KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

FINANCING SMALL AND MEDIUM SCALE ENTERPRISES IN THE OIL PALM PRODUCING SECTOR IN THE AHANTA WEST DISTRICT OF THE WESTERN REGION.

BY

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DECLARATION

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

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DEDICATION

I dedicate this work to the Coleman Family especially to my late brother Abraham Kow Coleman who supported me in my education at a time where there was no hope and all my friends and loved ones.

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First, I am so grateful to the almighty God for seeing me through this program. I thank Him for the knowledge, wisdom and understanding and also His strength and protection throughout this two year program.

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I say God richly bless and replenish in double folds whatever you have lost because of me. Thank you.

ABSTRACT

Financing business has been a major problem facing most businesses, both the small and large companies as well as the medium ones. Small and Medium Scale Enterprises (SMEs) is of no exception of the problems faced by businesses. These enterprises were mostly managed by people of low income to serve as income provider for their families. Some of these enterprises cannot grow into large companies because of lack of funds. The study therefore identified the various means of financing SMEs in the oil palm producing sector in the Ahanta West District of the Western Region. The study had the various objectives as to identify the various forms of funds available to SMEs in the oil palm producing sector of the Ahanta West District of the Western Region, find out the funds that have been actually accessed by oil palm producers in the Ahanta West District, and identify some other means of financing the oil palm production

Descriptive research design was used for the study. The instruments used to gather data for the study was questionnaire for oil palm producers and unstructured interview for Ahantaman Rural Bank bank which is situated in Ahanta West District. Fifty respondents were sampled from the oil palm producers using convenience, quota and simple random sampling techniques while four respondents were sampled from the bank using purposive sampling technique. Data collected were analyzed with both quantitative and qualitative methods. The study revealed that majority of oil palm producers in the Ahanta West District financed their operation with personal savings and have not access any loan from the bank. It was recommended that Ahanta West District Assembly should set funds aside to provide for financial needs of SMEs in the district.

ACRONYMS

SMEs - Small and Medium Enterprises

PAMSCAD -Programme of Action to Mitigate the Social Cost of Adjustment

EMPRETEC- Entrepreneur and Technology

UNDP – United Nation Development Programme

NGO - Non Governmental Organizations

UNIDO - United Nation Industrial And Development Organisation

AIM- Alternative Investment Market

NBSSI - National Board for Small Scale Industries

GSS-Ghana Statistical Service

GEDC-Ghana Enterprise Development Commission

MSME- Micro, Small and Medium Enterprises

POT -Pecking Order Theory

UNCTAD- United Nations Conference on Trade and Development

DFIs- Development Finance Institutions

MFIs – Microfinance Institutions

SSA- Sub-Saharan Africa

CGAP - Consultative Group to Assist the Poor

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CHAPTER ONE

INTRODUCTION

1.0 BACKGROUND OF THE STUDY

Small and Medium Enterprises (SMEs) play a significant role in the world's economy in both developed and developing countries. SMEs contribute a significant percentage of national income and employ a significant number of people in many countries around the world. SMEs are vital for economic growth and development because they encourage entrepreneurship, generate employment, and reduce poverty, which the oil palm producing sector not an exception. It has generated employment as well as reducing poverty for the people of Ahanta West Dstrict of the Western Region of Ghana.

The SMEs like all other businesses entities depend heavily on financing, but sadly, they did not get such support to enable them to expand and move the wheels of development forward. SMEs, they were predominantly family owned, had unattractive credit and financial history, only a few of small enterprises approached the banks for start-up capital and others turn to banks for assistance for operational capital. They blamed commercial banks for over concentrating on the huge corporate clients to the detriment of the SME's.

According to Ghana News Agency, Business and Finance on November 25, 2003, Professor Stephen Adei said that SMEs properly oriented were not as high-risk borrowers as they were perceived to be. "In Ghana, 80 per cent of those who took loans under the Programme of Action to Mitigate the Social Cost of Adjustment (PAMSCAD) in the previous regime repaid it." The efforts of EMPRETEC, transferring managerial and training skills to SME's have shown that SME's grow very fast and needed to be considered as sources of bankable projects with very high futuristic potential. EMPRETEC has achieved 90 per cent recovery rate of its UNDP grant credit facility, adding that, between 1987 and September 2003, the loan portfolio rose from 1.7 billion cedis to 8.2 billion cedis with beneficiaries increasing from 382 to 1,213.

A win-win situation where innovative approaches, such as replacing high-value collaterals with assets of businesses third-party personal guarantees instead of immovable assets of collaterals demanded by traditional bank. There are factors (internal and external) that enhance SME’s competitiveness as well as affecting the financing of SME’s especially those in the palm oil producing sector. These factors have both positive and negative effect on the business of these SME’s. Thereby affecting the profitability and survival of these businesses.

This study examined how SME’s were financed and other possible means of financing especially those in the oil palm producing sector in the Ahanta West District in the Western Region. This is because the issue is of critical significance given the important role SMEs play in the Ghanaian economy.

1.1 STATEMENT OF PROBLEM

Oil palm production has been the main occupation for the people of Ahanta West District in the Western Region of Ghana. They derive their livelihood from this oil palm production. People in the Western Region purchase this product and some exported to the neighboring countries. Other businesses also depend on them for their input, like the soap industry. Junior and Senior High school in the region also depend on them for preparation of the students’ meal.

Increase in demand for their product, has put pressure in the limited quantity produce by them. Oil palm producers cannot increase quantity produce due to lack of funds to purchase the palm fruits from the palm fruits producers. Due to that, the palm fruits producers tend to sell their produce to Norpalm Ghana Limited and Benso Oil Palm Company Limited, which they pay higher price for the palm fruit as compared to SMEs of the palm oil producing sector in the district. In addition, the sector is faced with lack of facilities needed in the production of the product. This capital inadequacy prevents them from expanding and even some are in the verge of collapsing.

In the light of these problems, the study tried to find out other sources of fund available to the palm oil producing sector in the Ahanta West District in the Western Region of Ghana in order to increase production and minimise the above mentioned constraints faced by these oil palm producers in the district.

1.2 OBJECTIVE OF THE STUDY

1.2.1 General Objective:

Generally, the study aims identifying and explaining how SMEs were financed especially in Ahanta West District of the Western Region of Ghana.

1.2.2 Specific Objective:

Specifically the objectives of this study were to:

1. Identify the various forms of funds available to the SMEs in the oil palm producing sector of the Ahanta West District of the Western Region.

2. Find out whether funds have been actually accessed by oil palm producers.

3. Find out whether proper records are kept by the oil palm producers to attract investors.

4. Identify some other means of financing the oil palm production.

1.3 RESEARCH QUESTIONS

In order to fully achieve the stated objectives, the following research questions will aid the researcher achieve the study objectives and these include;

1. Are there any fund available for SMEs to access and if there are, are they easily accessible?

2. Are there any records in place showing the disbursement of accessed fund to the oil palm producers?

3. What are the constraints attached to the funds available to the oil palm producers?

4. Apart from the funding what other factors affecting oil palm production in Ahanta West District?

5. Do you own equipment/ machine used in extracting the oil palm?

6. Has the government or any NGO come in to help in financing the oil palm business?

1.4 SIGNIFICANCE OF THE STUDY

This study will be of immense help to the SMEs especially those in the oil producing industry. To identify other sources of funding for their business and the means of accessing effective use of such funds. The financial institutions, which are into funding businesses, would be enlightened on better ways of financing SMEs through this study. The study will also go a long way of informing the leaders of the district on the major problems facing SMEs in the district and how best they can provide the necessary funds needed in their operations.

In addition the study will inform those in government about the work of SMEs in the oil palm producing sector in the Ahanta West District, challenges facing the oil palm producers and mechanisms that can be put in place in other to increase production as well as better their standards of living.

Finally, this study will serve, as a source of reference to other researchers who would like to undertake similar studies and contribute to knowledge.

1.6 SCOPE OF THE STUDY

The study could have been conducted to cover more SMEs in the Western Region of the country but due to the constraints stated below, it was restricted to only the oil palm producers in Aboadze, Ewoseadwo, Aiyiem and Akatenkye towns in the Ahanta West District. The main occupation of the inhabitants of these towns was production of oil palm that was why the study focused on these towns in order to get the needed information.

1.5 LIMITATIONS OF THE STUDY

Financing oil palm production has been the major problem facing SMEs, and finding out its impact on businesses caused the researcher to encounter some difficulties. This has been in the area of the respondents not keeping accurate data on their business to identify the actual progress of the business and the main problems the business faced. Some of the information was deemed confidential and were not willing to give them out.

Another constraint faced was the time available to undertake this study. The time was limited owing to the fact that the researcher has to combine the course, official work as well as the study.

In order to overcome the above-mentioned constraints, the researcher showed some level of interest in their operation and was involve in some of the production of the oil palm, so as to obtained the vital information which in the normal instance will not be provided. Timetable was drawn for the study in order not to conflict with official and other essential duties of the researcher.

1.7 ORGANIZATION OF STUDY

The study was organized into five chapters. Chapter one consisted of the background of the study, statement of problem, objectives of study, research questions, scope and finally limitations of the study. Chapter two reviewed related literature by providing both theoretical framework and empirical analyses while chapter three explained the methodology used in carrying out the study which consisted of the research design, population, sampling and sampling techniques, data collection instrument and methods of data analysis. Chapter four dealt with the presentation and analysis of data collected while chapter five summarized, concluded and offered recommendations for the study

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter reviews related literature for the study, by providing both theoretical framework and empirical analyses of related works for the study.

2.1 THEORETICAL FRAMEWORK

The study reviewed definitions and concepts of SMEs, characteristics of SMEs, characteristics of SMEs in Ghana, factors of SMEs financing decision (pecking order, capital structure, information asymmetry, strategic management, and the interest rate level). It also looked at corporate debt policy of SMEs in Ghana (age of the firm, . firm's size, asset structure, profitability, firm growth), major problems of SMEs, why lack of finance for SMEs, alternative sources of finance, the origin of microfinance, the state of microfinance in Africa, impact of microfinance intervention in Ghana and South Africa.

2.2 DEFINITIONS & CONCEPTS

There is no single, uniformly acceptable, definition of SMEs. Firms differ in their levels of capitalization, sales and employment. Hence, defining SMEs by employing measures of size, number of employees, turnover, profitability, net worth, etc when applied to one sector cannot lead to all firms being classified as small, while the same measures employed in defining SMEs when applied to a different sector could lead to different results. The first attempt to overcome this definition problem was by the Bolton Committee (1971) when they formulated an "economic" and a "statistical" definition of SMEs. Under the economic definition, a firm was regarded as small if it met the following three criteria:

(i) It has a relatively small share of their market place;

(ii) It was managed by owners or part owners in a personalized way, and not through the medium of a formalized management structure;

(iii) It was independent, in the sense of not forming part of a large enterprise.

Thus, the Bolton Committee (1971) employed different definitions of the small firm to different sectors. Table below indicated the various sectoral definitions:

Table 2.1: The Bolton Committee Definitions Of A Small Firm

Sector	**Definition**
Manufacturing	200 employees or less
Construction	25 employees or less
Mining & Quarrying	" " " "
Retailing	Turnover of 50,000 pounds or less
Miscellaneous	" " " " "
Services	" " " " "
Motor Trades	Turnover of 100,000 pounds or less
Wholesale Trades	" " " 200,000 pounds or less
Road Transport	Five Vehicles or less
Catering	All excluding multiples and Brewery – managed houses

Source: The Bolton Committee (1971)

The UNIDO also defines SMEs in terms of number of employees by giving different classification for industrialized and developing countries. The definition for industrialized countries was given as follows:

- Large - firms with 500 or more workers;
- Medium - firms with 100-499 workers;
- Small - firms with 99 or less workers.

The classification given for developing countries was as follows:

- Large - firms with 100 or more workers;
- Medium - firms with 20-99 workers;
- Small - firms with 5-19 workers;
- Micro - firms with less than 5 workers.

