ghana started the provision of subsidized credits to SMEs in the 1950s but this practice seems to have dwindled with time.

Table 4.7: Form of credit facility provided by Government to SMEs

	Frequency	**Percent**
Credit facility provided by Government		
National board for small scale industries (NBSSI) credit package	7	23.4
Interest subvention to SMEs	19	63.3
Collateral free loans	4	13.3
Total	**30**	**100.0**

Source: Field Survey, 2014

4.4.4 Default of acquired credit facility

This section of the study assesses whether the SMEs are able to repay the acquired credit facilities.

Table 4.8: Ever defaulted in the payment of credit facility

	Frequency	Percent
Ever defaulted in payment of credit		
Yes	36	40.0
No	54	60.0
Total	**90**	**100.0**

Source: Field Survey, 2015

The Table 4.8 shows that the majority (60.0%) of the respondents have not defaulted in the payment of acquired credit facilities from the formal financial sector. However, 40.0% have ever defaulted in the payment of the acquired credit facilities. The study of Boateng (2009) reported that the default rate of clients in the SLCs is very high. The SMEs that defaulted attributed to factors such as high exchange and inflationary rates, high interest rates, shorter duration of repayment of credit.

4.5 Effect of Access to Credit Facilities on the Growth of SMEs

This section of the study examines the effects of SMEs access to credit facilities on the growth of SMEs in the Kumasi metropolis. To achieve this objective, the study employed the Relative Importance Index (RII) analytical tool to assess the importance of the growth indicators. Table 4.9 therefore presents the responses from respondents, weight of each growth indicator, the RII values and by extension the rank of each growth indicator to the respondents.

Based on the RII result of table (4.9), the respondents agreed to the growth in the assets of the SMEs as the most effect of the access to credit facilities to the SMEs as this indicator with the RII value of 0.802 is ranked first. The majority of the SMEs therefore witnessed improvement in their assets in the previous year as shown by the average response value of 4.01. This finding is consistent with the study of Ngugi and Kerongo (2014) who report that microfinance has positive effects on growth of SMEs in terms of expanding business assets.

The second highest ranked effect of access to credit facilities on the growth of the studied SMEs was improvement in the sales of the business as this indicator produced RII value of 0.785. this finding is consistent with the study of Mbithe (2013) that also reported positive effect of access to micro credit on the sales growth of SMEs.

The third and fourth ranked effects of access to credit facilities on the growth of the surveyed SMEs were improvement in both production and profit of the businesses as these indicators produced RII values of 0.758 and 0.745 respectively. This finding is consistent with the study of Karlan and Zinman (2010) who report that expanding access to credit is associated with an increase in profit. Wang (2013) also reported that microfinance plays a crucial rule in the revenue and profit growth of SMEs.

The fifth and sixth ranked effect of access to credit facilities on the growth of the surveyed SMEs were improvement in investment of the firms and increase in the size of employees with RII values of 0.731 and 0.709 respectively. This finding is consistent with the study of Ahiawodzi and Adade (2012) that also reported investment improvement and increase in employee size as effects of SMEs access to credit facilities from Savings and Loans Companies.

However, the SMEs witnessed no change in the growth of the creation of branches. Furthermore, this growth indicator is regarded as relatively unimportant because its respective RII value fell below the Relative Importance Index (RII) threshold value of 0.700.

Table 4.9: Growth of firm after receiving credit facilities

Growth Indicators	Responses							RII	
	1	2	3	4	5	Mean	Weight	RII	Rank
Asset of business	1(1.1)	10(10.5)	15(15.8)	30(31.6)	39(41.1)	4.01	381	0.802	1st
Sales of the business	5(5.3)	7(7.4)	15(15.8)	31(32.6)	37(38.9)	3..92	299	0.785	2nd
Profit of the business	6(6.3)	13(13.7)	16(16.8)	20(21.1)	40(42.1)	3.79	327	0.758	3rd
Production of the business	6(6.3)	12(12.6)	16(16.8)	29(30.5)	32(33.7)	3.72	325	0.745	4th
Expansion of investment of the firm	7(7.4)	15(15.8)	16(16.8)	23(24.2)	34(35.8)	3.65	311	0.731	5th
Employee size of the business	11(11.6)	14(14.7)	15(15.8)	22(23.2)	33(34.7)	3.55	304	0.709	6th
Creation of branches	8(8.4)	15(15.8)	31(32.6)	24(25.3)	19(20.0)	3.38	307	0.678	7th

Rank: [1-Very Low Improvement, 2-Low Improvement, 3-No Change, 4-Improvement, 5-High Improvement]

