SME FINANCING IN GHANA: SOURCES AND CHALLENGES

A case study of selected SMEs within the Accra Metropolis

By

Mawusi Yaa Letsa (B.Sc. Mathematics)

A Thesis submitted to the Department of Banking and Finance,
Kwame Nkrumah University of Science and Technology
in partial fulfilment of the requirements for the degree
of

MASTERS OF BUSINESS ADMINISTRATION

School of Business, College of Arts and Social Sciences

August, 2009

Declaration

I hereby declare that this submission is my own work towards the MBA Banking and Finance option and that, to the best of my knowledge, it contains no materials 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.

MAWUSI YAA LETSA		AUGUST, 2009
Student Name & ID	Signature	Date

Certified by

MR. G.S. AHINFUL		20/10/09
Supervisor's Name	Signature	Date

Certified by

J. M. Frimpong		20-10-09
Head of Dept. Name	Signature	Date

Acknowledgement

I acknowledge the immortal providence of the Almighty God who blessed me throughout this course with His wisdom, knowledge, understanding and protection.

The kind suggestions and guidance given me by my supervisor Mr. Gabriel Sam Ahinful, Lecturer School of Business, Kwame Nkrumah University of Science and Technology without whom this work would not have attained the quality it currently enjoys, is also acknowledged.

I also acknowledge the immeasurable sacrifices made for my sake by my siblings; Mr. Yaw Demaseo Letsa, Mr. Kweku Seloame Letsa, Awo Norvisi Letsa and Kojo Dziwonu Letsa. I take this opportunity to also acknowledge the support and encouragement of my parents, Mr. Kwame Bensa Letsa and Madam Rosina Oforiwaa Osei.

Finally, my gratitude goes to all whose names could not be acknowledged individually but invariably contributed to the success of this work especially Mr. Franklyn Donkoh and Mr. Ernest Nana Afenyi Fletcher as well as all the Small and Medium scale Enterprise (SME) managers and financial institutions whose participation contributed to the success of this project work, God bless you all.

Abstract

With the recognition that the private sector is the engine of growth of an economy especially in Ghana, the past few years have witnessed the establishment of many SMEs whose operations contribute to the growth of the economy. Unfortunately, the operations of such SMEs are seriously hindered by their in ability to gain the necessary financial assistance in order to improve their operations.

This study examined the sources of finance for SMEs as well as the constraints that prevent SME from borrowing or gaining access to finance. The specific objectives of the study were to identify the major sources of finance for SMEs in Ghana, to identify reasons why most SMEs are refused financial assistance and also, to identify other possible sources of finance that are untapped by SMEs. Sample of 200 SMEs within the Accra metropolis and 50 banks and non-bank financial institutions were used for the purposes of the study.

The results showed that equity and debt financing still remain the most prominent sources of finance for most SMEs. Lack of collateral is the major reason why many SMEs are refused financial assistance. It was also found that most SMEs have not utilised other sources of finance because they are not aware of their existence.

On the other hand, for many years Ghana's formal banking system faced both high risk and high transaction costs in lending to small enterprises. Such impediments largely precluded their access to formal finance. In other to curb this gap, it is recommended to the Government to involve itself in institutional foundations which involve improving information and the legal protections of investors. Verification systems that record small firms' transactions are needed so that they can build a track

record. This information can then be linked to promising innovations in the organization of microfinance. The innovative use of information technologies applied to the linkage between firms and finance also needs to be harnessed in order to build the foundations of information.

Table of Contents

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of Study

Small and medium-sized enterprises (SMEs) are the backbone of all economies and are a key source of economic growth, dynamism and flexibility in emerging and developing economies. In Ghana, the total economic output of small and medium enterprises (SMEs) is some 50 percent of gross domestic product (GDP), and this sector employs in excess of 60 percent of the total labour force (ISSER, 1999). Thus, SMEs form a large proportion of the firm tissue in Ghana. Moreover, Ghana's private sector consists of mostly informal micro-enterprises, operating alongside large firms. Compared with large and well established firms in developed nations, SMEs in Ghana cannot compete favourably with those outside because of small local markets, undeveloped regional integration and very difficult business conditions, which include cumbersome official procedures, poor infrastructure, dubious legal systems, inadequate financial systems and unattractive tax regimes. Many firms stay small and informal and use simple technology that does not require great use of national infrastructure. Their smallness also protects them from legal proceedings (since they have few assets to seize on bankruptcy) so they can be more flexible in uncertain business conditions.

One of the most important problems confronting small and medium sized enterprises (SMEs) concerns the issue of financing. More succinctly, directors and owner managers in SMEs businesses often complain of the lack of finance for what are profitable investment opportunities. Financing the operations of SMEs through external credit facilities – loans from formal banking sector is one of the main obstacles limiting the development of many Small and Medium Enterprises in many developing countries, including Ghana. SMEs in Ghana raise funds through friends and relatives (Osei et al 1993), leading to inadequate working capital and investment funds, which threaten survival and impede growth. The deficiency of adequate funding represents a major barrier to the entrepreneurial process and business operations in small firms. Some small businesses can satisfy their small firms' financial needs by requesting loans from their families, friends or acquaintances.

Nonetheless, some SMEs rely on long-term funding made available by banks, financial institutions or venture capital. Importantly, when the cost of survival or growth strategies in these firms exceed the availability of financial resources owned and controlled by owners, they tend to depend on the availability of external sources of finance. Arguably, well functioning capital markets could facilitate access to finance, promote entrepreneurship and enable growth oriented small businesses to operate profitably.

Traditionally, SMEs' main sources of capital are their retained earnings and informal savings and loan associations (tontines), which are unpredictable, or and loans from lending agencies. Access to formal finance is limited because of the high risk of default among SMEs and due to inadequate financial facilities. Small business in Ghana can rarely meet the conditions set by financial institutions, which see SMEs as a risk because of poor guarantees and lack of information about their ability to repay loans. Capital market does not provide long-term financing for SMEs. Non-bank financial intermediaries, such as micro-credit institutions, could be a big help in lending money to the smallest SMEs.

In general, the Financial Sector and the Structural Adjustment Programme (FINSAP) was implemented to address the structural and institutional weaknesses of the financial sector in Ghana. More specifically, it sought to ensure that businesses have access to institutional credits. It was based on the view that a strong and competitive financial sector could make significant contributions towards increasing access to finance by businesses (Antwi-Asare, & Addison, 2000). It is therefore conceivable to suggest that the financial sector liberalization was to provide access to funding for SME's. Studies done in Ghana consider the access problem as a creation of the financial institutions through their lending policies. For instance, Smith (1986) has indicated that the type of financial institution and its credit policy will determine the access problem.

Not only the access to finance appears to be the problem to SMEs but also the cost of finance is also an issue (Quartey, 2003).

Whereas large, successful corporations are able to access finance at relatively low rates micro businesses, however, are charged very high rates of interest on loans that are relatively short-term. SMEs require longer-term funding; and because of the inherent risks associated with their businesses as perceived by financial institutions, their cost of finance is generally quite high. The challenge then is how to assist the "missing middle" in accessing finance. It is important to appreciate the banker's point of view.

Whilst a bank's job is to assist in financial intermediation, it is not obliged to lend to anyone that it does not wish to do business with (Abor, 2004).

Ideally, small business owners should have well-established systems for gathering information and forecasting and would find no difficulty in keeping their bankers informed on their current financial position and prospects.

However, the vast majority of small enterprises are unable or unwilling to provide such information and, therefore, financial institutions are obliged to deal with them as it finds them (Abor, 2004). It is probably fair to say that the transnational banks concentrate on the high end of the corporate market (Abor, 2004). This may change as opportunities in this segment diminish and banks are forced to look elsewhere for opportunities. Rural Banks actively target the smaller business customer. Thus, potential borrowers often open accounts and establish relationships with those banks which are likely to be sympathetic to SMEs (Abor, 2004).

1.2 Statement of the Problem

Financing is necessary to help SMEs set up and expand their operations, develop new products, and invest in new staff or production facilities. Many small businesses start out as an idea from one or two people, who invest their own money and probably turn to family and friends for financial help in return for a share in the business. But if they are successful, there comes a time for all developing SMEs when they need new investment to expand or innovate further.

That is where they often run into problems, because they find it much harder than larger businesses to obtain financing from banks, capital markets or other suppliers of credit. Microsoft may be a software giant today, but it started off in typical SME fashion, as a dream developed by a young student with the help of family and friends. Only when Bill Gates and his colleagues had a saleable product were they able to take it to the marketplace and look for investment from more traditional sources. While not every small business turns into a multinational, they all face the same issue in their early days – finding the money to enable them to start and build up the business and test their product or service. Why is it harder for them to borrow money from banks or to find private investors than for larger firms? And why is it easier for large businesses to raise money than small businesses? These are important questions given the fact that small businesses, and particularly innovative SMEs, become increasingly vital to economic development and job creation as the knowledge-based economy develops. This study looks at the sources of finance, the extent of the SME "financing gap", and what can be done to make it easier for them to obtain the funding they need to start, grow and prosper, and thus contribute to creating jobs and economic growth.

1.3 Objectives of the Study

This study examines the sources of finance and ways to improve SMEs' funding. The study addressed the following specific objectives:

1. To identify the sources of finance for small and medium scale enterprises in Ghana.
2. To identify the challenges or constraints facing the SMEs in Ghana in terms of financing.
3. To identify and recommend other sources of finance that are available to SME's which are not being tapped.

1.4 Significance of the Study

The study is justified for a number of reasons. Most importantly, since Ghana's independence, the successive Ghanaian governments have been spending an immense amount of money obtained from external funding institutions for entrepreneurial and small business development programmes, which have generally yielded poor results (Aryeetey *et al.*, 1993).

Given the large domestic market and plethora of raw materials in Ghana, there is little progress in terms of manufacturing value-added products, either for import substitution, exports, or employment creation. It therefore becomes pertinent to identify the financing factors that impede small business development in Ghana and ways to enhance their funding. To the best of my knowledge, few studies have empirically examined sources of finance and ways of improving funding for SMEs within the Ghanaian context. The present study explores the sources of finance for SMEs' and ways to improve the financing problem of SMEs. This study is relevant because it seeks to identify the emerging funding sources for SMEs development in Ghana. This study has been motivated by the premise that in order to formulate a coherent strategy *vis a vis* the SME sector, it is necessary to;

(a) Comprehend how financing constraints affect SME formation and performance, and

(b) Be able to identify financing options to SMEs.

Finally, it is hoped that the findings of this research could offer an opportunity to discuss theoretical and empirical insights and to identify vital areas for new inquiry.

1.5 Methodology & Sources of Data

In order to achieve the relevant objectives of the study, information required for the study was gathered through secondary and primary sources. Data from primary source was solicited through the administration of structured questionnaire to SMEs who are the major stakeholders and a set of open ended questions to some selected financial institutions. Secondary data was solicited through work done in the area of study, the internet and other relevant sources. Responses were analyzed using descriptive statistics and quantitative procedures. Quota sampling was used to draw SMEs' from a two hundred meter radius in the Accra Metropolis. Given that there are many SMEs and financial institutions in the country at the moment, only financial institutions with branches in the selected region were interviewed to solicit their views on factors that influence their decision in lending to SMEs.

1.5.1 Research design

The research design selected for the study was a non-experimental descriptive survey research design. Surveys are methods of data collection in which information is gathered through questioning of respondents (Bailey and Burch, 2002; Sarantakos 1993). It entails the questioning of a cross-section of the study population for their responses to the variables of interest. The advantages of the cross-sectional study as in surveys are that, data can be generated from a large number of respondents.

1.5.2 Sampling

The study made use of a multi-stage probability sampling technique in the selection of the sample. In order to achieve the relevant objectives of the study, information required for the study was gathered through secondary and primary sources. Data from primary source was solicited through the administration of structured questionnaires to the SMEs who are the major stakeholders and open ended questions to some selected financial institutions. Secondary data was solicited through work done in the area of study, the internet and other relevant sources.

Responses will be analyzed using descriptive statistics and quantitative procedures. Quota sampling was used to draw SMEs from two hundred meter radius in the Accra Metropolis. Given that there are many SMEs and financial institutions in the country at the moment, financial institutions in the selected region were interviewed to solicit their views on factors that influence their decision in lending to SMEs.

1.5.3 Research instrument

The study made use of a well structured questionnaire and interview administered to SMEs owners and financial institutions operating in Ghana.

1.5.4 Data analysis

The data that was collected from the field was first edited and subsequently analysed. The editing included the assignment of values to responses and also, the categorisation of responses into like forms. The editing helped in correcting certain responses.

The study applied the multivariate technique for the analysis of the data. The multivariate analysis was thus used to examine the responses by the use of frequency distribution. The use of the multivariate analysis involved tables and diagrams in order to graphically display the characteristics of the variables being analysed.

The data for the entire study was imputed into the Statistical Package for Social Sciences (SPSS) 16.0 programs for Windows and the results was interpreted. Descriptive statistics was employed to generate the variables of interest.

1.6 Organization of the Study

The study is organized as follows. Chapter One analyses the constraints to the growth of SMEs in Ghana with particular attention to financing problems. The section also discusses the research problem and goals of the study. Chapter Two reviews previous research on constraints for SMEs. Chapter three presents the methodology adopted in the study. Chapter four presents the findings from the study and Chapter five summarises, discusses the implications of the findings, draws conclusions and provides recommendations to solve the research problems.