(Elaian, 1996)

Alternative Investment Market (AIM) in UK considered small business and medium enterprise as "young and growing companies" anywhere in the world with market capitalisation ranging from less than $2 million to more than $100 million (AIM Quarterly Report, Vol.3, 2005).

The European Union defined small and medium-sized firms as being those with fewer than 250 employees with an annual turnover of less than $25 million. (World Bank Report, 2006)

In Ghana, the number of employees was the common criterion used in official circles to classify firms by size. The NBSSI defined a small enterprise as one employing not more than twenty-nine (29) persons with plant and machinery value (excluding land, buildings and vehicles) not exceeding 10 million cedis .(NBSSI, 1990)

There have been various definitions given for small-scale enterprises in Ghana but the most commonly used criterion was the number of employees of the enterprise. In applying this definition, confusion often arises in respect of the arbitrariness and cut off points used by the various official sources. In its industrial statistics, the Ghana Statistical Service (GSS) considered firms with fewer than 10 employees as small-scale enterprises and their counterparts with more than 10 employees as medium and large-sized enterprises. Ironically, the GSS in its national accounts considered companies with up to nine (9) employees as SMEs. The Ghana Enterprise Development Commission (GEDC), on the other hand, used 10 million Ghanaian cedis upper limit definition for plant and machinery. (Kayanula and Quartey, 2000)

In defining small-scale enterprises in Ghana by Steel and Webster (1991), used an employment cut-off point of 30 employees and Osei *et al* (1993), however, classified small-scale enterprises into three categories. These were:

(i) Micro - employing less than 6 people

(ii) Very small - employing 6-9 people

(iii) Small - between 10 and 29 employees.

Teal, (2002), recent definition of SMEs classified firms into the following groups, which include:

(i) Micro enterprise with less than 5 employees

(ii) Small enterprise, 5 - 29 employees

(iii) Medium enterprise, 30 – 99 employees

(iv) Large enterprise, 100 and more employees

2.3 CHARACTERISTICS OF SMEs

Due to the importance of small businesses to the development and growth of economy, the World Bank initiated a project, with an aim to develop and strengthen on a sustainable basis, the capacity of local intermediaries to deliver financial and non-financial services to SMEs and ensure that SMEs make productive use of these services.

The importance of SMEs to employment in an economy cannot be over emphasised. According to SBS (Small Business Services), SMEs in the UK have an annual turnover of $1 trillion and employed 12 million people in the UK between 1995 and 1999.

When businesses were springing up or showing signs of growth, business owners were deceived into thinking that all was well only to find out during an economic downturn that the business was really shallow and then eventually collapsed. The study of SBS showed that generally 95% of the SMEs fold up before their 5th year (Small Business Services, 2002) had on record that 92% and 66% of SMEs formed in 1999 survived for 12 months and 3 years respectively).

Most SMEs in Ghana close down their businesses after only five years in operation. There was the need at this point to consider the characteristics of the Ghanaian SME, which include the following:

i. Low financial support was available from government or government agencies;

ii. Businesses usually were family-owned and run by the family with few or no outsiders

iii. SMEs were owner-managed

iv. No formal strategy or plan to run business i.e. their strategies were implicit

v. Employ few semi-skilled personnel between 0 and 50

vi. They operated from low-cost premises

vii. They were flexible in their management style, usually considered as a competitive threat to existing large firms. (Arthur, 2009)

Commenting on this, the World Bank's Country Director for Ghana, Mats Karlsson,when launching a project for SMEs in Ghana said: "Growth and employment in Ghana were directly linked to the growth of SMEs. It was important to state here that financial management function in a small enterprise ought to be seen as paramount.

According to Fisher and Reuber, (2000), they enumerated a number of characteristics of SMEs in developing countries under the broad headings: labour characteristics, sectors of activity, gender of owner and efficiency. Given that most SMEs were one-person businesses, the largest employment category was working proprietors. This group makes up more than half the SME workforce in most developing countries; their families, who tend to be unpaid but active in the enterprise, make up roughly another quarter. The remaining portion of the workforce was splitted between hired workers and trainees or apprentices. SMEs are more labour intensive than larger firms and therefore have lower capital costs associated with job creation. (Anheier and Seibel, (1987), Liedholm and Mead, (1987), Schmitz, (1995)) According to Fisher and Reuber, (2000), in terms of activity of SMEs, they were mostly engaged in retailing, trading, or manufacturing. While it was a common perception that the majority of SMEs will fall into the first category, the proportion of SME activity that takes place in the retail sector varied considerably between countries, and between rural and urban regions within countries. Retailing SMEs were mostly found in urban regions, while manufacturing can be found in either rural or urban centres. However, the extent of involvement of a country in manufacturing will depend on a number of factors, including, availability of raw materials, taste and consumption patterns of domestic consumers, and the level of development of the export markets.

2.4 CHARACTERISTICS OF SMES IN GHANA

Small businesses the world over play important role in the economic activity and the generation of employment in every economy. Comparatively, in Ghana, 80% of businesses fall within the category of Micro, Small and Medium Enterprises (MSME)and with an employment capacity of close to 70% of the Ghanaian labour force. They range from farming activities, agri-businesses, light manufacturing, art and craft (usually referred to as cottage industries), textiles and garments (also known as tie and dye), tourism, financial services, construction and carpentry. (The Statesman, 2006)

In Ghana, SMEs can be categorized into urban and rural enterprises. The former can be subdivided into “organized” and “unorganized” enterprises. The organized ones mostly have paid employees with a registered office, whereas the unorganized category SMEs was mainly made up of artisans who work in open spaces, temporary wooden structures, or at home, and employ few or in some cases no salaried workers. The unorganized enterprises rely mostly on family members or apprentices. Rural enterprises were largely made up of family groups, individual artisans, women engaged in food production from local crops. The major activities within this sector include:- soap and detergents, fabrics, clothing and tailoring, textile and leather, village blacksmiths, tin-smiting, ceramics, timber and mining, bricks and cement, beverages, food processing, bakeries, wood furniture, electronic assembly, agro processing, chemical-based products and mechanics. (Osei *et al.*, 1993, Kayanula and Quartey, 2000)

Majority of SMEs were female-owned businesses, which more often than not were home-based as compared to those owned by males. They operated from home and were mostly not considered in official statistics. This clearly affected their chances of gaining access to financing schemes, since such programmes were designed without sufficient consideration of the needs of businesses owned by females. These female entrepreneurs often get the impression that they were not capable of taking advantage of these credit schemes, because the administrative costs associated with the schemes often outweigh the benefits.

Prior empirical studies in Ghana have shown that female-owned SMEs often have difficulty accessing finance. Females were mostly involved in sole-proprietorship businesses which were mainly microenterprises and as such may lacked the necessary collateral to qualify for loans. (Aryeetey *et al*, 1994, Abor and Biekpe, 2006)

Measures of enterprise efficiency (e.g. labour productivity or total factor productivity) vary greatly both within and across industries. Firm size may be associated with some other factors that were positively correlated with efficiency, such as managerial skill and technology, and the effects of the policy environment. Most studies in developing countries indicated that the smaller firms were the least efficient, and there was some evidence that both small and large firms were relatively inefficient compared to medium-scale enterprises (Little *et al.*, 1987). It was often argued that SMEs were more innovative than larger firms. Many small firms bring innovations to the market place, but the contribution of innovations to productivity often takes time, and larger firms may have more resources to adopt and implement them (Acs *et al.*, 1999).

2.5 FACTORS OF SMES FINANCING DECISION

The process of rapid development of small and medium enterprises faces many difficulties, including difficulties in financing a major bottleneck hindering the development. As the capital market innovative tools emerging, more and more financial globalization, which was to finance small and medium enterprises decision-making was both an opportunity and a challenge. The factors that influence the decision-making SMEs financing were both external factors and internal factors. On the one hand financial services chain, was not perfect, financing system was not sound, on the other hand, the SMEs themselves were still many deficiencies and congenital defects, such as the ambiguous property rights, structure, closed; to withstand risks, and weak; information disclosure mechanism not sound enough; Credit loss problem was more prevalent; weak financial controls. The relative importance of various factors under different conditions of impact and effectiveness of different, small and medium enterprises in financing a variety of factors must be weighed against the impact analysis in order to make the financing of scientific decision-making. (Yuan, 2005)These factors were:

2.5.1 Pecking Order

This “pecking order” theory suggests that firms would initially rely on internally generated funds, i.e. undistributed earnings, where there was no existence of information asymmetry, and then they will turn to debt if additional funds were needed and finally they will issue equity to cover any remaining capital requirements. Bankruptcy costs were the cost directly incurred when the perceived probability that the firm will default on financing was greater than zero. The bankruptcy probability increases with debt level since it increases the fear that the company might not be able to generate profits to pay back the interest and the loans (Titman, 1984). Agency costs arise as a result of the relationships between shareholders and managers and those between debt holders and shareholders. (Jensen & Meckling, 1976)

In the corporate finance practice, the Pecking Order financing was generally believed that the preferred order was first, self-financing business. If a smaller Investment in small and medium enterprises to give priority to cash from the deposit account, second, before considering the short-term cash investments. The second was their own lack of funds for SMEs, generally give priority to reducing dividends. Third, external financing. Enterprise first considers bank loans, followed by the issuance of bonds; finally issuing shares. Priority can be seen from the financing, internal financing was a top priority, while external financing in the equity financing was the last of a selective approach. Western developed countries to prove the theory and practice of financing, SMEs generally use the "internal funding priority, followed by debt financing, equity financing last" pecking order. (Yuan, 2005)

2.5.2 Capital Structure

Capital structure was the enterprise all the capital, the debt financing and equity financing ratio of relationship that debt financing proportion of total capital. Capital structure was the core issue of corporate finance decision-making, it was essentially the cost of capital in the most hours, we must maintain an appropriate debt ratio. Debt financing for SMEs have an important impact.

First, tax concessions, since debt financing interest costs tax deductible, such concessions as the increase in corporate debt will be a corresponding increase in its tax section. Second, the financial leverage effect. No matter how much corporate profits, for every dollar surplus by the burden of fixed costs would be a corresponding reduction in interest rates, which every dollar of common stock will bring more benefits. Third was to increase bankruptcy costs and agency costs. SMEs borrowing more will be the higher the probability of bankruptcy, bankruptcy cost would increase accordingly; the same time, loans to shareholders and creditors in corporate finance, investment and dividend decision-making on the conflict, to increase their agency cost, this would force authorities in project selection more cautious.

According to the actual situation of SMEs, weigh the effects and risks of borrowing rationally determine the optimal capital structure of enterprises. The application value of the company estimate method, weigh the cost of capital law and the analogy method and other methods, through the restructuring, corporate governance, reconstruction and recycling incentive system and other supporting strategies to ensure the realization of capital structure optimization.

2.5.3 Information Asymmetry

Information asymmetry was a party to a transaction has more than the other, better, more accurate information; one party has information superiority, while the other was the information disadvantage. If managers know more about the company than the shareholders, and shareholders know the company better than the bondholders. Information asymmetry extensive and widespread in the capital market.

First, the information was completely symmetrical. Market participants have the same quality and quantity of information, capital, and profit margin maintained at an average level, market transactions would become an exception deserted. Market participants strongly have access to information, in order to excess returns, so that the capital market will be very active. In order to avoid the risk of market participants, it would cause adverse selection and moral hazard problems, which would seriously affect the normal operation of capital markets. Indeed, information was completely symmetrical phenomenon does not exist; information asymmetries, a serious obstacle to the capital market from ineffective to effective development process, not only increased the risk of capital markets, but also directly harm the interests of investors, reducing the capital market efficiency. (Yuan, 2005)

Credit was provided in the context of information asymmetry on both sides (Fischer, 1995) and can be resolved by demonstrating creditworthiness and project viability. However, because of poor accounting practices and record keeping, many SMEs were unable to do so (Cook and Nixson, 2000; Binks, Ennew, and Reed, 1992). This increases the risks and transaction costs (for monitoring and screening) of SME lending. Banks 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 raised 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 exacerbated other managerial problems of SMEs. For example, they determine not just the level but also the nature of technology investment (Cobham, 1999). 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).

