

**CHALLENGES FACING SMALL AND MEDIUM SCALE ENTERPRISES (SMES)
IN ACCESSING CREDIT**

(A CASE STUDY OF KUMASI METROPOLIS)

BY

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DECLARATION

I hereby declare that this thesis is the result of my original piece of research work conducted between January 2015 and June 2015 under the supervision of Mr. P.K. Oppong Boakye, lecturer at the School of Business, Kwame Nkrumah University of Science and technology. Kumasi.

In instances where references of other people's works have been cited, full acknowledgement has been given. This work has never been submitted in whole or in part in any institution(s) for any award(s).

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DEDICATION

This work is dedicated to the Almighty God who has brought me this far to realize my dream. It is also dedicated to my loving wife Matilda Boahemaa Apraku. I also dedicate it to Apostle and Mrs. Gyimah of the Church of Pentecost, as well as Maame Serwaa of Ahodwo, Kumasi. I pray you all live long to see more of me in your lives.

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The research was carried out mainly within the central business district of Adum and Kejetia in the Kumasi Metropolis of the Ashanti Region. These sites were selected because most businesses within the Metropolis operate from here. The study focused on SMEs because they form the largest form of businesses in the country and therefore the need to look at their financing in promoting growth. The choice of Kumasi is for the fact that the researcher resides and schools there, hence the choice of close proximity.	
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ABSTRACT

The primary purpose of this research work was to assess the challenges Small and Medium Scale Enterprises (SMEs) face in accessing credit. The research design for this study was a survey, quantitative and descriptive in nature. The study employed the use of questionnaires which were administered personally on selected days. The sample size for the study was hundred (100) comprising of Small and Medium Scale Enterprises within mainly the Adum and Kejetia areas of the Kumasi metropolis. In this study, accidental sampling technique of the non-probability sampling and random sampling technique of the probability sampling techniques were used to select the sample. The study employed descriptive and quantitative techniques in analyzing the data. Tables, frequencies etc. were used in describing and analyzing the data collected. The researcher used Statistical Package for the Social Sciences (SPSS). Based on the data collected and analyzed it was found that the sources of funds for the Small and Medium Scale Enterprises (SMEs) are many. The study revealed that the sources include Microfinance institutions being the most reliable, followed by Banks, Lenders and Susu operators in that order. The study revealed that all 100 respondents representing 100% said they are required by the MFIs to provide some sort of security before loans are granted. The challenges affect their operations in the area of reduction in profits, increase in operational costs, delays in operation etc. The researcher suggested that there should be collaboration between the SMEs and the microfinance firms where the MFIs will provide a soft loan to these firms to help them increase their operations. Again, the researcher suggests that the MFIs should focus on the nature of the business and the ease of recording cash inflows than the security requirement. This will help those who cannot provide security to also have access to loans to expand their businesses.

CHAPTER ONE

GENERAL INTRODUCTION

1.0 INTRODUCTION

This section shows all various components that will be looked at under the study of “Challenges facing Small and Medium Scale Enterprises (SMEs) in accessing credit. A case study of Kumasi Metropolis” of the Ashanti region. The general idea of SME trade is highlighted as well as the variety of kinds in Ghana.

The chapter then proceeds to state the problem, outline the research objectives and research questions, as well as the significance of the study, the scope, limitations and organization of the study.

1.1 BACKGROUND OF THE STUDY

SMEs do boast of huge power on the lives of citizens of our economy. Information shows that SMEs comprise of about sixty percent of all businesses in rising economies. In recent years, various programs and workshops have been organized to enhance development and expansion of small business enterprises by government and non-government organizations (NGOs).

So many business enterprises grow rapidly to a point and when there is a small change in the economy, it depresses them from their point.

Ahmed (2006) explains that (SMEs) are now seen as a sub-sector of the industrial sector which is playing crucial roles in industrial development. This suggests that Small and Medium Scale Enterprises are very crucial in shaping the growth agenda of countries. Small and Medium Scale Enterprises (SMEs) as academically known over the years have had a

great influence on the lives of individuals of the world's economy particularly, developing economies like Ghana. The Small and Medium Scale Enterprises market consist of many businesses in the country and in the course of the years, grown to the level of becoming business merchant and service supplier to very big businesses that involves international and intercontinental conglomerates. Mainly, SMEs have lead to the growth and expansion of businesses output, lead to increasing of activities of various businesses more especially in the field of manufacturing. Aside that, SMEs have led to the creation of job openings especially in the retail sector, and also causative to lengthening Ghana's export base (Ghana Investment Promotion Centre, 2010).

Historically, the SMEs sector in Ghana has been in existence for a long time and there are lots of opportunities for this sector in the area of agriculture, tourism, information technology, services, energy, manufacturing etc. In his study, Ojo (2009) said one of the answers to the difficulties of growth in rising countries particularly, Nigeria, is the support of entrepreneurial development systems.

Principally, there are many but not one consistently acceptable, meaning of small firms (Beger2002). Firms are different in the levels of capital mobilization, selling and employment. That is looking at a single area this could lead to all firms being classified as small business. Early effort to conquer this explanation problem is through Bolton Committee (1971) when the committee formulated an "economic" and a "statistical" definition.

In Ghana, small businesses are major sources of employment income and personal development for the rural and urban folks (Bani, 2003). It is estimated that about three-quarters of the Ghanaian population derive their livelihood from this sector (Ghana News Agency, 2006). From the IRS of America ninety six percent of American businesses are small businesses. Liedholm and Mead (1987) estimated that, small business enterprise

provided about twenty six (26%) to sixty four (64%) of manufacturing value added and the bulk of employment in Africa.

Allotey (2008) observed that inadequate credit supervision and monitoring have often led to the decline of funds as account for low loan recovery rates. Due to lack of security most small business entrepreneurs are not prepared to acquire bank loans because they cannot meet their requirements. Many small scale businessmen lack collateral security such as land, house, etc. which makes it difficult for them to have access to bank loans. Michael Lipton (1976) observed that borrowers would use projects they could pursue with family to seek credit, however if the credit is granted they them use it for consumption purposes. Also beneficiaries of funds from NGOs treat them as gifts since it emanates from outside the company.

Perhaps the mainly significant input of SMEs to the growth of nationwide economy is the making of employment. In Ghana for instance the SME area contributes about eighty percent of the employment. Correspondingly ninety percent of operations registered with the Registrar General are SMEs. (Allotey, 2008)

Allotey (2008) observed that inadequate credit supervision and monitoring have often led to the decline of funds as account for low loan recovery rates. Due to lack of security most small business entrepreneurs are not prepared to acquire bank loans because they cannot meet their requirements. Many small scale businessmen lack collateral security such as land, house, etc. which makes it difficult for them to have access to bank loans. Michael Lipton (1976) observed that borrowers would use projects they could pursue with family to seek credit, however if the credit is granted they them use it for consumption purposes. Also beneficiaries of funds from NGOs treat them as gifts since it emirates firm outside the company.

In Ghana, start-up capital seems a barricade to gain access into mainly commercial activities. For example, Goze, (1990) in his study of small firms, stated that, few small firms start their projects with their own capital (personal savings) and with assistance from relatives and friends. Also access to capital is still a prevailing limitation to SMEs in Ghana.

1.2 STATEMENT OF PROBLEM

SME is a general term to describe SMEs. They are active participant in the growth of the private sector of the economy. Simanowitz and Brody (2004) said promoting SMEs is a sure approach to achieving the Millennium Development Goals (MDGs) and in the construction world monetary schemes that meet the needs of the productive poor.”

However, the MDGs of alleviating poverty through SMEs have not been met despite the strides made and being made by the governments around the world and Ghana especially.

The Ghana government in 2006 under the leadership of His Excellency John Agyekum Kuffour (Ex-President) made a great stride in establishing Microfinance and Small Loans Center to help these SMEs unreached by the banks. However, reports on SMEs operations by the media and other recognised bodies show that they have not been fruitful despite government financial interventions.