Chapter One: Introduction

This section covered the background to the study, the research problem, and objectives. It also covered research questions, hypothesis, rationale and scope and limitations of the study as well as the outline of the study.

Chapter Two: Literature Review

A the review of literature and historical overview of SMEs financing in Ghana, it also examine the factors that influence the decision of financial institutions in providing capital to SMEs in Ghana and the prospects of SMEs financing in a developing country like Ghana.

Chapter Three: Research Methodology

This Chapter describes and gives details of the research methods and estimation techniques used for the study. Identification of the population, sampling techniques used with reasons, data collection and measurement methods as well as the analysis of data based on which to draw conclusion are stated. Certain inherent limitations related to the methods are also mentioned.

Chapter Four: Analysis, Presentation and Discussion of results

This chapter concerned itself with the analysis of data gathered by establishing the extent to which what the theories proposes differs from what pertains in practice. Statistical and descriptive analyses were employed.

Chapter Five: Summary, Conclusion and Recommendations

The whole study was summed up with major findings clearly spelt out. Based on these, relevant and informed conclusions, as well as well–thought out and coherent recommendations that are useful and practicable had been made.

1.7 Definition of Terms

- Automatic Investment Plan (AIP)
- Canadian International Development Agency (CIDA)
- Danish International Development Agency (DANIDA)
- Financierings – Maatschappij Voor Ontwikkelingslanden (FMO) (Netherlands development finance company)
- Gesellschaft Fur Technische Zusammenarbeit (GTZ) (German Technical Corporation)
- Institute of Statistics, Social and Economic Research (ISSER)
- Ministry Of Trade and Industry (MOTI)
- State Secretariat for Economic Affairs (SECO) – Switzerland
- United State Agency for International Development (USAID)

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter provides a review of various SME financing in Ghana. The literature on SMEs access to credit is very sparse. Even where it exists, a proper analysis of the financing sources, and facilities available as well as the constraints inhibiting their access has not been properly documented. Therefore, a conceptual framework will be provided to examine the factors that affect SME's access to credit. In surveying the literature, and in reference to the study objectives, four broad categories were used to put the theme on a good balance. These include; Definition of SMEs, Sources of funding for SME's, Factors influencing SMEs access to finance and Financing constraints to SMEs access to credit.

2.2 Definition of SMEs

There is no single, uniformly acceptable, definition of a small firm. Firms differ in their levels of capitalisation, sales and employment. Hence, definitions which employ measures of size (number of employees, turnover, profitability, net worth, etc.) when applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to a different result.

The first attempt to overcome this definition problem was by the Bolton Committee (1971) when they formulated an "economic" and a "statistical" definition.

Under the economic definition, a firm is regarded as small if it meets the following three criteria: has a relatively small share of their market place, is managed by owners or part owners in a personalized way and not through the medium of a

An alternate criteria used in defining small and medium enterprises is the value of fixed assets in the organization. However, the National Board of Small Scale Industries (NBSSI) in Ghana applies both the fixed asset and number of employees' criteria. It defines a Small Scale Enterprise as one with not more than 9 workers, has plant and machinery (excluding land, buildings and vehicles) not exceeding 1000 Ghana cedis (US$ 9506, using 1994 exchange rate) (Anheier *et al*, 1987).

The Ghana Enterprise Development Commission (GEDC) on the other hand uses a 1000 Ghana cedis upper limit definition for plant and machinery. A point of caution is that the process of valuing fixed assets in itself poses a problem. Secondly, the continuous depreciation in the exchange rate often makes such definitions out-dated.

Steel and Webster (1990), Osei *et al* (1993) in defining Small Scale Enterprises in Ghana used an employment cut off point of 30 employees to indicate Small Scale Enterprises. The latter however disaggregated small scale enterprises into 3 categories: micro -employing less than 6 people, very small, those employing 6-9 people and small between 10 and 29 employees.

From the various definitions above, it can be said that there is no unique definition for a small and medium scale enterprise thus, an operational definition is required.

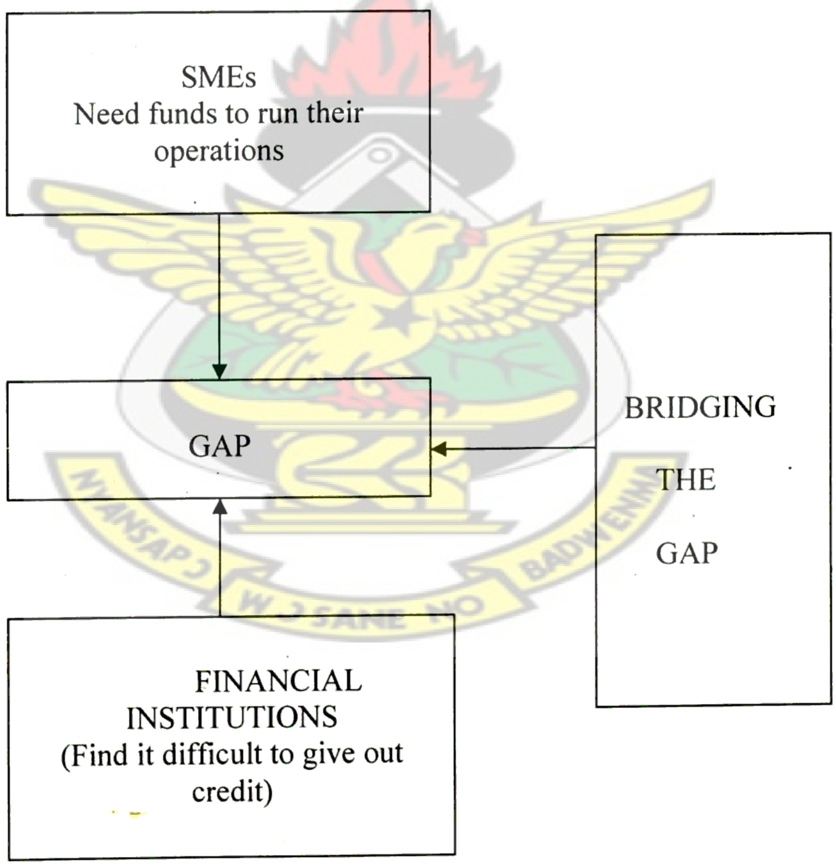
2.3 Conceptual Framework

The figure 2.1 below displays a model of the kind of relationship that exists between SMEs and financial institutions. Both parties are plagued with some constraints that make it difficult for them to effectively collaborate with each other. Financial institutions find it difficult in many occasions to assist SMEs financially where as

SMEs also find it difficult accessing funds from the financial institution. As a result of the above situation, a gap has been created that needs to be bridged for both parties to effectively play their respective roles in the economy.

On one hand it may seem that the funds are available at the financial institutions and that it is the SMEs who do not access them. On the other hand, it may seem the SMEs lack the necessary documentation or "what it takes" or are not credit worthy to access credit from the financial institutions. It is therefore against this background that this research aimed at identifying the sources of finance for SMEs and the constraints that hinder their access to credit.

Figure 2.1; Hypothetical Illustration of Conceptual Framework



2.4 Sources of Finance for SMEs

Atrill and McLaney (2006) identified two main sources of funds for businesses. These are the internal and external sources of funds. Internal sources of funds have been the paramount or the major source of funds for small and medium enterprises in Ghana. This source of funds may be from friends, relatives, and personal contribution or even retained profit.

These funds from relatives or friends were second only to personal savings as the relevant and the major source or start-up capital for small-scaled businesses.

This conclusion is supported by Aryeetey *et al* (1994), who in their findings realised the importance of equity finance in the start-up of small business in Ghana.

According to Aryeetey *et al*, (1994), numerous small entrepreneurs start businesses with very small amounts of capital from personal saving (i.e. savings from their own relatives or friends) and gradually build up their enterprises by reinvesting the profit. On their part, Morewagae *et al* have also identified the fact that start-up capital for SMEs often come from equity source. A typical example according to them is the situation whereby some individuals do deposit their moneys with saving collectors and these moneys are returned to their owners after a specific time period.

The external source of funds to SMEs may be in the form of funds from moneylenders, trade credit and bank overdraft. Aryeetey *et al* (1994) also pointed out that informal credit constitutes an important source of finance for SMEs in different countries in Sub-Sahara African.

The low profitability of many SMEs in developing economies like Ghana and the overall low levels of domestic savings has limited SMEs prospects for investment financing from their own resources.

There has however not been adequate source of external funds to support the operations of SMEs and this has hampered SMEs ability to exploit highly lucrative opportunities. Presently, the procedures for accessing external funds look more cumbersome.

According to Kauffmann (2005), African's SMEs usually depend on retained earnings, informal savings, among other things as their main source of funds and have little access to external funds, thereby hindering their emergence and eventual growth.

Kauffmann further points out that SMEs do not have adequate access to external funds as a results of the fact that these SMEs cannot meet the conditions set by financial institutions as these institutions see SMEs as a risk due to poor guarantees and unavailability of information about their capacity in the repayment of loans.

Only few SMEs applications for loans in Ghana have the chance of being considered, as lack of viable projects as well as collateral prevents majority of the SMEs from obtaining loans from financial institutions. Financial institutions find it tough in obtaining the information necessary to assess more especially, the risks of new, untested ventures, as the success of such firms do usually depend on the abilities of the entrepreneur.

On her part, Wattanapruttipaisan (2003), points out that only 10 percent of start-up firms in Ghana can obtain bank loans.

In current research seems to validate the view that SME owners or managers' financing decisions are consistent with the "pecking order" theory (Holmes and Kent, 1991; Scherr *et al.*, 1990; Myers, 1984). Furthermore, Cosh and Hughes (1994) suggest that under these circumstances an owner or manager will choose first – a personal source of finance; second – short-term borrowing; third – longer-term debt; and – finally, the least preferred, equity finance which might affect his or her control upon the business.

The pecking order theory also suggests that owner or managers tend not to sufficiently organise their finances in order to obtain an optimal capital structure (i.e. debt versus equity ratio) but prefer financing options that both ensure and maintain their control upon a business. Thus, it appears that for SMEs, bank financing remains the primary choice of finance.

There is a growing body of literature that questions the capital market failure for SMEs (Fraser, 2004). According to Wilson (2004), 71 percent of respondents in his research sample did not perceive that accessing finance was a barrier to SME survival or growth. These findings are consistent with current research (Hussain and Martin, 2005) which show that less than 1 per cent of respondents reported that access to finance was or could become a strategic issue. Cosh and Hughes (2003) also noted that finance is not a major barrier to SME development. Such studies, however, need to be treated with caution, as their samples only consider those SMEs that managed to secure finance and therefore, by definition, the finance gap might not have presented a barrier for these owners or managers. It would be interesting to replicate such research with a sample of SMEs that failed as a result of financial constraints or mismanagement.

2.5 Background of SME Financing In Ghana

The lack of finance has been identified as the single most critical factor preventing the development and growth of the SME sector in Ghana Mensah (2004). There are a number of factors accounting for this lack of finance in Ghana. A relatively undeveloped financial sector with little levels of intermediation can be considered as the first factor.

Secondly the absence of legal and other institutional structures that ease the management of the SMEs. Thirdly investors have identified that lending to SME's is associated with huge risk.

Last but not the least the presence of high interest rates and rigid borrowing procedures that most SME's go through in order to get access to the finance they need.

In Ghana, for instance, several measures have been launched by governments, other stakeholders and development partners to increase the flow of financing to SMEs above what is available from the present private sector financial institutions in Ghana, because of the increasing and persisting financing gap.

After a decade of economic decline, Ghana implemented economic reform and structural adjustment policies in the 1980s, with Financial Sector Liberation (FSL) as an integral component. FSL removed government controls on interest and foreign exchange rates and on credit allocation. Proponents claim that FSL increases credit allocation efficiency and, when properly implemented, reduce poverty. This should lead to reallocation of domestic credit toward SMEs and replace expensive forms of credit with cheaper ones (Cook and Nixson 2000). Critics point to its constraints and negative consequences, which include the urban bias of financial institution (ISSER

1999; Chandavarkar, 1992), high transaction costs, and market failure due to informational imperfections (Stiglitz, 2002). These intern lead to an over reliance by financial institution on collateral for lending.

Credit is provided in the context of information asymmetry on both sides and can be resolved by demonstrating creditworthiness and project viability. However, because of poor accounting practices and record keeping, many SMEs are unable to do so (Cook and Nixson 2000).

This increases the risks and transaction costs (for monitoring and screening) of SME lending. Financial institutions also require collateral to manage this risk. High transaction costs, risks related to small loans, and lack of collateral restrict SME access to formal credit (Steel, 1994).

Their owners on the other hand raise funds from friends and relatives (Osei et al. 1993), leading to inadequate working capital and investment funds, which threaten survival and impede growth.

These issues intensify other managerial problems of SMEs. Even with sound management and strong product demand, the lack of credit constrains their capacity to respond to the market and expand production (Cook and Nixson 2000).

Ghana's industrial strategy after independence in 1957 tended to favour large-scale import substitution industries relative to Small & Medium Enterprises, although the latter provided a greater share of employment (Gockel 1996).