2.5.4 Strategic Management

SMEs strategies of conducting business was to complete their corporate mission, achieve business objectives, and determine the overall plan of action. Strategic management was the strategic objectives of enterprises have taken series of measures. Financing decision was the strategic management of financial activities in the concrete manifestation of the process. SMEs should be based on their own development, determine the need for financing, in what manner the size of the financing and financing, which was the fundamental starting point for financing decision.

From a financing perspective, there were three types of strategies for business operation which include firstly, the rapid expansion-type strategy. This was the realization of assets for the purpose of the rapid expansion of the company. Secondly, sound development-oriented strategies. This was to achieve steady growth of corporate performance targets to match the size of the assets of the smooth expansion strategy, corporate finance was not just simply made up for shortage of capital needs, but rather to achieve a reasonable and rational capital structure dividend policy to promote healthy development of enterprises. Third, contraction-type strategy was defensive. This was to prevent any financial crisis and the pursuit of development objectives of the survival strategies, these firms generally difficult to obtain cash flow, financial management focus was to monitor the recovery of cash and effective, monitoring and effective allocation and use of internal capital to avoid bankruptcy due to financial constraints while. (Yuan, 2005)

2.5.5 Interest Rate and Loanable Funds for SMEs

The was a relationship between interest rate and loan given to SMEs. As the interest rate reduces, more loans were given out and as the interest rate, increases less loans were given. The type of interest rate chosen depends on the income generated by the SME. With the diversification of capital markets, SMEs in debt have more design options, the most common choice was a fixed rate or floating interest rates. First, if the future cash flows compared to determine the project can take short-term then the floating rate would be applied. Second was that if a more definite future projects can be long-term then fixed-rate is use in financing the loan. Third, if the business assets in operation with the income generated by higher interest rates and the higher, with lower interest rates lowered, you should choose a floating rate financing, especially under the conditions of inflation would lead to income and interest rate changes in the same direction.

2.6 CORPORATE DEBT POLICY OF SMES IN GHANA

According to Abor and Biekpe, (2006), capital structure of a firm was the relative amount of debt and equity the firm uses to finance its operations. Capital structure decisions were crucial for the survival of any business organization. The key was for firms to choose a portfolio of capital structure that will maintain sustainability and generate more wealth. In general, a firm can choose among many alternative capital structures.

This subject matter was one of the most contentious issues if not a puzzle in finance. A number of these theories have attempted to explain the variation in debt ratios across firms. The theories suggest that firms select capital structure depending on attributes that determine the various costs and benefits associated with debt and equity financing. However, these theories have been developed to explain financing preferences focusing on large listed firms. The issue of whether these findings were valid for other firms, especially SMEs, has received limited attention. The issue was particularly important for SMEs who do not have access to public capital, yet make very significant contributions to the economic growth of most countries. Short-term debt constitutes a relatively high proportion of total debt of Ghanaian SMEs. This represent close to 40% of total financing of SMEs in Ghana. The determinants of SMEs' capital structure include age of the firm, size of the firm, asset structure, profitability, growth and risk.

2.6.1 Age of the firm

Age of the firm was a standard measure of reputation in capital structure models. As a firm ages, it establishes itself as a continuing business and it therefore increases its capacity to take on more debt; hence age was positively related to debt. Before granting a loan, banks tend to evaluate the creditworthiness of entrepreneurs, as these were generally believed to pin high hopes on very risky projects promising high profitability rates. In particular, when it comes to highly indebted companies, they were essentially gambled their creditors' money. If the investment was profitable, shareholders would collect a significant share of the earnings; but if the project fails, then the creditors have to bear the consequences (Myers, 1977).

To overcome problems associated with the evaluation of creditworthiness, Diamond (1989) suggests the use of firm reputation. He takes reputation to mean the good name a firm has built up over the years, which was understood by the market and which has observed its ability to meet its obligations in a timely manner. Directors concerned with a firm's reputation tend to act more prudently and avoid riskier projects in favour of safer projects, even when the latter have not been approved by shareholders, thus reducing debt agency costs (by reducing the ''temptation'' to gamble at creditors' cost). It was important to note the extension of firm risk to the personal area of the businessperson (given the unlimited liability of entrepreneurs) to be a way of managing the agency costs resulting from cases of more opportunistic behaviour. Given the fragmentation of information, the high costs of control and evaluation, the firm and the entrepreneurs' reputation become a valuable asset in the management of relations between the principal (investor) and the agent (businessman) (Landstro¨m, 1993).

Petersen and Rajan (1994) found that older firms have higher debt ratios since they should be higher quality firms. Hall, et al, (2004) confirmed that age was positively related to long term-debt but negatively related to short-term debt. Esperanca, et al,

(2003) however found that age was negatively related to both long-term and short-term debt.

2.6.2 Firm's Size

Size has been viewed as a determinant of a firm's capital structure. Larger firms tend to be more diversified and hence have lower variance of earnings, making them able to tolerate high debt ratios (Castanias, 1983; Titman and Wessels, 1988; Wald, 1999). Smaller firms on the other hand may find it relatively more costly to resolve information asymmetries with lenders, thus, may present lower debt ratios (Castanias, 1983). With respect to information asymmetries, Johnson (1997) reminds that Fama's (1985) argument about differing amounts of information supplied by large and small firms suggest that monitoring cost would decrease and the lender informedness increases with firm size.

Another explanation for smaller firms having lower debt ratio was if the relative bankruptcy costs were an inverse function of firm size (Titman and Wessels, 1988). This view was also explained differently by Castanias, (1983). He stated that if the fixed portion of default costs tends to be large, then marginal default cost per dollar of debt may be lower and increase more slowly for larger firms. Facts about larger firms may be taken as evidence that these firms were less risky (Kim and Sorensen, 1986). Cosh and Hughes, (1994) add that if operational risk was inversely related to firm size, this should rather predispose smaller firms to use relatively less debt. According to Abor and Biekpe, (2006) age and size of firms were very important in increasing SMEs access to debt finance. Newer and younger firms were often discriminated against when applying for external debt finance.

According to Titman and Wessels, (1988), small firms used more short-term finance than their larger counterparts because smaller firms have higher transactions costs when they issue long-term debt or equity. They further add that such behaviour may cause a "small firm risk effect" by borrowing more short term, these types of firms would be more sensitive to temporary economic downturns than larger, more longer-geared firms.

2.6.3 Asset Structure

The asset structure of a firm plays a significant role in determining its capital structure. The degree to which the firm's assets were tangible should result in the firm having greater liquidation value (Harris and Raviv, 1991). Bradley et al, (1984) assert that firms that invest heavily in tangible assets tend to have higher financial leverage since they borrow at lower interest rates if their debt was secured with such assets. It was believed that, debt may be more readily used if there were durable assets to serve as collateral (Wedig et al, 1988). By pledging the firm's assets as collateral, the cost associated with adverse selection and moral hazards were reduced.

This would result in firms with assets that have greater liquidation value having relatively easier access to finance at lower cost, consequently, leading to higher debt or outside financing in their capital structure. The concession of collateral reduces the under-investment problem in small firms by increasing the probability of obtaining credit – functioning also as a management instrument in conflicts between entrepreneur and financiers, since the degree of the entrepreneurs' involvement in sharing business risk, by granting personal collateral, was clearly evident. In the area of bank financing it was suggested that bank financing would depend upon whether the lending can be secured by tangible assets (Storey, (1994), Berger and Udell, (1998)).

Abor and Biekpe, (2006) hold accession that asset tangibility or collateral plays an important role in SMEs access to debt finance. SMEs with lower portions of fixed assets in their total assets were likely to have difficulty accessing debt capital because of their inability to produce the required collateral. Thus, the ability to provide collateral still remained a determining factor for SMEs access to credit. In addition, SMEs were often discriminated against since age, size and asset ‘collateralbility’ were used as measures for SMEs access to long-term credit. It was essential for government and donor funding agencies to consider developing innovative financial package for Ghanaian SMEs. Policy makers would have to usefully place greater emphasis on the facilitation of equity capital. Therefore, this study would like to find out if collateral are demanded by agencies before loan are granted and the capital structure of oil palm producers in Ahanta West district of the Western Region.

2.6.4 Profitability

The relationship between firm profitability and capital structure can be explained with the Pecking Order Theory (POT). According to this theory, firms prefer internal sources of finance to external sources. The order of the preference was from the one, which was least sensitive (and least risky) to the one which was most sensitive (and most risky) that arose because of asymmetric information between corporate insiders and less wellinformed market participants (Myers 1984). By this token, profitable firms, which have access to retained profits, can rely on it as opposed to depending on outside sources (debt). Titman and Wessels, (1988) and Barton, et al, (1989), agreed that firms with high profit rates, all things being equal, would maintain relatively lower debt ratio since they were able to generate such funds from internal sources.

The POT with its emphasis on the desirability of the use of funds generated within the business rather than funds raised externally, can readily be applied to SMEs (Cosh and Hughes, 1994). Indeed SMEs seem to face extreme version of the POT described as a "constrained" POT by Holmes and Kent (1991) and a "modified" POT by Ang (1991) because they have less access to external funds, debt as well as equity than do large enterprises. The POT suggested the use of external funds was very much related to profitability on the basis that SMEs, particularly if they were not listed, would make use of internally generated funds as a first resort, i.e. those which make use of external funds will be those with a lower level of profit. The theory's application to SMEs implies that external equity finance issues may be inappropriate. In relation to the owner-manager's control over operations and assets, if the POT holds, then internal equity finance will be preferred, because this form of finance does not surrender control. Cressy and Olofsson, (1997) found that SMEs exhibited control aversion, as demonstrated by a preference to sell the firm rather than relinquish equity, and that owners preferred to use internally generated funds to finance further investment. If they were unable to do this, they seek debt financing.

2.6.5 Firm's Growth In Relation To Corporate Debt Policy

Growth place a greater demand on internally generated funds and push the firm into borrowing (Hall, et al, 2004). According to Marsh, (1982), firms with high growth will capture relatively higher debt ratios. In the case of small firms with more concentrated ownership, it was expected that high growth firms would require more external financing and should display higher leverage (Heshmati, 2001).

There was also a relationship between the degree of previous growth and future growth. Michealas, et al, (1999) argued that future opportunities would be positively related to leverage, in particular short-term leverage. They argued that the agency problem and consequentially the cost of financing were reduced if the firm issues short term rather than long-term debt. Myers, (1977) however, holds the view that, firms with growth opportunities will have smaller proportion of debt in their capital structure. This was due to the fact that, conflicts between debt and equity holders were especially serious for assets that give the firm the option to undertake such growth opportunities in the future. He argued further that, growth opportunities can produce moral hazard situations and small-scale entrepreneurs have an incentive to take risk to grow. Lenders who would only recover the amount of their loans, resulting in a clear agency problem will, not enjoy the benefits of this growth, if realized. This will be reflected in increased costs of long-term debts which can be mitigated by use of short-term debt.

2.6.6. Firm Risk on Corporate Debt Policy

The level of risk was identified to be one of the primary determinants of a firm's capital structure (Kale, et al, 1991). The tax shelter-bankruptcy cost theory of capital structure determined a firm's optimal leverage as a function of business risk (Castanias, 1983). Given agency and bankruptcy costs, there were incentives for the firm not to fully utilize the tax benefits of 100% debt within static framework model. The more likely a firm would be exposed to such costs, the greater their incentive to reduce their level of debt within the capital structure of the firm. One firm variable which impacts upon this exposure was the firm's operating risk, in that, the more volatile the firm's earnings stream, the greater the chance of the firm defaulting and being exposed to such costs.

According to Johnson, (1997), firms with more volatile earnings growth may experience more states where cash flows were too low for debt service. Kim and Sorensen (1986) also observed that, firms with high degree of business risk have less capacity to sustain financial risks and thus, use less debt.

In conclusion, Abor and Biekpe, (2006) held that equity capital serves as a base for further borrowing, reduces businesses' sensitivity to economic cycles, and provides SMEs with access to syndicates of private and institutional venture capital suppliers. There could also be policies aimed at encouraging SMEs to access public equity capital through the reduction of listing requirements and subsidizing flotation cost. This should enable SMEs to restructure their financing to rely on less debt, particularly short-term debt, and thereby improve their liquidity. Also, for academics, trainers and consultants, it may be beneficial to help SMEs access equity capital and to work at structuring deals that minimize perception of threats to control.