Since the broadcast of PNDC Law 328 in 1991 to allow dissimilar groupings of monetary organizations including savings and loans companies, a lot of SMEs have sprung up. However, the objective of reaching and providing financial resources for these SMEs and the poor is far from being reached according to the World Bank’s report and International Development Law Organisation (IDLO), (2008). This and many more suggest a possible challenge facing the SMEs in their operations.

The study therefore set out to investigate the challenges facing Medium Scale Enterprises in accessing credit using Kumasi Metropolis as a case study.

1.3 OBJECTIVES OF THE STUDY

The general objective of this research work is to access the challenges facing SMEs in accessing credit in the Kumasi Metropolis of the Ashanti Region of Ghana.

The specific objectives of the study include the following:

1. To find out the source (s) of funds/finance available to SMEs in Kumasi Metropolis
2. To investigate the requirements for Micro financing SMEs and its effects on SMEs operations in the Kumasi Metropolis.
3. To examine challenges SMEs face when accessing micro-credit in the Metropolis.

1.4 RESEARCH QUESTIONS

1. What are the sources of funds for SME operations in the Kumasi Metropolis?
2. What are the requirements for giving credits to SME clients in the Kumasi Metropolis?
3. What are the challenges SMEs face when accessing micro-credit in the Kumasi Metropolis?

1.5 JUSTIFICATION OF THE STUDY

The research will offer a data base informing Medium Scale Enterprises of the importance of having a strong background of funds, training programs etc. The study will also help to highlight the need to have performance measurement policy within SMEs to gauge against actual performances so as to embark on necessary corrective actions if need be.

The research is also an essential provision for the completion of conditions needed for the award of an MBA certificate. It will also prepare the researcher for future research work.

In the area of academia, students in the tertiary institutions offering business administration will find the information in this long essay very useful and beneficial.

1.6 LIMITATIONS OF THE STUDY

This research work is limited to the study area and might not be generalized to every SME within the region, let alone the nation as a whole.

Secondly, the use of a self-report survey and historic data might be less reliable, especially when the information sought on financial situation of the business could be embarrassing (Richardson, 2008).

1.7 SCOPE OF THE STUDY

The scope of the research is to find out the financial challenges facing SMEs operations in the Kumasi Metropolis. The study will cover areas such as raising of funds, investment of surplus monies, training of staff, assessment of clients, registration of the institutions etc. With this, the researcher employed the usage of questionnaire. In some cases unstructured interviews were employed.

The study is limited to the Medium Scale Enterprise operations in the Kumasi Metropolis of the Ashanti region of Ghana.

1.8 ORGANIZATION OF THE STUDY

This study is classified into chapters, with the chapters being organized as below:

Chapter one– focused on the introductory aspects of the research topic, it gave a general introduction to the research. This chapter is made up of the following,

- General introduction
- The background of the study
- The problem statement
- The objective(s) of the study
- The significance of the study
- Scope of the study
- The limitations of the study

Chapter Two – Literature Review, this chapter reviews the related literature on the topic- Challenges facing SMEs in the Kumasi Metropolis. The researcher considered literatures from articles, journals, books, news papers etc.

Chapter Three – Methodology, this chapter deals with methodology of the research. The chapter comprises the data sources, primary and or secondary, techniques of sampling used etc. including the basis for using such methods.

Chapter Four – looks at the analysis of data and the explanation of the data collected. This includes data processing, data presentation, and description etc. to bring about understanding of the data processed. The interpretation was mad in line with the objectives of the study.

Chapter Five – this chapter constitutes the final chapter of the study. It is about the summary of the findings, giving conclusion and finally the recommendations made with regards to the findings.

CHAPTER TWO

LITERATURE REVIEW

2.0. INTRODUCTION

The chapter looks at literature on the research topic “Challenges facing Small and Medium Scale Enterprises (SMEs) in accessing credit. A case study of Kumasi Metropolis” of the Ashanti region. The chapter also gives a review of numerous literatures on Small and Medium Scale Enterprises, giving comments where necessary.

The study was conducted in the Kumasi Metropolis of the Ashanti region of Ghana. This chapter considers the theoretical literature related to the subject matter.

2.1 HISTORY OF THE SMALL AND MEDIUM SCALE ENTERPRISES

Small business businesses are all over the country and even one cannot recall the time their establishment came into being. They have diversified the country’s monetary base and provided it with occasion of responding to a diversity of market conditions. The contribution of SMEs has created jobs and hence reduced the rate of unemployment in the country. These businesses are typically accepted in Eastern Europe and the Soviet Union. This observation was supported by Burns (1996) by saying; “people apparently fall in line with small business enterprises”. Burns continued ‘the small number of entrepreneurs who started up small firms, made them grow and perhaps became millionaires in the processes.

The earliest form of business entity in the world is the small business enterprise. According to Barrow (1993), the first known writings about small business enterprises suggest that more economies are fed with products and provision of services through small business enterprises.

2.2 OVERVIEW OF SMEs IN GHANA

Ahmed (2006), explains that (SMEs) to now seem the sub-sectors of the industrial sector which plays crucial roles in industrial development. This suggests that Small and Medium Scale Enterprises are very crucial in shaping the growth agenda of countries. Small and Medium Scale Enterprises (SMEs) as academically known over the years have had a great influence on the lives of individuals of the world's economy particularly, developing economies like Ghana. Primarily, they have added to increasing production, giving out value-added activities in the industrialized sector, providing jobs avenues particularly in the services sector, and helping to broaden Ghana's export base (Ghana Investment Promotion Centre, 2010).

Historically, the SMEs sector in Ghana has been in existence for a long time and there are lots of opportunities for this sector in the area of agriculture, tourism, information technology, services, energy, manufacturing etc.

This is a view held by the majority of developing countries and Ghana is not exempted. The Ghana governments over the years have pledged to develop the private sector and also support the private sector to help drive the nation to a level of ease for all. In Ghana, the private sector is hugely constituted by the SMEs. However, the SMEs within this sector are saddled with series of challenges and difficulties. Most of the productive poor and unemployed Ghanaians are engaged in self-employment in order to better their living and that of their families. This action subsequently has made Entrepreneurship a fast and better option in Ghana thereby reducing the rate of unemployment. Currently, employment seeking in corporate entities by the Ghanaian youth is declining. Again unemployment in the country is on the decline due to the fact that the youth are driven into establishing their own businesses.

In the last decade, the Ghanaian economy has seen tremendous boom in the area of Small and Medium Scale businesses.

According to Acolatse, (2012) SMEs represent greater than ninety percent of most operations in Ghana. SMEs engage a vital fraction of the Ghanaian financial system. SMEs put food on the table of many Ghanaians. However, growth of these businesses seems a mirage as most of them collapse soon after coming into existence. Most of these businesses also suffer from the actions and inactions of the bigger companies who do not typically employ the local people and generally too are foreign companies. Over the years the government of Ghana has instituted a number of policies to appraise the operations of SMEs and also to develop SMEs to a better status. Since the enactment of PNDC Law 328 in 1991 to permit dissimilar groupings of monetary organization which includes savings and loans companies, SMEs a lot has been done to promote the SMEs to greater heights. Yet most of these SMEs have hardly seen the day light.

2.3 SMEs DEFINED

In countries such as the USA, UK and Canada, SMEs are explained in terms of what they earn as returns or turnover. (Gray & Cooley, 1995). For example, in Britain, SMEs industry is explained as one with yearly turnover of two million pounds or less and with some less two hundred workers.

In Ghana, the body governing the operations of SMEs explains that there are series of terms used such as criteria of fixed assets and employment size to distinguish small-scale industries from medium and large-scale industries.

