

**THE CONSTRAINT IN CREDIT ACCESSIBILITY AMONG THE SMEs IN
GHANA. A CASE OF SELECTED BUSINESSES IN THE KUMASI
METROPOLIS**

KNUST

By

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DECLARATION

I hereby declare that this submission is my own work towards the Masters of Business Administration and that it does not contain any material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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ABSTRACT

The main objective of the study is to determine the challenges SMEs face in accessing credit within the Ashanti Region of Ghana, precisely Kumasi metropolis. Taking cognizance of some of the alternative sources of funding the SMEs are resorting to and how viable these alternatives are as well as the diverse instruments the Government of Ghana can extend to curb such challenges of the SMEs in the country. In most jurisdictions, the study examined the detailed profile of the SMEs in Kumasi metropolis, explained that most SMEs are micro entrepreneurs where they employ less than 15 people considerably dominated by the trade and commerce sector to transform the economy. Again, the existence of these financial institutions towards entrepreneurial growth and to address the various problems encountered by the SMEs in credit accessibility. The study also indicated that the Government of Ghana with its financial institutions have brought positive effect on the growth of the SMEs through managerial training, better access to loans, savings enhancement and provision of businesses by the Microfinance and Small Loans Centre(MASLOC) and Ghana Venture Capital Trust Fund(GVCTF) to dominate. Irrespective of the various contributions of the Government, there are still many problems which tends to affect the operations of the SMEs, presented as high rate of interest charges by banks, poor credit history, high cost of taxes, changes in the environment such as globalization, political, social, economic and technological differences which result in the limited knowledge of business opportunities leading to non-productivity. In order to enhance a sustained and accelerated growth in the industry of SMEs, there must be a united body to implement some restrictive measures of managerial via employee training programs for all enterprises to be equipped as well as bargaining with the various financial institutions on the high interest rate levels to a reduction.

DEDICATION

This dissertation is dedicated to my lovely husband Mr. Eustiaze Osei –Opoku, my parents Mr. and Mrs. Arthur, my siblings especially Samuel and Hellen Arthur and all my wonderful friends for their prayers and support in my education. Your inspiration, encouragement and support in diverse ways would be remembered and cherished.



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LIST OF ABBREVIATIONS

GVCTF	-	Ghana Venture Capital Trust Fund
MASLOC	-	Micro Finance and Small Loans Centre
AFWA	-	Australian Fair Work Act 2009,
NBSSI	-	The National Board of Small Scale Industries
GIC	-	Ghana Industrial Consensus
GSS	-	Ghana Statistical Service
IFC	-	International Finance Corporation
USAID	-	Agency for international Development
CDC	-	Commonwealth Development Corporation
VFMC	-	Venture Fund Management Company
PwC	-	PricewaterhouseCoopers



CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

There are financial organisations that are established to deal with activities such as granting of credit facilities, investments, deposits and other transactions. Traditionally these financial institutions are made up of insurance and trust companies, investment brokers, and banks. Very often people do interact with one institution or another on various ways such as depositing, withdrawal, loan application and other forex bureau operations. The insufficient availability of loan facilities to the production sector is a major challenge to many of the developing economy worldwide. Opportunity to access loan facilities is seen as one factor needed in order to help alleviate the impact of poverty and promote economic development. According to Ayeh (2001), even though there exist many money lenders in the informal sector who are readily available to grant credit to the rural folk, the incidence of high interest rate on the loan facilities discourages the people within these areas to invest such funds in a better income generating ventures. To curb this problem, however, financial institutions such as ADB, NIB, and the GCB among others were established to mobilise and provide credit for development activities in the country. Unfortunately, their scope of operation and conditions favour the middle to upper class, thus showing discrimination against the rural people who produce the bulk of Ghana's wealth and food (MOFA, 2007).

Those who are really affected by this lack of access to the loan facilities are those in the small scale production. This usually happens as the costs of transaction on these facilities are normally higher than that of the larger loans. Again as compared to acquisition of loan under the formal systems by which collateral security is normally provided to defray any risks, this cannot be said about the loan acquisition under the informal way as the rural folks do not have anything to offset the facility in case of default. Moreover, inability of

the rural borrowers to provide enough loan security and the huge risks that come along with agricultural farming practices as well as other economic activities in the informal sector, are some of the main reasons associated with the large businesses based bias in terms of loans as against the rural borrowers. (Essel and Newsome, 1995) As noted by Steel and Andah (2003), financial institutions are said to be the financial transactions carried out by the low income based household that are involved in microenterprises adopting nonstandard approach such as the use of the social based security and the short-interval frequent loan intake. The microfinance institutions are supposed to help lower the level of poverty as it geared towards the people with low income level and thus its soundness of what it is intended to serve is depended on a well laid loan granting guidelines (Microfinance Gateway, 2009). All products and activities are thus to be managed well so as to reduce the risk inherent in the loan facility acquired.

1.2 Statement of Problem

Even though SMEs in Ghana have been very beneficial in the development of the economic, this usefulness to the economic is being hampered due to the financial challenges facing them thus making it impossible to live fully to their potentials. This situation does not augur well for a third world country like Ghana in its quest to develop its socio- economy infrastructure and technology in order to expand its business environment.

Again it has also been discovered that most of the SMEs in Ghana do not have the requisite manpower resources to manage its affairs effectively. For instance most of them do not possess the skills that are needed to prepare financial records as usually found in the large institutions. Due to this, most of them are not positioned to provide an audited financial statement, a fundamental requirement in accessing loan. The lack of information on the financial standings of most of the SMEs means that official records in terms of earnings,

financial soundness and earning prospect might not be available upon request. Due to this challenge, a firm might be denied a loan facility even though that firm might be credit worthy but unable to produce a financial statements. (Coleman, 2000).

Another challenge affecting the SMEs in their quest for loan acquisition is their low level of capital which could have made it possible for them to secure the loan facility from banks upon demand of a collateral security. Even those who are able to provide some sort of collateral security, these amount are sometimes insufficient enough to offset the credit acquired in case of loan defaults. This sometimes makes SMEs getting loans that are not adequate to sustain their business ventures. Lending firms are also not able to go against the lending policy to grant such loans due to the volatile nature about the growth and survival of most SMEs. (Binks *et al.*1992).

Although studies have been done on these developments in other jurisdiction, Ghana business environment is yet to receive much attention in terms of studies on the challenges hampering credit facilities acquisition by SMEs in Ghana.

There are little options for SMEs in Ghana in terms of choosing financial schemes that are aimed at assisting their business. Even if there are favourable once, only few SMEs can access them living the larger number with no option than to opt for unfavourable schemes with long requirements that most SMEs cannot meet. This is really a major threat to the survival of SMEs in the country.

1.3 Objectives of the Study

This work is undertaken to find out the constraints militating against loan acquisition by SMEs in This is really a major threat to the survival of SMEs in Ghana. The following are the objectives for the work.

1. To determine some of the challenges SMEs face in accessing credit in Ghana.
2. To find out how best the Government of Ghana can help solve these SMEs problem

3. To determine other funding opportunities available for SMEs and how effective these sources are.

1.4 Research Questions

In achieving these objectives, the following research questions were used:

1. What are the challenges affecting SMES in acquiring loans in Ghana?
2. What are the solutions that the government of Ghana can provide in solving SMEs problems?
3. What are the other sources of funding that are available for SMEs operations in Ghana?

1.5 Significance of the Study

This work is undertaken to support the existing literary work on the constraints that are hampering the effective operation of SMEs in Ghana. It could also be used as a reference point for future research studies on ways which could help finance SME in their quest to function properly in economic development. State agencies could also adopt the study outcome as the challenges are brought to fore and therefore plans could be put in place to support SMEs overcome those difficulties. Again this research work will also bring to light the credit worthiness of the entrepreneurs in Kumasi, which will have an impact on the credit policies of financial institutions in Ghana.

1.6 Scope of the Study

Though subsequent study had been made on rural areas, this time round the focus has been shifted to urban area, specifically the Kumasi metropolis in the Ashanti Region of Ghana. The research deals with the stakeholders in the business environment such as the ordinary businessmen and woman and institutions who are unable to access loan

facilities for their business operations and expansions.

1.7 Limitations of the study

Limitation of the study includes;

- Finance: The researcher was limited by funding such as, determination of details of materials used, cost of transportation, as well as miscellaneous expenditure.
- Time Constraint: The high illiteracy rate among the respondents was a constraint the researcher encountered.

1.8 Organization of the study

This research work is grouped into five chapters. The first chapter is about the introduction, the study background, statement of the problem, objectives of the research, the research questions, the significance of the study, scope and limitations of the study and the organization of the study. The second chapter deals with the review of literature. Literature review is about studies that other authors have done and which is relevant to a particular work including empirical studies and theories that have been propounded.

The chapter three focuses on the methodology and approach that were used. It will be centred on the research design, population adopted, sampling size and data collection and. The chapter is about presentation of findings, analysis and discussion. Finally the chapter five would be based on the summarisation, conclusions and recommendations.

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CHAPTER TWO **LITERATURE REVIEW**

2.0 Introduction

The chapter two of this research work will take a critical review of the existing literary work which has been done on the SMEs and the problem that is facing that particular sector across the globe. The review again would look at the fundamental concepts SMEs, types of credit facilities that are available for SMEs, challenges affecting SMEs in acquiring loan facility, the government of Ghana contribution in solving the SMEs challenges and then other facility that are available for funding SMEs in Ghana.

2.1 The Fundamental Concepts of SMEs

SMEs are businesses that are to some extent owned by individuals, partners, and companies. The concept of a "small sized enterprise" depends on how a country may define it considering the number of workers from fifteen as noted by the AFWA 2009 to U.S administrative criteria that classify SMEs as institution having not less than 500 employees(Taylor and Adair, 1994).