2.7 WHY LACK OF FINANCE FOR SMES

According to United Nations Conference on Trade and Development (UNCTAD) held in October 2000, Finance had been identified in many business surveys as the most important factor determining the survival and growth of small and medium –sized enterprises in both developing and developed countries. Traditional commercial banks and investors have been reluctant to service SMEs for a number of well-known reasons, which have been explored in numerous UNCTAD expert meetings. They include the following:

i. SMEs were regarded by creditors and investors as high-risk borrowers due to insufficient assets and low capitalization, vulnerability to market fluctuations and high mortality rates;

ii. Information asymmetry arising from SMEs' lack of accounting records, inadequate financial statements or business plans makes it difficult for creditors and investors to assess the creditworthiness of potential SME proposals;

iii. High administrative/transaction costs of lending or investing small amounts do not make SME financing a profitable business.

As a result, commercial banks were generally biased toward large corporate borrowers, who provide all essential information to access loans. When banks do lend to SMEs, they tend to charge them a commission for assuming risk and apply tougher screening measures, which drives up costs on all sides. Commercial banks in developing countries and countries with economies in transition often prefer to lend to government and thus the public sector crowds out the private sector. Lastly, there was also the problem of insider lending and or which diverts finance away from SMEs.

Many governments and international financial institutions have tried to address the problems of high transaction costs and risks by creating subsidized credit programmes and or providing loan guarantees. Such projects have often fostered a culture of non-repayment or failed to reach the target group or achieve financial self-sustainability.

Examples of such failed interventions were targeted credit schemes set up in Sub-Saharan Africa in the early 1980s by the Development Finance Institutions (DFIs). Their aim was to provide either long -term credit or specialized services to priority sectors in rural areas. The financial policies pursued were of interventionism with governments influencing the credit flows through a system of subsidies, interest ceilings, policy-based credit allocations etc. Banks lacked the incentive to increase their efficiency or to develop their capacity for risk assessment and monitoring of loans, which contributed to a general deterioration in the quality of banks' portfolios. In some countries, the share of non-performing loan values rose to 90 per cent of the banks' portfolios. (Nissanke, 2001)

2.8 ALTERNATIVE SOURCES OF FINANCE

The study of CreditPal revealed in the last 24 months SMEs have sourced £45 billion from alternative sources of finance. SMEs owners and managers have been forced to sell their private assets, or rely on friends and family for emergency finance, in place of funding from traditional financial institutions through bank loans and overdraft facilities. On average each SME utilising alternative forms of finance has raised capital totaling £66,624 in the last two years, the equivalent of £2,776 a month.

More SMEs turned to alternative sources of finance in the last two years (41%) to raise capital than applied for bank or building societal loans and overdrafts (35%). This trend may be explained by SMEs being overly fearful of being declined for credit, which was discouraged them from making applications.

Keeping a startup or small business alive during the recession has required entrepreneurs to make even greater personal sacrifices. Business owners and managers have sacrificed family expenditure to help keep their firms afloat in the last two years. Family holidays have been sacrificed by 15% of those seeking alternative forms of finance. One-in-ten (11%) SME business owners and managers have been forced to go cap in hand to friends and family for funds to ensure they have sufficient cash flow to meet their commitments. Pension funds have been raided (3%) and children (1%) have been pulled out of private education as the recession has hit revenues.

Chris Poll, the CEO of CreditPal quite rightly points out – that "In the long term the sale of private assets was not sustainable and relying on friends and family for funding can prove a financial and emotional risk if there were problems with repayments."

SMEs have even turned to private lenders (4%), including loan sharks that charge punitive rates of interest, to raise funds. One in twenty (4%) SME business owners have been forced to dilute or sacrifice equity stakes in their business to source additional finance. Some business owners have been forced to sell privately held assets (8%) such as cars or property to fund their businesses. (Riley, 2010)

Also according to ACCA, (2008), SMEs may not know the sources of finance available for funding their operations. Finance may be difficult to obtain because of the risks faced by SMEs. The money for investment that SME can obtain comes from the savings individual make in the economy. Government policy will have a major influence on the level of fund available. Problems faced by SMEs were:

a) Tax policy including concessions given to businesses to invest (capital allowance) and taxes on distribution (higher taxes on dividends mean les income for investors).
b) Interest rate policy with higher interest working in different ways- borrowing for SMEs becomes more expensive but the supply of fund was also greater as higher rate give greater incentives to investors to save.
c) SMEs however also faced competition for funds. Investors have opportunities to invest in all sizes of organization also overseas and in government debt. The main handicap that SMEs face in accessing fund was the problem of uncertainty.
d) Whatever the details provided to potential investors, SMEs have neither the business history nor large track record that larger organizations possess.
e) Large enterprises were subjected by law to more public scrutiny. Their account have to contain more detail and be audited, they receive more press coverage and so on.
f) Because of the uncertainties, involved banks often use credit-scoring systems to control exposure.

Because the information was not available in other ways, SMEs will have to provide it when they seek finance. They will need to give a business plan, list of the firm's assets, details of the experience of director and managers and show they intend to provide security for sums advanced.

Prospective lenders, often banks, will then make a decision based on the information provided. The terms of the loan (interest rate, term, security, repayment details) will depend on the risk involved in granting loans. A common problem was often that the banks will were unwilling to increase loan funding without an increase in security given (which owners may be unwilling or unable to give), or an increase in equity funding (which may be difficult to obtained).

A further problem for SMEs was the maturity gap of loan. It was particularly difficult for SMEs to obtain medium term loans due to a mismatching of the maturity of assets and liabilities. Longer term loans were easier to obtain medium term loans as longer loans can be secured with mortgages against property. Potential sources of financing for small and medium size companies include the following: owners financing, overdraft financing, bank loans, trade credit, equity finance, business angle financing, venture capital, leasing and factoring.

2.9 THE ORIGIN OF MICROFINANCE

Gert van, (2004) defines microcredit, or microfinance, as banking the unbankables, bringing credit, savings and other essential financial services within the reach of millions of people who were too poor to be served by regular banks, in most cases because they were unable to offer sufficient collateral. In general, banks were for people with money, not for people without.

Microcredit was based on the premise that the poor have skills which remain unutilized or underutilized. It was definitely not the lack of skills which make poor people poor….charity was not the answer to poverty. It only helps poverty to continue. It creates dependency and takes away the individual's initiative to break through the wall of poverty. Unleashing of energy and creativity in each human being was the answer to poverty. (Muhammad, 2003)

Microcredit belongs to the group of financial service innovations under the term of microfinance, other services according to microfinance was micro savings, money transfer vehicles and micro insurance. Microcredit was an innovation for the developing countries. Microcredit was a service for poor people that were unemployed, entrepreneurs or farmers who were not bankable. The reason why they were not bankable was the lack of collateral, steady employment, income and a verifiable credit history, because of this reasons they can´t even meet the minimal qualifications for a ordinary credit. By helping people with microcredit, it gives them more available choices and opportunities with a reduced risk. It has successfully enabled poor people to start their own business generating or sustain an income and often begin to build up wealth and exit poverty. The amount of money that was lent out seldom exceeded 100USD.

Microcredit fits best to those with entrepreneurial capability and possibility. This translated to those poor who work in growing economies, and who can undertake activities that generated weekly stable incomes. For those who don´t qualify because they were extreme poor like destitute and homeless almost every microcredit institution have special safety programs that offered basic subsistence and later endeavored to graduate this members in their microfinance program making ordinary micro credits available.

Microcredit plays an important role in fighting the multi-dimensional aspects of poverty. Microfinance increases household income, which leads to attendant benefits such as increased food security, the building of assets, and an increased likelihood of educating one's children. Microfinance was also a means for self-empowerment. It enables the poor to make changes when they increase income, become business owners and reduce their vulnerability to external shocks like illness, weather and more.

Microcredit has widely been directed by the non-profit sector while commercial lenders required more conventional forms of collateral before making loans to microfinance institutions. But now it´s successfully growing bigger and getting more credibility in the traditional finance world. Due to that the traditional banking industry have begun to realize that this borrowers fits more correctly in a category called prebankable industry. The industry has realized that those who lack access to traditional formal financial institutions actually required and desired a variety of financial products. Nowadays the mainstream finance industry was counting the microcredit projects as a source of growth. Before almost everyone where neglecting the success of microcredit in the beginning of the 1970s when pilot projects such as ACCION where released until the United Nations declared 2005 the International Year of Microcredit.

The most of the microcredit institutions and agencies all over the world focused on women in developing countries. Observations and experience showed that women were a small credit risk, repaying their loans and tend more often to benefit the whole family. It was also a method where women were giving more status in a social economic way and changing the current conservative relationship between gender and class when women were able to provide income to the household. Women were in most cases responsible for children, and in poor conditions it resulted in physical and social underdevelopment of their children. 1.2 billion people were living on less than a dollar a day. There were many reasons why women have become the primary target of microfinance services. (Sinha, 2000)

World Bank report (2008), confirms that societies that discriminate on the basis of gender pay the cost of greater poverty, slower economic growth, weaker governance, and a lower living standard for all people. At a macro level, it was because 70 percent of the world's poor were women. Women have a higher unemployment rate than men in virtually every country and make up the majority of the informal sector of most economies. They constitute the bulk of those who need microfinance services. Giving women access to microcredit loans therefore generates a multiplier effect that increases the impact of a microfinance institution's activities, benefiting multiple generations.

2.10 EMPIRICAL ANALYSES

This section reviews similar work done by other authors in relation to financing SMEs in the oil palm producing sector starting with Ghana.

Abor and Quartey, (2010) in reviewing the definitions of SMEs development in Ghana and South Africa concluded that there was no single, universal, uniformly acceptable definition of SMEs. Several measures or indicators have been used to define it. The most commonly used is the number of employees of the enterprise. However, in applying this definition, confusion often arises in respect of the arbitrariness and cut-off points used by various official sources. Rural enterprises were largely made up of family groups and individual artisans. The activities in the SME sector range from pottery and ceramics to manufacturing of spare parts and electronic assembly. Futhermore, he observed that, SMEs constitute a vital element of the development process, and their contributions in terms of production, employment and income in developing countries is widely recognized. Hence, interest in the role of SMEs in the development process continues to be high on the agenda of policy makers in the two countries. However, access to finance remains the greatest concern for the majority of SMEs. Abor and Quartey, (2010) suggested that, to improve access to credit to SMEs, entrepreneurs should be encouraged to form cooperatives since financial institutions believe peer pressure often reduces the risk of default. Secondly, the government through tax incentives can encourage certain training institutions and NGOs to provide training to entrepreneurs on simple record keeping and managerial knowhow. Also, a national legislation in Ghana to define what constitutes an SME and their legal as well as tax obligations will help to integrate a number of informal enterprises into the formal framework. This should be complemented with steps to minimize the legal procedures involved in doing business in both countries. They also suggested that technology transfer through simple, inexpensive and adaptable technology should be promoted to enhance the productivity of SMEs.

Therefore, this study examined the composition of employees of SMEs in oil palm production whether they are mainly family members or not.

Afrane, (2000) on impact assessment of microfinance interventions in Ghana and South Africa. Survey instruments used were questionnaire-interviews, case studies, focus group discussions, and field observations. The study revealed that there was an increased in monetary value of inputs and machinery, in Ghana (144%; 88%) and was higher than in South Africa (110%; 46%) in percentage terms. In monetary terms, however, the rate of increase for inputs was higher in Ghana, while that of machinery was higher in South Africa. The explanation for this observation is that a greater majority of respondents in South Africa were using more machinery and equipment in the operation of their businesses than their counterparts in Ghana. In addition, the result confirms that, the impact of the credit schemes on empowerment of women is significant. The ability of the women to out-perform the men in terms of business performance as measured by increases in turnover also underscores the competence of women in enterprise development. The additional effects of the economic gains by way of their enhanced ability to contribute to family finances, reduced dependence on their husbands, improved self-worth and confidence, increased social involvement in community affairs, and so forth, justify the greater focus of microfinance projects on women in many countries.