SMEs is an enterprise having (29) or less employees and also plants and equipment of GH100,000 -Ernest (Aryeetey 1995). Joel and Lussien (1996) also define SMEs as a business

that is separately owned and managed. In the Ghanaian economy, as more outputs and services are not dependable, SMEs can be defined by characteristics rather than by values of assets, volume of sales, number of employees though such information is needed.

Therefore, small and medium business enterprises can be defined as small and medium, where the entrepreneur is involved in the production process as well as the administrative and commercial aspects of business. One of its features is that most at times, family members are involved. In the case of large business organizations the entrepreneur may head the administration but not involved in production.

Another body called Ghana Enterprise Development Commission (GEDC) used 1000 as upper limit description. The second issues is the incessant reduction in the swap rate often made such explanation out dated. (Ghana News Agency, 2006).

However, for the reason of the research and due to data unavailability, the researcher classifies small business enterprises as used by Ghana Statistical Service. The Ghana Statistical Service defines small business enterprises as a firm with less than ten employees (1-10) without regards to the capital base.

According to Stokes and Wilson (2010), the EU law in 2005 adopted that SMEs should be defined using the figure of workers, turnover and financial statement (total assets-balance sheet). This is expressed in table below:

Company category	Employees (headcount)	Turnover	or	Balance sheet total
Medium-sized	Less 250	Less/equal € 50 million		Less/equal € 43 m
Small	Less 50	Less/equal € 10 million		Less/equal € 10 m
Micro	Less 10	Less/equal € 2 million		Less/equal € 2 m

Source: Stokes and Wilson. Small business management and entrepreneurship, 6th Ed: 2010

This quantitative scale-measuring of what SMEs are is very important for policy purposes in the European Union (EU). The idea here is that it is obviously clear to apply and also facilitate the use of arithmetical examination but have some constraints. The figure of workers employed is based on the sector in question and this makes generalized evaluation across areas very complicated (Stokes and Wilson, 2010). Curran and Blackburn (2001), also view the use of numbers employed as becoming even more problematic as full-time employment has become less common with increasing number of part-time, casual and temporary workers.

One may therefore infer that SMEs are businesses with the capability to hire up to five hundred or at most five hundred (500) employees. In Ghana, these SMEs do not have up to 500 employees. Most have the capacity to employ between the numbers of 200 and 300. Again such SMEs tend to have branch (es) offices across the ten regions of the country. It is also known that most of these SMEs are owned by individual entrepreneurs. Only few are in the form of partnership or joint venture.

2.4 CONTRIBUTIONS OF SMEs OPERATIONS TO ECONOMIC DEVELOPMENT

There are no measurable contributing effort of SMEs to the economy but it can always be said that their contributions are enormous and visible though not in it peak as required or desired by the indigenes and the government at large. .

SMEs have been seen as the engines through which the growth pillars of developing countries can be attained (Stokes, 2010). These roles, which serve as a major contribution factor in the economy can be seen in the area of job creation and employment, proceeds generation in many developing countries, reducing the problem of rural-urban drift, provision of utilities and more. In the united of states, research has shown that most jobs are created by small enterprises.

Barns (1996) SMEs contributes importantly to the economic activities in the UK. One cannot precisely indicate the number of small business enterprises in Kumasi, from observation; the community has many small business enterprises. Small business provides a high contribution to economic activities in Kumasi area and even the nation as a whole. They provide a source of employment and daily bread to many people in the Ashanti Region.

In Ghana, small businesses are major sources of employment income and personal development for the rural and urban folks (Bani, 2003). It is estimated that about three-quarters of the Ghanaian population derive their livelihood from this sector (Ghana News Agency, 2006).

From the internal revenue service of USA ninety six percent of American companies are SMEs. Liedholm and Mead (1987) estimated that, small business enterprise provided about twenty six (26%) to sixty four (64%) of manufacturing value added and the bulk of employment in Africa.

One cannot precisely indicate the number of small business enterprises in Kumasi. From observation, the community has many small business enterprises. Small business provides a high contribution to economic activities in Kumasi area and even the nation as a whole. They provide a source of employment and daily bread to many people in the Ashanti Region.

Small business enterprises, especially cottage industries, which can be found in the rural areas, have helped create employment capabilities to reduce the problem of rural-urban drift whereby many young school leavers from the rural areas flock to urban centre in search of non-existing jobs resulting in increase in population and other social vices in the urban areas (Ninson, 2007). Thus, small business enterprises have helped to add to more allotment of monetary activities in rural areas and helped to sluggish the flow of relocation to big cities.

The expansion of small business enterprises has attracted the provision of utilities such as electricity, water, improved communication and transport as well as the provision of other social amenities that has made the life in the rural areas more attractive. This has in turn motivated the young school leavers to stay in the rural areas, to contribute their quota to the resuscitation of the economy.

Moreover, SMEs operations can be started on a quite a low capital and at the same time on a part time base. SMEs also have the advantage of being quickly able to adapt to new customer demands. Proprietors of SMEs are closer to their clients, which makes them more accountable and leads to greater customer loyalty. This is particularly challenging for large firms due to their internal bureaucracies. With the evolution of the internet since the 1990s, SMEs have gained extra impetus in the area of internet marketing. (Stokes, 2010)

2.5 SOURCE OF FINANCE FOR SMALL AND MEDIUM SCALE ENTERPRISES

Finance in small business enterprises refers to some kind of wealth used to create more wealth for the business. Finance exists in a form of cash. There has always been the tradition of people saving and/or taking small loans from individuals and groups within the context of self-help to start businesses. With regards to finance there are numerous forms sources of finance available to SMEs. These include the following:

1. Existing shareholders and directors funds (“owner financing”)
2. Overdraft financing
3. Trade credit
4. Equity finance
5. Business angel financing
6. Venture capital

7. Factoring and invoice discounting
8. Hire purchase and leasing
9. Merchant banks (medium to longer term loans) (Stokes, 2010)
10. Micro Finance Institutions(MFIs)

The finance segment has seen some form of evolution to its present state. This is due to the various financial sector policies and programmes undertaken by different governments since independence.

According to Adjei, (2010) a critical thought in selecting the source of financing business is to clout an equilibrium between equity and debt to ensure the funding structure suits the business. He further explained that the main difference between borrowed money (debt) and equity are that bankers request interest payments and capital repayments, and the borrowed money is usually secured on business assets or the personal assets of shareholders and/or directors. This therefore suggests that bank do have the right and can decide on the interest to charge. However, the balance is to ensure that SMEs are not burdened with excess finance to pay.

It can also be explained that equity investors get the risk of failure like other shareholders, whilst they will benefit through contribution in growing levels of profits and on the eventual sale of their stake. On the other hand, in most circumstances venture capitalists will also require more complex investments (such as preference shares or loan stock) in additional to their equity stake. (Adjei, 2010)

The idea of financing SMEs is for them to grow and offer great and excellent services to the customers. Another include the idea of helping them get away from borrowing from friends and other sources that end up burdening them. Sourcing for funds is to get rid of high financial risk and maintaining an optimal level. (Fearn, 2008)

Finding the start-up capital partly depends on the type of planned operations plus the sum of capital needed. SMEs are more peculiar to finance start-ups, fixed and growth capital through sources like personal savings from the owners themselves, relatives and friends, susu collectors and credit from commercial banks. The commercial banks have sort to advise themselves from granting bad loans to small business enterprises which have recorded substantial losses in their portfolio even though in recent times, the government has contracted loans from international agencies for these small business enterprises through the commercial banks.