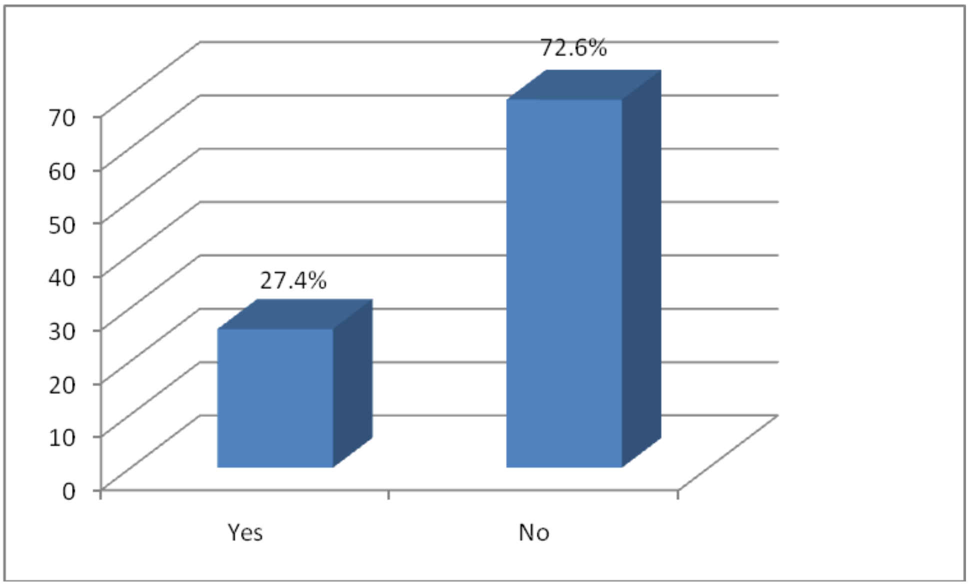
Percentages are in parentheses

Source: Field Survey, 2015

4.6 Challenges Confronting SMEs in Accessing Credit Facilities

Respondents were presented with a list of 13 constraints usually reported in the literature as hindering SMEs accessibility of credit facilities. The task of each respondent was to indicate their level of agreement to the challenges as part of the difficulties in accessing credit facilities. The Table 4.10 displays the mean ranks and by extension, the ranks of the problems as adjudged by the 94 SME respondents. However, Figure 4.8 examines whether SMEs are confronted with challenges in accessing credit facilities.

Figure 4.8: SMEs confronted by challenges in accessing credit facilities



Source: Field Survey, 2015

The result of Figure (4.8) shows that the majority (72.6%) of the SMEs are confronted by challenges in accessing credit facilities from the formal financial institutions whereas 27.4% believed otherwise. the inventory of challenges confronting the SMEs in accessing credit facilities from the formal financial institutions in the Kumasi metropolis are presented and ranked in Table 4.10.

Table 4.10: Challenges SMEs face in accessing credit facilities

Challenges in Sourcing Credit Facilities	1	2	3	4	5	Mean
Failure to use outside expertise	14(14.7)	23(24.2)	16(16.8)	18(18.9)	23(24.2)	3.12
Non-availability of start-up capital	5(5.3)	20(21.1)	25(26.3)	23(24.2)	21(22.1)	3.37
High cost of financing	9(9.5)	15(15.8)	15(15.8)	31(32.6)	24(25.3)	3.50
Failure in meeting terms of agreement	13(13.7)	15(15.8)	23(24.2)	26(27.4)	17(17.9)	3.20
High level of interest rate on credit	8(8.4)	11(11.6)	25(26.3)	21(22.1)	29(30.5)	3.55
Bureaucracy and huge volume of paper work	6(6.3)	12(12.6)	25(26.3)	19(20.0)	32(33.7)	3.63
Difficulty in repayment in event of business failure	10(10.5)	16(16.8)	23(24.2)	22(23.2)	23(24.2)	3.34
Longer distance to credit source	9(9.5)	25(26.3)	17(17.9)	18(18.9)	25(26.3)	3.27
Low level of knowledge about credit sourcing	9(9.5)	14(14.7)	14(14.7)	34(35.8)	23(24.2)	3.51
Shorter repayment period	9(9.5)	24(25.3)	16(16.8)	19(20.0)	26(27.4)	3.31
lack of opportunity to take second loan	10(10.5)	15(15.8)	23(24.2)	11(11.6)	35(36.8)	3.50
High risk and uncertainty	12(12.6)	14(14.7)	17(17.9)	21(22.1)	30(31.6)	3.50
Amount given is too small	16(16.8)	20(21.1)	12(12.6)	23(24.2)	23(24.2)	3.19

Rank: [1-Strongly Disagree, 2-Disagree, 3-Fairly Agree, 4-Agree & 5-Strongly Agree]

Percentages are in parentheses

Source: Field Survey, 2015

The result of Table (4.10) shows that the majority of the surveyed respondents fairly agreed to failure to use outside expertise as a critical challenge of the SMEs in accessing credit facilities in the Kumasi metropolis as shown by the mean response value of 3.12. The majority of the surveyed respondents fairly agreed that non-availability of start-up capital is a critical challenge of the SMEs in accessing credit facilities as shown by their mean response value of 3.37. The mean response value of 3.63 however shows that the majority of the surveyed respondents agreed that high volume of paper on bureaucratic procedures is a major challenge of SMEs in the Kumasi metropolis in terms of accessing credit facilities.

The surveyed respondent revealed that bureaucratic and huge paper work is a critical challenge of SMEs in accessing credit facilities in the Kumasi metropolis.