To Abor and Quartey (2010) SMEs could be defined based on their components in their capital assets including the skill of labour, legal status, method of production as well as turnover levels. In the formulation made by the Bolton Committee (1971), SMEs could be explained based on three criteria by which a small firm can be rated on economical and statistical view point. These criteria are as follows:

- If it has a fairly small market share.
- If it does not have a structural formalised management practices.
- If it is self-sufficient, simply personalized in nature.

Again by the use of the 'statistical' concepts of SMEs as noted by the Bolton's Committee, criteria such as the size and the support of the SMEs to the Gross Domestic Product (GDP), the level of the employment nature of the small firms that has undergone metamorphosis within a period, and considering the various contribution that has been made to the economic by the SMEs. In view of that the Bolton Committee practically used different ways to classify the small firm industries in diverse sectors. These sectors include SMEs that manufacture, construct and mine. These industries are distinct based on the number of workers with less than two hundred eligible in those retail and wholesale areas whose turnover range between 50,00-200,000 British Pounds. Apparently, the Bolton definitions were criticised as incompetent based on type of employees employed on managerial approach.

To UNIDO on the other hand, SMEs in the third world countries should emphatically be determined based on the amount of workers within a particular organisation. An institution with five to nineteen employees having a small shop as hairdressing shop, restaurants, drinking spots within the cities and the big towns ought to be considered as SMEs. Again small companies with number of workers between 20 to 90 which mostly can be found in the manufacturing and the exporting industries are within the categorisation of SMEs.

According to the NBSSI, SMEs are organisations whose employees do not exceed 29 people and the capital resources in terms of plant and machinery not valued above \$100,000.

The 1987 GIC survey of the Statistical Service of Ghana, categorised organisations that recruit about 5 to 29 workers and having a fixed assets not exceeding the \$100,000 benchmark as small scale businesses, while the medium scale firms had about 30 to 99 workers.

In terms of operations most SMEs according to Fisher and Reuber, (2000) are into businesses that retail, trade and manufacture products. Most SMEs differ from one country to another in terms of what they do and offer. Four type of SMEs is also identifies within the categorisation of this sector as opined by Osei *et al* (1993). To them SMEs that has employment base up to six workers should be termed as micro enterprises. Those having about 6 to 9 workers are very small enterprises. Again those operating with working force from 10 to 29 workers are Small enterprises and then there is a medium sized enterprises who employ about 29 to 50 workers, Ghana could be said to be dominated economically by SMEs. Thus examples of SMEs in Ghana could be given as Angel Group of Companies Limited, Mama Berky Bakery- Kumasi, Window of Hope Salon, Emmanuella Hair Studio among others

2.2 Characteristics of SMEs in Ghana

To the GSS firms that have a work force of less than ten are known as small businesses and those with more than ten employees are categorised as Medium and Large-Sized Enterprises. NBSSI added to this using in addition the assets based of the firms in its categorisations. Within this firms having employees up to 9 and a fixed assets based in terms of plant and machinery with a monetary worth up to 10 million Cedis that is US\$ 9506, using the 1994 exchange rate are to be classified as SMEs (Joseph *et al.*, 2013).

Ghana has two groups of SMEs within its business environment. These groups could be tagged as the formalised and the non-informal businesses. The formalised businesses have a well laid structure with a defined business working environment either in the cities such as in Accra or Kumasi or in the towns such as Assin-Foso, Obuasi or AkyemOda. This type of business is organised with a few having board of directors, management and an organisational structure. These businesses could be owned by individuals or by a shared partnership.

The non-informal businesses fall within those being operated by the small businesses such as the carpenters, hairdressers, masons, and other artisans who work either in rented or open temporal places. These self-employed workers normally lived on the little that they derive from their business operations. Within this groups, the work force are normally based on families members and apprenticeships and are commonly located in the rural set up with some emerging in the cities these days due to the rural-urban migration in the country. The operation carried out by this group of business are the manufacture of various local washing products, dressmaking, footwear making and selling, petty trading, hairdressing, carpentry, electronic technicians and food processing among others.(Liedholm & Mead, 1987; Osei *et al.*, 1993) as cited by (Kayanula & Quartey, 2000)

In terms of education, usually those who are within the non-informal sector have low level of educational background. Due to this there is a little separation between the income generated by business and that of the owner as the business are normally owned by the family. There is a total absence of separation of financial account by the business and that of the owner.

2.3 Contribution by the SMEs to the economic development

As noted by Fisher and Reuber (2000), SMEs are normally led by individual businesses. To them this sector forms the largest working force within the working environment. This

means that this particular category of this work force is the driving engine of most of the third world countries in terms of their economic development.

Again Anyima-Ackah, (2006) have indicated that the sector that is manned by the private individual serves as the driving force of the economic growth of every country and thus the need to sustain such a sector for it to be able to contribute its quota. The component of this working force includes family members who contribute to sustain the businesses whether paid or not, those on apprenticeship vocations and then those who are hired on work and pay basis. SMEs are again noted to be labour focused due to their low capital base as compared to the bigger firms in terms of job creation (Anheier and Seibel, 1987; Liedholm and Mead, 1987; Schmitz, 1995). From the retailing businesses in the big towns and the cities to the production in the villages and the small towns, SMEs greatly offer economic value to human life. With the availability of raw materials for production, a ready market for products and services and a favourable atmosphere for survival of business operation, SMEs are always ready to contribute immensely to socioeconomic development of every third world countries

According Pass *et al* (1993), Countries economic development and growth could leads to an improve standard of living whenever its government is instrumental in its growth through the implementation of a corresponding and growth-enhancing budgetary and economic policies.

The economic value of the various SME are highly notices as they are able to contribute their quota in terms of job creation, payment of taxes, innovative practices and a strong partners in the global market. To Beck and Kunt (2004), SME economic growth are essential as they have a major market share in most third world countries and a substantial resources from external bodies such as the World Bank group that are normally channelled into those areas of businesses.

In Ghana, SMEs are made up about 93% of all registered businesses and therefore they strongly add economic value to the country's development. Kayanula and Quartey (2000) have said that s SMEs could be seen as the engine that propels the growth strategy of third countries to help attained it sources of employment leading to income generation. To Mensah (2005), SMEs could be said to be the sponges that mop up the excess labour in provision of greater number of work force and generation of income in the country.

2. 4 Problems of SMEs in accessing finances in Ghana

2.4.1 Lack of official recognition and improper financial practices

According to Abor and Biekpe (2006) most SMEs are under the ownership of women being operated from the home and others being owned by their males counterpart which are all not officially registered by the law of the land. Due to the lack of being identified officially by the state agency responsible solely for registration of businesses, these entrepreneurial businesses have tough time accessing credits from financial institutions. Most of these female owned businesses have also developed a negative thought against securing a financial aid to support their business operations. To them, the cost that normally comes along such facilities is to them higher than the benefit that might accrue from their move to seek those schemes. These women who are mostly into micro enterprises ventures also do not have the adequate capital resources to be used as collateral that could assist them in accessing credits from financial institutions.

2.4.2 The unsupportive nature of SMEs Operations

A study by Little *et al* (1987) indicates that most small businesses in the third world countries are hardly efficient as compared to the medium scale enterprises that possess some level of efficiency in their operations. Even though SMEs could be innovative to

sustain their businesses operation, inadequate resources make it impossible for the innovation to be realised on the operation of the business as soon as practicable. Sometimes that particular innovations are even not implemented at all which eventually might end up with the better larger firms adopting and implementing those strategy or innovation in their operations at the expense of the small businesses (Acs *et al.*, 1999).

2.4.3 Constraint in credit accessibility

Credit accessibility is one of the fundamental problems of SMEs in their operations. Most businesses within these categories hardly could access financial aids to support their outfit. These businesses could have expanded their operations had they been able to secure such facilities as it could improve their income generation capability and standard of living (Atieno, 2001). The flow of credit accessibility to the SMEs could help the Gross Domestic Product to be boosted by 2% growth rate from the private sector (Carpio & Honohon, 2001). Thus the shortage of these facilities to SMEs could significantly result in a low level of businesses activities (Melzer, 2007). Aryeetey *et al* (1994) also corroborated this challenges pertaining to SMEs operation in a study in which about 38% of the SMEs confirmed their inability to access credit facilities.

In Malawi, for instance, barriers to information, local and international challenges, high risk perception rate, higher cost associated with intermediation and a limited access to markets were cited in a study by Daniels and Ngwira (1993). Tagoe, *et al* (2005) has added that the existing credit policy being implemented by most financial institutions do not encourage businesses to apply and even those who apply are sometimes denied accessibility to the facility

According to Abor and Quartey (2010) financial intermediary institutions depend on the reliable assets of firms as a form of collateral before granting credits. Banks on the other

hand require working capital as collateral for short term financing and fixed asset such as machineries and equipment for the long-term financing.

2.4.4. Bad Attitude and methods employed by Banks

Again as noted by Ansah Ofei, SMEs are not able to be granted loan facilities due to the requirements associated with the banking policies. Some of the requirements from the banks which have been grouped into formal and informal bank procedures include collateral, feasibility studies, track record and minimum deposits which must be met by the applicant. Informal banking requirement such as personal connections, family, and knowledge of business relations sometimes serve as a hindrance to SMEs. Again, the fear of risk associated with loss of businesses also makes it impossible for the owners of SMEs for accessing loan facilities.