2.5.1 Functions of finance in small business enterprises

Finance in small business enterprises is important in terms of providing the necessary capital requirements during its financial planning. Three basic types of capital required by a business have been identified as 1.) Fixed capital 2.) Working capital and 3.) Growth Capital.

a. Fixed Capital

Fixed capital refers to any kind of real or physical capital (fixed asset) that is not used up in the production of a product and is contrasted with circulating capital such as raw materials, operating expenses and the like. Fixed capital is that portion of the total capital that is invested in fixed assets (such as land, buildings, vehicles and equipment) that stay in the business almost permanently, or at the very least, for more than one accounting period. Fixed assets can be *purchased* by a business, in which case the business owns them, but also *leased*, *hired* or *rented*, if that is cheaper or more convenient, or if owning the fixed assets is practically impossible.

b. Working Capital

In general working capital is cash available for day to day operations of a firm. Strictly speaking, one borrows cash (and not working capital) to be able to buy assets or to pay for

obligations. In accounting terms working capital is the net liquid assets computed by deducting current liabilities from current assets. Sources of working capital are net income, long-term loans (non-current liabilities), sale of capital (non-current) assets, and injection of funds by the owners (stockholders). Amount of available working capital is a measure of a firm's ability to meet its short-term obligations. Ample working capital allows management to avail of unexpected opportunities, and to qualify for bank loans and favorable trade credit terms. In the normal trade cycle of a business firm, working capital equals working assets. (Greg, 2012)

c. Growth Capital

Growth capital (also called expansion capital and growth equity) is a type of private equity investment, most often a minority investment, in relatively mature companies that are looking for capital to expand or restructure operations, enter new markets or finance a significant acquisition without a change of control of the business.

Growth capital is often structured as either common equity or preferred equity, although certain investors will use various hybrid securities that include a contractual return (i.e., interest payments) in addition to an ownership interest in the company.

Often, companies that seek growth capital investments are not good candidates to borrow additional debt, either because of the stability of the company's earnings or because of its existing debt levels. (Greg, 2012)

2.6 MICROFINANCE AND SMALL BUSINESS ENTERPRISES

The basis of a nation's manufacturing growth is industrial activities. Regrettably, there is anxious access to the conservative loan from the profitable banks to start up a small or medium scale enterprise. The ensuing effect is that the less developed circumstances of the state is going worse while administration appears powerless of calming the ugly occurrence. The indication of these circumstances is high scarcity rate, high unemployment rate, and economic reliance on foreign nations.

On the other hand commercial banks often insist for security security before giving out loans for business purposes. This is a essential feature in getting loan as collateral security serves as guarantee for recovering of loans given out by commercial banks in case of repayment default.

An average citizen in Ghana cannot provide such collateral security. This fallout to incapability of a standard Ghanaian to access loans from commercial banks. Thus the complexities of access to loan from financial firms such as profitable banks consist of a great setback to industrial growth which small and medium enterprise forms part. (Parker, 2006).

Through to two decades, management of developing nations have formed enormous programs for economic growth. A possible clarification for the relative absence of SMEs in the poor economies is the difficulty of obtaining access to finance. Large firms in these countries can secure financial assistance because they have assets that can serve as collaterals for loans

Bank of Ghana working paper (2007), the Government's Rural Development Strategy, the Poverty Reduction Strategy Paper (PRSP), including the most recent Livelihood Empowerment Against Poverty (LEAP), "Plan for Accelerated and Sustainable Development

Programme (PASDEP) and other documents emphasize, among other things, microfinance as a good entry point in achieving development objectives in the region as well as curbing the dangerous trend in poverty and meeting the United Nation's Millennium Development Goals (MDGs).

Indeed, empirical studies have shown that micro-finance helps very poor households to meet basic needs and protects against risks, and is thus associated with improvements in household economic welfare. Gender activists also argue that microfinance helps in empowering women by supporting women's economic participation and so promotes gender equity. (Esther, 2009).

Other kinds of the literature suggest that microfinance creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organization building, enables people to move out of poverty. By providing material capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society (Otero, 1999).

The aim of microfinance according to Otero (1999) is not just about providing capital to the poor to combat poverty on an individual level.

Littlefield and Rosenberg (2004) are of the view that the poor are commonly excluded from the financial services sector of the economy so MFIs have emerged to address this market failure. By addressing this gap in the market in a financially sustainable manner, an MFI can become part of the formal financial system of a country and so can access capital markets to fund their lending portfolios, allowing them to significantly increase the number of poor citizens they can reach (Otero, 1999).

Some schools of thought however, remain cynical about the role of microfinance in development. For example, while acknowledging the role microfinance can play in helping to reduce poverty, Hulme and Mosley (1996) concluded from their research on microfinance that “most contemporary schemes are less effective than they might be” (1996, p.134). The authors argued that microfinance is not a panacea for poverty-alleviation and that in some cases the poorest people have been made worse-off.

It could be recalled that the Central Bank of Nigeria (CBN) in its financial document circular No. 35 for 2001, stated the new initiative that evolved under the aegis of the bankers committee to give impetus to current efforts aimed at ensuring adequate resource allocation to SMEs. This initiative requires banks to set aside 10% of their profit before tax for the financing and promotion of SMEs in Nigeria.

A survey of funding sources for businesses in 40 developing nations conducted by the World Bank (USAID, 1995) confirms this general picture very well. Large firms generally have more access to bank credit both local and foreign than small firms, whereas the latter rely heavily on internal funds and retained earnings. Nonetheless, the survey suggested that there is considerable heterogeneity across countries in sources of finance for SMEs.

Small Scale Enterprises (SSEs) produce largely for the domestic market although there are few of their products for export markets. Those producing for export are unable to identify the specific buyers in the export trade. This creates the problem of unfair competition from outside producers as well as dumping of goods from the developed countries (Aboagye et al. 1998).

With regard to the use of modern technology, estimates from the NBSSI indicate that the operators of SMEs use basic locally-developed technology and machinery which restrict

incentives to innovation. These are limited in capacity and efficiency. The SMEs thus, experience much wastage of materials as well as frequent machine breakdown (Anderson, 1998). Technical expertise in the SMEs is also limited. Some of the small firms are not aware of the availability of modern technologies or do not have the capability to develop and apply them. Moreover, where there is such awareness, lack of funds restricts their acquisition. (Olu, 2009)

In Ghana, start-up capital is a barrier to entry in most entrepreneurial activities. For example, Goze, (1990) in his study of small firms, stated that, few small firms start their projects with their own capital (personal savings) and with assistance from relatives and friends.

2.8 VARIOUS GOVERNMENT INTERVENTIONS TOWARDS SMEs OPERATIONS

The Ghana government in 2006 under the leadership of His Excellency John Agyekum Kuffour (Ex President) made a great stride in establishing Microfinance and Small Center to help those unreached by the banks operating SMEs. Since the proliferation of PNDC Law 328 in 1991 to allow dissimilar groupings of monetary firms that includes savings and loans companies, monetary non-governmental organizations (FNGO) and Credit Union Associations (CUA) to give a varied variety of monetary services to Micro and Small Enterprises (MSEs), a lot of MFIs have sprung up.

The government of Ghana set up the Ghana Business Promotion program in 1970 and this was changed to the Ghanaian Enterprise Development Commission in 1975, in order to control the small business credit scheme, provision of financial and technical assistance to existing small business enterprises. (Adjei, 2010).

Under the “Ghana Government Small Business Loan Scheme” the government provided an amount of GH¢1,150,000 to the place of work of firms sponsorship to separate a turning

system. On this program, money was given to SMEs in the country in 1970. All loans granted under this scheme helped the businesses to acquire capital, working capital needs and also goods. A rate of returns of twenty percent p.a was required on the plan. The main aim of the scheme is to allow Ghana owned business entrepreneurs have lead way to industrial credits. (Opare-Djan and Hamidu Apania, 2008)

Through the efforts of the Ghana government, the Business Advisory Centers were established in Accra and Kumasi in 1991. Business advisory center ensure proper relationship between entrepreneurs and place of work of the National board for small –scale industries (NBSSI). These centers are established in all the regional capitals except Sekondi-Takoradi. Business advisory centers are established for providing financial, commercial, managerial and technical consultancy services. They assist entrepreneurs in solving problems that the following four key areas, Business Advisory Centers assist entrepreneurs. (Adjei, 2010).