During the 1960's, Dr. Kwame Nkrumah the then president of the Republic of Ghana, is quoted to have said that "Henceforth far greater emphasis will be on the development of Ghana's State Cooperatives rather than encourage the individual Ghanaian to start private business enterprise, the state would not be handed over to private interests. Private enterprise must stand on its own" (The Economist, 1996) The government at the time was against the creation a of private business class. The government's role prior to independence was geared mainly towards the provision of basic utilities as water, electricity, road and rail networks, communication, and other infrastructures that could facilitate the growth of economic activities of the colonial administration. The financing of Small and Medium businesses was not a priority of the government; hence no specific efforts were made to assist the sector.

Between 1966 and 1972, there was a marked reduction in government participation in the economic matters of the country. In 1968, the National Liberation Council (NLC) came out with a policy document entitled "the promotion of Ghanaian Business Enterprise". This marked the first major concern for the SME sector in Ghana. The government of Dr Abrefa Busia set the ball rolling as it re-opened the economy, turned to Small and Medium Enterprises and decentralized system within a framework policy of "Ghanaianization" where major socio-economic businesses were supposed to become the "preserve for Ghanaians only".

Ghana introduced an Economic Recovery Program (ERP) in 1983 to rectify some of the causes of its long economic decline (Steel and Webster, 1992). The ERP's key elements had different implications for diverse types of industries. Supported by adjustment lending, import liberalization increased access to previously restricted inputs (especially for small firms), and also broadened competition from imported products.

Also massive change in the highly overvalued exchange rate created new export opportunities and import substitution, but adversely affected import dependent industries by sharply raising the prices of imported inputs and the cost of financing them.

The fundamental issue is how to create a policy and business environment that enables SMEs to contribute productively to industrial development, not whether SMEs have a role to play (Hinson and Abor, 2005).

Donors and governments during the 1970's and 1980's financed a vast majority of SME programmes; the approach involved the supply of integrated package of credit and training with the goal of enterprise development.

SMEs were regarded as low-income and "too poor" to save. Potential money lenders faced by borrowers whom they do not personally know, who do not keep written accounts or have business plans and who want to borrow small amounts feel exposed to very high risks every time they lend.

Banks assert that SMEs cannot cautiously manage permanent capital and that poor people are not resourceful enough to survive and therefore cannot be entrusted with credit (Sowah 1996). Furthermore, a number of studies have concluded that SME's are too risky and too costly for anyone to serve profitably.

In fact, the earliest SME credit programs tried to adopt techniques from commercial banking and made little headway until organizations such as Grameen Bank of Bangladesh which was set up in 1976 introduced techniques adapted from informal financial systems which has been a great success for SME credit programmes (Hulme and Mosley, 1996).

Existing SME financing interventions according to Quartey (2003) can be grouped into two; *Certified Schemes and Financing provided through financial institutions*

2.5.1 Certified Schemes

Certified SME Credit Schemes

These schemes are introduced by the government alone or with the support of donor agencies in order to enhance the availability of finance to SMEs. Government of Ghana made an attempt to put into action a number of such direct lending schemes for SMEs either out of government funds or with funds contracted from donor agencies. According to Quartey, these funds were more often than not managed by the Aid and Debt Management Unit of the Ministry of Finance and Economic Planning (Quartey, 2003). Most of the on-lent facilities were obtained under precise programmes with bilateral organizations in support of the Government of Ghana's Economic Recovery Programme and Structural Adjustment Programme (GTZ, 2001).

In most instances, the funds were planned to support importers (APDF, 2003). A typical example is the Austrian Import Support Programme (AIP) where the beneficiaries were to use the facility to secure equipment, machinery, raw materials and other related services from Austria (ISSER, 2004). The Export Finance Company, a quasi-public institution was made the exclusive administrator of the facility. In the same way, the Japanese and Canadian facilities were designed to support imports from the respective countries (ISSER, 2004).

Although these facilities were not exclusively targeted to SMEs, there were however no limitations in relation to minimum company size and loads of companies that would fit the SME definition. Mensah (2004) argues that the results of the direct lending schemes that are operated by government have been mixed. For instance, under the AIP, 20 firms of different sizes benefited from the scheme. These beneficiaries were given six years made up of a one-year grace period and a five-year refund period.

Since the loans were disbursed in 1990, these borrowers should have completely paid back their loans by the end of 1996. Nonetheless, as of December 2001, only 1 out of these 20 beneficiaries had wholly settled this loan. The Japanese and CIDA schemes had much more cheering outcome from a recovery perspective. This was basically due to the fact that the repayments were guaranteed by various financial institutions, although the Government has had to hire 18 debt collectors to recover outstanding indebtedness under the two schemes (Mensah, 2004).

In addition to these donor-supported schemes for direct lending, government has attempted at different instances to operate lending schemes for SMEs. These schemes have included; *Business Assistance Fund, Ghana Investment Fund and Export Development and Investment Fund (EDIF).*

Guarantee Financing Facilities

Section 13 of the Loans Act of 1970 (Act 335) gives the Government of Ghana (GoG) the authority to make available government guarantee to any external financiers who wish to make funds available to any Ghanaian organization and the terms of such facility require the provision of guarantee from the Government. Guarantee facilities are contingent liabilities of the Government. The burden for repaying the facility lies with the borrower and not the Government. The facility crystallizes and becomes liability due from Government of Ghana (GoG) if the borrower is incapable to honour his/her loan obligation and the Government is called upon to settle the facility as a guarantor (Steel and Webster, 1992). In that case the borrower is required to subsequently pay back the Government for the amount involved.

Although GoG in exercise of the crucial provisions in the Loans Act, has provided guarantees to a number of bilateral and multilateral institutions in the past on behalf of selected Ghanaian organizations in both the private and public sectors of the economy, however, no specific SME guarantee facilities has been introduced (Steel, 1994).

At the moment, the only government-assisted loan guarantee scheme in use is handled by Exim guaranty Company which is majority-owned by the Bank of Ghana. However, the company's activities are limited by the amount of its guarantee fund. Even though ¢10 billion was made available in the 2004 budget to bump up the guarantee fund, it is still small, relative to the needs of the SME sector (MoTI, 2005).

2.5.2 Financing provided through financial institutions

Direct Interventions from Development Partners

A number of donor activities focus on a range of credit schemes through both commercial banks and micro-finance institutions as well as providing intense training and business support services to micro, small and medium-scale enterprises (Aryeetey, 1993).

Possibly, as a result of the intolerable experience of direct lending by government in the recent past, more current donor interventions in SME finance have used exiting financial institutions to channel funds to SME's.

A substantial number of lending programmes are undertaken as partnerships between government and donors. These include the following:

1. Trade and Investment Programme (TIP), controlled by USAID and the Ministry of Finance
2. Private Enterprise and Export Development Fund (PEED) operated by Bank of Ghana but administered through banks.

Increasingly, some donors have implemented lending programmes directly with financial institutions. Such schemes include the following: Small Business Loan Portfolio Guarantee (USAID), Care-Techno serve Fund for Small Scale Enterprises, DANIDA SME Fund, GTZ Fund for the Promotion of Micro and Small Enterprises, SECO SME Financing Scheme and FMO SME Financing Scheme.

Furthermore, Oikocredit, an international Non - Governmental Organization (NGO) operates SME lending programmes through a local office and lends directly to the target group (Steel and Webster, 1991).

2.4.1 SME Financing from Financial Institutions

The financial institutions comprised a local subsidiary of a multinational bank and a local Non-Bank Financial Institution (NBFI). The formal financial sector in Ghana are made up commercial banks (including Merchant Banks and Development Banks), 17 of which operate a network of 303 branches in the country; 115 rural and community banks, savings and loan companies and non-bank financial institutions (Bank of Ghana (BoG), report, 2005). Recently, as banks and other financial institutions have sought to broaden their loan portfolio, SMEs have become an increasingly attractive customer group. Traditionally, however, financial institutions in Ghana have been cautious with lending to SME groups because of high default rates and risks associated with the sector. Bank credit officials confirmed that large firms dominated their loan portfolio for four reasons. First, relative to SMEs, their average screening and monitoring costs were smaller. Second, they could provide information about current operations and future plans to the bank. Third, they had better collateral.

Fourth, the difficulty of recovering nonperforming loans through the legal system made legal action worthwhile only in cases involving large loans. These factors reduced the banks' perception of the risk of large firms.

Few banks have therefore developed a clear policy for SME target groups taking their particular requirements and needs into consideration, e.g. developing earmarked financial products and appropriate credit management systems. Only few banks have SME specific loan products, and many of these are donor funded. Few banking institutions have SME desks or departments. For the others, lending to micro and small businesses is simply transacted by credit officers from corporate finance departments of the financial institution who generally apply the same appraisal and lending principles to SMEs.

2.7 How effective the Existing Financial Schemes have been

It is generally accepted that the broad goal of SME policy is to accelerate economic growth and in so doing alleviate poverty. It is clear that there are many developmental constraints on the SME sector, but bridging the financing gap between SMEs and larger enterprises is considered critical to economic growth. To assess the effectiveness of schemes for promoting SME finance, the study assumes that an effective SME financing scheme meets the following criteria:

i. Provides opportunities for SMEs to meet their financing needs
ii. The scheme is sustainable in the sense that it must maintain the profitability of the enterprise, or on the eventual sale of investments or collection of loans that would provide cash for later investments.

Mensah (2003) identified that Schemes that focus on economic development only may find it difficult to resist investments that provide immediate jobs or revenues but are not sustainable in the longer run.

Opportunities for SMEs

Unfortunately, data is difficult to obtain on the extent to which the financial systems provide for the needs of SMEs. One piece of available data, although indirect, is to look at the existent to which credit to the private sector as a whole is growing. Table 2.1 below according to Bank of Ghana's (BoG) Report (2005) summarizes the growth of credit to the private sector for the period 1999 -2004:

Table 2.1 Percentage Increase in Domestic Credit

Percentage Increase in Credit	1999	2000	2001	2002	2003	2004
Credit to government	23.2	49.9	38.2	57.7	0.0	30.0
Credit to public enterprises	n/a	n/a	9.0	19.2	9.7	-9.0
Credit to the private sector	n/a	n/a	24.9	34.9	12.0	17.7
Annual Inflation Rate	27.9	14.6	12.4	25.2	32.9	14.8

Source: *BoG Statistical Bulletin*, 2005

It is evident that there has not been a consistent increase in the flow of credit to the private sector (BoG report, 2005). Although credit to the private sector grew significantly between 2001- 2003, the growth since then has been dull and has barely managed to keep up with inflation (BoG report, 2005). While the data is not primarily for SMEs, it is obvious that flow of credit to the SME sector was much less than what the national averages say, because of their traditionally disadvantaged position.

Sustainability

According to BoG 2005 report, an indicator of sustainability of lending through the traditional financial institutional is the trend of asset quality. The data for Provision for Loan losses of the banking system as a percentage of gross loans for the period 1999-2004 is provided in Table 2.2 below:

Table 2.2 Provisions as a Percentage of Gross Loans

	1999	2000	2001	2002	2003	2004
Provisions of loan losses as a % of Gross loans	25.5%	22.6%	18.4%	12.1%	16.9%	24.2%

Source: *BoG Statistical Bulletin*, 2005

From the table, it is clear that since 2002, there has been deterioration in asset quality of the banking system. Provision for loan losses has climbed from 12.1% in 2002 to 24.2% in 2004 (BoG Statistical Bulletin, 2005). While the data is incomplete, there are indications that the majority of bad loans is to SMEs. This indicates that in the face of mounting loan losses, SMEs are likely to be squeezed out of the traditional financial institutions.

At the moment, the ability to maintain lending to SMEs in Ghana is questionable due to their high risk. The few available credit through these traditional financial institutions indicates that interventions are needed through special schemes. Credit schemes have been developed on an informal basis without taken in account the institutional support mechanisms that would provide a sustainable flow of credit to the SME sector (BoG Statistical Bulletin, 2005).

2.8 Financial Constraints to SME's Development

Despite the wide-ranging economic reforms instituted in the region, SMEs face a variety of constraints owing to the difficulty of absorbing large fixed costs, the absence of economies of scale and scope in key factors of production, and the higher unit costs of providing services to smaller firms (Schmitz, 1982; Liedholm and Mead, 1987; Liedholm, 1990; Steel and Webster, 1990). Below is a set of constraints identified with the sector.

Access to finance remained a dominant constraint to small scale enterprises in Ghana. Aryeetey *et al* (1994) reported that 38% of the SMEs surveyed in Ghana mention credit as a constraint, in the case of Malawi, it accounted for 17.5% of the total sample (Daniels and Ngwira, 1993). This stems from the fact that SMEs have limited access to capital markets, locally and internationally, in part because of the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms. As a result, SMEs often cannot obtain long-term finance in the form of debt and equity.

Inadequate institutional framework

In general, the Financial Sector and the Structural Adjustment Programme (FINSAP) addressed the structural and institutional weaknesses of the financial sector in Ghana (Antwi-Asare and Addison 2000). It sought to ensure that businesses have access to institutional credits. It held the view that a strong and competitive financial sector could make significant contributions towards increasing access to finance by businesses (Antwi-Asare and Addison 2000). It is consistent to suggest that the financial sector liberalization was to provide access to funding for SME's. Most studies consider the access problem as a creation of the financial institutions through their lending policies. For instance, Schmidt and Crop (1987) have indicated that the type of financial institution and its credit policy will determine the access problem. Where required security does not fit the needs of target group, potential borrowers will not apply for credit even where it exists and when they do, they will be denied access.