2.4.5 High cost of transaction

According to Cuevas *et al.* (1993) the high cost of transaction that normally comes along loan accessibility prevents most SMEs from applying for credit. This assertion has been confirmed Aryeetey *et al.* (1993) who said that information asymmetry could be problematic thus stopping SMEs from having the opportunity to access a loan. Lenders sometimes do not avail themselves to grant the facilities to smaller or lesser known clients or issue strict collateral obligations making it difficult for these applicants to have such facilities.

Steel and Webster (1991) have noted the problem of SMEs in their operations ranging from the challenge of taking on board the huge fixed costs, lack of strategic factors of production (economies of scale and scope) coupled with higher unit costs associated with the provision certain services to the smaller enterprises.

Again absence of technological innovation, inadequate manpower training capacity, inefficient institutions policies within these farms coupled with ineffective laws and regulations are stumbling block for SMEs in accessing loan facilities in Ghana. To Green *et al.* (2002), financing SMEs, however is critical as it is seen as the glue that binds all the various aspects of the small business operations.

2.4.6 Constraints in Access to Credit

Most SMEs in Ghana are facing financing gaps in their quest to access finances. The financing gap could be explained as the differences between the request for finance and the ability to receive the funds by SMEs. SMEs lack access to funds based on their unique features and the market imperfections on the supply chain (Park *et al*, 2008). The financial institutions and investors are faced with the issue of whether to grant or not and even how much to lend to the SMEs (Chen & Chivakul, 2008).again, these small and medium firms that needs facilities from the financial and non-financial institutions do not get what they wish to access to expand or invest in their businesses. This has been summed up by Ruiz-Tagle, (2005) who said that this situation normally results in access to credit setback as the desired loan level is less than or more than the amount given by the partners. Thus whenever an enterprises cannot access as much as it want at the prevailing market availability rate then that enterprise is facing credit constrained condition.(Banerjee &Duflo, 2004).Other forms of constraint to credit acquisition are the following:

2.4.6.1 Information Asymmetry

To Stiglitz and Weiss (1981) information asymmetry takes place as a result of an increase in demand for credit that brings about an imbalance as the credit demand curve moves to the right that is demand exceeding supply to this effect. By this, interest rate on the credit shoot up leading to a fall in demand or increase in supply of both in order to be able to

reinvent the equilibrium curve sometimes at a higher interest rate. The elasticity of the interest rate upwards or downwards is supposed to remove the excess demand for credit whenever there is distortion, to reinvent the equilibrium in order to do away with the prevailing credit constraints. Usually enterprises have stronger access to individual organisational inside information than the outside lenders (Asymmetric information). New entrants SMEs are affected by this formation asymmetry issues. Deakins *et al.* (2008) has opined that at the very beginning of their operations, the required informational needs about assets and other vital document if any about these new entrants are suppressed by the owner of the business. This is a common phenomenon normally with the manufacturing or technology based enterprises as most of the owners are reluctant in making full disclosure about its business avenues due to issues related to the fear of being exploited by others should that particular information are released. Some owners especially the young entrepreneurs and those operating in underserved communities are also afraid of their security, should those information are given out. Again those having their firms in the under developed places also have challenges in getting access to bank loans.

2.4.6.2 Moral Hazard

Asymmetric information leads to the inability for firms to be differentiated perfectly based on their credit worthiness on the market place. Moral hazard is a situation whereby inappropriate action of the borrower leads to the disadvantage of the lender in terms of refund or payment on what was borrowed. It normally happens when the parties in the process have different and strange interests which do not augur well for mutual benefit.

The actions of the borrower may not be able to scrutinise by the lender. This therefore affects the quality of loan applications and impedes the chances of others from getting loan facilities. Some firms sometimes misapply and redirect the loan granted which might end up in a loss making them unable to honour their loan obligation. Banks however should

adopt mechanism such as a promise of loan renewal and penalty to overcome these challenges.

2.4.6.3 Growth

Another form of gap occurs as a result of doubts in growth opportunities of most of the SMEs. This leads to a situation whereby the financial firms tightening their perquisite demands before approving a loan to these SMEs. The unsustainability nature of these SMEs does not position these individual smaller firms from successfully acquiring loan to improve upon their businesses

2.4.6.4 Gender and Race

Gender and race may also be proportions where gaps may be present. According to the IFC (2006), race is one of the factors militating against the ability to access finances in South Africa. In Ghana, owners of businesses who are males are likely to have easy access to loans as against their female's counterpart who is sometimes requested to submit other important documents before such facility. The race and gender differences work against to the disadvantage black women who are under the low level of educational and income level in the society.

2.4.6.5 Risk factors

Risk factor associated in businesses could be used to explain the credit rationing portrayed by financial establishment. Total risk leads to a lengthy time which results in insecurity on the return on the assets of the enterprise. When these happen, enterprise has to take the duty of servicing the facility. Liquidation could be the result if the firm is not able to honour its obligation including payment of the interest and the principal. If the amount acquired by the enterprise is huge, there would be high risk associated with the inability to pay as a

result of the interest payments. As most SMEs depend on financing outside the firm, financial risk within the SME sector tend to be higher (Correia *et al.*, 2008).

Even though scoring models and other technologies has been deployed by banks to differentiate between the high risks from the low risks borrowers, (Park, *et al*), the approach has not been able to effectively solve the problems associated with the information asymmetry gap.

2.5. Government Contribution to the SMEs

2.5.1 The need for governmental intervention

Ghana's economy is mostly driven by SMEs activities as according to PwC, (2013)

Ghana Banking Survey about 90% businesses are within this category, according to'.

A direct governmental support to SMEs is fundamental in boosting the socio-economic development of Ghana as this sector employs labours than any of the large businesses due to their labour intensive nature and limited capital resources base. Hellberg (2000) have suggested that third world countries should pay attention to the growth of SMEs as it account for a bigger share of businesses within those countries. Young (1994) have also concluded that SMEs are valuable as they are a key source of job creation, efficiency, growth and economic emancipation at every economic level. Berry *et al* (2002) have also said that these businesses are both suppliers and consumers as they supply input to other industrial sectors while utilising the output of other businesses. Thus with a strong purchasing power, SMEs demand for goods and services will end up regulating the operation of these suppliers as theirs intend would be controlled by the demands of their customers. This will definitely leads to a viable economic growth and development.

2.5.2 The Support of the government of Ghana in solving SMEs problems

The government of Ghana has established agencies to see to the operations of SMEs. The government from the year 2000 established various institutions such as the NBSSI, GVCTF and MASLOC to see to the aims establishing the SMEs. Some of the roles being played by these agencies to help solve SMEs problems are the following:

- To help provide some fundamental and basic financial services to those under economic ladder in the society.
- To provide enough sources of avenues in terms policies in the areas of savings and investment as way of accessibility to some financial institutions and individuals who could not access credit from in the conventional banks. The majority of the SMEs selected for this research are within the localities dominated by selling and buying activities which also happens to be the major occupation among the inhabitants in the Kumasi metropolis where commerce is about 71% of the population so the governmental support in terms of tax incentives charged on products if reduced could be very helpful.

2.5.3. Improved access to loans facilities

Even though most SMEs access credits from MFIs and other financial establishments, the government of Ghana has been able to assist in this direction by providing easy access to this facilities. Through the agency that has been put in place most SMEs which could not have access credit from the financial market now have chance to be granted with loans. In times of fire outbreak and other natural disaster, the government of Ghana sometimes gives financial support in terms of short loans to help these firms rebound into business. Because those that are at the micro operational stage and others that are new entrants into the

industry require small loans, the government helped these firms by facilitating the loan application.

2.5.4 Business, Financial and Management Training

Government has provided capacity building support services for SMEs to position them effectively in their operations.

Government of Ghana through the Bank of Ghana (BOG) and other mini- banks have had a progressive impact on the various businesses outfit of the SMEs.

The government through the Bank of Ghana has created an attractive platform that allows all micro-entrepreneurs to save the little they could on their earnings on a daily basis with more interest at a lower cost from these financial and non-financial institutions as a whole. These help them as a basis to access capital. Therefore the attitude towards saving has greatly been improved.

2.6 Types of Credit available to SMEs

According to Boom *et al.* (1983) and Longenecker *et al.*(1994), two basic types of financing SMEs could be identified. These avenues are equity and debt financing:

2.6.1 Debt financing

To Hisrich and Peters (1995); and Anderson and Dunkelberg (1993) debt financing is the money that has been credited to a borrower to be resettled on a later date with an added interest rate on the principal amount. The principal and the interest on the credit facility are to be settled by the schedule duration. Default by the debtor normally end up in payment of penalty, thus the facility ought to be settled based on the agreement and not when the facility yields returns.

2.6.2 Equity financing

Equity financing could be said to be the contribution or financing that are received from partners or individual who wish to become owners or shareholders in the organisations. These contribution made are tied to the profit that the firm might generate in return on its operations. Thus a failure of the firm to make a profit or break even deprive the owner or the shareholder of the returns on the contribution or investment made.

It must be noted that equity financing are long-term financing whole that of debt usually are short to medium or long-term financing.

2.6.3 Applying Equity or Debt financing in SMEs operations.

In financing SMEs the choice to use either debt or equity normally depends on the intentions the funds are meant for. Funds acquired for long-term purpose should not be applied in the short term projects as it is never a prudent venture. Again, short-term debts should not be applied in financing a long term projects as the facility will need to be resettled within the stipulated time in order to avoid unnecessary default.

Wert and Henderson (1979) summed up this by saying that a short-term debt is more suitable for short-term projects and fund acquired for long-term purpose should be applied in areas such as equipment or new plant construction, a situation known as ‘matching maturities’ (Brealey and Myers, 1996).