The study of Afrane, (2000) attempted to find the impact of microfinance, specifically to client in Sinapi Aba Trust (SAT) in Ghana and Soweto Microenterprise Development (SOMED) project—a microfinance program in South Africa, it failed to find out whether the interest rate of MFIs are accepted by clients of other MFIs

Sala and Nicolae, (2008) on SMEs competitiveness and environmental influences used questionnaire for the study, which found that entrepreneurs are important in the firm's growth process. Raising prices on raw materials and utilities were identified to have strong influence on SMEs profits. The growth of competition was a very important factor, with strong influences on turnover and profit rate. Entrepreneurs were expected that competition for resources and clients would be very strong. Legal and political factors were also influencing managerial decisions in company.

Although the study of Sala and Nicolae, (2008) enumerated problem of SMEs, this study examines the consequences of lack of finance on operation of oil palm in Ahanta West District of the Western Region in Ghana and how government and other NGOs have help in providing funds or their operation.

Leila, (2009) on concept note on microfinance scaling up in Africa: challenges ahead and way forward revealed that, MFIs in Africa often serve a mix of poor and more middle class clients in order to achieve better cost coverage. A distinctive nature of microfinance in Africa is the large deposit mobilization. Unlike in most regions around the globe, more than 70 percent of African MFIs offer savings as a core financial service for clients and use it as an important source of finance for their lending activities.

In terms of women empowerment and gender equity, Leila (2009) identified that African microfinance plays an important role. Women account for around 70% of the world's microfinance clients. The vast majority of them have excellent repayment records, in spite of the daily hardships they faced. Although microfinance does not address all the barriers to women's empowerment, when properly designed, they can make an important contribution to women's empowerment. Some of the most valued benefits include expanded business and social networks, improved self-esteem, increased household decision-making power, and increased respect and prestige from both male and female relatives and community members.

Although the study of Leila, (2009) concluded that women have benefited from microfinance, this study would examine how women in oil palm operation have made use of MFIs.

Hossain, (1998) on constraints to SME development in Bangladesh, revealed that SMEs appear to be facing discriminatory competition from the commercial activities of NGOs. Also the main factors that have hampered flow of institutional finance into SMEs is banks' pre-occupation with collateral based lending. Traditionally banks have used fixed asset ownership, particularly land ownership as the basis for judging credit-worthiness. This puts SMEs at a relative disadvantage, as large entrepreneurs are often able to get around the problem because of their influence and contacts by putting up collateral of dubious valuation. He therefore, recommended that NGOs should be promoting small businesses and not themselves become competitors – crowding out private enterprises. Banks should seek deposit relationship with owners of SMEs and using cash flow rather than asset ownership as the criterion for credit-worthiness.

The study of Hossain, (1998) made mention of some constraints of SMEs, this study would like to know the impact of some come constraints on the acivities of SMEs in the oil palm producing sector..

Beck and Demirguc-Kunt, (2006) on access to finance as a growth constraint**,** revealed that SMEs constitute a significant part of total employment in many countries, one of the reasons they may not be able to contribute to economic growth is because they face greater growth obstacles. Indeed, compared to large firms, SMEs are more constrained by different obstacles, and limited access to finance is an important one of these. In addition, the absence of well-developed financial markets and legal systems for SMEs made it difficult for firms to grow to their optimal size since outside investors cannot prevent appropriation by corporate insiders, limiting firm size. He recommended that improving legal and financial institutions helps all deserving firms' access finance and grow, but the effect is greatest on smaller firms.

Although Beck and Demirguc-Kunt, (2006) identified finance as the main obstacle to growth of SMEs, this study will continue to find out other means of solving financial problem faced by SMEs in the oil palm producing sector.

CHAPTER THREE

METHODOLOGY

3.0 INTRODUCTION

This chapter presents an outline of the procedure and techniques employed in espousing data from respondents for the study. These consist of a research design, population, sample and sampling procedure, data collection, presentation and analysis.

3.1 RESEARCH DESIGN

The study work uses the descriptive method. This type of study enables one to understand the nature of the problem and obtain information concerning the status of the problem to describe what exists with respect to variables or conditions. The main goal of this type of study is to describe the data and characteristics about what is being studied. The idea behind was to study frequencies, averages, and other statistical calculations in relation to the financing of SMEs in the oil palm producing sector. This would help in collecting data for a definite purpose in testing the research questions of the study. Data was collected using questionnaire.

3.2 POPULATION

Population is define as the totality of people or items with the same characteristics. For this study, the population comprises all oil palm producers in the Ahanta West District of the Western Region of Ghana. The producers of the oil palm are normally within the various towns of the district and these were: Aboadze with total producer of eighteen (18) respondents, Ewoseadwo having fifty two (52) respondents, Aiyiem with thirty six (36) respondents and Akatenkye having total of forty five (45) respondents given a total population of 151 oil palm producers.

3.3 SAMPLING PROCEDURE

This presents the sample size for the study and the sampling technique used in drawing the sample size.

3.3.1 Sample Size

For better understanding and analysis of the study, based on the numerical strength of the towns, percentages were used to draw the sample size. Greater percentages were allocated to towns with much oil palm producers while smaller percentages were allocated to towns with less oil palm producers. A Forty-five percent was allocated to respondents in Ewoseadwo presenting a sample size of twenty-three while forty percent was allocated to Akatenkye given a sample size of eighteen. Aiyiem was allocated sixteen percent of respondents while Aboadze had twelve percent of respondents which gave a total sample size fifty (50) respondents for the study.

3.3.2 Sampling Technique

The sampling techniques used were stratified, quota and purposive sampling technique. Stratified sampling technique was used to select the respondents based on the study area. Therefore, the four main strata were Aboadze, Ewoseadwo, Akatenkye and Aiyiem. Quota sampling technique is a type of non-probability sampling, which involve a specific number of respondents been selected from the population. For this study, various percentages were used to draw the sample size based on the numerical strength of the strata. Purposive sampling method is whereby the selection of the respondents is base on the judgment of the researcher, and that those selected are the key individuals who can give the information needed for the study. This method was also used in selecting respondents from the financial institution (Ahantaman Rural Bank). The officer in-charge of microfinance was selected for the study.

3.4 DATA COLLECTION

Primary data and secondary sources of data were used to espouse information for the study. The use of primary data enabled the study to identify the various sources of funds and problems encountered by oil palm producers in their operation to increase output through administering questionnaires to ten (50) respondents from the palm oil producers. Questionnaires involved both open and close-ended questions which was personally administered to respondents.

Conducted unstructured interview for respondents from the financial institution, that is, the officer in charge of microfinance at Ahantaman Rural Bank. An unstructured interview was appropriate for the study because it was easier to obtain vital information since some responses may not be part of the subject matter but led in gathering the right information for the study.

The secondary sources of information was also used including data from United Nations Conference On Trade And Development (UNCTD), International Research Journal of Finance and Economics, United Nation Industrial Development Organization (UNIDO), Regional Workshop on Financing Small and Medium Scale Enterprises, SME Financing from Financial Institutions, journals and among others.

3.5 DATA PRESENTATION AND ANALYSIS

Both quantitative and qualitative approaches were used in analyzing the data. The quantitative approach enabled the statistical representation of the data to ease the understanding and interpretation. Data were gathered from the questionnaires administered and unstructured interview conducted. Excel was used in analyzing the data and quantitative tool such as tables and charts were used in presenting the results to enable a clear understanding of the variables used. Qualitative approach was used mainly to find out whether the study confirms or disagrees with the study of other researchers for which conclusions were drawn.

CHAPTER FOUR

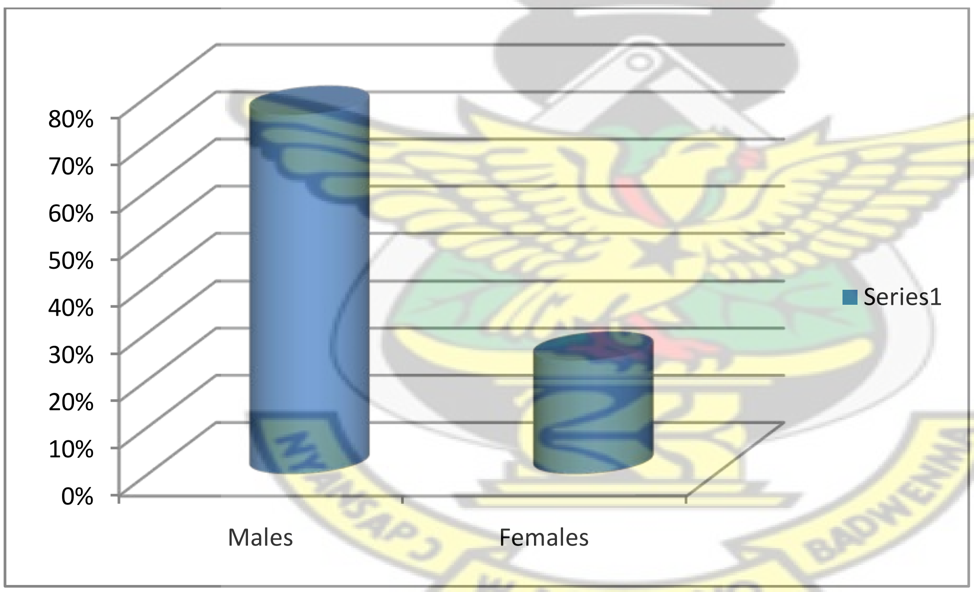
FINDINGS

4.0 INTRODUCTION

This chapter analyses, interprets, and draw conclusion from data using tables, frequencies and percentages.

4.1 GENDER OF RESPONDENTS

Figure 1: Gender Distribution Respondents



Source: Field Survey, (2011)

From the questionnaire administered and interview conducted, majority of the respondents were females (76%) while the remaining respondents, (that is 24%) were males. This confirms the study of Abor and Biekpe, (2006) stating that majority of SMEs were female-owned businesses, which more often than not were home-based compared to those owned by males operated from home and were mostly not considered in official statistics.

4.2 AGE OF RESPONDENTS

From Table 4.1 below, it can be seen that majority of the respondents (50%) fell within the age range of 31-40 years and these were the youth who were actively involved in oil palm production. This group have the energy of growing their businesses that leads to the growth of the economy as a whole and have the ability to better their standard of living as compared to 10% of the remaining respondents who were above 50 years. These groups have less strength and affect production since of oil palm production demand much strength due to the use of manual way of producing oil palm, which involves much strength.

Table 4.1: Age Distribution of Respondents

Age range (years)	Frequency	Percentage (%)
18-30	8	16
31-40	25	50
41-50	12	24
Above 50	5	10
Total	50	100

Source: Field survey, (2011)

Also 24% and 16% of the remaining respondents fell within the age ranges of 41-50 years and 18-30 years respectively, which implied that this group (i.e. 18-30 years) are still schooling and are not actively involved in the business.

4.3 EDUCATIONAL BACKGROUND OF RESPONDENTS

Table 4.2 presents the various educational attained of respondents. From Table 4.2 below, majority of the respondents (i.e. 44%) had elementary education, whiles minority (i.e. 8%) of respondents had tertiary education. This implies that majority (i.e. 30%) of the respondents do not have a solid foundation in the formal education. This impedes the gathering of information regarding their business and goes a long of hindering the progress of their operation. Also only 20% of respondents had junior high school education as compared to 12% of the remaining respondents who had some secondary education.

Table 4.2: Educational Levels Of Respondents

Educational levels	Frequency	Percentages (%)
Elementary school	22	44
Junior high school	10	20
Senior high school	6	12
Tertiary	4	8
No Formal education	8	16
Total	50	100

Source: Field Survey, (2011)

4.4 YEARS IN BUSINESS

From the survey, majority of the respondents (i.e. 44%) have been in the oil palm production for over ten (10) years which implied that oil palm production was their main occupation and main source of funds for the upkeep of the family as compared to a minority of 6% having been in business within the range of 1 -3 years in business. This minority of individual have either lost their previous jobs, resorted to the oil palm production or have started production using their own palm fruit. Also 26% of the remaining respondents were within the range of 7 – 9 years as against only 14% were within the range of 4 – 6 years respectively. This is presented in Table 4.3 below.