Also the mean response value of 3.55 shows that the majority of the surveyed respondents agreed that high level of interest rate on credit is regarded as a major challenge of SMEs in accessing credit facilities. This finding is consistent with the study of Owusu (2011) that also reported high interest rate of credit facilities for SMEs as major challenge.

The mean response value of 3.34 indicates that the majority of the surveyed respondents fairly agreed that the difficulty in repayment in event of business failure is a major challenge of the SMEs in the Kumasi metropolis in accessing credit facilities. The mean response value of 3.51 implies that the majority of the surveyed respondents agreed to the low level of knowledge about credit sourcing as a challenge in accessing credit facilities from SLCs in the Kumasi metropolis. The mean response value of 3.50 indicates that the majority of the surveyed respondents agreed that lack of opportunity to take second loan is a critical challenge of the SMEs in the Kumasi metropolis in accessing credit facilities from SLCs.

4.7 Discussion and analysis of information from credit officers

This section of the chapter discusses the data obtained from the surveyed 20 credit officers of four sampled Savings and Loan Companies in the Kumasi metropolis. the major discussions of this section is about the forms of credit facilities advanced to SMEs, amount of credit advanced to SMEs and the interest rate charged, the major factors considered in the granting of loans to SMEs, default rate and the reasons for SMEs inability to repay granted loans. The result of the section is presented through sample statistical tools.

4.7.1 Forms of credit facilities given to SMEs

This section of the study discusses the forms of credit facilities given to SMEs by the numerous Savings and Loans institutions in the Kumasi metropolis. The result of the section is descriptively presented in Table 4.11.

Table 4.11: Forms of credit facilities given to SMEs

	Frequency	Percent
Commercial	3	15.0
Micro Credit	1	5.0
Group loans	0	0.0
All of the above	16	80.0
Total	**20**	**100.0**

Source: Field Survey, 2015

The result of table (4.11) shows that out of the twenty (20) credit officers surveyed, the majority (80.0%) indicated that their respective Savings and Loans Companies advances various forms of credit facilities to SMEs in the Kumasi metropolis including commercial loans, micro credit, group loans, and salary loans. Mwajuma (2012) in a study also showed that the major services provided by MFIs were micro-credit services (loan provision), savings among others; and iterated that these services were highly accessible but relatively poor.

4.7.2 Credit given to SMEs and the interest charged

The interest rate charged per month and the default rate per annum are examined in this section of the study. The result of this section is presented descriptively in Table 4.12.

Table 4.12: Credit given to SMEs and the interest charged

	AI	AII	AIII	AIV	Mean	Std. Dev
Min. Credit (GH¢)	200	200	200	200	200	0.00
Max. Credit (GH¢)	30,000	30,000	100,000	150,000	77,500	58523.5
Interest per month (%)	6.16	6.08	6.50	6.50	6.31	0.22
Default rate p.a	6.03	6.06	6.17	6.85	6.28	0.39

Source: Field Survey, 2015

The result of table (4.12) shows that the SLC AI gives a minimum credit of ¢200 and maximum of credit of ¢30,000 to SMEs in the Kumasi metropolis at 6.16% interest rate per annum. SLC AI also experiences a default rate of 6.03% per annum. In a similar vein, the SLC AII gives a minimum credit of ¢200 and a maximum credit of ¢30,000 at an interest rate per month of 6.08% which on the average result to default rate of 6.06% per annum.

However, the maximum credit facility of ¢100,000 and ¢150,000 given to SMEs by SLCs AIII and AIV respectively is at an interest rate of 6.50%. At this level of interest rate, these SLCs experience a default rate of 6.17% and 6.85% per annum respectively. Relatively, the SLC AIV gives the highest maximum credit facility and so is liable to the highest level of default rate of 6.85% per annum. The highest default of rates of SLCs AIII and AIV could further be attributed to the high level of interest charged which increases the repayment burden of the SMEs. The SLCs on the average give a minimum credit of ¢200 and a maximum credit of ¢77,500 at the interest rate per month of 6.31%. At this average interest rate per month, the SLCs experience a high default rate of 6.28% per annum.

This high rate of interest charged by the surveyed SLCs is consistent with higher rates reported in recent literatures. For instance, the study of Kessey (2014) revealed that notwithstanding the low earnings, SMEs have to repay borrowed funds with high interest of 3% per month or 34% per annum. The high interest rate charged by the Savings and Loans Companies explains the average high default rate of the surveyed SMEs of 6.05 per annum. The study of Boateng (2009) report that the default rate of clients in the S&L Companies is very high.

The interviewed credit officers indicated that the financial institutions have many times witnessed default cases by SMEs. The result of the table (4.12) shows that the average default rate of the surveyed S&Ls Companies in the Kumasi metropolis is 6.28% per annum. This high monthly default rate of the surveyed SMEs in the Kumasi metropolis is consistent with the study of Kessey (2014) that also reported high default rate among SME entrepreneurs who repay credit on monthly basis. Kessey (2014) revealed that there is a default rate of 2.8% among SMEs that carry out repayment monthly, whereas those who repay credit annually have default rate of 6.5%.