2.6.4 Leverage and Owner’s Equity

Borrowing usually brings financial leverage as interest payment is noted for leads to high cost of financing. Therefore a proportion increase on revenue before interest and tax of an enterprise leads to a proportionate jump in the net revenue of the institution. This situation will benefit the owner as more gains in equity would arise. The same situation could make

the owner equity diminishing if there is appreciable decrease in revenue before interest and tax leading to a proportionate decrease on net earnings. The instability nature of debt financing does not augur well for financing an enterprise

(Brealey and Myers, 1996; Wert and Henderson, 1979).

2.6.5 Riskiness

Apart from the increased risk to earnings and owner's equity, debt financing poses another risk. A firm could be in a precarious situation financially that particular entity is not able to keep to its financial obligation in settling its debt. Whenever a particular enterprise firm's debt-to-equity ratio jumps to another height, that particular institution could experience a financial distress. The best way to tackle this is for firms to do away with excessive borrowing or debt as this situation is costly to endure. Usually financial distress makes an enterprise lose business opportunities as investors will avoid investing in those firms, trustworthiness of the firm will wane, suppliers taking strange position against the firm and a possible bankruptcy ensuing (Wert and Henderson, 1979).

2.6.6 Flexibility

Wert and Henderson (1979) have said that firms need to be flexible enough through maintaining a good balance of capital mix in order to avoid an undesirable financial situation. More debt will ultimately lead to very high interest rate as the credit rating of the firm will be downgraded. Thus it is essential for the firm to be flexible in its operations in order to be able to adapt to the changing conditions within the business environment.

2.7 Financial Institutions

Financial institution undertakes financial services for customers and the general public and also playing the role of financial intermediaries on the financial market. Some of these

institutions that are offering financial assistance on the Ghanaian business environment are the e following:

- Financial institutions in charge of taking and managing deposit, undertaking financial transaction, granting of credit and then offering of sound financial policies. Some of these institutions include the Commercial Banks, Rural banks, Building societies, Credit Unions, Trust Companies and Mortgage Loan institutions.
- Insurance companies and pension funds.
- Brokers, underwriters and investment funds

These financial institutions assist in undertaking function such as accepting of deposits, provision of commercial loans, real estate loans, mortgage loans and issuing of share certificates. They are therefore responsible for taking funds from investors to companies in need of those funds ensuring that there is flow of funds in the economy. (Siklos, 2001). Examples of the commercial banks in Ghana are GCB, NIB, ADB, SG-SSB, Ecobank Ghana, Barclays Bank, Unibank among others. There are a number of rural banks offering similar services in communities across the country in additions to, Credit Unions Savings and Loans Companies on the Ghanaian financial markets.

2.8 Alternative sources of funding for the SMEs

Some of the sources of finance that are available to SMEs are the following:

2.8.1 Family members, Friends and Personal Resources

One potential sources of finance available to SMEs are credit and contributions from family members and acquaintances. This type of finance normally comes with interest free and it is a common source of finance for start-up businesses in Ghana. Beneficiary of this facility must however be cautious as some of these contributors sometimes wish to control

the affairs of the enterprise based on their contribution made to the firm. As by Longenecker *et al.* (1994), personal savings or contributions of the individual owner and partners of the business could be a major financial avenue to support the firm at the beginning of its operation.

2.8.2. From Commercial Banks

According to Hisrich and Peters (1995); and Longenecker *et al.* (1994), commercial banks are the most sought after financial institution that SMEs usually relied on for their businesses. The facility which is granted to these SMEs is more into short term loan and at times long term facility. With the assurance of ability to resettle the facility, sometimes on collateral as noted by Kuriloff *et al.* (1993), these banks are apt in the provision of working capital for SMEs fixed assets.

2.8.3. Business Suppliers/ Trade credit

Business Suppliers also avail themselves by supporting these SMEs by provision of trade credit either in the form of goods, services, equipment loans or leases to these companies to be paid on an agreed schedule which could be a few days to many days (Broom *et al.* (1983). The amount the suppliers are willing to offer as a trade credit could be increased whenever just as the volume of a company's purchases increases

2.8.4. Equipment Loans and Leases:

Equipment loans and leases are one other area that could be supportive to SMEs in terms of financing. Many of these companies hardly could they buy the fixed assets needed for their firms at a go. Special arrangement therefore could be made for this machinery to be bought on an instalment basis on an agreed payment schedule. To Longenecker *et al.*

(1994), payment of about 25% to 30% initial payment could guarantee this assets and the remainder amortized over 3 to 5 years.

2.8.5 Venture Capital

Venture capital which could be termed as an investment firm also offer assistance and support to SMEs, these firms as said by Stevenson *et al.*, (1999), are pool of equity capital made possible by well-grounded rich and influential people, limited partners, and professions who oversee the firm outfit on a charge basis and on agreed process. Financial support is given whenever the firm they invested in developed financial challenges in it future operations. Sound financial information is given to this start-up business to guide their operations. Venture Trust Funds has been put up in Ghana to help start-up business stand on their feet been set by State and other developing partners. This facility date back to 1991, when USAID and CDC helped established this avenue as a way of provision financial services to meet the need of businesses in the country (Mensah, 2004). There is therefore availability of venture capital financing for SMEs businesses in the country.

SMEs could assess other funds from MASLOC, venture capital and other micro institutions Many of the SMEs preferably sought the MFIs since their terms and conditions of trade finance are much easier and accessible but the rates at which they gave out loans are even though too high with huge insecurity. Again, the venture capital in Ghana could be relied on by the SMES as they have been of great help especially to the newly established SMEs to endure the marketing environment. Above all, the MASLOC has lived to its financial obligation of helping to sustain it impact of helping to alleviate poverty through the granting of loan facility in the development of SMEs as they are in position to also assist the poor in acquiring loans.

2.8.6 Joint Venture

SMEs could also pool their resources together as a joint venture to be in a good standing to function as unit in order to boost their businesses. This alliance if well-formed can make them effective in their operation. Skills, resources and other capital could be brought together on an agreed principle and formula strategically to help the firm become well established and gained edge over other competitors in the industry. Smaller enterprises tend to benefit tremendously when they allied themselves with bigger firms to some extent under this move. More opportunities could be opened and therefore SMEs should consider this possible avenue to support their businesses financially.

2.9 Bridging Gaps in Access to Credit

Malhotra *et al.* (2007) have said that, MFIs experience in the sector indicates that a possible way that could help narrow the crack existing within demand and supply in terms of credits accessibility is to adopt innovative lending techniques. These techniques which when applied according to Holtmann *et al.* (2000) could help reduce the incidence are the following:

- Loan application should be scrutinised based on the applicant payment ability that is cash flow rather than on collateral. There should be standardisation of the process to curtail long loan approval.
- Follow up mechanism on the borrower should be implemented. Officers should be apt to client loans obligation. The control mechanism if put in place could help address any unforeseen circumstances that is likely to arise during the payment of the credit facilities. New technological innovations should be adopted to see to the management and administration of the credit facilities.

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CHAPTER THREE METHODOLOGY

3.0 Introduction

The chapter three of this research looks at the research methodology adopted. It will also include research design, the population, the sample size, the sampling techniques, types of data, sources of data, collection instrument, technique and procedure, data presentation and analysis, and then the limitation in the data gathering.

3.1 Research Design

This research work used a statistical research design approach. The statistical research design is about the description of the data, characteristics about the population or the event the study is about. Since the main purpose for this work is to determine the challenges in assessing credit from financial institutions in Ghana, it is prudent to adopt this kind of approach in order to generate significant data that might answer the research question. Again by this methodology, appropriate response would be obtained from respondents' perceived idea on the challenges in assessing credit from financial institutions in Ghana.

3.2 Population

The targeted population for this study are owners/managers of SME's operating in the Ashanti Region. SME's are normally into operations such manufacture, wholesale, retail and other services.

3.3 Sample size

Sample could be said to be the way of selecting enough element from the population under study. Within this study, appropriate sampling was chosen from the population so as to be able to achieve the objectives of this research.

The sample size selected were 80 participants from SMEs who manufacture, wholesale, retail and undertake service operation within the Kumasi metropolis. These SMES have been dealing with Banks in their operations in different ways and have also been complaining of their inability to acquire loan to expand their businesses.

Table 3.1: Showing the Sample Size of the chosen respondents

NAME OF SOME SELECTED SMEs IN KUMASI METROPOLIS

Name of business/ SMEs	Location	Number of respondents
Ababio Express	Asokwa	1
Ackne Cottage	Ejisu	1
Adoma Bakery	Monaco Junction	1
Adom Coldstore	Ahinsan-Estate	1
Adu-Gyamfi Herbal Drugs	Asuoyebo	1
Adusei and Brothers Cosmetics	Sojaline	1
Agya Appiah Distillers	Adum	1
Agyengo Phones	Kronom	1
Alhaji Kooko Bitters	Tanoso	1
All Friends Fm	Kejetia	1
Asare Drugs	Suame	1
Atta-Saow Stores	Adumenu	1
Awo's Makeup	Adum	1
Awo's Diewuo Special	Ampabame	1
Best –Point Savings and Loans Limited	Apire	1
Boadi Creations	Fakyenebra	1
Century Purified Water	Tanoso	1
Christ the King School	Asokwa	1

Classy Nails	Kwaadaso	1
County hospital	Tafo Nhyiaeso	1
Danny's Printing Press	Amakom	1
Davis Laundry Services	Bantama	1
Deep Purified Water	Kwaadaso	1
Desirige Agro chemicals	Pampaso-Adum	1
Diva Saloon	Tafo	1
Eazzy Ventures	Susaso	1
Eddy Kay Series	Santasi	1
Emma Riz	Adum	1