Inadequate assets to be used as collaterals

Under asset-based lending, the financial intermediary looks to the underlying assets of the firm (which are taken as collateral) as the primary source of repayment (Robb, 2002). For working capital financing, banks use short-term assets, such as accounts receivable and inventory. For long-term financing, they use equipment. The pledging of collateral by itself, however, does not distinguish asset-based lending from any of the other lending technologies (Klapper, 1998). Collateralization with accounts receivable, inventory and/or equipment is often associated, for example, with financial statement lending, relationship lending, and credit scoring where collateral is used as secondary source of repayment. Under asset-based lending, in contrast, the extension of credit is primarily based on the value of specific borrower assets rather than the overall creditworthiness of the borrower.

Under asset-based lending, the amount of credit extended is linked to the value of the collateral on a formula basis to a dynamically managed estimation of the liquidation value of the underlying assets that are used as collateral (i.e., the accounts receivable, inventory and equipment) (Berger, & Udell, 2002). Thus, asset-based lending is a transactions-based technology based on hard information generated nearly continuously about the value of the underlying collateral. Thus, it can be delivered by large and complex financial institutions without incurring organizational diseconomies. For example, the largest banks in the U.S. have asset-based lending departments (Knight, 2008). It should be noted that the intensive monitoring of receivables and inventory that typically includes daily flow of information and periodic (usually quarterly) field audits add significantly to the cost of asset-based lending. Asset-based lending solves the informational opacity problem by shifting the underwriting criteria from a comprehensive evaluation of a firm's risk profile to a specific evaluation of a subset of the firm's assets – specifically the tangible assets of accounts receivable, inventory and equipment. Like financial statement lending and small business credit scoring, the efficacy of asset-based lending depends on the lending infrastructure (Knight, 2008).

Information asymmetry

The potential for adverse selection and moral hazard problems can, theoretically, result in equilibrium credit rationing (Bester and Hellwig, 1989) and relative costs are such that imperfect and asymmetric information are widely identified as one of the main causes of imperfections in the provision of finance to small firms

(Constand, Osteryoung and Nast, 1991; Keasey and Watson, 1993). The high costs of information may restrict the extent to which financial institutions are willing or even able to gain information about key factors which may influence the lending decision. Thus, it may be argued that the potential for problems to exist in terms of viable smaller businesses gaining access to finance arises primarily from information costs. With the provision of better and more accurate information, potential providers of funds are able to estimate risk more accurately and thus use the prospects of the enterprise more consistently in their evaluation processes. In short, the problem is one of information provision and communication between the parties concerned (Berger and Udell, 1993).

The area for which information is required by the potential providers of external finance to SMEs will include management, markets and finance. Management information will refer to a wide variety of assurances required by potential providers as to the competence, experience and credibility of the management of the business concerned (the human capital of the business). Market information will refer primarily to the conditions for the product or process concerned and also to the supplier markets involved. For the purposes here, the main focus is upon the provision of financial information in the form of financial ratios, information and cash flow, profit and loss, balance sheet and forecast, and capital budgets. For the purposes of SMEs, given the equity threshold described above, the prime demand for this information will be from the banks. In this sense the responsibility for both determining and explaining the information required rests with the banks. The suppliers of the information will be the firm and usually the accountant is involved in the production of their accounts. Evidence in the Ghana suggests that the cooperation and co-ordination of banks, businesses and their accountants is often lacking

(Aryeetey, 1993). As a result there is a breakdown in communications and the parties concerned, particularly the firms and the banks, operate in an environment of mutual ignorance when it comes to the nature of the information required and the explanation of why and how it would be used (Edwards and Turnbull, 1994).

2.9 Financial Strategies of SMEs

Three stages in the evolutionary process of financing rapidly growing firms can be identified;

First, in the establishment phase, the start-up firm is concerned with how to acquire finance in the first place. In this phase, SMEs can choose between the founder's own investments and external financing. From external finance sources, bank financing has usually been the main source of financing for SMEs. Significantly however, the main requirement for gaining bank financing has been collateral in the form of personal or business assets (Deakins and Hussain, 1993).

Moreover, to be able to pay back bank debt, companies need cash flow on a standard basis. If companies become too undercapitalized, it might reduce their capability to survive business difficulties and to fund growth.

Therefore, entrepreneurs usually start their businesses with a high degree of personal effort and involvement "sweat capital" and savings (Bygrave, 1997). Equity financing, mainly private, with less rigid payback in the form of dividends, is therefore more fitting for young, rapidly growing technology-based firms. Moreover, SMEs can often depend on governmental seed money or schemes.

On the other hand, these firms can look for business angels and other informal venture market finance sources and expertise. Venture capital is a kind of financial support that is normally provided by firms that invest together with the management in companies in their early stage of their development and such companies are usually not listed on a stock exchange. The venture capital market is made up of both "formal" and "informal" market (OECD, 1996). Private individuals, business angels and large companies constitute the formal market and corporate venture capitalists constitute the informal market. Besides, in the international level, rapidly growing firms often can rely on the formal market made up of independent funds, which generate capital from investors and financial bodies, and in some cases financial institutions with their own venture capital funds.

Besides domestic, global venture capital money should also be given consideration. This may offer needed financial resources and also access to global management skills through representatives they place on the governing boards. The formation of partnerships with customers, suppliers, distributors, and other stakeholders may be needed so as to assist a company to enable the company to globalize its activities successfully. For most SMEs in Ghana, the ultimate target is to list the company on the Ghana stock exchange.

In such a situation, a concern for both the entrepreneur and the investor is about how to value rapidly growing company that is not listed on the stock exchange. On the whole, the assessment of future cash flow is seen in the price on the stock market of listed companies (Brealey and Myers, 1988). Significantly however, a host of the rapid rising companies in these business areas are not generating cash flow until a later point, and for these companies the business projection have been of major importance when scheming the value of the company.

Also, in the global chapter, the maker of advanced innovations has countless business hindrances that require adequate financial support before the company can reach this level of development. Moore (1991) makes it clear that for a company to be able to progress through the diverse steps of market recognition from innovators, to early adopters, to broad acceptance, there is the need for the business to prevail over two fundamental gaps. At the outset, the technology developed may be stimulating but is not nonetheless ready to be commercialized as a product. Besides, the product should get in touch with the mass market to become gainful. The overcoming of these business gaps need financing. Therefore, financiers of fresh innovations have become more demanding in recent years and risk has increased considerably the returns demanded on investments. There is a drift towards phased financing of innovations (OECD, 1996), which implies that financing in stages reduces risks for investors but leave the SMEs with indecision about the subsequent availability of financing.

In certain situations, the entrepreneur may skip growth to be able to keep hold of control over the business, or adopt measures that lessen the need for finance; for instance by undertaking custom-oriented development (Roberts, 1991). The capacity to fund start-up and growth therefore represents a major limitation facing technology-based firms (Moore, 1994).

In summary, SMEs could significantly improve their chances of obtaining credit by not complaining that banks' requirements are too strict. They could do better by: Choosing their bank or non–bank financial institution and establishing a relationship, maintaining better financial records, producing financial statements, operating their businesses with more discipline and Educating themselves about the requirements financial institutions.

CHAPTER THREE

3.0 METHODOLOGY

3.1 Research Design

The objective of the present analysis is to explore the sources of finance and constraints to access finance. The study therefore sought information about financing needs of Ghanaian SMEs and ways to improve on the funding for SMEs. This has certain implications for the design of the study. The study suggests a descriptive analysis of financing needs and ways to lessen the financing needs of SMEs. To capture the types of SME's, the survey approach was adopted. This involved a cross-sectional study of small scale firms or individual entrepreneurs firms in Ghana and financial institutions.

3.2 Population and Sampling

In Ghana, available data from the Registrar General indicates that 90% of registered companies are micro, small and medium enterprises. Data on this group is however not readily available. The Ministry of Trade and Industry (MOTI), in 1998 estimated that the Ghanaian private sector consists of approximately 80,000 registered limited companies and 220,000 registered partnerships.

As a result of financial and time constrains quota sampling was used to draw SMEs' from a two hundred meter radius in the Accra Metropolis. Given that there are many SMEs and financial institutions in the country at the moment, only financial institutions with branches in the selected region were interviewed to solicit their views on factors that influence their decision in lending to SMEs.

The feasible sample size chosen for the survey was two hundred and ninety. The breakdown of the sample size is two hundred and forty SMEs and a mixture of credit officers and bank managers from fifty banks and non–bank financial institutions. The bank officials were sampled by convenience while for the in-depth interviews, respondents were chosen purposively.

3.3 Survey Instrument

The study gathered data through questionnaire. A questionnaire for the SMEs was developed and structured into two parts. The first section covered information about the firms' characteristics such as sector or industry, size of the firm, age of the firm and form of ownership. These characteristics were chosen because they describe the circumstances in which the firms operate. The second part of the questionnaire sourced information about SMEs' sources of finance. Here, the study sought to find out the source of finance such as debt finance, equity finance, and other alternative source of finance often employed by the SMEs. This same section sought to find out how access to financial assistance might be hindered. The study looked at three major areas, namely: application for loans and their success rate, banking methodologies and constraints to access to loans. Furthermore, the study sought information for failure to apply for loans and in the case of application and rejection, what the explanation for their rejection was. In the case of acceptance, respondent firms were asked whether they have received the amount or type of assistance they requested or wanted from the banks and non – bank financial institutions and how long it took for them to receive the assistance.

3.4 Data Collection

The data for this research was collected using questionnaires on a sample of entrepreneurs/manager of small scale enterprise and a set of open ended questions on financial institutions with branches within the selected 200 meter radius of the Accra metropolis. In July 2009, 240 questionnaires together with covering letters were personally delivered to the respondents in the selected area of Accra. In order to ensure accurate response from the respondents who could not read and or write, the author went through the questionnaires with such respondent using Twi, Ga or Ewe (local Ghanaian dialects). This made them fully understood the content of the questionnaire and responded appropriated. In all, this process took approximately one month to complete and a total numbers of 200 answered questionnaires were returned. The unreturned questionnaires were as a result of meeting the absence of respondents who chose to answer the questionnaire on their own and in the absence of the author. This represents 83.33%. Further, information from the database of Ghana SMEs and National Board for Small Scale Industry, journal, article, text books and the internet were covered to form the theoretical foundation of this research.

3.5 Analysis of Data

Statistical analysis and interpretation of data can be carried out in two ways: either by the use computer software or manually. Considering the nature of work it was more convenient and effective in enlisting the use of computer software in analyzing and interpretation of the data. The data collected from this research was analyzed using of Statistical Package for Social Sciences (SPSS) software. First and foremost, the various responses elicited were coded by assigning numerical values to both the close and open-ended questions. The coded questions were then entered into the

SPSS software just as any other form of entry done with the usage of Excel Spreadsheet. Each question on the questionnaire was considered as a variable and tables together with graphs (Bar Chart and Pie Chart) were generated by the software. The outputs generated were then transferred to Microsoft word document and then analyzed by interpreting the numerical figures at both the frequency and valid percentage columns displayed on the tables.

Frequency distributions in terms of tables, graphs and charts were generated to summarize respondents' views on some of the variables. Conclusions as well as recommendations were drawn based solely on the outcome of the Statistical data analysis.

3.6 Limitations of the Research

The major challenge that transpired in carrying out the research was respondents' lackadaisical manner in responding to the questionnaire which they have consented to respond to. Respondents always complained of being too busy to fill in the questionnaires and most of them would either misplace the questionnaire and would not ask for one anymore. The researcher noticed that there is resistance in revealing information because they hold the norm that the researcher might use the information collected from them for other purposes other than fulfilling the purpose of the study. Amidst all these limitations, the researcher was able to solicit the needed information related to the objectives of the study.

CHAPTER FOUR

4.0 DATA ANALYSIS, DISCUSIONS AND PRESENTATION OF RESULTS

4.1 Introduction

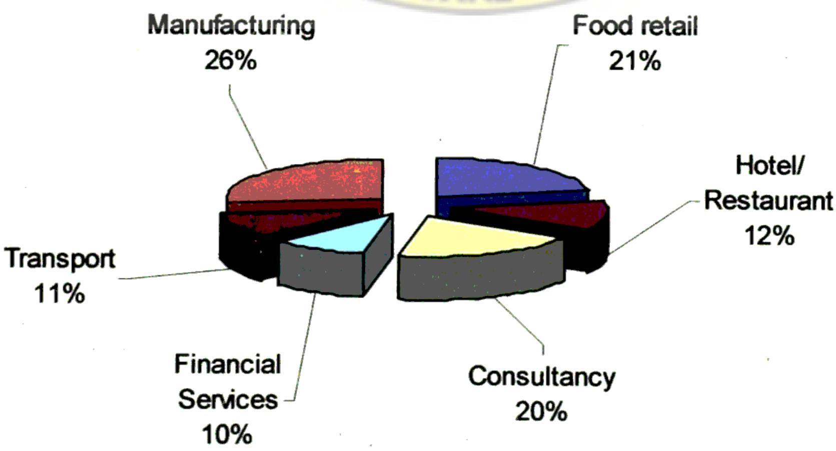
This section presents the results of the data obtained (with the questionnaires in Appendix) during the survey. The preliminary results that emerged from this research have highlighted the common sources of finance employed by SMEs and the financial constraints they face. The main findings are briefly described below.