4.7.3 Factors considered in given out credit facilities to SMEs

This section of the study assesses the various factors considered by the Savings and Loans Companies in the Kumasi metropolis when advancing credit facilities to SMEs.

The importance attached to each factor by the S&Ls Companies in the process of advancing loans to SMEs analyzed using the Relative Importance Index (RII). The result of the RII analysis is shown in Table 4.13.

Table 4.13: Factors Considered in given out Credit Facilities to SMEs

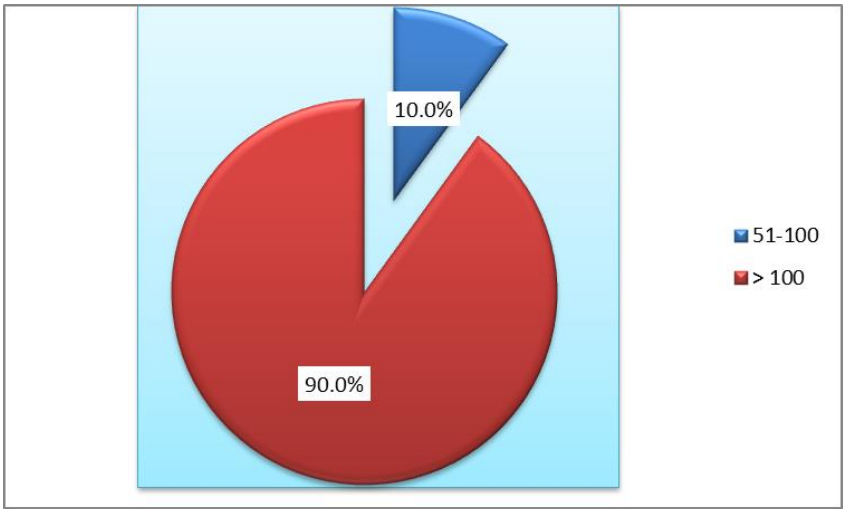
Factors	Responses							RII	
	1	**2**	**3**	**4**	**5**	**Mean**	**Weight**	**RII**	**Rank**
Cash flow statement	2	0	0	4	12	4.00	78	0.780	1
Customer’s character	4	0	0	6	10	3.90	78	0.780	2
Market for the product or service	0	4	1	8	7	3.90	78	0.780	2
Borrowers’ repayment history	4	0	2	4	10	3.80	76	0.760	4
Quality as an entrepreneur	2	2	2	8	6	3.70	74	0.740	5
Credit history of customers	5	0	2	4	9	3.60	72	0.720	6
Experience in credit utilisation	5	0	1	7	7	3.55	71	0.710	7

Rank: [1-Ignored, 2-Not Considered, 3-Neutral, 4-Considered, 5-Highly Considered]

Source: Field Survey, 2015

The result of the Table (4.13) shows that the highest considered factors by Savings and Loans Companies in given credit facilities to SMEs was the SMEs cash flow statement with RII value of 0.780 and a mean value of 4.00. the second highest or ranked factors considered by the Savings and Loans in the process of granting loans or credit to SMEs were the customer’s character and the market for the product or services of the SME company as these two factors produced an RII value of 0.780. The fourth and fifth ranked factors considered by the Savings and Loans Companies in advancing credit facilities to SMEs were the borrower’s repayment history and the quality of the owners as entrepreneurs with 0.760 and 0.740 respectively. The sixth ranked factor considered by the Savings and Loans Companies in given out credit facilities to the SMEs was the credit history of the customers with RII value of 0.720. However, the least considered factor in given out credit facilities to the SMEs was the experience of the owners in credit utilisation.

Figure 4.9: SMEs the S&Ls advanced credit facilities to in 2014



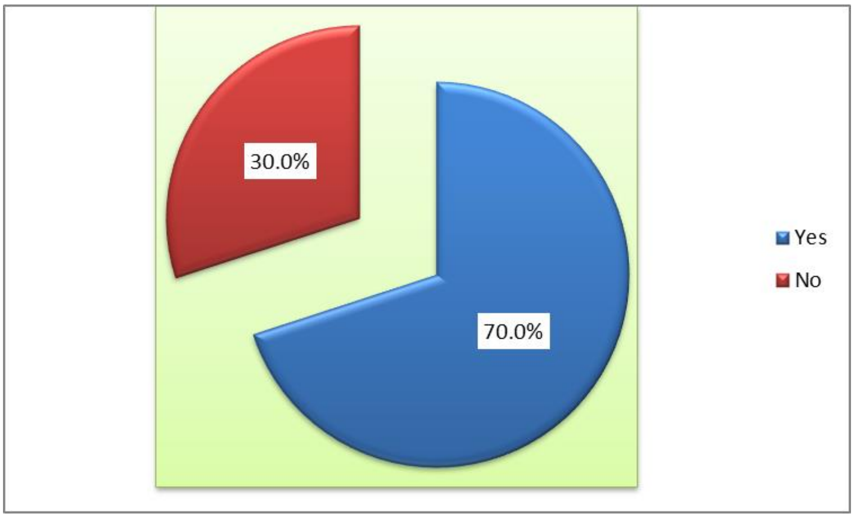
Source: Field Survey, 2015

The result of the Figure (4.9) shows that the majority (90.0%) of the credit officers surveyed believe that their respective Savings and Loans Companies advanced credit facilities to more than 100 SMEs in the Kumasi metropolis in 2014 alone. However, 10.0% of the respondents also indicated that their respective Savings and Loans Companies advanced credit facilities to 51 to 100 SMEs in the Kumasi metropolis. This therefore implies that the Savings and Loans sector is a major source of support to SMEs in the Kumasi metropolis in terms of advancement of credit facilities.