Enoch Electronics	Kotei	1
Ever pure Purified Water	Santasi	1
Family Drilling Company	Boukrom	1
First Care Hospital	Oforikrom	1
Flora Decorations	Kronom	1
Florence Collections	Adum	1
Focus Studio	Asafo	1
Foster's Agrochemicals	Ohim	1
Frempe Tiles	Patasi	1
Frontiers Printing Press	Ahodwo	1
Girls Girls Boutique	Buokrom	1
Hagar's Nutpaste	Sofoline	1
Hamburger Educational Complex	Suame	1
Holy Spirit Electronics	Abrepo –Highways	1
Jojo's Palace	Fumesua	1
K2k Designs	Agric Junction	1
Kama health Services	Atasomanso	1
Kenkey Boutique	Ohim	1
King's Doors	Manhyia	1
Lizzey Designs	Oduom	1
Lobito Creations	Fakyenbra	1
Mamroski Enterprises	Tech Junction	1
May's Orders	Adiebra	1
Mizpah Rentals	Apire	1
Mo Mary's Supermarket	Tanoso	1
Morvee Fast Foods	Aboabo	1
Naggie's Complex	Oforikrom	1
New Mission Academy	Kwaadaso	1
Now open Chop bar	Boadi Junction	1
Nso Nyame Ye Fashion Centre	Krofofrom	1
Nsupawaha Ventures	Pankrono	1
Nyame bekyere Bakery	Kotei-Deduako	1
Oboloo Barbering Shop	Amakom	1
Odo Oils	Gyinase	1
Osei-Bonsu leather shoes	Suame –Magazine	1
Perfect Beauty and Body Therapy	Pankrono	1
Pimps Plans and Decorations	Ohim	1

Rattary Park	Bantama	1
Rekarel Agro chemicals	Odeneho Kwaadaso	1
Ritty Fisheries	Asuoyeboa	1
Ruzak Enterprise	Sofoline	1
Samas hotel	Angloga Junction	1
St. Anthony's Hospital	Bokro Station	1
Studio 225	Boadi Junction	1
Suzzy hair –do	Asokwa	1
Talent Microfinance	Atonsu	1
Tee Tavern Catering Services	Suame -Maakro	1
Union Savings and Loans	Dichemso	1
Vera Lightning	Nhyiaeso	1
Verona Catering Services	Bantama	1
Vidal Fruits	Tafo-Pnakrono	1
Vixx's Microfinance	Ahinsan -Estate	1

3.4 Sampling Technique

The convenient non-probability sampling technique was adopted in selecting participants to answer the questionnaire. This made it easier for the researcher to choose respondents as easier as possible. The study was therefore undertaken on this technique due to the fact that it is not only people of one area that face the challenges of assessing credits from financial institutions, but the challenges are wide spread in Ghana.

The sample size selected were 80 participants within the Kumasi metropolis who are customers who patronises the services of financial institutions.

3.5 Sources of Data

Healey (1997) defined data as any information collected as part of a research projects and expressed as numbers. Data for the research were obtained from the field work and the existing literature and documentations.

While primary data is new data to be collected from the field for the research work, secondary data on other hand is about existing data that have been published or an existing documentation which are useful for a particular study. The primary sources for this search comprise of basically a questionnaire and personal interviews that were distributed to

respondents within the Kumasi metropolitan assembly. Handbooks, manuals and other documentation such as Overdraft account reports were used as the secondary data for this study.

3.6 Data collection Instruments

An open and closed structured based questionnaire on the research question were properly developed and distributed to the appropriate respondents within the Kumasi Metropolis. This particular type of instrument were used because the respondents were to respond to the questionnaire whenever they are free to do so as it is easier to complete most of the closed ended questions. Again the open ended questions also afforded the respondent to offer responses that could not have been provided should all the questions were closed ended. Thus the open ended questions were flexible for answering. The questionnaire was divided into sections taking into account the socio-economic background of the various respondents.

3.6.1 Procedures for Collecting Data

The researcher will collect an introductory letter from the Head of Department before going to the organization to collect the primary data for the study. The introductory letters presented the real identity of the researcher as well as to seek permission from the organization to carry on the study. The researcher upon administering the questionnaire will wait and collected the answered questionnaires on the day it was served to allowing the researcher to explain any question asked by the respondents. This will also give rise to further questions base on the responds given by the respondent in a form of an interview, to receive extra information which will be of great relevant to the research.

3.7 Data Analysis

The data that would be collected would properly be edited and then coded, using a statistical tool to generate tables, frequencies, percentages and chart to show relationships among the various items of the frequencies distribution tables. To make the analysis easy and accurate, the researcher will make use of Microsoft excel.

3.8 SMEs Profile in Kumasi Metropolis

This chapter presents the summary, conclusion and recommendation based of the results of the study.

The various SMEs contribute immensely to the socio-economy development in terms of employment. These SME consisting of trade, commerce, manufacturing, and agribusiness vastly dominated the SME sector (96%) according to this research.

The search reveals that it is due to the fact that little investment is required to initiate and run such business plus, they do not require any supervisory procedures to operate. Again, though with a huge potential to grow however faced with a huge money constraint.

Most of these financial and non-financial institutions have come to surmount this money constraint issue by providing start-up capital and expansion measures as the respondents pointed out clearly , which to a larger extent not helping at all because of the high interest rate levels.

CHAPTER FOUR

DATA PRESENTATION, DISCUSSION AND ANALYSIS

4.0 Introduction

The chapter four is about data presentation, analysis and discussion of the data collected based on the methodology adopted for the study. The analysis is aimed at presenting the findings from the field work that was carried out using charts and tables.

The background and the challenges of the selected SMEs who are beneficiaries to the products of these respective financial and non-financial institutions like the Commercial banks, Development banks, Microfinance institutions, MASCCO, and others under the study, the contributions of the SMEs within the Kumasi metropolis would be analysed and discussed.

4.1 Responses Received

The questionnaires distributed in the various categories of the SMEs including the financial institutions as well. In all, 80 questionnaires were distributed for responses but only 50 respondents received, representing an overall responses rate of 62.50%. The data was analysed with the aid of statistical tools and presented vividly with tables, bar charts together with correlation analysis to draw inferences. For clarity and easy reading, the analysis was done in relation to the objectives of the study. In view of this, this chapter has been divided into four sub-headings: the demographic characteristics of respondents, the contribution of SMEs towards national development, the challenges SMEs face in their operation and the sources of funding SMEs in the country.

4.2 Demographic Characteristics of Respondents

This section presents the biographic statistics like age groups, gender, educational level, income group and years of experience.

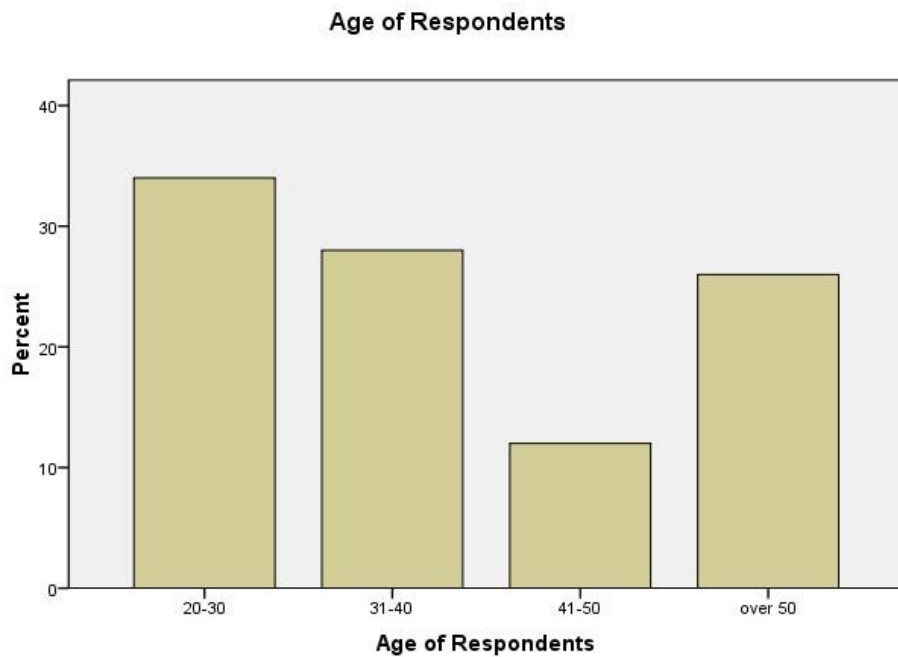


Figure 1: Age of respondent

Source: Field Survey, July 2015

Figure 1 shows the ages of the respondents, 34% of them were in the group of 20 to 30 whilst 28% were in the group of 31 to 40. The rests 41 to 50 had 12% whilst 50 and above also had 26%. This indicates that the research was not bias in terms of selecting the respondent for the survey. This also gives a very good interpretation as far as age is concerned showing that both the youth and aged are given the opportunity to explore their entrepreneurial skills and knowledge.