4.2 Profile of Respondent Firms

4.2.1. Sector of Economic Activity

The pie chart in figure 4.1 categorizes the SMEs involved in the study into different sectors of the economy. It can be clearly seen that a good number of the SMEs were in the manufacturing, retail and consultancy sectors of the economy accounting for 26%, 21% and 20% respectively. 10%, 11% and 12% were also found to be in the financial services, Transport and Hotel/ Restaurant sectors respectively.

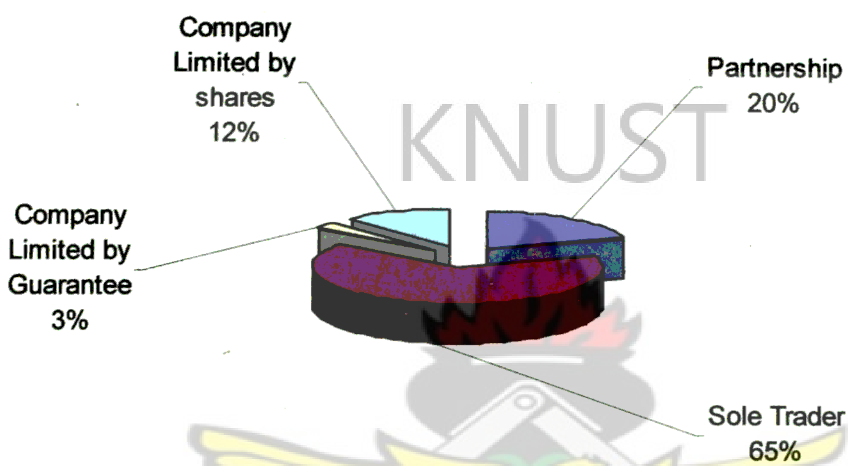
Figure 4.1: Sector of Economic Activities of SMEs, ***source: Field data 2009***



4.2.2. Type of business

Sixty-five percent of the small businesses surveyed are sole traders and relatively a small proportion, 3% were Company Limited by Guarantee as presented in Figure 4. 2.

Figure 4.2: Percentage distribution of Types of Businesses of SME, *Source: Field data, 2009*



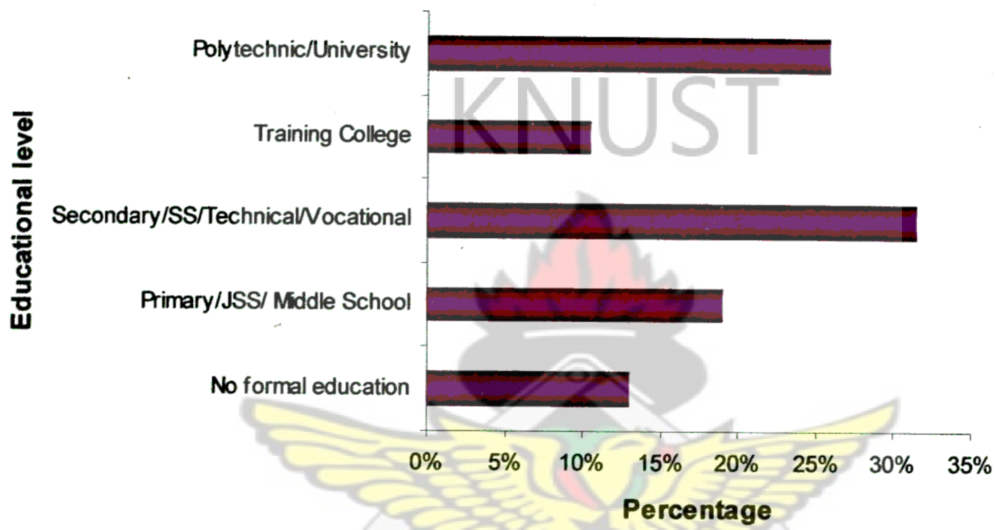
4.2.3. Size of Business or Number of Employees

As the size of a business can affect its capacity to undertake particular activities, the survey results have also been analysed by size of business. While the survey covered micro businesses and small and medium-sized enterprises the vast majority of the businesses are either micro businesses (45%) or small businesses (36%). Only 19% of businesses that returned the questionnaire were medium-sized. This means that about 80% of the businesses surveyed employ between 0 and 39 employees. Across all SMEs in Ghana, the proportion employing between 0 and 39 employees is higher still, at 95% corroborating the findings of ISSER (2004).

4.2.4 Educational level

Figure 4.3 gives a distribution of the educational level of the respondents. Majority of the respondents about 32% have Secondary, SS, Technical or Vocational. A good number (26%) also had Polytechnic/ University level of education. The participation of different people with different educational background seems to affirm the recent emphases of entrepreneurship.

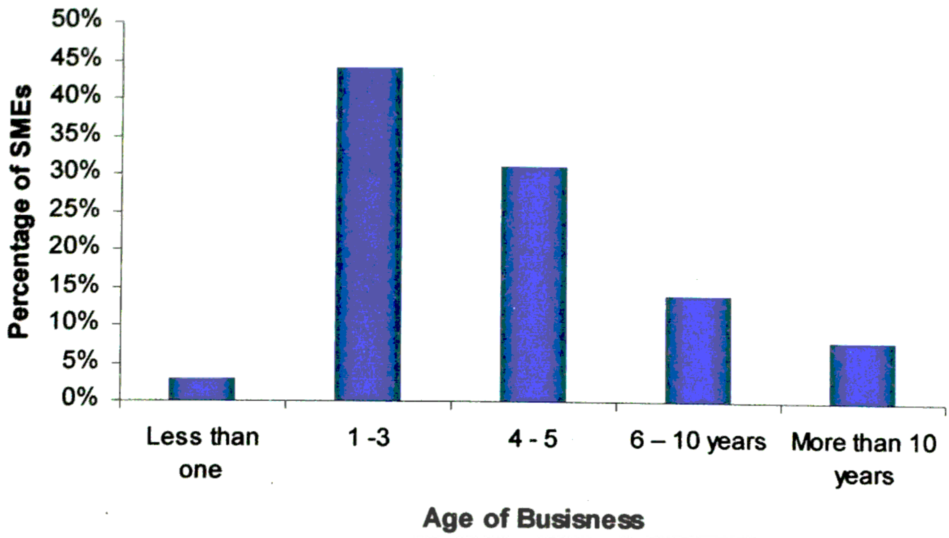
Figure 4 3: Educational level distribution of respondents



4.2.5. Age of businesses

As figure 4.4 below illustrates, few business (8%) are more than 10 years old and even fewer businesses (3%) are also less than a year old. However, it can be seen clearly that majority of businesses 75%, are between 1 to 5 years old in operation with about 14% existing between 6 to 10 years old. This is evident that a significant number of the businesses are newly established businesses. The fact that many businesses are between 1 to 5 years old in operation could be due to the recent emphases on entrepreneurship and the quest of many individuals to operate their own businesses.

Figure 4.4: Age distribution of SMEs, *source: Field data, 2009*

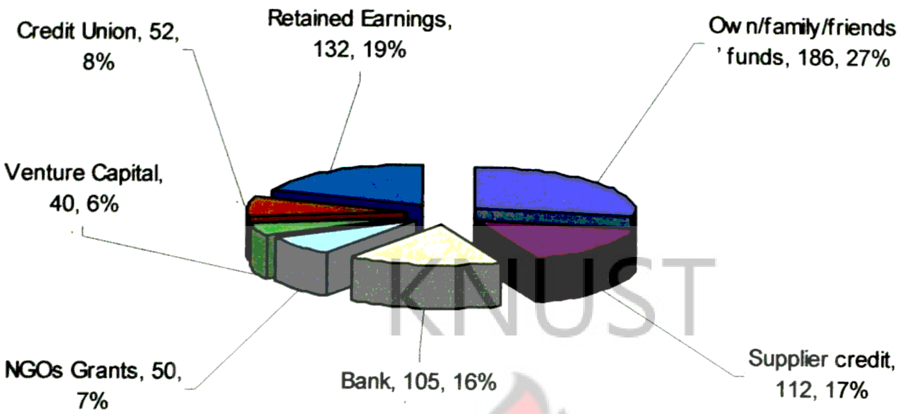


The age profile is also relatively consistent across the industry groupings. For example, in food retail, 37% of businesses have existed for less than four years and 32% have existed for more than ten years. As the age of a business may impact on the firm's ability for instance, to access finance (i.e. they do not have enough years of audited accounts or have little track record and assets or even the experience in the business field), where relevant, the study has included results according to age of business.

4.3 Sources of Finance for SMEs

SMEs were asked to specify the sources of finance or equity available to them. Respondents were allowed to mention as many sources as possible. The pie chart in figure 4 gives the summary and percentages of the responses given by the SMEs as the major sources of finance. In all, there were 677 responses from the 200 respondent. This implied that on average, each respondent gave at least 3 sources of financing available to them. For example, (from figure 4.5 below), retained earnings, 132, (19%) means that retained earnings as a source of finance was mentioned 132 times by the 200 respondents and that this 132 represents 19% of the total of 677 responses given. With this explanation, it can clearly be seen that own/ family and friends, has been the major source of financing to most SMEs followed by Retained Earnings, then Supplied credit and so on.

Figure 4.5: Sources of Finance for SMEs, *source: Field data 2009*



This present study corroborates Atrill and McLaney's (2006) finding that internal sources of funds have been the paramount or the major source of funds for small and medium enterprises in Ghana.

4.4 Source of Finance Options of SME Owner or Manager

The study disaggregated the source of finance available to SME owners into debt finance, equity finance and other notable forms of finance.

4.4.1. Debt finance

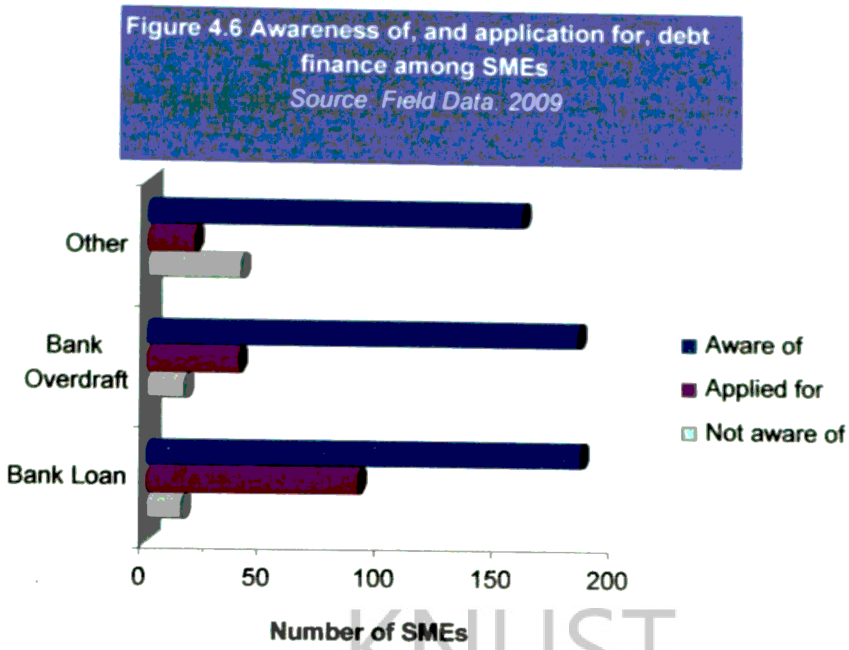
Table 4.1 gives a cross tabulation of the sources of finance available to businesses. It can be seen that the two main sources of financing for businesses are debt financing and equity financing. About 81.50% use both debt and equity financing for their business. The remaining 18.50% used only equity financing.

Table 4 1: Combination of sources of financing available to Businesses

Source of finance	No of Respondents	Percentage of Respondents
Both Debt & Equity Financing	163	81.50%
Only Equity Financing	37	18.50%
Other	-	-
Total	*200*	*100%*

4.4.2. Awareness and Applications for Debt Finance

The survey asked respondents about their awareness of different types of debt finance, and whether they have applied for them in relation to their business activities. Unsurprisingly, there is a relatively high awareness of debt finance, with between 83% and 95% of businesses answering these questions in the affirmative. These results are broadly in line with those in ISSER (2004) which found that just under 100% of business businesses surveyed in 2004 were aware of bank loans, overdrafts and loans from other financial institutions.



However, only 78 (39%) of the businesses surveyed had applied for any kind of debt finance. This means that 122 (61%) have not applied for any type of debt finance. Of the SMEs that have applied for debt finance, the majority applied for two types of debt finance: 83% of the 71 businesses which applied for Bank loans had also applied for a bank overdraft.