The result of the Figure (4.10) shows that the majority (70.0%) of the surveyed credit officers indicate that the SMEs are able to repay the amount of credit facilities advanced to them. However, 30.0% of the surveyed credit officers indicated that the

SMEs they advance credit facilities to are unable to repay them. The repayment ability of the SMEs could be attributed to proper management and the usage of the credit facilities for the purposes they were acquired.

Figure 4.10: Repayment of credit



Source: Field Survey, 2015

4.7.4 Reasons for SMEs default of loans

This section of the study identifies and ranks the various reasons for SMEs inability to repay loans advanced to them by Savings and Loans Companies in Kumasi. The importance attached to each factor in terms of their contribution to the default of SMEs is analyzed using the Relative Importance Index (RII). The result of the RII analysis is shown in Table 4.14.

Table 4.14: Reasons for SMEs default of loans

Reasons	Responses					RII		
	1	**2**	**3**	**4**	**5**	**Weight**	**RII**	**Rank**
Failure of business	0	1	5	7	7	80	0.800	1
Diversion of loans	0	2	5	8	5	76	0.760	2
Interest rate are too high	0	2	4	9	4	72	0.720	3
No accounts kept	7	2	5	4	2	52	0.520	4
Poor record keeping	6	4	6	2	2	50	0.500	5

Rank: [1-Not Applicable, 2-Less Applicable, 3-Neutral, 4-Applicable, 5-Highly Applicable]

Source: Field Survey, 2015

The result of the table (4.14) shows that the highest contributory factor to SMEs default of loans was the failure of their businesses with RII value of 0.800. The second and third ranked factors that are perceived to contribute to the SMEs inability to repay acquired loans were diversion of loans and high interest rates charged by the Savings and Loans Companies in the Kumasi metropolis. The last two ranked factors, no accounts kept and poor records keeping are not considered because their respective RII values fall below the RII threshold value of 0.700. The RII analysis only considers factors with indexes of 0.700 or greater as important.

4.7.5 Contribution of S&Ls to SMEs Growth apart from credit facilities

This section of the study discusses the contributions of the Savings and Loans Companies to the growth of the SMEs in the Kumasi metropolis, apart from given credit facilities to the SMEs. The result of the section is descriptively presented by Table…

Table 4.15: S&Ls Contributions to SMEs Growth, Apart From Given Credit Facilities

	Frequency	Percent
Contributions of S&Ls to Growth		
Provide technical advice	2	10.0
Provide financial educational	4	20.0
Both technical & financial education	13	65.0
Others	1	5.0
Total	**20**	**100.0**

Source: Field Survey, 2015

The result of the table (4.15) shows that the majority of the credit officers of the surveyed Savings and Loans indicate that apart from granting credit facilities, they also provide both technical and financial educational programmes to the SMEs. However, 10.0% and 20.0% of the respondents indicated that their respective Savings and Loans Companies apart from granting SMEs credit facilities also provide them with technical advice and financial educational programmes respectively. The Savings and Loans Companies provide these services to the SMEs in the Kumasi metropolis for free. Consistent with the findings of this study, Gono (2006) reveals that Savings and Loans institutions apart from providing credit facilities also provide enterprise development services or non-financial services that assist micro entrepreneurs such as skills development, business training, marketing and technology services, and subsector analysis.

CHAPTER FIVE

KEY FINDINGS, CONCLUSION AND RECOMMENDATIONS

This chapter presents a summary of the findings of the study, draws conclusions based on the key findings and also makes recommendations and suggests areas for further research.

5.1 Key findings

The study sought to investigate the effect of Savings and Loans Companies on the performance of Small and Medium Enterprises (SMEs) in Kumasi metropolis through: (1) the assessment of SMEs access and adequacy of loans from Savings and Loans Companies; (2) determine the utilisation of credit facilities by SMEs; (3) identify the Challenges SMEs face in accessing credit facilities; and (4) determine the influence of access to credit facilities on the growth of SMEs. With regard to these earmarked objectives, the findings are discussed in subsections below.

The study revealed that SMEs in the Kumasi metropolis sourced start-up capital from personal savings, friends and relatives. The operational credit of the SMEs was also sourced from personal savings, friend and family, and Savings and Loans Companies. The SMEs are therefore deemed to rely predominantly on the informal financial sector as source of credit. On average, SMEs receives an amount of GH¢8,862.10. A very high average interest rate of 6.4% is charged per month for given credit facilities to SMEs.