Table 4.3 Number of Years In Business

Number of years	Frequency	Percentage (%)
1 -3	3	6
4 – 6	7	14
7 -9	18	26
10 and above	22	44
Total	50	100

Source: Field survey, (2011)

From the study, it showed that greater proportion of the respondents have been in business for over five years, and they stand a chance of attracting any investor. This agrees with the study of Myers, (1977) who stated that age of the firm was a standard measure of reputation in capital structure models. As firm ages, it establishes itself as a continuing business and therefore increases its capacity to take on more debt; hence age was positively related to debt. Before granting a loan, banks tend to evaluate the creditworthiness of entrepreneurs, as these were generally believed to pin high hopes on very risky projects promising high profitability rates.

4.5 READINESS OF PRODUCT

The study found out whether the oil palm has a ready market and the identification of the various customers of the product. All the fifty (50) respondents representing hundred percent (100%) answered 'Yes,' implying that there was ready of market for their product. This is shown in Figure 2 below. Some of their customers were the market women who purchased palm oil for resale, educational institutions for the preparation of food for students, soap manufacturers and others for export.

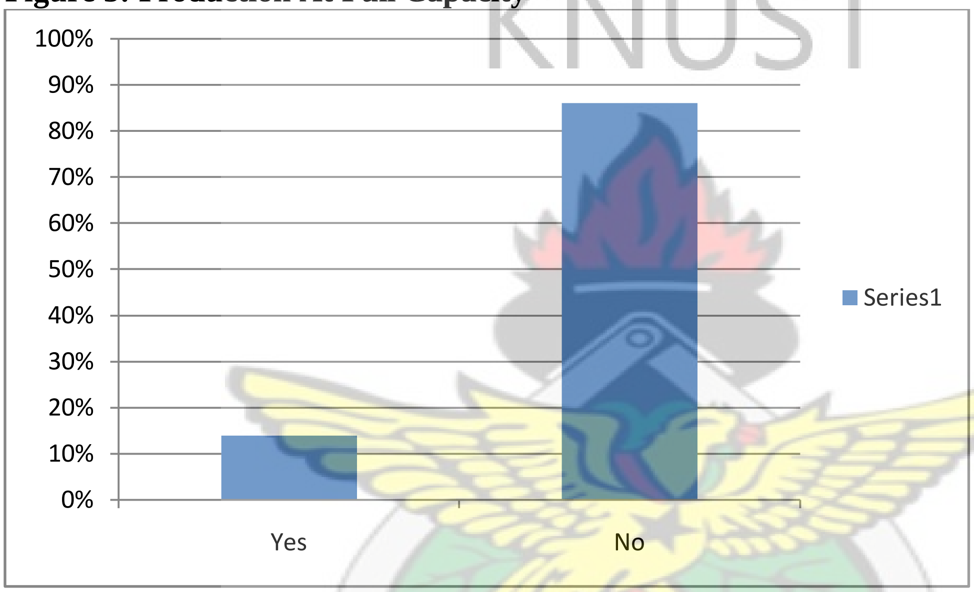
Figure 2: Availability Of Market

Source: Field Survey, (2011)

4.6 PRODUCTION AT FULL CAPACITY

The study also identifies whether they produced at full capacity and if not, espouse the reasons for not producing at full capacity. From Figure 3, majority (i.e. 83%) of respondents answered 'No' meaning that they do not at full capacity as compared to minority (i.e.17%) of respondents said 'Yes' meaning they produced at full capacity. This means that majority of respondents representing eighty six percent (83%) do not produced to full capacity and when asked why not producing at full capacity, the reason they gave was that, there was not enough funds to purchase palm fruits which prevents them from producing to meet the actual demand of the market, that is, demand always exceeds supply. These minority (i.e.17%) of respondents who produced at full capacity some of them have their own palm plantation which cause them to produce as many as customers demand whiles others have enough funds to purchase the palm fruit.

Figure 3: Production At Full Capacity



Source: Field Survey, (2011)

4.7 NUMBER OF EMPLOYEES

With respect to the number of workers employed in the production of palm oil it can be identified from Table 4.4 above that majority (i.e. 86%) of respondents did attest to the fact that they only employed workers ranging from 3 – 5 whereas only 14% of the remaining respondents employed 6 – 8 workers.

Table 4.4: Workers Employed

Number of workers	Frequency	Percentages (%)

3 – 5	43	86
6 – 8	7	14
9 – 12	0	0
Above 12	0	0
Total	50	100

Source: Field survey, (2011)

This means that oil palm producers formed part of the micro-firm employing less than 5 workers. When asked why not employing more hands to help in the production of palm oil, all respondents attributed the situation to lack of funds which prevented them to employ more workers to increase production as well as contribute to reducing the employment rate in the Ahanta West District Assembly and the country at large.

This is in agreement with the definition of SMEs in terms of number of employees for developing countries given by UNIDO starting that: Large - firms with 100 or more workers; Medium - firms with 20-99 workers; Small - firms with 5-19 workers; Micro - firms with less than 5 workers. (Elaian, 1996)

None of the respondents employs above eight (8). It can be deduced that greater portion of the respondents employed 3 – 5 workers.

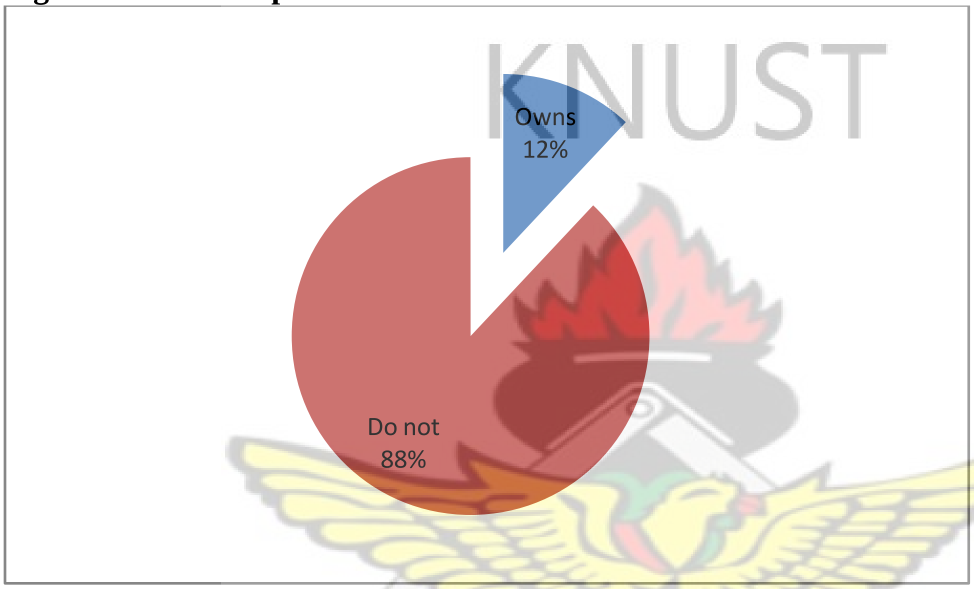
To further find out from respondents whether workers employed to work on were solely family members or not, majority (i.e. 92%) of respondents confirmed that all workers employed were indeed family members while the remaining respondents (i.e. 8%) answered ‘No’, that is, they employed people other than family members to help them in the production of oil palm. This means that majority of the respondents worked with their family members mainly husband, wife, some of the children who were interested in the oil palm production. This confirms the study of Osei *et al.*, (1993) ; Kayanula and Quartey, (2000) which states that " rural enterprises are largely made up of family groups, individual artisans, women engaged in food production from local crops. The major activities within this sector include:- soap and detergents, fabrics, clothing and tailoring, textile and leather, village blacksmiths, tin-smiting, ceramics, timber and mining, bricks and cement, beverages, food processing, bakeries, wood furniture, electronic assembly, agro processing, chemical-based products and mechanics."

The study also went on to assess whether respondents would be in the position to employ more workers which all the respondents (i.e.100%) answered 'Yes' that more people will be employed if they are to produce at full capacity. This means that having funds available will go a long way to increase production and consequently increase the employment rate in the Ahanta West District and the country as a whole.

4.8 PLANT AND MACHINERY USED IN PRODUCTION

The study sought to identify the ownership of plant and machinery used in the production of the oil palm with results illustrated in Figure 3 below. From the Figure 4 below, majority of respondents (i.e. 88%) do not own the plant and or machines used in producing oil palm but depended on other people's machines for the production of palm oil as compared to only 12% of remaining respondents who owned their own plant and machinery. Unfortunately, those who own machines for oil palm production were not into oil palm production themselves but were being set-up for hiring to generate income from the oil palm producers. This implied that majority (i.e. 88%) depended on others for production also drains some of the funds at hand, which could otherwise be used to purchase raw materials to increase production. Also, without personally owned plant and machinery, the possibility of borrowing from banks may not be realized since some banks rely on them as collateral.

Figure 4: Ownership Of Plant And Machines Used In Production



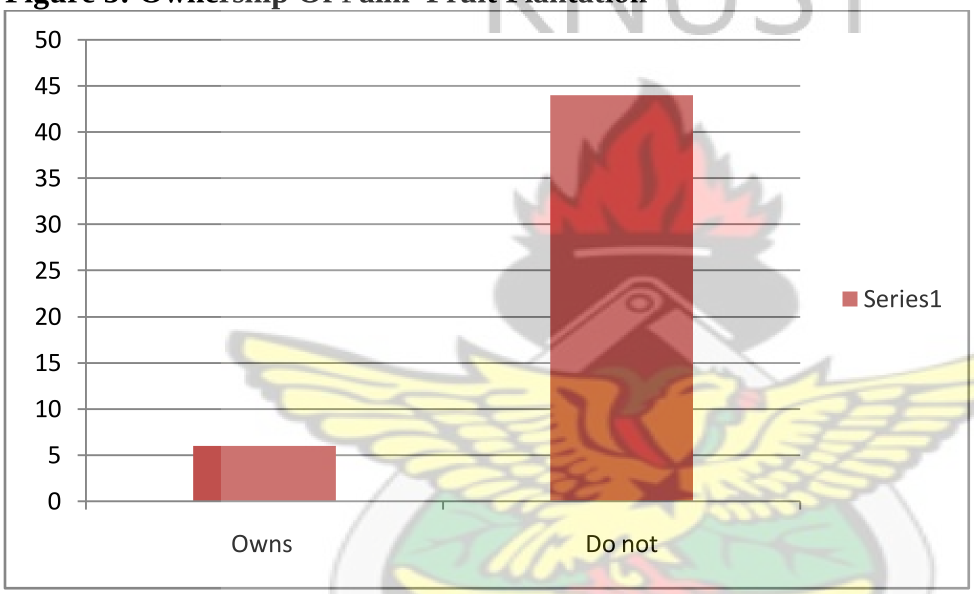
Source: Field Survey, (2011)

According to Bradley et al., (1984) firms that invest heavily in tangible assets tend to have higher financial leverage since they borrow at lower interest rates if their debt was secured with such assets. It was believed that, debt may be more readily used if there were durable assets to serve as collateral (Wedig et al, 1988) while high transaction costs, risks related to small loans, and lack of collateral restricted SMEs access to formal credit (Steel, 1994) which in a way were being encountered by oil palm producers at Ahanta West District of the Western Region.