Under the scheme, (NBSSI) entrepreneurs of the same category of business were encouraged to unit and request for assistance in the form of raw materials. The maximum amount issued was GH¢150 for a group member of enterprises. This revolving loan scheme, which became operational in August 1992, was made up of a total number of GH¢8000, which was provided by the government to the board. (Opare-Djan and Hamidu-Apania, 2008).This clearly shows that the government of Ghana has done a lot to help the SMEs sector of the economy. Nevertheless, it must be emphasized that more needs to be done for greater achievements.

2.9 EMPIRICAL REVIEW OF LITERATURE ON THE CHALLENGES OF SMEs.

SMEs in the economy have been constrained by a number of factors. Prominent among these are limited management and entrepreneurial skill of the owners/ managers, marketing problems due to quality of the products and poor market research, lack of adequate infrastructure and modern technology and lack of adequate access to credit.

Small Scale Enterprises (SSEs) produce largely for the domestic market although there are few of their products for export markets. Those producing for export are unable to identify the specific buyers in the export trade. In the early years 1930's, Senator Macmillan said that SMEs' growth showed that they were distressed with finance gap. Much pragmatic study revealed that SME were faced with not only equity gap but also debt gap. In China, SMEs are also suffering from finance gap, because SMEs' financing mainly rely on bank source, this paper will focus on the issues about SMEs' borrowing ability from bank.

Aryeetey et. al (1996) indicated that most of the small business enterprises' operators have little formal education in managing their business. The background of the owners/mangers, therefore, places a limitation on their managerial capabilities. This problem has affected the scope of their operation and therefore they are not able to take full advantage of emerging opportunities (Steel, 1996). In certain situations, managerial incompetence has led to operational inefficiencies resulting in poor performance (Pappoe, 1992).

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In Ghana, initial capital is a blockade to entering most industrial activities. For example, Goze, (1990) in his study of small firms, stated that, few small firms start their projects with their own capital (personal savings) and with assistance from families and close associates.

Parker et al, (1995) said that credit constraints pertaining to working capital and raw materials were cited by small business enterprises in Ghana. Aryeetey et al (1996) in their study of informal finance to SMEs in Ghana said that thirty eight percent of the SSEs interviewed said that loan as a limitation. It was deduced that SMEs have inadequate way to funds markets. This is so due to the fact the notion of high risk, information barricade plus high costs of intermediation for micro firms.

Micro enterprises and small business may be affected negatively by government policies through excessive regulations, prohibitive levels of taxation, inadequate government protection against cheap imported products, laxity about black markets (which results in unfair competition for the micro business sector), harassment by government officials for operating businesses on the streets, and inadequate services and high user fee in public market structure. Many of these regulations work effectively to encourage micro enterprises to remain outside the legal or formal mainstream. (Olu, 2009) With regard to the use of

modern technology, estimates from the NBSSI indicate that the operators of SMEs use basic locally-developed technology and machinery which restrict incentives to innovation. These are limited in capacity and efficiency. The SMEs thus, experience much wastage of materials as well as frequent machine breakdown (Anderson, 1998). Technical expertise in the SMEs is also limited. Some of the small firms are not aware of the availability of modern technologies or do not have the capability to develop and apply them. Moreover, where there is such awareness, lack of funds restricts their acquisition. (Olu, 2009)

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2.10 WHY SMALL BUSINESSES ENTERPRISE FAIL

Allotey (2008) observed that inadequate credit supervision and monitoring have often led to the decline of funds as account for low loan recovery rates. Due to lack of security most small business entrepreneurs are not prepared to acquire bank loans because they cannot meet their requirements. Many small scale businessmen lack collateral security such as land, house, etc. which makes it difficult for them to have access to bank loans. Michael Lipton (1976) observed that borrowers would use projects they could pursue with family to seek credit, however if the credit is granted they them use it for consumption purposes. Also beneficiaries of funds from NGOs treat them as gifts since it emanates from outside the company.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

This indicates the strategy employed or adopted by the researcher in carrying out the research work. It discusses the different techniques employed in collecting of data for the study. The study considers issues such as, data sources such as primary and secondary. Sampling techniques employed, and a description of the study site etc.

3.1 RESEARCH DESIGN

Research design for this study was survey and also quantitative and descriptive in nature. The researcher used a case study, Kumasi Metropolis. The researcher employed the use questionnaires which were administered personally on selected days. It is a survey due to the huge figure of sample size and for the fact that questions is the main tool used to gather data. The design is quantitative because of variables and units of analysis employed. Also it is descriptive because explanations were made to get the meaning. Responses were analysed using the Statistical Package for the Social Sciences (SPSS).

3.2 SOURCES OF DATA AND DATA COLLECTION METHODS

The study made use two data collection methods. They include questionnaires and interviews. The main data collection tool was questionnaire. Both closed and ended questions were employed. Unstructured interviewed was also used on minor cases. This was used when further explanation was needed per the answer given by the respondents. However, the study made use of questionnaire as the main tool for data collection.

3.3 RESEARCH POPULATION

With regards to the study, the population for the study is over two hundred (200) SMEs in the Kumasi Metropolis. They included both registered and non registered SMEs.

3.4 SAMPLE SIZE

On the basis of the study, a sample size of 100 (hundred) SMEs were employed for the study. This comprised of small and medium scale enterprises in the Kumasi Metropolis. The researcher believes 100 SMEs will help achieve the objectives of the study.

3.5 SAMPLING TECHNIQUE

In this study, accidental sampling technique of the non-probability sampling and random sampling technique of the probability sampling techniques were used to select the respondents. It was accidental sampling because the researcher interviewed these businesses as he came into contact with. It was random because all these SMEs within the study area stood the equal chance of being chosen.

3.6 DATA ANALYSIS

Data was analyzed using tables. The study made use of descriptive and inference analysis. Data gathered where fed into the Statistical Package for the Social Sciences (SPSS) using percentages and frequencies. Inferences were drawn from the table through the use of

frequencies. The data was also describe in order to get a fair pictorial understanding of the responses from the respondents of the study.

3.7 PROFILE OF THE STUDY AREA

The research was carried out mainly within the central business district of Adum and Kejetia in the Kumasi Metropolis of the Ashanti Region. These sites were selected because most businesses within the Metropolis operate from here. The study focused on SMEs because they form the largest form of businesses in the country and therefore the need to look at their financing in promoting growth. The choice of Kumasi is for the fact that the researcher resides and schools there, hence the choice of close proximity.

CHAPTER FOUR

ANALYSIS AND INTERPRETATION OF DATA

4.0. INTRODUCTION

The responses provided by the respondents were statistically. The study use quantitative analysis was and it was based on the responses from the respondents in the form of frequencies and percentages. In line with the research objectives this chapter is in one (1) major part, thus, description and analysis of data.

4.1 Source (s) of funds available to SMEs in the Kumasi Metropolis.

Table 1. Major source of funds for your organizations

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
MFI's	57	57.0	57.0	57.0
Banks	20	20.0	20.0	77.0
Money Lenders	17	17.0	17.0	94.0
Susu operators	6	6.0	6.0	100.0
Total	40	100.0	100.0	

Source: field data, May, 2015

From the table 57 respondents representing 57.0% said their major source of funds for their operation is the Microfinance institutions (MFI's), 20 (20%) respondent said it is banks, 17 respondents representing 17.0% said their major source of funds is from the money lenders, and 6 respondents representing 6.0% said their source of funds is from susu operators.

This shows that the major source of funds to SME operators within the municipality is the MFIs followed by the banks. The analysis also shows that the SMEs find doing business with MFIs more appropriate than the banks and this also explains the quick boom of MFIs operations within the municipality.