The SMEs are required to save with the financial institutions to be legible to access credit facilities. The majority of the SMEs were able to receive the entire requested amount from the financial institutions. The SMEs that were unable to receive entire amount requested from the financial institutions attributed it to failure to meet the credit requirements, failure to provide the required collateral security and the absence of active account with the financial institutions. Therefore the amount of credit accessed is perceived woefully in adequate for the SMEs to efficiently run their operations. It is based on this that the government of Ghana desires to add its efforts to the financing of SMEs in Ghana. However, only a limited number of the SMEs receive assistances in the form of credit package from the NBSSI, interest subvention to SMEs and collateral free loans.

Again the study indicated that the credit receive by the SMEs was utilized for the payment of labour wages, purchase of raw materials, the purchase of production machine and the purchase of new technology. The SMEs utilized the acquired credit facilities for these activities efficiently. The few SMEs that utilized credit facilities inefficiently attributed it to several factors including lack of financial management, lack of planning and control, and the absence of budget. Though the majority of the SMEs utilized the acquired credit for business activities, few of the SMEs utilized part of it for the payment of school fees and to take care of the household.

The study further indicates that, SMEs are confronted with several challenges in accessing credit facilities from formal financial institutions. These challenges include bureaucracy and huge volume of paper work, lack of opportunity to take second loan, high risk and uncertainty, high level of interest rate on credit, low level of knowledge about credit sourcing, shorter repayment period, total amount applied for is not realised, difficulty in repayment in event of business failure, just to mention a few.

The main objective of administering credit to SMEs from the formal financial sector is to improve their asset, profit and production of their business. However the study revealed that there isn't much significant change in these areas.

5.2 Conclusion

The SMEs in the Kumasi metropolis predominantly rely on the informal financial sector. The SMEs rely on personal savings, friends and family, Savings and Loans Companies as start-up capitals and to also run their operations. Some of the major forms of credit facilities advanced to the SMEs are commercial loans, micro credit, and group loans. The average credit facility of GH¢77,500 given to the SMEs in the Kumasi metropolis attracted a very high interest rate of 6.3% per month. To have access to this credit, the SMEs were required to save with the financial institutions. Most of the SMEs received the entire amount of credit requested from the financial institutions. However, the SMEs that could not receive the total amount requested attributed their failure to falling short of the credit requirements.

The SMEs utilized the credit facilities accessed from the financial institutions efficiently. The acquired credit facilities were utilized predominantly for payment of labour wages and purchase of raw materials. Some of the SMEs used the accessed credit facilities for activities other than for the purposes they were requested for. Other forms of activities the acquired credit facilities were utilized for were the payment of school fees and taking care of the household due to the low household income of the SME owners. For the reason of credit diversion, some of SMEs found it extremely difficult to repay the acquired loans. This is therefore partly the reason for the high average default rate of 6.05% per annum. Other reasons for the default of loans are failure of business and high interest rate charges.

Each of the surveyed Savings and Loans Companies advanced loan facilities to more than 100 SMEs in the Kumasi metropolis in 2014 alone. The access to the credit facilities led to improvement in the assets, sales, profit, production, investment and the employee size of the SMEs. Irrespective of this improvement in performance, the SMEs could not expand their production to other locations through the opening of branches. The Savings and Loans Companies provided supplementary support to the SMEs in the Kumasi metropolis for no fees which contributed to their growth. Such supplementary non-financial products included both technical and financial education. Irrespective of these provisions, the SMEs are still confronted by challenges in accessing credit facilities from the formal financial sector. The challenges included bureaucracy and huge volume of paper work, lack of opportunity to take second loan, high risk and uncertainty, high level of interest rate on credit, low level of knowledge about credit sourcing, high cost of financing, non-availability of start-up capital, shorter repayment period, non realization of total amount applied for and others.

5.3 Recommendations

Based on these findings, the study makes several important managerial recommendations that could enhance SMEs access to credit facilities and also ensure that acquired credit facilities are efficiently utilized.

The highest ranked challenge or obstacle to SMEs access to credit facilities was the bureaucratic process and the huge volume of paper work required of the SMEs. Most SMEs are owned and managed by people with lower level of formal education and so are not conversant with bureaucracy and high volumes of paper work therefore the Savings and Loans Companies should use minimal paper work.

To reduce the rate of credit default, the Savings and Loans Companies should reduce interest rate they charge their beneficiaries. In addition the Savings and Loans Companies can also negotiate the interest rates with different groups of SMEs to reduce the rate of default.

A favourable repayment period should be negotiated between the Savings and Loans Companies and the SMEs. A favourable grace period should be allowed for delinquent credit payment to ensure greater level repayment of acquired loans. The Savings and Loans Companies should be willing to investigate reasons for delays in loan repayment and if possible grant more repayment period for reasons deemed unquestionable.

Many SME owners/managers lack the requisite credit sourcing knowledge and therefore rarely make any attempt to source credit for business activities. The Savings and Loans Companies should organize workshops and seminars for the SME managers/owners to educate them on the procedures to be followed in sourcing credit facilities of varying forms.