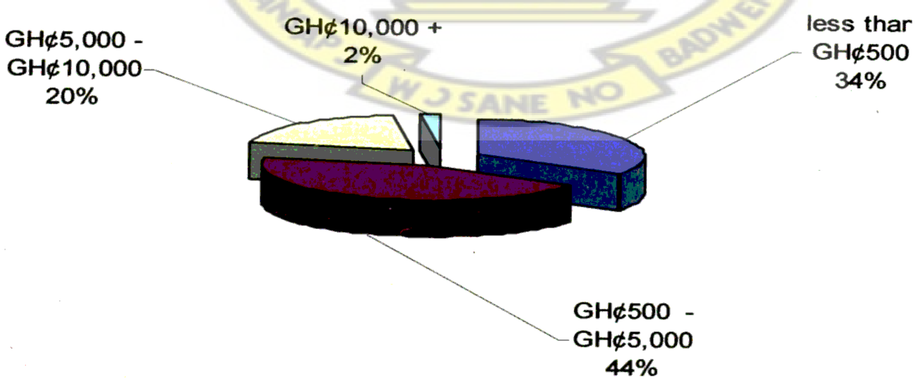
A bank overdraft is said to be the type of debt finance most commonly applied for (BoG report, 2001) but even here, the proportion applying was only 27% of all the businesses in the survey. Again, this is broadly in line with the findings in ISSER (2004), in which 25% of business businesses reported using a bank overdraft.

In relation to the age of business, younger businesses were less likely to have applied for debt finance. Of the SMEs under five years old in the survey, only 21% applied for any kind of debt finance. Conversely, businesses older than ten years are slightly more likely to have applied for debt finance (32%) than the sample of businesses as a whole.

4.4.3 Size of Debt Finance Applications

Information from the study showed that majority of businesses (44%), have applied for debt financing between GH¢500 and GH¢5,000 while very few (2%) have also applied for over GH¢10,000. Details of the remaining information are present in Figure 4.7 which shows the distribution of the size of debt finance applied for by the businesses surveyed. It can be seen that most of the SMEs (44%) under this survey apply for debt finance between GH¢ (500 – 5000). One of the reason given for this outcome as explained by the SMEs is the fact that most of them are not first time applicants, they have been refused in the past for applying for large amounts with the explanation that their collaterals cannot support their large loan application. Based on this reason, they, the SMEs now apply for small amounts from different and multiple financial institutions. Some SMEs also gave the reason that because their businesses are so small, applying for large amounts will lead to overcapitalization of their businesses.

Figure 4.7: Size of Debt finance application made by SMEs, ***Source: Field data 2009***



As table 4.2 below illustrates, the majority (69%) of businesses were successful with their application for debt financing as a source of financing for their business. Also, 16% were partially successful (obtained only part of the total amount they wanted) and about 15% were not successful at all in obtaining finance for their business through debt financing.

Table 4.2: Success rate for SMEs applying for debt finance

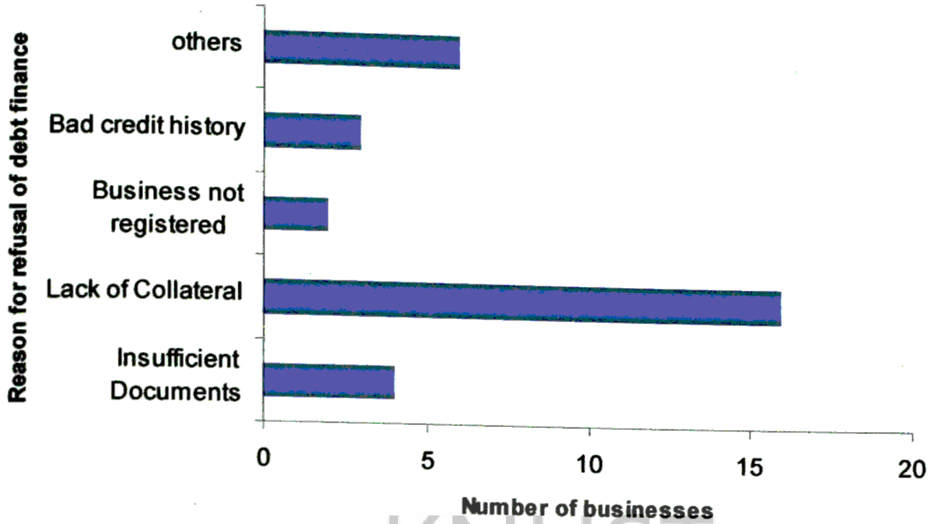
Outcome of application	Percent
Successful	69
Partly successful	16
Refused	15

Source: *Field Data*, 2009

Sample size issues restrict full analysis but the results suggest that when applying for debt finance, the age of a business is a more important factor than the business activities in which it is involved, with those in business longer more likely to have been successful. Similarly, looking at the success or not of applications for debt finance by the amount applied for is also subject to inaccuracies related to small sample sizes. The survey findings suggest that those businesses applying for less than GH¢500 are less likely to be successful than those applying for larger sum.

Figure 4.8 shows the distribution of the reasons why some businesses were either partially successful or totally unsuccessful in obtaining debt financing. It seems that lack of collateral is still a major hindrance to successfully obtaining a form of debt finance. "Others" as seen in figure 8 includes such reasons as inability to complete application process and poor financial standing.

Figure 4.8: Reasons why debt financing was not successful

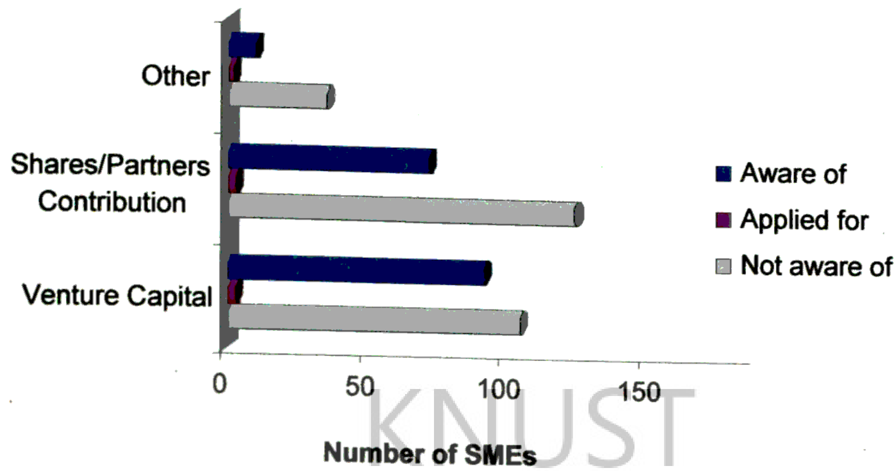


4.4.4 Equity Finance

Naturally, awareness of the provision of equity finance among the businesses surveyed is substantially lower than the awareness of debt finance options. Sixty-one percent (61%) of surveyed businesses are aware of equity finance, with only a slight majority (53%) aware of business angels.

The awareness of venture capital seems to have fallen since the time of Boafo (2006) survey where 82% of SMEs were aware of venture capital, though the proportion that were aware of business angels is much more comparable with the 2006 figures (59%).

Figure 4.9: SMEs Awareness of, and application of equity finance
Source: Field Data, 2009



As with debt finance, respondents were then asked whether they had ever applied for any form of equity finance. Surprisingly, the numbers that have applied for equity finance is very low: thirty seven businesses in total (18.50%).

Looking at the amounts applied for across this group, five businesses applied for amounts of GH¢10,000+. The very small sums sought imply that in these instances, what was actually being sought was a short term cash injection, rather than the larger sums needed to fund sustained investment in businesses. In these cases, it is likely that some form of debt finance would have been more appropriate.

Despite the fact that the numbers of SMEs applying for equity finance is higher than in the general SME population, the figures regarding awareness of, and application for, equity finance, need to be considered in light of problems associated with its applications. While just 61% of the surveyed businesses are aware of the venture capital and only 4.5% have applied, 39% of the businesses stated that access to equity finance is a barrier to growth.

In terms of equity finance, this indicates a major gap between what SMEs report to be a barrier to growth and their actual experience of this type of finance. It is interesting to speculate as to whether the SMEs in the survey would actually have identified 'access to equity finance' as a barrier to growth in such relatively high numbers had the question been unprompted. As it is, the response of SMEs seems to contradict their own awareness and experience of equity finance. It also potentially indicates a worrying lack of understanding about the role and appropriateness of this type of financing among a significant number of the SMEs in the survey.

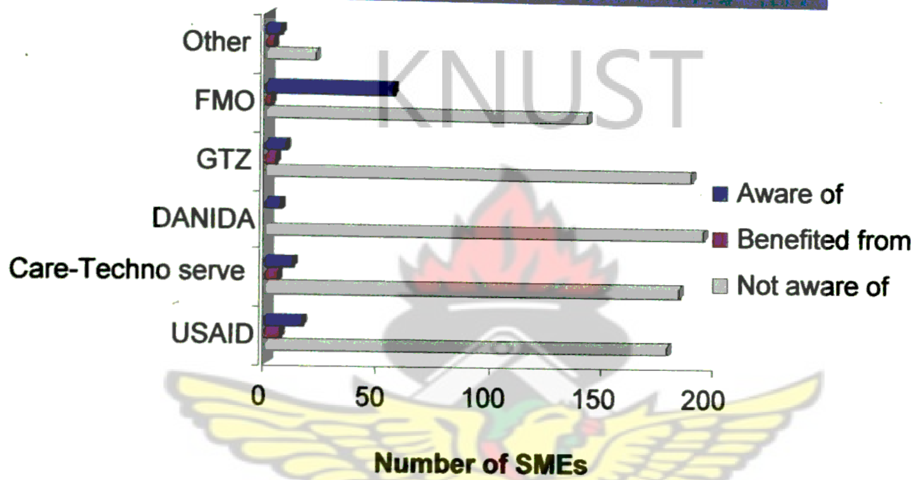
Although those applying for equity finance were asked further questions relating to whether they were successful or not – and if not, what were the reasons given for being refused or partly refused. Some of the reasons given for their refusal are; the fact that they the SMEs lack the proper documentation, secondly, the financial institutions lack of interest in the field of business of the SMEs, thirdly, they the SMEs were not ready to give the percentage of control or part ownership of business the financial institutions were asking for.

4.4.5 Alternative Sources of Funds

Despite recent significant investment by public bodies such as Ministry of Trade and Industry, Ghana Venture Capital Fund, Non-Governmental Organisations, Ministry of Finance and Economic Planning in raising awareness of alternative sources of funding opportunities among the business industry, levels of awareness remain relatively low. Figure 4.10 below shows the awareness of a number of different types of potential alternative funding opportunities (public and charitable). Across all but one, the level of awareness and the numbers of SMEs that have benefited from them is relatively low. For example, only 15% of businesses are aware of Small Business

Loan Portfolio Guarantee (USAID), 16% aware of the Care-Techno serve Fund for Small Scale Enterprises, and 12% aware of DANIDA DME Fund. Awareness is particularly low for GTZ Fund for the Promotion of Micro and Small Enterprises (6%). The one exception to this pattern is the FMO SME Financing Scheme, where 38% of surveyed SMEs are aware of its existence.

Figure 4.10: SMEs Awareness of alternative sources of funding (public and charitable)
Source: Field Data, 2009



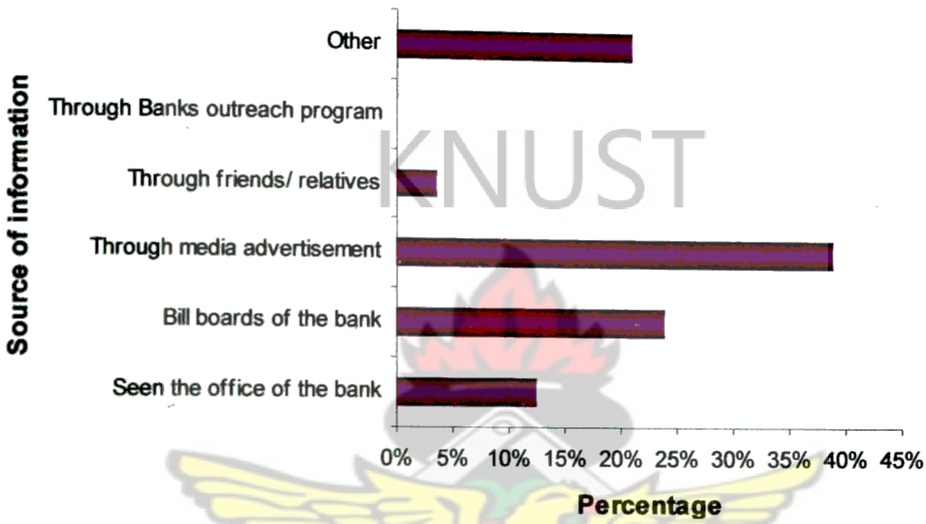
As well as awareness being relatively low, very few of the surveyed SMEs are actually benefiting or benefited from these funding opportunities. There are only 88 instances where the surveyed SMEs have benefited from these sources of funding. The most used source of this type of funding is USAID, from which 19 SMEs have benefited.

When looking for general advice on borrowing money or raising capital in the first instance, the most popular source of advice is banks (55%). This finding echoes the results from GTZ Survey, in which 48% of the SMEs approached banks for advice on borrowing and raising capital. Almost a third (31%) of the SMEs in the present survey report that they use informal networks, 27% would specifically approach another SME.

4.4.6 Source of information about equity and debt financing

A quest for the sources of information about equity and debt financing for SMEs showed that media advertisement (Radio, TV etc.) is the chief source of information about the availability of equity and debt financing. Other sources as seen in figure 4.11 includes, posters on walls and hand bills distributed in traffic etc.

Figure 4.11: Sources of information for Equity and Debt Financing



4.4.7 Reasons for the non application for Debt financing in the past.

Some SME's indicated that they have not applied for debt financing in the past due to different reasons, some of which are outlined in table 4.3. Inadequate collateral and high interest rate were major hindrances to SMEs in their quest for debt financing. Other reasons included reasons such as discouragement from friends/family and fear of not being able to repay debt.