Table 2. Reliability of sources

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	100	100.0	100.0	100.0

Source: field data, May, 2015

Looking at the table, all 100 respondents making 100% said that their sources of funds are reliable. The analysis shows that irrespective of the source, respondents admit that they can rely on these sources to keep their operations on going. The inference drawn here is that SMEs within the metropolis do not have any problem sourcing funds for their operations irrespective financial institution. This is evident from the table as all respondents said the sources are reliable.

Table 3. Least reliable to most reliable sources of funds

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Banks	44	44.0	44.0	44.0
MFIs	19	19.0	19.0	63.5
Susu operators	37	37.0	37.0	100.0
Total	100	100.0	100.0	

Source: field data, May, 2015

With respect to the reliability of the sources of funds, 44(44%) respondents said the banks are least reliable, 19 respondents said MFIs are least reliable and 37 (37%) said Susu operators are the least reliable. The analysis shows that within the metropolis, the least reliable source of funds for the SMEs is the banks followed by the susu operators.

Some of the respondents said the banks require so much information which many times they do not have and therefore are not able to get funds from them. Sometimes, they get less than what they requested for. For the Susu operators, they are not able give the money when required by the SMEs. They also said very often, the waiting period is too long and discouraging.

Table 4. Government interventions

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	68	68.0	68.0	68.0
No	32	32.0	32.0	100.0
Total	100	100.0	100.0	

Source: field data, May, 2015

The researcher asked whether respondents know of any government interventions to help SMEs in the Kumasi Metropolis. The data gathered shows that majority of the respondents representing 68% do know of governmental intervention. They mentioned of Microfinance and Small Loan Center (MASLOC), policies to curb foreigner’s intrusion into the local market etc. 32 respondents (32.0%) said they have not heard of any governmental intervention t help SMEs.

The inference drawn here is that SMEs within the municipality have heard of governmental intervention. The analysis also shows that the government of Ghana is doing well to help SMEs in the country. More needs to be done in terms of communication of the intervention.

Table 5. Awareness of various government interventions.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 0	32	32.0	32.0	32.0
B. Advisory	17	17.0	17.0	47.5
MASLOC	39	39.0	39.0	85.0
GGSBLS	12	12.0	12.0	100.0
Total	100	100.0	100.0	

Source: field data, May, 2015

Based on the previous question, respondents were made to name one of the governmental interventions to help SMEs. Majority representing 39 (39.0%) respondents mentioned Microfinance and Small Loan Center (MASLOC). 17 respondents representing 17% of the sample size said Business Advisory and 6 respondents representing 12% said Ghana Government Small Business Loan Scheme (GGSBLS). However, 32 respondents (32.0%) did not attempt this question.

The analysis indicates that government has done and is doing well to increase the survival of SMEs within the country. Particularly with the provision of credit facilities which includes MASLOC, GGSBLS etc.

Table 6. Difference with other loans.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Party members.	19	19.0	19.0	19.0
Flexible	16	16.0	16.0	35.0
Reduced rate	65	65.0	65.0	100.0
Total	100	100.0	100.0	

Source: field data, May, 2015

The researcher wanted to know from respondents how different MASLOC loans are from others. The data gathered showed that there are indeed differences. 65 respondents (65%) being the majority said MASLOC loan is different from others in that their rate is reduced. Thus, rate of interest is lower. 16 respondents representing 16% said MASLOC loan is flexible in accessing. Thus, the procedures are not cumbersome but quite simples. However, 19 respondents who represent 19% said MASLOC was crowded with party colours. Thus, party members easily had access to funds.

The analysis here is that though MASLOC differ from other MFIs, the party issues drawn into it may eventually collapse it or make it not attractive to other SMEs with no political affiliations with the government in power.

Table 7. Perception of government intervention

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Good	49	49.0	49.0	49.0
	Good	23	23.0	23.0	72.0
	Average	28	28.0	5.0	100.0
	Total	100	100.0	100.0	

Source: field data, May, 2015

Respondents were asked of their perception about government intervention of helping SMEs within the metropolis. The table above shows that the interventions have been positive and effective. 49 respondents representing 49% said the intervention is very good. 23 respondents representing 23% said the intervention is good and 28 respondents representing 28% said the intervention is average.

The analysis here is that on a whole, the intervention is positive and SMEs are of the opinion that governmental intervention within the municipality is working and effective. This also signifies the reason for more SMEs within the metropolis. The business advice given to these businesses are working effectively to the success of the SMEs.

4.2 Requirements for micro financing SMEs in the Kumasi Metropolis.

Table 8. Provision of some form of security in accessing loan

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	100	100.0	100.0	100.0

Source: field data, May, 2015

With regards to this question, all 100 respondents showing 100% agreed they are required by the MFIs to provide some sort of security before loans are granted. The respondents explained that these securities are not necessarily fixed assets. They could be savings made with them, businesses they own etc.

The respondents also said that most often, the MFIs come around to check on the kind and nature of business they operate, access their inflows and outflows before the loans are granted. However, the analysis shows that these MFIs operate within the lending principles and the challenge here is that most of the respondents do not have these collaterals the MFIs request.

Table 9 Ability to provide security.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	76	76.0	76.0	76.0
No	24	24.0	24.0	100.0
Total	100	100.0	100.0	

Source: field data, May, 2015

With regards to this question, 76 respondents representing 76% said “Yes” they are always able to provide for the security before securing a loan. 24 respondents representing 24% said “No” they are not always able to provide for the security required to secure a loan. The analysis here shows that majority of the SMEs within the Kumasi Metropolis are able to provide some sort of security for accessing loan.

However, a substantial numbers of the SMEs are also not able to provide security. This means that, such businesses are not able to expand or otherwise grow because of inadequate or lack of funds. 24% of the sample size is quite a huge number who cannot raise funds to

support their business of their inability to provide security. This seems to show that indeed, the SMEs do face a challenge in raising collateral (security) to secure a loan for a business.

Table 10. Duration to receive funds after application

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Day	16.0	16.0	16	16.0
Week	34.0	34.0	34	50.0
Month	39.0	39.0	39	89.0
Beyond a month	11.0	11.0	11	100.0
Total	100	100.0	100.0	

Source: field data, May, 2015

In soliciting for the average duration to receive funds after application, the data provided shows that within a week, respondents get their loans granted. This represents 34 (34%) respondents of the sample size. 39 (39%) respondents said they get their loans granted in a month's period and this being the majority. 16 (16%) respondents said within a day and 11 (11%) said beyond a month.

The inference drawn here is that clients (SMEs) gets their loans granted within a period of 1 month. This shows a positive sign of helping SMEs grow in their operations, products and services. It is clear from the analysis that SMEs within the municipality enjoy services of MFIs.

Table 11. Whether the exact amount requested for is provided

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	64	64.0	64.0	64.0
No	36	36.0	36.0	100.0
Total	100	100.0	100.0	

Source: field data, May, 2015

Respondents were asked if they receive the exact amount they request. The data collected showed that majority do get the exact amount they request. 64 (64%) respondent being the majority said “Yes” they get the exact amount they request. On the other hand, 36 (36%) respondents said “No” they do not get the exact amount requested.

The inference drawn here is that the SMEs to a large extent do get the required amount they request from the MFIs in a loan application. There is a challenge here because the SMEs may not be able to meet the desired goals as the needed amounts are not available. However, the indication is that microfinance operations inure to the benefit of the SMEs within the metropolis.

Table 12 Receive some training on your cash management from these MFIs

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	57	57.0	57.0	57.0
No	43	43.0	43.0	100.0
Total	100	100.0	100.0	

Source: field data, May, 2015

On the question on whether respondents receive training on their cash management, the study showed these MFIs do conduct training for the SMEs. From the table, 57 respondents representing 57% said “Yes” they do receive training on their cash management. However, 43 respondents said “No” they do not receive any sort of training from the MFIs.