The government of Ghana should expand its financial and technical assistance to SMEs in the country. Considering the dominance of the SMEs in terms of employment generation, the government in its policy to reduce the unemployment level could stimulate the efforts of the SMEs by granting them soft loans and organizing free monthly workshops for SME owners or managers.

5.4 Limitations and suggested areas for further studies

The current study however is not without limitations. To begin with, the study is limited in scope since it was geographically concentrated in the Kumasi metropolis. The study principally concentrated on the Savings and Loans Companies and SMEs in the Kumasi metropolis. This therefore implies that the setting or study area differences could also partially influence the findings of the study. Therefore, the study recommends that further studies in this area could be expanded geographically to include other major cities in Ghana. The accuracy and reliability of the study is also impeded by its descriptive nature, and so further studies could employ inferential analytical tools to study the issue.

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APPENDIX A

QUESTIONNAIRE

OWNER/EMPLOYEES

Dear Respondent,

I am an MBA student of KNUST undertaking a study on the effect of savings and loans companies on the operations of Small and Medium Enterprises (SMEs) in Kumasi metropolis. This study forms part of the requirement for the program of Master of Business Administration (Finance) in the Business School of KNUST. Please, read each question carefully before responding, and then circle or tick the appropriate answer in the designated space. Please answer to the best of your ability. You are rest assured that the study is for only academic purposes; all and every information provided will therefore be treated with the utmost confidentiality. Thank you for your help.

Personal Data

1. Type of respondent:

Owner [ ]

Employee [ ]

2. Gender of the owner/CEO/Director of your firm:

Male [ ]

Female [ ]

3. Age of respondent:

Below 20 years [ ] 21-30 years [ ] 31-40 years [ ] 41-50 years [ ] 51+ years [ ]

4. Educational level: Never attended any school [ ] Basic [ ] Secondary [ ] Tertiary [ ]

5. Working experience with SMEs:

1-3 years [ ] 4-6 years [ ] 7-10 years [ ] 11+ years [ ]

6. Marital Status:

Married [ ] Single [ ] Divorced [ ] Widowed [ ]

General Characteristics of the Firm

7. To which industry does your business belong?

Manufacturing [ ]

Agro-Business [ ]

Traditional Cooking center [ ]

Credit Vendors [ ]

Retail Trade [ ]

8. Who are the owners of your firm? Please select the most appropriate category in terms of Majority holders if more than one category applies.

Family Business [ ]

Sole Proprietorship [ ]

Others (Please specify)……………………………………..

9. Is your company a registered enterprise?

Yes [ ] No [ ]

10. If yes (to Question 9), in which year was your firm registered?……………………………

11. Where do you market your produce?...

12. Number of employees of the enterprise

1-4 [ ]

5-9 [ ]

10-49 [ ]

50-100 [ ]

Access, Adequacy & Utilisation of Loans Given By Savings and Loans Companies to SMEs

13. What is the source of the start-up capital of your enterprise?

Savings & Loans Companies [ ]

Friends & Friends [ ]

Personal Savings [ ]

Others (Please Specify)………………………………………

14. How much interest did you pay for your credit per month? ………………………..

15. What is the source of operational credit?

Commercial Banks [ ]

Rural Bank [ ]

Microfinance [ ]

Savings & Loans Companies [ ]

Money Lenders [ ]

Friends & Family [ ]

Personal Savings [ ]

Customers [ ]

Others (Please Specify)………………………………………

16. How much did you receive from the financial institution?.......................................

17. What are the credit requirements?

……………………………………………………………………………………………

……………………………………………………………………………………………

18. Do you have savings with the institution?

Yes [ ] No [ ]

19. Are you able to receive the total credit request from the financial institution?

Yes [ ] No [ ]

20. If no (to Question 19), Give reason(s) for the failure to be given the total credit requested for?

Failure to meet the credit requirements [ ]

Failure to provide the required collateral security [ ]

Absence of account with the financial institution [ ]

All of the above [ ]

Others (Please specify)………………… ……………………………..

21. What forms of business activities was the acquired credit used for?

Payment of labour wages [ ]

Purchase of raw materials [ ]

Purchase of production machines [ ]

Purchase new technology [ ]

Others (Please specify) ……………………………………

22. Do you believe your enterprise utilized the acquired credit efficiently?
Yes [ ] No [ ]

23. If no (to Question 22), what is the reason for the company's inefficient utilisation of the acquired credit?

Lack of financial management [ ]

Lack of planning and control [ ]

Absence of budget [ ]

No objectives are set [ ]

All the above [ ]

Others (Please specify) ……………………………………

24. Do you use all credit for business activities?

Yes [ ] No [ ]

25. If No (to Question 24), what other forms of activities do you use credit acquired for?

Pay school fees [ ]

Take care of the household [ ]

Pay for loans owned to others [ ]

Others (Please specify)…………………………………………………………………….