Table 4.3: Reasons why some of the surveyed SMEs have not applied for Debt financing

Reason	No. of SMEs	Percentage
Inadequate collateral	41	33.61%
Difficult to manage	17	13.93%
High interest rate	30	24.59%
Complex application procedure	25	20.49%
other reasons	9	7.38%
Total	**122**	**100%**

Opening and operating a savings account with the financial institution was very significant of the (69% of 78) SME who were successful in their application for debt financing as shown in table 4.4.

Table 4.4: Major requirements given for successful Debt financing

Requirement	No. of SME	Percentage
Savings in financial Institution	35.88	66.67%
Collateral	11.70	21.74%
Co-signer/ Guarantor	6.24	11.59%
Total	**53.82**	**100%**

Note; the total represents only the SMEs who were successful with their application for debt financing

Further question revealed that it takes more than 1 month for loans to be disbursed to SME applicants. The detail of the Information is in table 4.5.

Table 4.5: How long it took for loans to be disbursed

Requirement before Debt finance	No. of SME	Percentage
I week	0	0.00%
2 weeks	0	0.00%
3 weeks	7.65	11.54%
1 month and more	58.65	88.46%
Total	**66.3**	**100%**

Note; the total represents the number of SMEs who were successful or partly successful with their application for debt financing

4.5 Interview with the Financial Lenders

The study interviewed the financial lenders to gather information on criteria for granting financial assistance or loans to small and medium scale enterprises in Ghana.

4.5.1 Financial Assistance Given to SMEs

Another important indicator of access to funding is the success rate in applying for a loan from financial assistance providers. In this case, the study examines the success rate in accesses to financial assistance, the types of financial institutions granting the assistance and methodologies adopted in granting financial assistance.

4.5.2 Methodologies

Much of the answer to access hinges on lending practices of formal and informal financial institutions. Following Aryeetey and Nissanke (1998) and Webster (1996), two major indicators were used to assess the methodologies for providing services to SMEs.

The key constraints in accessing financial assistance from financial lenders comes from the methodologies used by banks and other recognized non–bank financial institutions. To find out how access to financial assistance might be hindered, the study looked at types of methodologies adopted by lenders and the perception of the constraints they pose. The information on methodologies was categorized into formal bank methodologies and informal methodologies.

Formal Bank Methodologies

Lenders use several techniques to pre-screen SMEs and concentrate on relatively few large transactions. They include feasibility studies, collateral and track record. From the interviews conducted, about 96% of the financial institutions under the survey used formal bank methodologies in accessing SMEs. The reasons given were that; they are accountable to other stakeholder and hence the need to present to these stakeholders of the institution proper documentation of all credit or financial assistance given out.

Quite a good number of the financial institutions interviewed (48) do not have a desk specifically set up to attend to the financial needs of SMEs. They treat both large and small firms the same and from the same desk. The reason given for this was that SMEs do not form the clientele of customers that they serve. Nevertheless they do not discriminate against SMEs who approach them. The SMEs are given the financial assistance the requested for as long as they meet the requirements. These financial institutions will most at times give financial assistance to SMEs with businesses in the growing sector of the economy such as transportation and hotel or restaurant.

Forty six of the financial institutions interviewed also said services or products that they provide is basically debt finance. They will only be interested or go into equity financing when they have an interest in the sector of the economy that the applicant firm operates in or when the applicant meets their requirements for equity financing. The basic requirement that SMEs who approach them should meet is that they should hold a savings or current account with the financial institution.

The credit usually provided by these financial institutions to SMEs is normally short or medium term. This is because most if not all SMEs who approach them do not apply for large amounts due to lack of collateral.

It was observed that the formal methodologies apply to those who borrow from recognized institutions. They normally require some collateral as shown in Table 4.6

Table 4.6: Types of Collateral

Responses	No. of Financial Institutions	Percent
Landed property with some structure	30	50%
Bank savings/Treasury bills/Fixed deposit	13	22%
Immovable equipments	9	15%
Guarantor	5	8%
Jewelleries	3	5%

Table 4.6 indicates that financial lenders have many different types of collateral that they can accept, but chiefly mentioned are landed properties with some structure followed by other financial securities like Bank savings/treasury bills/fixed deposit accounts. Immovable equipment and guarantors were fairly demanded whiles the use of jewelleries was the least option considered by financial lenders.

However there were a number of dissimilarities among the businesses lenders serve. Generally, it was evident that all the different types of collateral are in demand in one way or the other. It can therefore be concluded that methodologies lenders employ do not differ a great deal from the normal banking methodologies.

However, it was observed from discussions that different methodologies are being employed by other financial institutions. For instance, in interaction with non-banking lenders revealed that they give out loans without much emphasis on property but liquid assets. Collateral demanded depends on the type of business one is operating. Shops selling fast moving consumer goods are more likely to be granted financial assistance without dwelling more on property or collateral security. For instance, demand for financial assistance by carpenters was more likely to be refused loan if compared to traders in fast moving consumer goods.

Lenders sometimes visit their shops to inspect the nature of business to be sure there is no misrepresentation on the part of loan seeker due to problems of asymmetrical information. Another way these financial institutions use to reduce or prevent misrepresentation in checking the credit history or applicants from other creditors of the applicant. When the lenders are satisfied with the business operation, the loan is granted.

Informal Methodologies

Informal methodologies include personal relations, family connections or knowledge of the borrower and business relations. Very few (4%) of the responses who use the informal mode of lending said they do so because they are credit unions or associations made up of the SMEs in the surveyed region hence know the SMEs they lend to very well.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSIONS & RECOMENDATIONS

5.1 SUMMARY

With the recognition that the private sector is the engine of growth of an economy especially in Ghana, the past few years have witnessed the establishment of many SMEs whose operations contribute to the growth of the economy. Unfortunately, the operations of such SMEs are seriously hindered by their in ability to gain the necessary financial assistance in order to improve their operations.

This study examined the sources of finance for SMEs as well as the constraints that prevent SME from borrowing or gaining access to finance. The specific objectives of the study were to identify the major sources of finance for SMEs in Ghana, to identify some of the major reasons why most SMEs are refused financial assistance and also, to identify other possible sources of finance that are untapped by SMEs. Sample of 240 SMEs within the Accra metropolis and 50 bank and non-bank financial institutions were used for the purposes of the study.

Information from the study showed that debt financing and equity financing are the major source of financing for SMEs in Ghana. Majority of SMEs are aware of the existence bank loans as a source of debt finance than any other type of debt financing and also majority of the SMEs surveyed have applied for a loan at one point in time. On the contrary, awareness of equity financing was low. The low level of awareness has contributed to the low patronage of equity financing as a source of financing their business.

Some constraints that have hindered the success of some SMEs in the quest for financial assistance include high collateral demand, poor business documentation and complex application process.

5.2 CONCLUSION

The study examines the sources of finance and constraints that prevent SMEs from borrowing. The results of the survey highlighted the high degree of dependence of Ghanaian SMEs on personal savings and retained earnings as a source of funding; 46 percent of respondents reported some degree of dependence on retained earnings and personal savings 16 percent on banks and 17 percent on supplier credit as a source of funding. Only few respondents are familiar with venture capital, which demonstrates a worrying lack of knowledge among SMEs about a primary source of funding. The dependency on retained earnnings and personal savings highlights a key area of concern.

The picture of SME owners or managers' financing decisions that emerges in the study is consistent with the "pecking order theory". The sources of finance of SMEs are constrained towards owners' equity (personal savings). This result corroborates the findings of Holmes and Kent (1991), Scherr, F., Sugrue, T. And Ward, J. (1990), Myers (1984) and Cosh, A.D. and Hughes, A. (1994). The results suggest that SME owners or managers depend more on personal source of finance and short-term debt financing. It was also evident that SMEs hardly rely on longer-term debt and equity finance. The survey also suggests that owner or managers tend not to sufficiently organise their finances in order to obtain an optimal capital structure (i.e. debt versus equity ratio) but prefer financing options that both ensure and maintain their control and ownership upon a business. Thus, it appears that for SMEs in Ghana, personal financing and debt financing remains the primary choice of finance. This corroborates the findings of Petersen and Schulman (1987).

The study further suggests that financing of SME's does not come from only one source, but from a combination of other sources. For instance, while some firms indicated that they depended more on their own sources, friends and relatives, support from bank and other sources were also important. Observing the number of SMEs that relied on debt finance, the study suggests that financial institutions were quite supportive in granting loans to SMEs.

The findings indicated that the success rate of applicants appeared low enough. On the whole there was a success rate of 69% for firms applying for loan. This suggests good accessibility. On the contrast a general pattern emerges on the degree of collateral constraint felt by the SME's in accessing funds. The results indicated that a remarkable number of respondents indicated that they did have enough collateral to support their loan application. This suggests that lenders need to invent more practical ways to assess the loan applicants' repayment capabilities rather than focusing more on property or collateral security.

Evidence from this study suggests that lending policies are not particularly designed to fit SME clientele. The study corroborates the conjecture that SMEs face collateral constraints from obtaining finance from the financial institution. The study revealed that property or collateral constraints still prevailed as a major constraint for SMEs in accessing funds. This suggests lenders needs to develop new methodologies for SMEs to access financial assistance.

5.3 RECCOMMENDATIONS

Access to Information

Access to information is important both from the SME's perspective and from the perspective of the providers of financial services. The SME requires information with which to identify the potential suppliers of the financial services. It requires this information to evaluate the cost of the financial services that are being offered. The financial service providers require information with which to evaluate the risk of the SME which is applying for finance, and to assess the prospects of the SME within the market segment and geographical area within which it operates. Improved access to information requires action in the following areas:

- ✓ Introduction of regulations to improve disclosure of the cost of financial services in a format that would facilitate comparison between different financial service providers.
- ✓ Improved regulation of credit bureaux in order to enhance their credibility and the integrity of the information being distributed by credit bureaux.
- ✓ An investigation into the types and volume of information related to SME repayment profiles and financial exposure that is currently *not being shared* amongst financial institutions, the implications thereof for the provision of finance to SMEs and recommendations to address potential shortfalls.

Develop alternative Markets for SME Financing

Financial institutions with much more developed financial markets can look into developing the debt and equity markets as alternative sources of funding for SME. The existing listing requirements of equity exchanges available to smaller companies are hardly SME-friendly. Debt market in Ghana is also not fully open to SME. Access to this market could be facilitated by relaxing requirements and lowering transaction costs for smaller enterprises. Alternatively, governments could assist institutions involved in SME financing to access capital markets for funding. If the government could provide support such as direct or indirect guarantee, subordination or liquidity lines for bond transactions, these institutions would be able to raise long-term funds at a competitive rate to fund SME loans. Venture capital financing is another viable channel especially for start-up companies. Perhaps, more incentives could be provided to venture capital companies whether public or private sector owned, to play an increasing role in SME financing.

Provide Incentives for Lending Agencies to lend to SME

To promote greater SME lending, the regulatory authorities could consider granting certain incentives to financial institutions that actively promote SME financing and have achieved a sizable SME loan book. To maintain prudential banking standards, such incentives could be for a certain period of time and in non-financial form e.g., branching privileges, tax deductions on certain expenses etc.

Venture Capital

Depending upon their stage of growth, the most appropriate form of finance for SME development is frequently venture capital rather than debt. There are a number of ways through which the provision of venture capital can be stimulated:

- ✓ Legislation should be changed to allow institutional investors to increase their investment in venture capital, unlisted shares and small capitalisation companies (i.e. SMEs).
- ✓ Consideration should be given to the creation of tax incentives for business angel investments. This may well be justified as a measure to correct the market failure in the provision of equity for SMEs, i.e. by offsetting the high

transaction costs and risks associated with small cap venture capital transactions.

5.4 SUGGESTIONS FOR FURTHER RESEACH

Since the study concentrated on the Accra Metropolis, a further study is recommended for SME's outside Accra to provide a nationalistic view of SME's in Ghana. Also, it should include a general literature review or SME's not only in Ghana but the world over, since the world is now considered a global village.

REFFERENCES

Abor, J. (2004), Internationalisation and Financing Options of SMEs in Ghana, Institute for Small Business Affairs, 27th National Conference, University of Teesside, UK.

Africa Project Development Facility. (2003), Loan Products Summary for Ghanaian Banks and Financial Institutions, APDF, Accra.

Aldrich, H. E., Ben Rosen, and Bill Woodward (1987). "The Impact of Social Networks on Business Foundings and Profit: A Longitudinal Study." Pp. 154 -168 in Churchill, C., Bygrave, D., Birley, S., Wetzel, E.and Muzyka, F. (eds.), Frontiers of Entrepreneurship Research 1987. Wellesley, MA: Center for Entrepreneurial Studies, Babson College.

Antwi-Asare, T. O. and Addison, E. K. Y. (2000). "Financial Sector Reforms and Bank Performance in Ghana", Overseas Development Institute, London.

Aryeetey, E. & Nissanke, M. (1998). "Financial Integration and Development: Financial Gaps Under Liberalization in Four African Countries". London: Routledge.

Aryeetey, E. (1993). "How Important are Formal and Informal External Finance to Micro-Enterprise Development in Ghana?" In C. Cuevas and M. Benoit-Cattin (eds). Finance and Rural Development in West Africa, CIRAD, Montpelier.