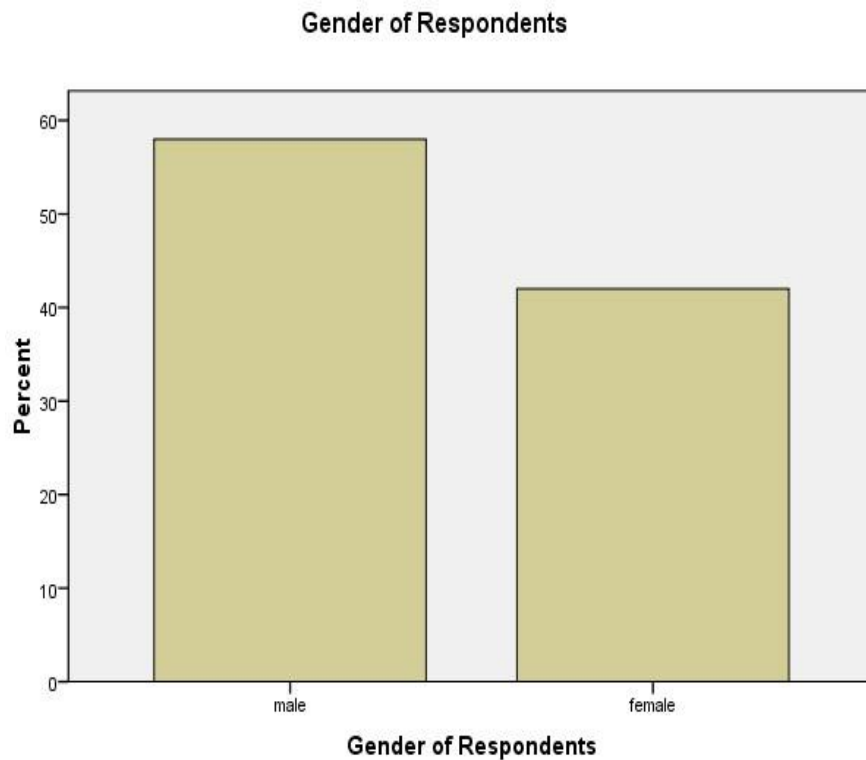


Figure 2: Gender of respondents

Source: Field Survey, July 2015

The diagram above shows the gender positions in the survey: 58% of the respondents were male whilst 42% were female. Once again the researcher was also not bias because the age distribution is almost evenly distributed. Therefore the outcome will truly reflects the entire population that people love to love irrespective of the status.

The educational level can also not be left out. From the respondents, 28% had GCE/O/A Levels 22% had HND, those with the first degrees and the second degrees were 24% and 26% respectively as depicted by Figure 3 in the next page. The researcher did not try to use only one particular educational group but distributed randomly to the respondents.

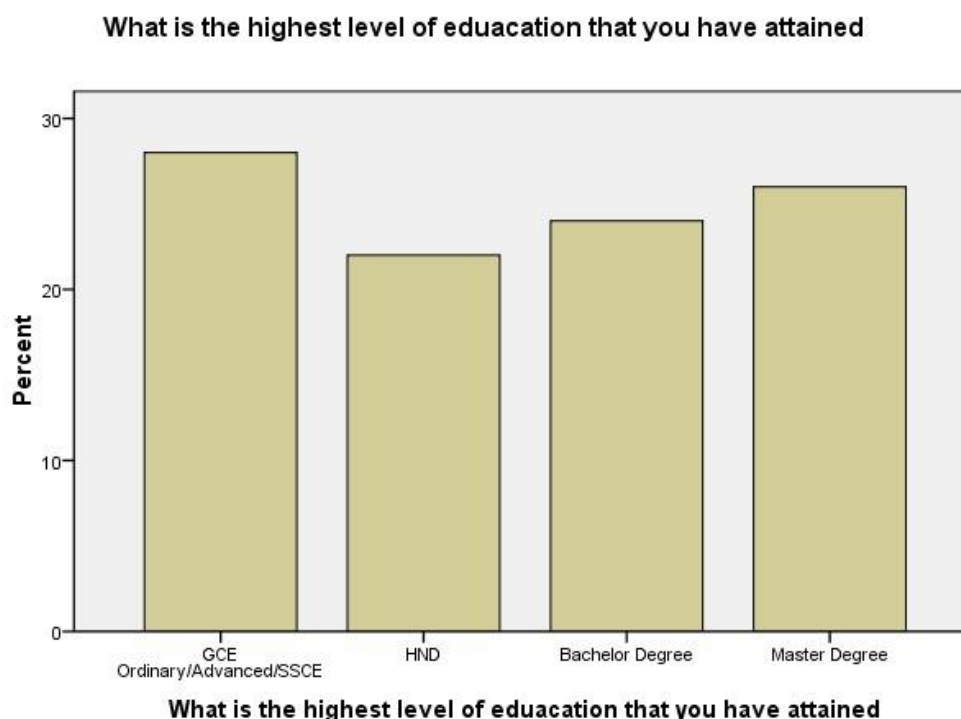


Figure 3: Educational level of respondents

Source: Field Survey, July 2015

4.3 Background of Selected SMEs

This particular section of the research work was undertaken to determine the social background of the selected respondents due to the fact that knowing the background of the respondents helps the researcher in data analysis. Therefore there was a need to find out the inventory levels as well as knowing when the SMEs began operation. The next figure which is Figure 4 deals with average monthly income of the respondents. Those within the group of GHS 15,000 and below represent 34% whilst those within the group of GHS 15,000 and GHS 25,000 also had 16%. Group GHS 25,000 to GHS 35,000 and others had 12% and 38%. This indicates that majority of the respondents' falls under the other category followed by those less than GHS 15,000. This brings to mind that assess to credit is a problem and that has cause almost one-third of the respondents to have their average monthly income below GHS 15,000. The figure in the next page explains more.

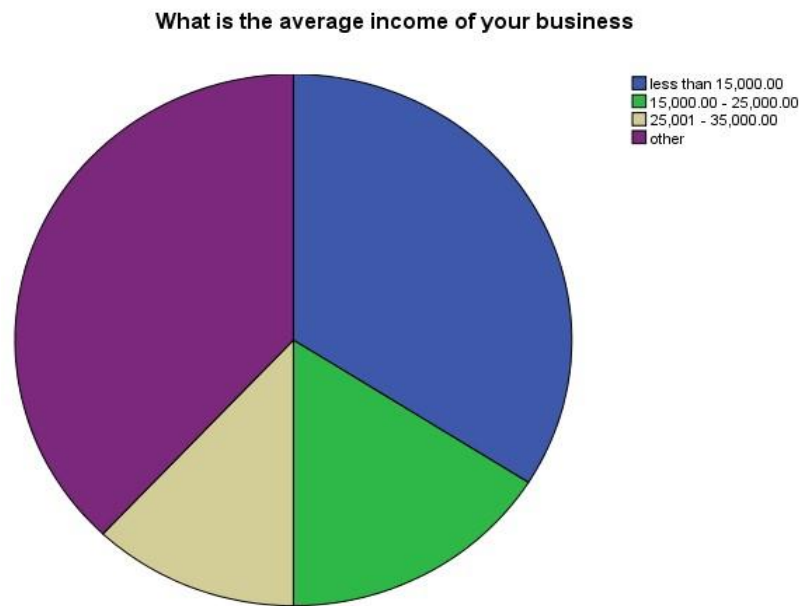


Figure 4: Average monthly income of respondents

Source: Field Survey, July 2015

The last but not the least demographic information is about the years of experience of the respondents. Between one to five had 12% whilst those between six to ten years also had 44%. Again, between eleven and fifteen and then over fifteen years also had 14% and 30% respectively. Therefore majority of the respondents fall between six and ten follow by over fifteen years. This gives indication that a lot of the respondents have the experience in the managing these small and medium enterprises. Based on this it is appropriate to infer that the majority of the SMEs sampled came into existence in the 21st century. The above can be further explained by figure five in the next page. The information given shows that none of the respondents experience was below one year.

How many years of experience do you have in managing this firm

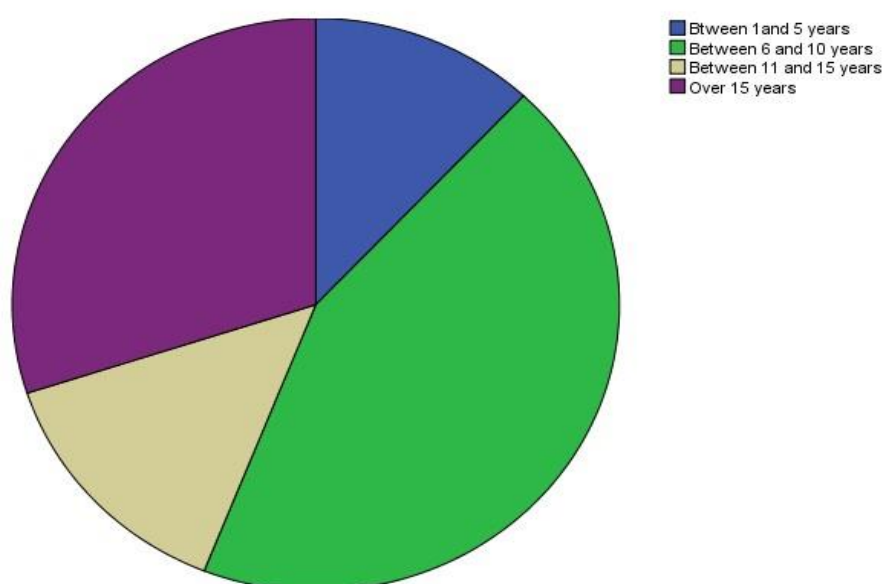


Figure 5: Years of experience of respondents

Source: Field Survey, July 2015

4.4 Purposes of establishing SMEs

The respondents were asked to state their state the purpose that drove them to establish their firms. The study identified and concluded on the premises of other research works thus, SME employability was quiet limited owing to several reasons such as inability to pay salaries and finance operations. Consequently, the study went further to ascertain the real employment situation on the ground with regards to SMEs in Ghana .A lot of them build on their entrepreneurial skills as they cater for the family.

The number of employees borne by the individual SMEs across the various categories captured in this study ranged between 2-99. In terms of the statistics, majority of these businesses employed between 6 to 9 people comprising 38% of the sample whereas those 30% employ between 10-29 people. A considerable number, specially, 28% did employ less than 6 people.