4.9 ASSESS TO RAW MATERIALS USED IN OIL PALM PRODUCTION

From the study, majority of the respondents (i.e. 44) do not own their own palm plantation but rather depended on palm fruit suppliers for raw materials whilst minority (i.e. 6) of the remaining respondents owned their

Figure 5: Ownership Of Palm Fruit Plantation



Source: Field Survey, (2011)

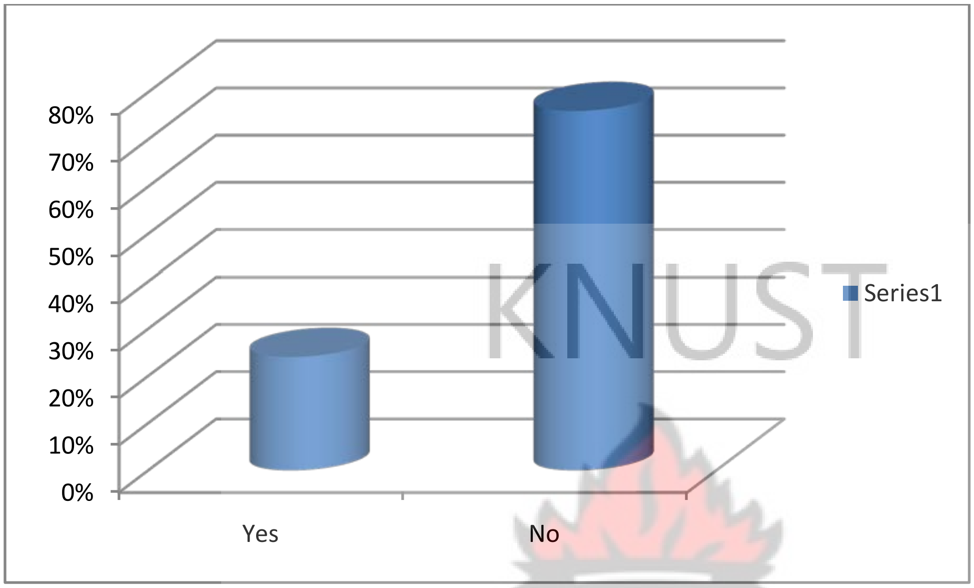
oil palm plantation. (See Figure 5 above) This implied that, without the supply of palm fruit there would be few production of palm oil. It should be noted that a producer who have control raw material was assured of it output (i.e. oil palm) but majority of oil palm producers do not have access to the raw material therefore leads to loss of sale.

The study continued to find out from respondents whether producers of palm fruit were willing to sell to local producers of oil palm. From Figure 6, majority of the respondents (i.e. 76%)

answered ‘No’ meaning that they do not have palm plantation on their own but rather depend on suppliers of palm fruit. While minority (i.e.24%) of the respondents said ‘Yes’ that means that they own palm plantation which produce palm fruit for the production of oil palm. It was revealed that, majority of the palm fruit producers preferred to sell to Norpalm Limited and Benso Oil Palm Limited because these companies offered higher prices than the local producers of oil palm which in a way prevent them from producing at full capacity as well as reducing the profitability of these local oil palm producers.

The study also identified the by-product of their production and how they treated them. According to respondents, the main by-product was the palm nut and chuff. Although the main product was the oil palm, these producers also make money out of the by-product.
Those who build mud houses use the chuff and the palm kernel oil producers buy the palm nuts. This means that every output of the production of oil palm is important and generates income for the producers. Therefore, the production of oil palm has the capacity of bettering the living standard of the people if funds are available for the production of oil palm.

Figure 6: Willingness Of Suppliers Of Palm Fruit To Sell To Local Producers Of Oil Palm

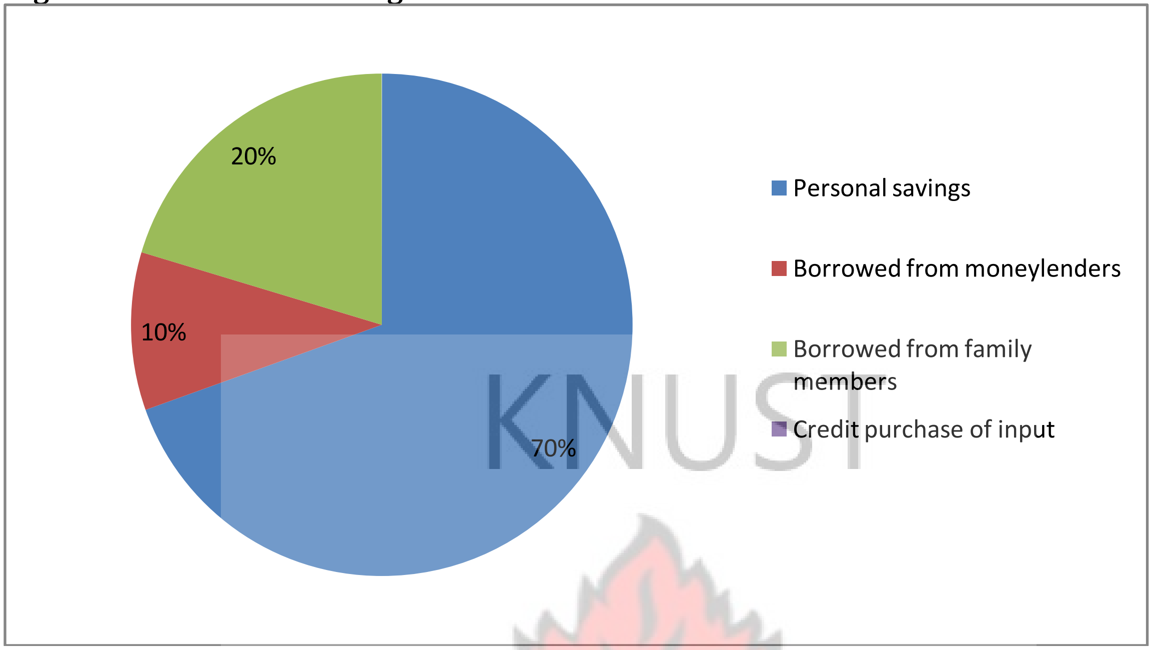


Source: Field Survey, (2011)

4.10 FINANCING THE BUSINESS

The study identified the various sources of funds of the business, was it financed either through personal savings, borrowing from moneylenders, borrowing from family members or purchasing of input from suppliers on credit. From the Figure 7 below, majority of 70% of respondents of the oil palm producers finance their business through personal savings as against a minority of 10% of remaining respondents who finance their business through borrowing from moneylenders. This was because majority of producers were not enlightened on how they can expand their business using other sources of fund. In addition, there was the fear of not being able to pay back the borrowed funds as the survival of the family was depending on profit generated from the business

Figure 7: Sources of Funding



Source: Field Survey, 2011

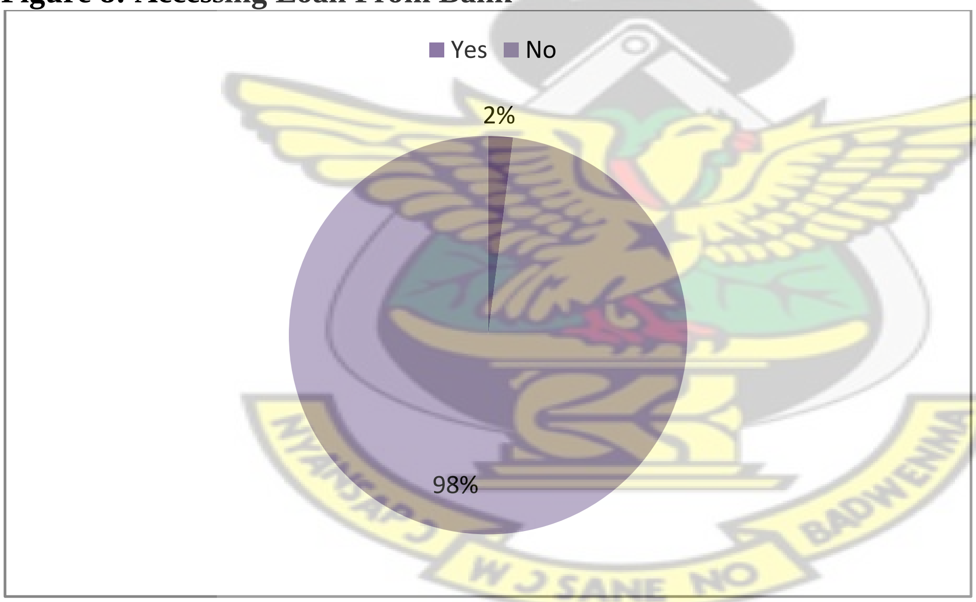
Furthermore, the few who were aware of the funds especially with the micro-finance provided by financial institution were denied of the access. This agrees with ACCA (2008) that, the money for investment that SME can obtain comes from the savings individual make in the economy. Therefore, if the capital get locked up, there will be no production of the product.

Only 20% of the remaining respondents finance their business through borrowing from family members, which do not attract any interest, and in a way was not always available since most of them were involved in the same oil palm production. This was in line with the study of Osei et al. (1993) who said that, the owners raise funds from friends and relatives, leading to inadequate working capital and investment funds, which threaten their survival and impede their growth. None of the respondents finance business through credit purchase, which was not possible because the suppliers of input or the raw material were willing to sell to Norpalm limited and Benso Oil Palm Company limited at higher prices rather than the local producers.

4.11 ACCESSING LOANS FROM BANKING INSTITUTION

From the Figure 8 below, majority of 98% of the respondents answered 'No' meaning that they have not had the opportunity of receiving any loan. Among the reasons respondents' gave for not having the opportunity of accessing loans from banks was that they were afraid of not being able to pay back. In addition, microfinance institutions denied some that made the attempt, even though they made the attempt of accessing the loan facility.

Figure 8: Accessing Loan From Bank



Source: Field Survey, (2011)

Minority of 2% has made use of the loan facility. Before the loan was granted, a specific amount had to be deposited in her account in other for her to take the needed amount. Which she did but later refunded the money because of the interest rate was high, that is, 28%.

4.12 PURPOSE OF EXISTENCE OF THE BANK

From the interview conducted, the study revealed that banks were established to help the people in the various localities to serve and provide them with needed funds to run their businesses in order to improve their living standards. Also in order to be socially responsible, the bank offered scholarships to needy but brilliant students in the Ahanta West District an well as carry developmental projects in the respective localities. In quest of making sure that needed funds were well disbursed and results thereof evaluated, microfinance section was created by the bank (Ahantaman Rural Bank) to provide such services.

This confirms the study of Leila, (2006) that microfinance in Africa had developed in different stages across the region. Financial intermediaries such as cooperatives, rural and postal savings banks pioneered the industry in the 1970s, especially in West and East Africa. Also in agreement the study of Johnson & Rogaly, (1997) that, in the 1990s, involves microfinance schemes, which provide financial services in the form of savings and credit opportunities to the working poor.

4.13 PROVISION OF LOANS TO SMEssss

The study revealed that the bank (Ahantaman Rural Bank) provided loans to all forms of SMEs in the locality. Some of which were agro-farmers, traders, drivers, etc. which the oil palm producers are of no exception. The bank required that the SMEs owner saved with the bank and provided two guarantors before loan was granted with no collateral demanded. It was revealed by the bank that no ceiling was placed on the loan facility provided the client had an amount in his/her account.

This was in agreement with the study of Gert van, (2004) who explained microfinance as banking the unbankables, bringing credit, savings and other essential financial services within the reach of millions of people who were too poor to be served by regular banks, in most cases because they were unable to offer sufficient collateral for the acquisition of loan from bank.