Aryeetey, E., Baah-Nuakoh, A., Duggleby, T., Hettige, H., and Steel, W. F. (1994), "Supply and Demand for Finance of Small Scale Enterprises in Ghana". World Bank Discussion Paper No 251, World Bank, Washington, DC.

Atrill, P. and McLaney, E. (2006) Accounting and Finance for Non-specialists. 5th Edition. Financial Times management, Essex: Pearson Education Limited

Bank of Ghana Statistical Bulletin, 2005

Boafo Microfinance Survey (2006). Nationwide Survey of SMEs

Berger, A. N., and Udell, G. F. (1993), "Relationship lending and lines of credit in small firm finance", Journal of Business, 68(3), 351–381.

Bygrave, W. (1997), "Calling on family and friends for start-up cash", in Birley, S. and Muzyka, D.F. (Eds), Mastering Enterprise, Financial Times Pitman Publishing, London, pp. 70-1.

Cook P. and Nixson F. (2000), "Finance and small and medium-sized enterprise development" School of Economic Studies – University of Manchester. Paper No. 14

Cosh, A.D. and Hughes, A. (2003), "Enterprise Challenged: Policy and Performance in the British SME Sector 1999-2002", ESRC Centre for Business Research, Cambridge.

Deakins, D. and Hussain, G. (1993), "Overcoming the adverse selection problem", in Chittenden, F., Robertson, M. and Watkins, D. (Eds), "Small Firms Recession and Recovery", Paul Chapman Publishing Ltd, London, pp. 177-187.

Fraser, S. (2004), "Finance for Small and Medium-sized Enterprises": A Report of the 2004 UK–Survey of SME Finances, Warwick Business School, University of Warwick, Coventry.

Gesellschaft Für Technische Zusammenarbeit (GTZ). (2001), "Promotion of Small and Micro Enterprises Financial Sector Market Study", Republic of Ghana Final Report 08. September 2001,

Ghana Statistical Service (1999), "Planning and Performance of Small and Medium Enterprise Operators in a Country in Economic Transition"

Ghana Stock Exchange Annual Report, 2000

Gockel, A.G., Akoena, S.K. (2002), "Financial intermediation for the poor: credit demand by micro, small and medium scale enterprises in Ghana: a further assignment for financial sector policy?" International Labour Organisation, Geneva, IFLIP Research Paper 02-06,

Hinson, R. Abor, Joshua (2005). "Internationalizing SME Non-traditional Exporters and Their Internet Use Idiosyncrasies, Perspectives on Global Development and Technology", Volume 4. No. 2, pp. 229 – 244.

Hussain, K., Millman, C. and Matlay, H. (2005). Access to Entrepreneurial Finance: An International Perspective, Conference on Financing of SMEs in Developed Countries. Journal of Small Business and Enterprise Development. Vol. 13. pp. 584 - 599

Institute of Social, Statistics and Economic Research (1999), Small Enterprise Credit in West Africa, ISSER Publication

Institute of Statistical Social and Economic Research (ISSER) (1999). "The State of the Ghanaian Economy in 1998".Accra: University of Ghana Press.

Institute of Statistical Social and Economic Research (ISSER) (2004). Surveys of SMEs in Ghana.

Kauffmann, C. (2005). "Financing SMEs in Africa", Policy Insight No. 7 is derived from the African Economic Outlook 2004/2005", a joint publication of the African Development Bank and the OECD Development Centre

Knight, G. and Kim, D. (2008), "International business competence and the contemporary firm", Journal of International Business Studies, 2008

Myers, S.C. (1984), "The capital structure puzzle", The Journal of Finance, Vol. 39, No. 3, Papers and Proceedings, Forty-Second Annual Meeting, American Finance Association, San Francisco, CA, December 28-30, 1983. (Jul., 1984), pp. 575-592.

Mensah, S. (2004), "A Review of SME Financing Schemes in Ghana". A Paper presented at the UNIDO Regional Workshop of financing small and Medium Scale Enterprises, Accra, Ghana, 15-16 March 2004.

Mensah, S. (2004), "Financing SMEs": Barclays Bank Experience, Legon Accra.

Ministry of Trade and Industry (MOTI) (2005), "Study of Constraints of Small Businesses", a report prepared by Brucks & Associates for MOTI

Moore, G. (1994), "Financial constraints to the growth and development of small high technology firms", in Hughes, A. and Storey, D.J. (eds), Financing Small Firms, Routledge, London, pp. 112-44.

Moore, G. (1991), "Crossing the Chasm"," Marketing and Selling High-Tech products to mainstream customers" Harper Business, New York, NY.

National Board of Small Scale Industries NBSSI

OECD (1996), "Venture Capital and Innovation", OECD publications, OCDE/GD (96) 168, Paris.

Osei, B., Baah-Nuakoh, A., Tutu, K. and Sowa, N. (1993). "Impact of Structural Adjustment on Small-Scale Enterprises in Ghana," in Small Enterprise and Changing Policies: Structural Adjustment Financial Policy and Assistance Programmes in Africa. Publisher: IT Publications, London. pp.53–70.

Opoku-Afriyie, K. J. (1997), "Small Enterprise Development", Volume 8, Number 1, pp. 46-55(10). Publisher: Practical Action Publishing.

Osei, B., Baah-Nuako, A., Tutu, K. and Sowa, N. (1993), "Financing Small and Medium Enterprises (SMEs) in Ghana", Journal of African Business, Volume: 43. Issue: 1

Quartey, P. (2003), "Financing Small and Medium Scale Enterprises (SMEs) in Ghana". Journal of African Business, p.37.

Republic of Ghana (2001) The Budget Statement and Economic Policy of the Government of Ghana, for the 2001 financial year, presented to Parliament on Friday, 9th March 2001 by Hon. Yaw Osafo-Maafo Minister of Finance, on the authority of His Excellency John Agyekum Kufuor, President of the Republic of Ghana.

Roberts, E.B. (1991), "Entrepreneurs in High Technology": Lessons from MIT and Beyond, Oxford University Press, Oxford. USA.

Scherr, F., Sugrue, T. and Ward, J. (1990), "Financing the small firm start-up: determinants of debt use", Proceedings Second Annual Small Firm Finance Research Symposium.

Smith, C. W. (1986), "Raising Capital: Theory and Evidence" Midland Corporate Finance Journal, Vol. 4, No. 1, 6-22 (Spring 1986). Reprinted in Investment Banking Handbook, edited by P. Williamson (John Wiley and Son: New York) 71-93 (1988)

Steel, W. (1994), "Changing the Institutional and Policy Environment for Small Enterprises Development in Africa," Small Enterprise Development 5(2), 4–9.

Steel, W., and L. Webster (1992), "Small Enterprises under Adjustment in Ghana". World Bank Technical Paper 138 (Industry and Finance Series).

Stiglitz, J. E. (2002), "Globalization and Its Discontents", Economic Notes, Volume 32, Number 1, pp. 123-142(20).

www.venturecapitalghana.com
Wilson, R. (2004), Business Finance 2004, Institute of Directors, London.
Wattanapruttipaisan, T. (2003). "Four Proposals for Improved Financing of SME Development in ASEAN", Asian Development Review, 20(2). Association of Southeast Asian Nations.

APPENDECES

APPENDIX 1

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

BUSINESS SCHOOL

SURVEY QUESTIONNAIRE

This questionnaire *seeks to examine SMEs and their access to credit facilities in Ghana.*

NOTE: *Results from this study will be used primarily for academic purpose and your responses status will be treated with the utmost confidentially.*

PART ONE

PERSONAL DATA

A1. Educational level

- ☐ No formal
- ☐ Primary/JSS/Middle School
- ☐ Secondary/SS/Technical/Vocational
- ☐ Training College
- ☐ Polytechnic/University

A2. Number of years your company has been in existence

- ☐ Less than 1 year
- ☐ 1 – 3 years
- ☐ 4 – 5 years
- ☐ 6 – 10 years
- ☐ 10 years and more

A3. Number of people employed in your organization

- ☐ 0 – 9 employees
- ☐ 10 – 39 employees
- ☐ 39 + employees

A4. What is your form of ownership?

- ☐ Sole Trader
- ☐ Partnership
- ☐ Company Ltd by Guarantee
- ☐ Company Ltd by Shares

A5. Which sector of the economy do you operate in?

- ☐ Food Retail
- ☐ Hotel or Restaurant
- ☐ Consultancy
- ☐ Transport
- ☐ Financial Services
- ☐ Manufacturing

A6. When looking for general advice on raising capital for your business, which of the following do you approach?

- ☐ Formal Networks (please specify)……………………………………………………
- ☐ Informal Networks (please specify)…………………………………………………

☐ Other SMEs…………………………………...……………………….

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

PART 2

ACCESS TO CREDIT

The following questions are designed to identify the sources of finance that your company has being employing in raising finance or capital and your experience with using these sources.

B1. How does your company finance its operations?

☐ Internal

☐ External

B2. What are the sources of finance available to you? (if sources of finance is more than one, please indicate the percentage of sources used)

☐ Debt Finance

☐ Equity Finance

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

B3. If your company finances its operations internally, which of the following do you use?

☐ Retained Earnings

☐ Friends and Family / own

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

B4. If you finance your operations with external funds, what source(s) do you use?

☐ Bank Loans

☐ Loans from non Bank Financial Institutions

☐ Equity Finance

☐ Others (please specify)..

B5. Are you aware of the existence of different types of debt finance being provided by banks and non bank financial institutions that offer?

☐ Yes

☐ No

B6. If yes to B5, how did you come to know of it?

☐ Seen the office of the Bank

☐ Bill Board of the Bank

☐ Through Media Advertisement

☐ Through Friends/Relatives

☐ Through the Bank's Outreach Program

B7. Which type(s) of debt finance are you aware of?

☐ Bank Overdraft

☐ Bank Loans

☐ Loans from other Financial Institutions

☐ Others (please specify)..

....

B8. Are you aware of equity finance as another source of finance for SMEs?

☐ Yes

☐ No

B9. If yes to B8, which type(s) are you aware of?

☐ Venture Capital

☐ Shares or Partners Contribution

☐ Others (please specify)..

☐ Business Angels

B10. Have you ever applied for any of these types of debt finance?

☐ Yes

☐ No

B11. If no to B10, why have you not applied for debt finance in the past?

☐ Inadequate collateral

☐ Difficult to manage

☐ High interest rate

☐ Complex application procedures

☐ Others (please

specify)...

....

B12. If yes to B10, which type(s) of debt finance do you usually apply for?

☐ Bank Overdraft

☐ Bank Loan

☐ Loans from other financial institutions

☐ Others (please specify)..

B13. If yes to B10, were you successful with the application?

☐ Yes

☐ No

B14. If yes to B10, what amount(s) of debt finance do you normally apply for?

☐ Less than GH¢500

☐ GH¢ (500 – 5000)

☐ GH¢ (5000 – 10000)

☐ GH¢ 10000 +

B15. If yes to B13, what was the requirement for the credit facility (s)?

☐ Savings in the financial institutions

☐ Collateral

☐ Co-signer/guarantor

B16. If yes to B13, how long did it take for the loan to be disbursed to you?

☐ 1 week

☐ 2 weeks

☐ 3 weeks

☐ 1 month and more

B17. If no to B13, what were the reasons given for refusing your applications?

- ☐ Insufficient documents
- ☐ Lack of collateral
- ☐ Business not registered
- ☐ Bad credit history
- ☐ Others, please specify...
  ....

B18. Have you ever applied for any of the forms of equity finance?

- ☐ Yes
- ☐ No

B19. If yes to B18, what amount of equity finance do you normally apply for?

- ☐ Less than GH¢ 500
- ☐ GH¢ (500–5000)
- ☐ GH¢ (5000–10000)
- ☐ GH¢ 10000 +

B20. If yes to B18, were you successful with your application?

- ☐ Successful
- ☐ Partly successful
- ☐ Refused

B21. If you were partly successful or refused, what were the reasons given for your refusal?

Please specify ……………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

B22. Are you aware of other alternative sources of finance?

☐ Yes

☐ No

B23. If yes to B22, which ones are you aware of?

☐ USAID

☐ Care – Techno serve

☐ DANIDA

☐ GTZ

☐ FMO

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

☐

B24. Which of these alternative sources of finance have you ever applied or benefited from?

☐ USAID

☐ Care – Techno serve

☐ DANIDA

☐ GTZ

☐ FMO

☐ Others (please specify)..

B25. What do you think the financial institutions and government should do to make their services and products more accessible to SMEs?

....

....

THANK YOU

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

BUSINESS SCHOOL

OPEN ENDED QUESTIONNAIRE FOR BANKS AND NON – BANK FINANCIAL INSTITUTIONS

This questionnaire seeks to examine banks and other financial institutions financial assistance to SME's.

NOTE: *Results from this study will be used primarily for academic purpose and your responses status will be treated with the utmost confidentially.*

1. Do you have an SME desk or department?

2A. If no, how do you attend to the financial needs of SME's?

2B. If yes, what services and products do you provide for SME's?

3. Which category of SMEs do you provide financial assistance to?

4. What are the requirements SME's need to meet in order to access credit facilities?

5. What type of collateral do you normally ask for?

6. What are the reasons usually assigned to failures?

7. What type of credit do you provide? (Short term, medium term or long term)

THANK YOU