The analysis indicates that the SMEs are trained on how to manage their cash proceeds from their business in order to be able to pay back monies borrowed. Again, the inference drawn here is that the MFIs in line with the regulation governing their operation are doing very well to help SMEs within the metropolis flourish through proper cash management techniques. On hind sight much needs to be done as sizable number does not receive any form of training.

Table 13. Access to group loans

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	24	24.0	24.0	24.0
No	76	76.0	76.0	100.0
Total	100	100.0	100.0	

Source: field data, May, 2015

The researcher wanted to know if respondents have ever accessed a group loan. It is clear from the response above that greater part of the SMEs said “No” they have never accessed a group loan before and this represent 76 (76%) of the total sample size. 24 respondents representing 24% said “Yes” they have accessed a group loan before. The analysis shows that within the municipality, MFIs give loans to individuals and not groups which according to scholars prevents default risk.

The inference drawn here is that respondents access loans for their businesses on individual basis. This seems to explain the reason for large number of defaults on the part of

respondents (clients) within the municipality. Some of the respondents explained that they will like group loan to help themselves but most of the MFIs do not agree. They said this seem a big challenge to them.

4.3 challenges SMEs face when accessing micro-credit in the Metropolis.

Table 14. Challenges SMEs face when accessing micro-credit in the Metropolis?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	100	100.0	100.0	100.0

Source: field data, May, 2015

With regards to the question on challenge, the data gathered showed that the SMEs do face a number of challenges. From the data collected, all the respondents representing 100% said “yes” they face challenges.

The inference drawn here is that irrespective of the size and nature of the business, they all face some sort of challenge in soliciting for funds to run their business. Though the challenges may differ, the impulse is that all SMEs do face difficulties when accessing credit from MFIs.

Table 15. Challenges

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Other	12	12.0	12.0	12.0
Harsh responses by officers	16	16.0	16.0	28.0
High Interest rate	49	49.0	49.0	77.0
Collateral requirement	23	23.0	23.0	100.0
Total	100	100.0	100.0	

Source: field data, May, 2015

On the basis of the kind of challenges they face, the researcher found out that high interest rate is the major challenge faced by the SMEs. This represented 49% of the total sample size. 23 (23%) respondents said their challenge has to do with collateral requirement from the MFIs. 16 respondents said that harsh responses by officers during collection period is a challenge for them. 12 (12%) respondents chose others. That is challenges such as delay in granting loan

The inference drawn here is that the SMEs in the metropolis like other towns and regions do have a major challenge to be interest charged by MFIs. This therefore helps explain the reason for most of the SMEs being indebted to MFIs. Such retards growth and government must look at that scenario.

Table 16. Repayment mode for clients

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Daily	56	56.0	56.0	56.0
	Weekly	27	27.0	27.0	83.0
	Monthly	17	17.0	17.0	100.0
	Total	100	100.0	100.0	

Source: field data, May, 2015

The data gathered above shows that 56 (56%) said the repayment mode is on daily basis, 27 (27%) said it is on weekly basis and 17 respondents representing 17% said it is on monthly basis. It could be inferred from the analysis that the repayment mode of the loan by the SMEs is on daily basis. This also helps to prevent defaults and ensure that the SMEs keep faith in paying full amount of loan granted plus interest.

The study suggests that the SMEs like the daily payment than the weekly and monthly payment. Most attributed this to the fact that because they operate and make daily sales, they prefer paying their dept on daily basis to know the actual profit for the day. In an interview with some of the respondents, they said that the challenge they face with respect to the payment mode is the time the MFIs officers come.

Table 17. Challenges of business in seeking credit

Challenge	Extremely High	Very High	High	Moderate	Normal	Not at all
Cost of loan applications	17	19	42	6	16	0
Interest rate	44	39	17	0	0	0
Collateral requirement	53	17	22	0	8	0
Responses by officers (Harsh)	34	23	18	16	8	0
Repayment mode favours my business	9	11	9	57	11	3
Training programs from the MFIs	0	0	0	8	18	74

Source: field data, May, 2015

From the table above, it can be deduced the challenges that the SMEs face in accessing loan is quite intensive. With regards to cost of loan application, majority said that it is high representing 42%. 17% and 19% said that it is extremely high and very high respectively. The inference drawn here shows that cost of loan application seem a serious challenge to the SMEs in the Metropolis.

With regards to collateral requirement, 53% said that it poses a great challenge to them because most often they do not have such collateral. 17% and 22% said that collateral requirement poses a very high and high challenge to them respectively. The response gives an indication that SMEs struggle to access loan smoothly with the requirement of collateral.

With respect to the repayment mode, the data shows that it is much of a challenge to the SMEs. From the table above, 9% and 11% of the respondents said extremely high and very high to the repayment mode. Majority said that their attitude is moderate. In that it does not

really pose a challenge to them. In a whole the analyses here is that responses by repayment mode of the loan do not pose a major challenge to SMEs in the metropolis.

Again with the challenge, the data collected shows that responses (attitude) of the loan officers do pose a major challenge to SMEs in the Metropolis. Majority of the respondents representing 34% and 23% said it is extremely high and very high respectively. This shows that harsh responses by the loan officers do pose a challenge to SMEs. Thus, it puts them off as most said, the officers sometimes do not respect them and that worries them.

On a whole the table above shows that these challenges are enormous and extremely affect the SMEs in their operation. Though some of the challenges do not pose much threat, to a large extent it disturbs their operation in many ways if not totally put them off from business

Table 18. Effect of the challenges

Effects	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
Reduces profit	0	0	0	14	86
Makes operational cost very high	0	0	0	16	84
Delays operations	0	0	21	15	64
Reduces interest in credit	0	8	4	57	31
Puts pressure on the business	0	13	0	24	63
Reduce growth. Increase mistakes	13	79	8	0	0

Source: field data, May, 2015

On the basis of how the challenges do affect the operations of the SMEs in the Metropolis, the researcher found out that, the challenges really affect the SMEs in many ways and forms.

With regards to the challenge of loan application, majority of the respondents representing 86% said it reduces their profit and 14% of the respondents also agreed to that.

With respect to the interest charged on the loan, 84% of the total respondents said that such increases their operational cost making their services and product very high. 16% of the respondents also agreed to this fact saying that high interest rate increases their operational cost.

On the issue of collateral requirement, the table shows this challenge really affect the SMEs. On a whole 64% and 15% of the total respondents strongly agreed and agreed respectively that collateral requirement delays the operations and activities of the SMEs in the metropolis. In that as they wait to secure a collateral in order to access the loan, business operations in terms of activities and profit making elude them for the period in question.

On the issue of attitude by loan officers majority indicating 88% said that such harsh responses reduces their interest in accessing the loan thereby making business stay stagnant. The rest of the sample size however, do not really border about the attitude of the loan officers. According to them, in as much as they get the money needed, they careless about how they talk to them. This represented 12% of the sample size.

With regards to the repayment mode, which is mostly on daily basis, 87% of the total respondents said that such puts much pressure on them. That is repaying on daily basis is quite harsh as sometimes business operations do not go well on certain days. Therefore, daily repayment stresses them. However, 13% respondents sharply disagree with that notion saying that the repayment mode do not put pressure on them. On the issue of training programs for the SMEs, the data gathered showed that irrespective of whether it is done or not, it does not affect at all in any way.

The inference drawn here is that apart from the training programs, all the challenges identified by the SMEs in accessing credit do affect the SMEs greatly. As seen, if such continues in the advances years, it likely for these SMEs to die out completely or remain on the surviving line of business. Whichever way, the repercussions are great and damaging to the economy as the SMEs form majority of the private sector of the economy. In mapping up a strategy, government should come in to regulate the financial sector such that the SMEs will not suffer at the hands of these financial firms.