4.14 PAYMENT OF LOANS BY SMEs

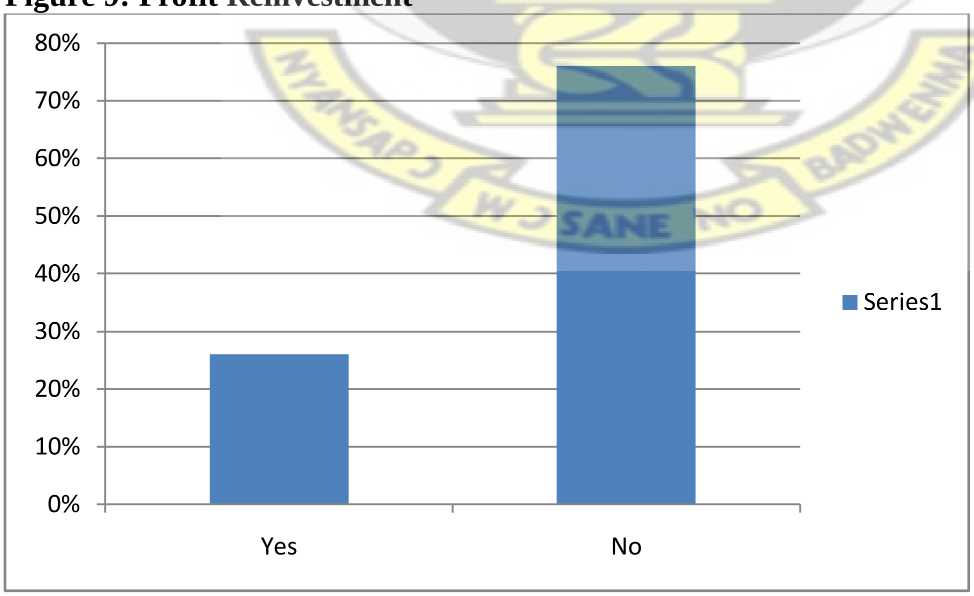
The study also identified that most SMEs failed to pay back the loans granted them by respective financial institutions because some of them fail to use the loan for the intended purpose. Although monitoring systems were in place to monitor its intended purpose, there was misappropriation of the said funds. Those who utilized the loan wisely experienced improvement in their production, which goes a long way of bettering the living standard of the people as well as fulfilling the purpose for which the microfinance was established.

This agrees with Gert van, (2004), microcredit played an important role in fighting the multi-dimensional aspects of poverty. Microfinance increases household income, which leads to attendant benefits such as increased food security, the building of assets, and an increased likelihood of educating one’s children as well as a means for self-empowerment. It enables the poor to make changes when they increase income, become business owners and reduce their vulnerability to external shocks like illness, weather and more.

4.15 REINVESTMENT OF PROFIT

The study finds out whether the profit earned is reinvested in the business. Majority (i.e. 74%) of the respondents said 'No' meaning that they do not reinvest their profit in the business but rather depend on it for survival. By so doing, it impedes growth of the business since there were no other available means of financing the business. This is illustrated in the Figure 8 below. On the other hand, minority (i.e. 26%) of the respondents did confirm reinvesting their profits back into the business to increase their production as well as expend the business. This rejects the study of Titman and Wessels, (1988) and Barton et al, (1989) who argued that, profitable firms, which have access to retained profits, can rely on it expansion as opposed to depending on outside sources (debt). They also agree that firms with high profit rates, all things being equal, would maintain relatively lower debt ratio since they are able to generate such funds from internal sources.

Figure 9: Profit Reinvestment



Source: Field Survey, (2011)

4.16 FUNDS FROM NGO'S

Apart from the normal financial institution, the study tried to find out if any NGO has come in to fund the production of oil palm. All respondents (i.e. 100%) have not had any NGO helping with funding of oil palm production. This means that these oil palm producers in the Ahanta West District of the Western have been highly deprived by government and other NGO's.

4.17 RECORD KEEPING

The importance of record keeping cannot be underemphasized. All the respondents (i.e.100%) do not keep records regarding their business as well as do not see the importance of records keeping largely due to their low educational background or no formal education. Thus, conforming to United Nations Conference on Trade and Development (UNCTAD) conference report in 2000, traditional commercial banks and investors had been reluctant to service SMEs because of information asymmetry arising from SMEs' lack of accounting records, inadequate financial statements or business plans made it difficult for creditors and investors to assess the creditworthiness of potential SME proposals for funding.

Also the concept of ACCA, (2008) that whenever such records were presented to potential investors, SMEs have neither a business history nor information concerning their business. However, because of poor accounting practices and record keeping, many SMEs are unable to do so (Cook and Nixson, (2000), Binks, Ennew, and Reed (1992)). This increases the risks and transaction costs (for monitoring and screening) of SME lending.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter looks at the summary of the study, the conclusions drawn from the study as well as recommendations made by the study.

5.1 SUMMARY

The study was conducted to identify the various sources of funds available for oil palm producers in the Ahanta West District in the Western Region of Ghana and the funds that are mostly accessed by these oil palm producers. The objectives for the study were to:

i. Identify the various forms of funds available to the SMEs in the oil palm producing sector of the Ahanta West District of the Western Region.
ii. Find out the funds that have been actually accessed by oil palm producers.
iii. Examine the constraints attached to each fund available to the oil palm producers.
iv. Identify some other means of financing the oil palm production.

Research questions were set in order to help achieve the stated objectives. Major stakeholders of the study were identified as the oil palm producers, Ahanta West District Assembly, Financial institution like the Rural banks that were found in the district as well as the Micro-Finance Institution, and the benefit derive by each stakeholder was also noted. Chapter two review related literature both the theoretical framework and empirical analysis from the journals. Newsletters, text books, etc. Some of which were definitions which are given by various authors and researchers like Bolton Committee (1971), UNIDO, Teal, (2002), etc. Also characteristics of SMEs were also looked at as well study on financing SMEs by various authors and researchers were reviewed.

Descriptive method was used for the study, the population was identified as he oil palm producers in the Ahanta West District and sample size of fifty was drawn from the population using convenience, purposive, and quota sampling techniques.

Primary and secondary sources of data were used in gathering information for the study. Questionnaire administration and conduction of interview were used. In addition, both quantitative and qualitative method of data analyses were used in anlysing the primary data collected and qualitative method was used to find out whether the study confirms or disagrees with accessions made by other researchers, base on this conclusions were drawn. In chapter four, data collected are analysed using tables and figures to establish relationships and conclusions were drawn from them.

Data on background of respondents were first anlysed followed by the main data. The survey revealed that majority of respondents could not produce to full capacity because of lack of funds to purchase the input. Also majority of respondents do not own their own plant and machinery which could be used as collateral for accessing loan facility from the banks. Again it was identified that, respondents do not keep records of their operation which investors can use to access whether it was worthwhile investing in the business or not. Furthermore, only one respondent had the opportunity to access loan facility from a rural bank which later regretted from accessing because of the interest rate.

5.2 CONCLUSION

From the study majority of respondents depend on others for production also drains some of the funds at hand, which could otherwise be used to purchase raw materials, thereby increasing production. Also without personally owned plant and machinery, possibility of borrowing from banks may not be realized since banks rely on them as collateral.

In addition, majority of oil palm producers do not have access to raw material (that is palm fruit) therefore led to loss of sale. It was revealed that, majority of the palm fruit producers preferred selling to Norpalm Limited and Benso Oil Palm Limited because these companies offered higher prices than local producers.

Furthermore, majority of oil palm producers interviewed financed their business from personal savings as against minority of 10% of respondents who financed their business from borrowing from moneylenders. This is because majority of producers (respondents interviewed) were enlightened on how they can expand their business using other sources of funds. In addition, there was the fear of not being able to pay back the borrowed funds as the survival of the family was depending on the business. Also the few who are aware of the fund especially with the micro-finance were denied of the access.

Also majority of the respondents interviewed have not had the opportunity of receiving any loan from financial institutions (i.e. Ahantaman Rural Bank). Among some of the reasons they gave were that, they are afraid of not being able to pay case of difficulty and been denied of access of loan by Microfinance institutions, even though they made the attempt of accessing the loan facility.

Minority of respondents have accessed loan facility. Even though have made use of loan facility from a rural bank (Ahantaman Rural Bank), before the loan was granted, a specific amount was deposited in the account. Respondent later refunded the money because of high interest rate (that is, 28%).

It can be said that majority of respondents do not reinvest their profits but rather depend on it for survival. By so doing, it impedes growth of the business since there are no other available means of financing the business. Minority of respondents reinvest their profits to increase their production as well as expend the business.

The importance of record keeping cannot be left out in this important study therefore, from the interviewed conducted and questionnaire administered, all the respondents do not keep recordings regarding their operation because they do not see the importance of records keeping and were mostly of low educational background or no formal education.

5.3 RECOMMENDATIONS

The study made the following recommendations to the Ahanta West District Assembly, financial institutions especially micro- finance institution, and the oil palm producers in the district.

First of all much education on record keeping should be given to the oil palm producers organized by the district assembly so that they can attract investors. In addition, the district assembly should set some funds aside out of the Internally Generated Funds (IGF) for the oil palm producers since oil palm production was one of the main occupation of the people of the district in order to better the living standard of the people as well as reduce the unemployment rate of the district and Ghana at large.

Secondly, the financial institutions in the district should have a second look at the operation of the oil palm producers especial the Micro-Finance Institution since they are set-up to help SMEs in alleviating poverty as well as contributing to the economic growth of the country. These institutions should have flexible terms of payment of loan for SMEs in order to encourage them to access the loan facility.

Lastly, the district assembly should organized training programs for the oil palm producers in the area of new technology used in producing oil palm since most of them use old method of production. The district can also acquire modern plant and machinery for these producers with flexible terms of payment to increase the assets worth of the business so that oil palm producers can stand a chance of accessing loan facility.

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APPENDIX

QUESTIONNAIRE

The objective of this questionnaire is to obtain some information for an academic purpose. You are therefore assured that every information you provided will be regarded as confidential.

Please tick [√] where appropriate and provide response where necessary.

SECTION A: Background Information of Respondent

1. Gender: a. Male [ ] b. Female [ ]
2. Age of respondent: a.18 years- 30 years [ ] b. 31 years- 40 years [ ]
   c.41 years- 50 years [ ] d. Above 50 years [ ]
3. Educational background: a. Elementary School [ ] b. Junior High School [ ]
   c.Senior High School [ ] d.Tertiary [ ]
4. Number of years in business: a.1 – 3 [ ] b. 4 – 6 [ ]
   c. 7 – 9 [ ] d.Above 10 years [ ]

SECTION B: General Operation

5. Do you have ready market for your product? a.Yes [ ] b. No [ ]
6. Who are your customers?...
   …………………………………………………………………………………………
   ………………………………………………………………………….............................
7. Do you produce at full capacity? a. Yes [ ] b. No [ ]
8. If 'No' why?…………………………………………………………………

9. How many people do you work with? a. 3-5[ ] b. 6-8[ ]
c.9-12[ ] d. Above 13 [ ]
10. Are they your family members? a. Yes [ ] b. No [ ]
11. If you were to produce on full capacity, will you employ more people?
   a. Yes [ ] b. No [ ]
12. Do you own machines used in producing the oil palm?
   a. Yes [ ] b. No [ ]

13. Do you experience difficulties in transporting your product to market?
   a. Yes [ ] b. No [ ]

SECTION C: **Assess To Raw Material**

14. Do you have your own palm plantation? a. Yes [ ] b. No[ ]
15. If 'No', how do obtain the palm fruit?..
16. Are suppliers of palm fruit always willing to sell to you? a. Yes [ ] b. No [ ]
17. If 'No', why?...
18. What are the by-products of your operation? …………………………………….
   …………………………………………………………………………………….
   …………………………………………………………………………………..
19. How do you treats your by- products? a. Reuse [ ] b. Sell [ ]

SECTION D: Financing The Business

20. How do you finance your business? Through;

a. Personal savings [ ] b. Borrowed from money lender [ ]

c.Borrowed from family members [ ] d. Credit Purchasing of input [ ]

e.Other means, (please specify) …………………………………………………..

21. Have you taken loan from bank the before?

a. Yes [ ] b. No [ ]

22. If ‘Yes’ what was some of the requirement the bank demanded before granting the loan?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

23. Where you able to provide the requirement? a. Yes [ ] b. No [ ]

24. If ‘No’ why…………………………………………………………………………

……………………………………………………………………………………..

25. If you answered ‘Yes’ to question 21 above, what was the interest on the loan from the bank?..

…………………………………………………………………………………………

26. Do you reinvest the profit you gain? a. Yes [ ] b. No [ ]

27. Apart from the financial institution, do you have any NGO or any institution supporting your operation financially?

a. Yes [ ] b. No[ ]

28. Do you keep records of your operation? Yes [ ] No [ ]

29. If ‘No’ why?……………………………………………………………………..

…………………………………………………………………………………………

30. Apart from funds what other difficulties do you face in the operation of your business?...

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