The statistics then shows how much SMEs are contributing in terms of employment in spite of their low rate of employment. This finding shows that the Kumasi metropolitan Assembly (KMA) is dominated by trading activities with the employment level of 71%. Again, it could also be said that most SMEs in the Kumasi metropolis area employed less than 6 people in their businesses.

4.5 Types of credit facilities available for business

Table 4.1: Showing Sources of credit for the SMES

Sources of Funding	Favourable (%)	Unfavourable (%)
Personal Savings	70	30
Retain Profit	70	30
Private Institutions	52	48
Trade Credit	62	38
Non bank financial	46	54
Susu	50	50
Family and Friends	48	52
Table 1: Sources of funding		

Source: Field Survey, July 2015

On the sources of business capital which remains an integral part of every business, it was found that, respondents were given lists of funding and were asked to rate them as favourable or not favourable. Table one shows that (70%) said both personal savings and retained profit were favourable whilst the rest said otherwise. Concerning non-bank financial institutions and family & friends, the respondents whose said it was unfavourable was higher than those who said it was favourable whilst Susu was indifferent or at par. This indicates that the sources of funding for the SMEs that were selected consider personal savings and retained profit as their major funding for their firms. However, all the respondents really agreed that their capital resource based for their activities are not enough to expand their businesses to meet the growing demand of their services. This becomes a challenge for major expansion within the firm causing low production and consequences low profit.

4.5.1 Frequency of Credit Requests

This section deals with the rate by which the various SMEs access loan facilities to expand their businesses. The issue about credit request and responses varied from one SME to another, as many of them needed recapitalization as often as possible whilst others do not need the facilities at all.

As the Table 4.5.2 below shows, 54% of the respondents do not need the loan facilities as often as possible while 39% often required the facilities loans and then 7% of the respondents said that they do need the loan facility very often. It therefore gives credibility to these beneficiaries of MFIs, Commercial banks, Savings and Loans companies who provide credit to the SMEs many times as the need arises. This shows that SMEs are often not willing to apply for loan whenever the need arises due to its associated high interest

that normally comes along with loan and the challenges to encounter in meeting the requirement of the loan.

Table 4.2: The rate at which credit is accessed by the SMEs

Item	Very often	Often	Not often
How often do you need a loan	7%	39%	54%
How often do you apply for a loan	30%	69%	1%

Source: Field Survey, July 2015

4.6 Challenges in accessing credit in Ghana by SMEs

The result indicates that there are challenges affecting SMEs in their quest to assess credit facilities. Respondents were given a number of barriers to rank in terms of how they agree to those barriers in affecting their ability to assess credit facilities and among these are as follows; Respondents were asked about how the lending rates affect their ability to assess credit in expanding their operation. Below is how the respondents gave their views about whether the lending rates offered by the financial institutions affect their ability to assess credit.

Respondents representing 10% strongly disagree that lending rate offered by financial institutions are not high therefore they don't have any challenge as far as lending rate is concern. The 30% of the respondents also disagree to issue of high lending rate whilst 4% remain neutral. Again 26% each agree and strongly that the lending rate is and is affecting business. In a related discovery, most of the respondents who had knowledge of MFIs, Commercial banks, others alluded to the fact that loans from these financial institutions to some extent are used in enhancing their managerial skills and financial efforts in the business. The needs to pay the loan facility make them to circumspect in their operations. In conclusion those who agree that lending rate is high are slightly above otherwise. The diagram in the next page further elaborates it.

KNUST

Highlending

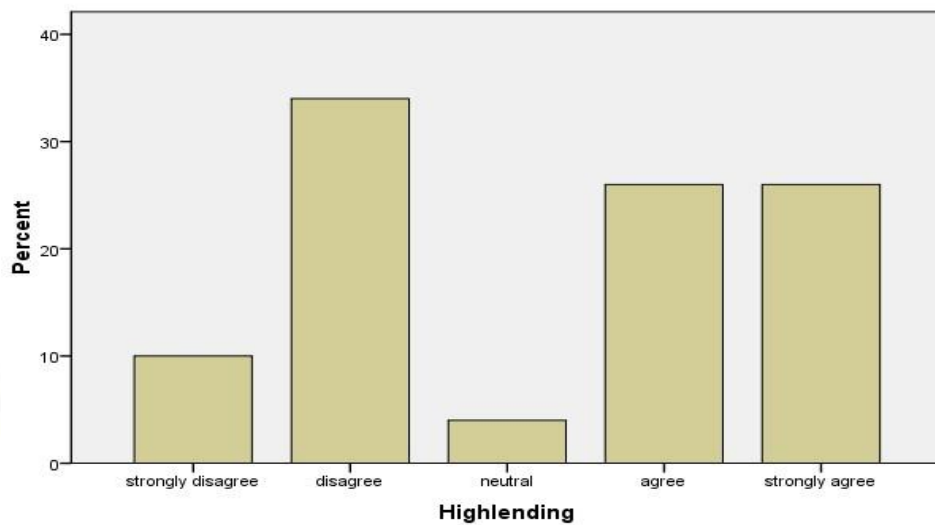


Figure 6: High Lending rate

Source: Field Survey, July 2015

Lack of collateral was also one of the barriers that respondents were asked whether it also affects their ability to assess credit facilities from financial institutions.

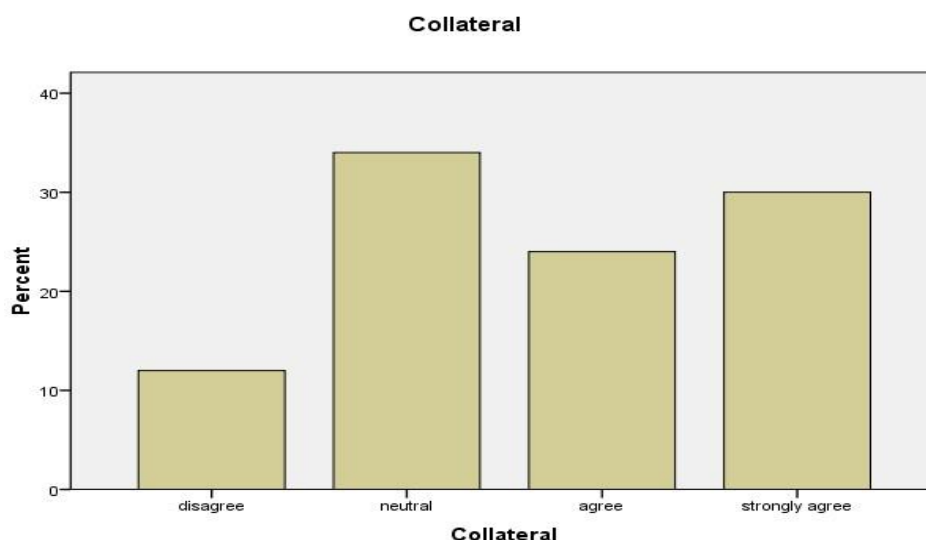


Figure 7: collateral for loan access

Source: Field Survey, July 2015

(12%) of the respondents disagree that collateral or guarantees requirements affect their ability to assess credit facilities, (34%) were indifferent whilst (24%) and (30%) agree and strongly agree respectively that collateral requirements affect their ability to assess credit facilities from financial institutions. Last but not least in addressing barriers, respondents were asked whether poor credit experience or history also affect their ability to assess credit from financial institutions. (26%) strongly disagree to that fact whilst (8%) also disagree to that. (26%) remain neutral whilst (22%) and (18%) of the respondents agree and strongly agree respectively to the fact that poor credit experience or history affect people's ability to assess credit from the financial institutions.

4.7 Contributions of the Government of Ghana in solving SMEs problems

4.7.1 Granting of short term loans facilities

The government involvement in the SMEs operation shows that, they are aware about the operations of the SMEs as the government sometimes gives short term loan to these SMEs.

Again it is proven that sometimes, medium term loans are also provided to assist the manufacturing industries through these financial bodies like the MFIs.

4.7.2 Improved access to loans facilities

In this research, 95% loans requests from the SMEs were granted by the MFIs. The study shows that most SMEs are at the micro operational stage while other are new entrants into the industry therefore they require small loans, other SMEs however dealt with more than a single MFI. The government helped them by facilitating their loan application to financial institutions.

4.7.3 Business, Financial and Management Training

Government has provided capacity building support services for SMEs to position them effectively in their operations. Large majority consisting of 86% of the respondents were in tune that services and role the Government of Ghana being offered through the Bank of Ghana (BOG) and other mini- banks have had a progressive result on their various businesses of the SMEs.

The government through the Bank of Ghana has created an attractive platform that allows all micro-entrepreneurs to save the little they can or earn on a daily basis with more interest at a lower cost from these financial and non-financial institutions as a whole. These help them as a basis to access capital. Therefore the attitude towards saving has greatly been improved.

4.8 Alternative sources of funding for the SMEs

Respondent were asked if they have other sources of credit to finance their companies. (80%) said they have whilst (20%) said no. This indicates that majority of the people have other source of funding. Subsequent question was asked to identify the other sources of funds to their firms and these were their responses.