26. Did you require savings with the financial institution before credit is given to you?

Yes [ ] No [ ]

27. How did you hear about the financial institution?

Friends & relatives [ ]

Radio & television [ ]

Others (Please specify) ……………………………………

28. How do you carry out the business activities with the acquired credit facility?

…………………………………………………………………………………………

…………………………………………………………………………………………

29. How was the unfulfilled business activities completed?

30. How is the credit obtained from the financial institutions paid by your enterprise?

Through business earnings [ ]

Personal savings [ ]

Group savings [ ]

Others (Please specify) ……………………………………

31. Have you ever defaulted in the payment of credit?

Yes [ ] No [ ]

32. If yes (to Question 31), how was the default situation resolved with the financial institution?

....

....................……………………………………………………………………………

………………………..……………………………………………………………………

…………………

33. Does the government also provide any form of credit facility to your enterprise?

Yes [ ] No [ ]

34. If yes (to Question 33), what form of credit facility is provided by government?

Credit package [ ]

Interest subvention to SMEs [ ]

Collateral free loans [ ]

Other (Please specify) ……………………………………………………………

Challenges SMEs Face In Accessing Credit Facilities

35. Did your enterprise encounter challenges in accessing credit facilities from the various financial institutions?

    Yes [ ] No [ ]

36. Use the Likert scale to assess the variables below

(1) Strongly Disagree, (2) Disagree, (3) Fairly Agree, (4) Agree and (5) Strongly Agree

Challenges in Sourcing Credit Facilities	**1**	**2**	**3**	**4**	**5**
Failure to use outside expertise					
Non-availability of start-up capital					
High cost of financing					
Failure in meeting terms of agreement					
High level of interest rate on credit					
Bureaucracy and huge volume of paper work					
Difficulty in repayment in event of business failure					
Longer distance to credit source					
Litigation (Courts/police cases)					
Low level of knowledge about credit sourcing					
Shorter repayment period					
lack of opportunity to take second loan					
High risk and uncertainty					
Amount given is too small					

Influence of Access to Credit

Use the 'Likert Scale' to assess the growth of your firm after receiving the credit

Very Poor Improvement **1**

Poor Improvement **2**

No Change **3**

Improvement **4**

High Improvement **5**

After receiving the credit, what has been the growth of your firm		**1**	**2**	**3**	**4**	**5**
Expansion of investment of the enterprise						
Asset of the business or company size increased						
Creation of branches						
Production of the business						
Sales of the business						
Increased employee size of the business						
Profit of the business						

APPENDIX B

INTERVIEW GUIDE

HEAD OF CREDIT DEPARTMENT

A) Personal data

1. Status: …………………………….

2. Age: ……………………..

3. Highest level of qualification:

SSCE/WASCE [ ] HND/Diploma [ ] First Degree [ ] Master Degree [ ] Professional [ ]

Others (please specify)………………………………….

4. Working experience in the banking sector:

1-3 years [ ] 4-6 years [ ] 7-10 years [ ] 11+ years [ ]

5. Marital status:

Single [ ] Married [ ] Divorced [ ] Widowed [ ] Separated [ ]

B) Questions Related to Objectives

6. What are some of the major forms of credit facilities given to SMEs by your Institution?

Commercial loan [ ]

Micro credit [ ]

Group loans [ ]

All the above [ ]

Others (please specify)…………………………………………

7. What interest rate is charged on various types of credit facilities given to the SMEs?…………………..

8. What is the minimum credit given to SME applicant? ……………………..

9. What is the maximum of credit a SME might be given? …………………….

Use the likert scale to answer the questions below:

(1) Highly considered (2) Considered (3) Neutral (4) Not considered (5) Ignored

10. What are some of the major factors considered in giving out the credit facilities to SMEs?

	1	2	3	4	5
Customer's character					
Quality as an entrepreneur					
Experience in credit utilization					
Credit history of customers					
Cash flow statement					
Borrower's repayment history					
Market for the product or service					
Holding operational account with the bank					
Customer's ability to provide guarantors					
Others (please specify)					

11. How many SMEs did your company advance credit facilities to in the last year?

> 20 [ ]

20-50[ ]

50-100 [ ]

> 100 [ ]

12. Are the SMEs able to repay the credit facilities advanced to them on time stipulated?

Yes [ ] No [ ]

13. What is the general default rate per year? …………………….

Use the likert scale to answer the questions below

(1) Highly applicable (2) Applicable (3) Neutral (4) Less applicable (5) Non applicable

14. What were some of the reasons given by the SMEs for the default?

	1	2	3	4	5
Interest rates are too high					
Failure of business					
Poor record keeping					
No accounts kept					
Others (please specify) …………….					

15. Apart from the credit facilities, how does your Institution contribute to the growth of SMEs?

Provide technical advice for SMEs [ ]

Provide financial educational programmes for SMEs [ ]

Both technical and financial education [ ]

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

16. Do clients pay for the services? Yes [ ] No [ ]

17. How often do you pay visit to SME borrower? ………..

18. Do you have any experience for diversion of loans? Yes [ ] No [ ]

19. If yes why do customers divert the credit?

…………………………………………………………………………………

…………………………………………………………………………………

…………………………………………………………………………………

………………………

20. Any other comments or challenges

…………………………………………………………………………………

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