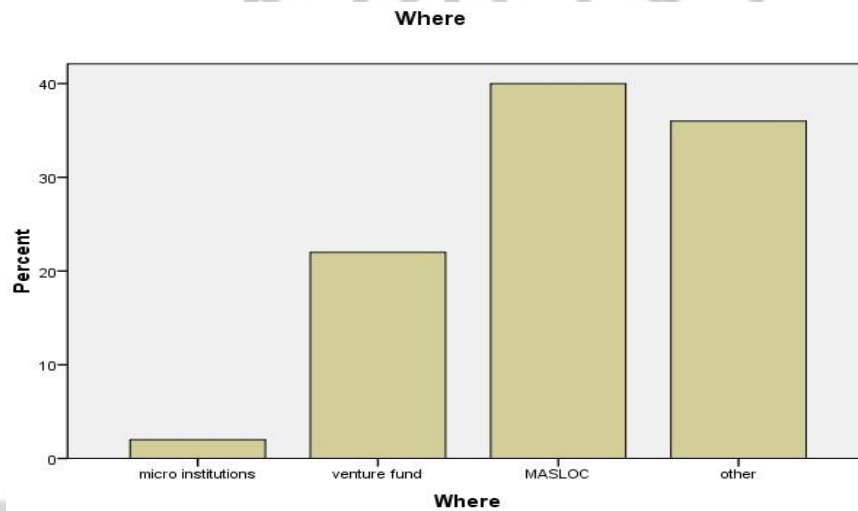


Figure 8 Alternative sources of funding

Source: Field Survey, July 2015

(40%) said they assess other funds from MASLOC, (22%) said they assess through venture capital. (36%) and (2%) assess through other and micro institutions respectively. Many of the SMEs preferably sought the MFIs since their terms and conditions of trade finance are much easier and accessible but the rates at which they gave out loans were too high with huge insecurity levels ranked, so a lot of these SMEs backed off and started sort funds from the others. Again, the venture capital has being of great help especially to the newly established SMEs to emphases on growth not profit-making as compared to the MFIs. Above all, the MASLOC has lived to its financial obligation of helping to sustain it impact of helping to alleviate poverty through the granting of loan facility in the development of SMEs as they are in position to also assist the poor in acquiring loans.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

The chapter five of the study conclude the study by presenting the summary of findings, conclusion and recommendation.

5.1 Summary of Findings

The finding shows some of the challenges affecting SMEs operations in Ghana and of which they need surmount in their desire to access loan facilities.

The study revealed the following key findings:

The main sources of funding for the SMEs are their personal savings and retained profit for their businesses.

The SMEs have to overcome a lot of challenges in their operations as most of them fall within the semi- literates category and thus filling of forms to apply for loan from the MFIs, Commercial banks, other Investments banks, and so on sometimes become very difficult leading to lengthy period employed in the processing of their request. This situation really slows down their operations.

Again it is evident from the study that, SMEs are unable in assessing credit facilities as the respondents indicated that there is issue of high lending rate from the financial institutions that do not encourage to apply for loan facilities. This often makes them unable to honour their loan obligation repayment.

The study also shows that most SMEs in Ghana are not able to provide collateral securities as a guarantee to acquire loan from the financial institutions. Respondents were asked whether it also affects their ability to assess credit facilities from financial institutions. Majority agree that collateral requirements affect their ability to assess credit facilities from financial institutions.

Also the study indicates that lack of proper documentation in terms of business registration and department of businesses, poor records makes it very difficult for government support. The findings show that there have been contributions by the government in supporting the growth of SMEs to help lessen the issue of money constraints as most of the financial institutions such as the MFIs were unable to solve therefore the SMEs entrepreneurs indicated that they could not access credit from the traditional banks only but the government has to support also.

These contributions are enumerated as follows are in better access to loans and capacity building to help them improve upon their attitude towards saving.

Finally about 72% of the SME apply the loans facility for the reason it was acquired. Again the facilities when acquired helped to stabilises the activities of the financial institutions for better service delivery as the SMEs are apt to prompt payment of the loans. However, others who misapplied the loans defeat the purpose of all such financial institutions like the MFIs, Commercial banks, traditional banks so on who provides them with credit causing inability to achieve growth in the business. This normally results in a request for higher collateral on subsequent application of loans when the need arises.

5.2 Conclusion

This study was to assess the availability, accessibility and the challenges inhibiting SMEs in their quest to access loan facility from the various financial institutions in Ghana. The study shows that SMEs are facing daunting challenges in their operation in the Kumasi Metropolis. It is worthy to note that the operations of the SMEs are curbed with some major challenges to a very large extent, again the research findings also show that the

SMEs have contributed to the national development through business, financial and managerial training programmes.

Again, the financial institutions that were largely established have used the saving mobilisation schemes to help SMEs save their income for them to have easy access to loans. This development has enhanced the savings attitude of the SMEs as more income are generated. As the upsurges of the MFIs and other traditional banks in the Kumasi Metropolis has improved the activities of the SMEs, the research however reveals that the challenges faced by the SMEs are solved gradually by the government and other agencies like the venture capital, MASLOC for easy accessibility and availability to loans.

The research shows that it is obvious that there is no quick and simple solution to the challenges faced by the SMEs and requires different programmes and alternatives to meet their needs. The role played by GVCTF together with MASLOC in controlling SMEs through the government and other financial bodies has impacted positively the operations of SMEs.

5.3 Recommendations

The following recommendations are given based on the study to help improve the operations of the SMEs in the Kumasi Metropolis for a sustainable growth. Therefore various bodies such as policy makers, government, opinion leaders, academics, Non-Governmental Organizations (NGOs) and researchers should consider the adoption of the recommendation.

There is the urgent need to help solve the challenges of the SMEs by creating a favourable platform or business environment for the thriving of the SMEs growth in Ghana. Through this, they will be enlightened and become and contribute their quota national development.

Banks and non-financial institutions should be able to maintain good cash flow to meet their operations in order for them to be able to meet the loan applications of the various SMEs. Incentives should be available to help minimise the impact of the challenges of the SMEs in getting loan from the financial institutions for their operations. Financial institutions should set up a unit within their outfit to provide capacity training support to the various SME in their jurisdiction as a form of their social responsibilities. Finally SMEs should endeavour to rely on the governmental agencies such as MASLOC and GVCTF for financial direction whenever the need arises.

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APPENDIX A
KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS
QUESTIONNAIRE FOR SMEs OWNERS

This questionnaire attempts to measure the development of the SME sector in the Ghanaian economy. The challenges faced by the sector, some recommended solutions to these challenges and the way forward. It will broad look at the impact of the SME to the Ghanaian economy.

The research is being conducted in the partial fulfillment to the award of an MBA from the KNUST, School of Business.

Kindly answer each question as frankly as possible, ticking or inserting the appropriate answer.

Section A

SECTION I:

DEMOGRAPHIC BACKGROUND

1. Please tick your age group

☐ 20-30 years

☐ 31-40 years

☐ 41-50 years

☐ Over 50 years

2. Gender: ☐ Male ☐ Female

3. What is the highest level of education that you have attained?

☐ GCE Ordinary /Advanced/SSCE

☐ Higher National Diploma (HND)

☐ Bachelor Degree

☐ Master Degree

4. What is the average monthly of your business?

☐ Less than GHS 15,000.00

☐ GHS 15,000.00-GHS25, 000.00

☐ GHS 25,000.00-GHS35, 000.00

Others (specify) GHS.....

5. How many years of experience do you have in managing this firm?

(Please tick as appropriate)

☐ Less than one (1) year

☐ Between 1 and 5 years

☐ Between 6 and 10 years

☐ Between 11 and 15 years

☐ Over 15 years

SECTION II

This part aids to know the various contributions of the SMEs in addressing development. Please answer by ticking ☐ the table below.

6. Name of organization/Enterprise:

7. Nature of Organization. (Please tick as appropriate)

☐ Private Limited Company

☐ Public Limited Company

☐ Partnership

☐ Sole Proprietor

☐ Family Owned Business

Others (please specify).....

8. Nature/Kind of organization (please tick as appropriate)

☐ Retail trading

☐ Export

☐ Manufacturing

☐ Services

☐ Real Estate

☐ Farming

Other (specify)

Section B

I. The following questions find your perceptions on the barriers to the SMEs productivity levels.

9. Please rate by indicating whether you strongly agree (5) Agree (4) Neutral (3) Disagree (2) strongly disagree (1)

Barriers faced by the SMEs in production	1	2	3	4	5
Their survival to take competitive advantage					
Informality-poor management structures and systems					
Uneven IT awareness and management skills					
Limited knowledge of business opportunities					
Low rate of return on capital Investments					
Inability to balance productivity in terms of quality and growth Changes in the environment such as globalization, political, social, economic and technological differences					
High lending rates from the financial institutions					
High cost of taxes (inclusive					
Lack of collateral /guarantees requirements					
Input constraints					
Lack of formal procedure and discipline					
Inadequate complied financial records and accounts (Audited account)					
Poor credit experience or history					
Inadequate financial infrastructure					
Informational risk					
Managerial incompetence					
Regulatory and legal constraints					
Market constraints					
Inability to capitalize on the advantage of ICT					

II. Alternative Sources of Funding SMEs Are Resorting To:

10. What are your sources of funding for the business (please tick all that apply)

Bank loans	Favourable	Unfavourable
Personal savings		

Retained profits		
Private institutions		
Trade credit		
Non-bank financial institutions		
Susu		
Family and Friends		

11. What are the interest rates demanded on these sources of funding in your business?

Please tick as appropriate []

[] Less than 20% [] 21-30% [] 31-40% [] Above 40%

12. How did you find these lending rates in connection with the SMEs accessing credit? Please tick []

[] Extremely high [] High [] Acceptable [] Low

13. Are there any other sources that you have accessed credit to finance your company?

YES [] NO []

14. If Yes, Where?

[] Microfinance institution [] Ghana Venture Capital Fund (GVCF)

[] Microfinance and Small Loans Centre (MASLOC)

Others Specify).....

15. After providing the credit facilities, how satisfied are you? Please tick []

[] Very satisfied [] Satisfied [] Not satisfied at all

16. What policies or strategies will you recommend to the management of SME's in terms of improving their productivity?

.....

17. Other comments regarding this research, please state if necessary, the ways of solving these challenges faced by the SMEs.

.....

.....

.....

THANKS MUCH.