CHAPTER FIVE

SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION

5.0 INTRODUCTION

The chapter shows a summary of the findings on the work done. In addition to the findings from the study presents suggestions based on the findings and then draw a conclusion on the whole work done.

5.1 SUMMARY OF FINDINGS

The study on the topic: “Challenges facing small and medium scale enterprises in accessing credit in the Kumasi metropolis.” brought out these following major findings.

The researcher found that the sources of fund for the SMEs are many. The study showed that the sources include Microfinance institutions, banks, money lenders and susu operators. The major sources of funds for the SMEs are the microfinance institutions representing 57% of the total sample size. This is followed by the banks. The analysis also shows that the SMEs finds doing business with MFIs more appropriate than the banks.

The study also revealed that the sources of funds are reliable but the least reliable among the sources are the Banks with 44% of the total sample size. The second least reliable source of fund is the susu operators within the metropolis. The most reliable source of fund for the SMEs is the MFIs.

It was further revealed that SMEs within the metropolis have heard of governmental intervention with the most intervention being provision of credit facilities through MASLOC. The study also showed that the intervention is positive and SMEs are of the opinion that governmental intervention within the metropolis is working and effective.

With respect to the process of micro financing, the study revealed that all 100 respondents representing 100% said securities are required by the MFIs to provide some sort of security before loans are granted. Meaning that the SMEs are made to provide some form of security before they can secure loans for operations. The researcher also found out that apart from the security, an examination is conducted on the nature of business of the respondents before loan is granted. Also the study revealed the SMEs on a whole are averagely able to provide for the security required.

The study showed that the process of Micro financing the SMEs is in consonance with the rules of lending. Respondents on some case do not get the exact the amount they requested and this poses a challenge to them in so many ways such as loss of business opportunities. Again, the average duration to receive funds after application is a week and the repayment mode is on daily basis. However, the researcher also found out that group loan which reduces default risk is not practiced within the metropolis for the SMEs. In addition, the research showed that the SMEs do receive some form of training from the MFIs but not so intensive to avert challenges of financial losses.

In investigating the challenges SMEs face when accessing micro-credit, the researcher found out that all 100 respondents do face some form of challenges. In that irrespective of the size and nature of the business, they all face some sort of challenge in soliciting for funds to run their business. The major challenge these SMEs have has to do with interest charge by the MFIs and collateral requirement by these MFIs. Among the challenges identified include harsh responses by officers, High Interest rate, Collateral requirement etc.

With regards to collateral requirement, 53% said that it poses a great challenges to them because most often they do not have such collateral. With respect to the repayment mode, the data shows that it is much of a challenge to the SMEs. From the table, 9% and 11% of the

respondents said extremely high and very high to the repayment mode and majority of the respondents representing 34% and 23% said attitude of loan officers is extremely high and very high respectively in the negative manner (Harsh responses.)

On the basis of how these challenges affects their operations, the study found out that the challenges identified leads to reduction in profits, increase in operational cost, delays in operation of the SMEs, reduction of interest in accessing credit, increased pressure on business in the repayment of loan etc.

5.2 CONCLUSION

With regards to the research carried out in the Kumasi Metropolis on “Challenges of Small and Medium Scale Enterprises in accessing credit”, the following general conclusions were made.

The study revealed that the sources of funds include Microfinance institutions, banks Lenders and Susu operators. The major sources of funds for the SMEs are the microfinance. However, the challenge is that the SMEs are not able to get the full amount needed. Again, the analysis shows that within the metropolis, the least reliable source of funds for the SMEs is the Susu operators followed by the bank. The study also showed that the SMEs are required by the MFIs to provide some sort of security before loans are granted. However, most of the SMEs are not always able to provide for the security required to secure a loan. This seems to show that indeed, the SMEs do face a challenge in raising collateral (security) to secure a loan for a business

On the basis of the challenge, the most pressing has to do with the interest charge as well as the collateral requirement by the MFIs. Though some of the challenges do not pose much threat, to a large extent it disturbs their operation in many ways if not totally put them off

from business. With regards to governmental intervention, the study showed that the SMEs within the Kumasi metropolis have heard of governmental intervention. The analysis indicates that government has done and is doing well to increase the survival of SMEs within the country.

5.3 SUGGESTIONS

Despite all the major flaws that surround SMEs around the world especially in Africa, the researcher believes that there is a way out to face these challenges in order to increase the survival instinct of SMEs. In view of this the following suggestions can contribute to advance the course of Small and Medium Scale Enterprise when given the needed attention.

Though the MFIs come into view as a major source of funds for SMEs, the interest rate charged on the loan is too high for them based on the fact that the risks are high. The researcher recommends that there should be collaboration between the MFIs and the SMEs where the MFIs will provide a soft loan to these firms to help them increase their operations. Again, the government can in disguise make funds available to the SMEs in a number of ways apart from what is already known (MASLOC)

Firstly, in accessing loan by the SMEs, they are required to provide some sort of security which most of the SMEs are not able to meet. The researcher suggests that the MFIs should look at the kind of the firm as well as the ease of recording cash inflows than the security requirement. This will help those who cannot provide security to also have access to loan to expand their businesses.

Secondly, the researcher also found out that group loan which reduces default risk is not practiced. The researcher therefore suggests that in order for the SMEs to attract sound credit facility, the group loan should be encouraged by the both the MFIs and SMEs so that the

default risk will reduce. This when done will increase the chances of the SMEs to secure a loan for their operations.

Moreover, in respect to the governmental interventions, the researcher suggests that there should be training for the SMEs within the metropolis in the area of cash management and stock taking. Stock taking has been a challenge to many of the SMEs and therefore the training will breach the gap and equip the traders to keep good records for future present and future analysis.

Finally in addition to the training, the researcher suggests that the government provide some form of incentives to those operating in the rural areas. Most are concentrated in the capital city because the rural areas are not fully developed. The incentives could be in the form of short term free loan, free taxes for short periods etc. to increase the efficiency of SMEs operations in rural areas.

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APPENDIX

Topic: “Challenges facing Small and Medium Scale Enterprises (SMEs) in assessing credit.
A case study of Kumasi Metropolis” of the Ashanti region.

KWAME NKURUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS

..... /02 / 2015

Please this questionnaire is part of a study aimed at gathering information for research in partial fulfillment of MBA (Finance) and every information given will be handled confidentially.

SECTION A: BUSINESS INFORMATION

Instructions: Tick in the appropriate box and or provide further information where applicable.

1. Type of business Sole Proprietorship Partnership Limited Liability Company

2. How many years has the business been in operation? 5 0 5

Other, Specify

3. What is the level of capital required for the operations of this business?

1. GH¢ 10,000 - 50,000

2. GH¢ 60,000 - 100, 000

3. GH¢ 110,000 - 150,000

4. Others, specify

SECTION B: Sources of funds available to SMEs in the Kumasi Metropolis

5. Identify some sources of funds for your business.

a. Banks

b. Microfinance institutions

c. Money lenders.

d. Susu operators. Others, specify

6. Do you know of any government intentions to help SMEs in the Metropolis? Yes No

7. If yes, name any one you know of? MASLOC Ghana Government Small Business
Loan Scheme Business advisory center Other, Specify

8. Specify which one you have ever accessed. MASLOC Ghana Government Small
Business Loan Scheme Business advisory center Other Specify

9. How different was that from other loans? Same reduced rate flexible
for party members a gift

10. What is your perception of government intervention towards your nature of business?
Very bad Bad Average Good Very good

SECTION C: Guidelines for micro financing of SMEs in the Kumasi Metropolis.

11. In accessing loans, are you always asked to provide security before the loans are granted?
Yes No

12. Are you always able to provide for the security? Yes No

13. How long does it take before the loan is granted? Day
 1 - 4 Weeks a Month Beyond a month. Others, specify

14. Do you get the exact amount you request for? Yes No Sometimes

15. Were you told the interest cover on the loan granted to you? Yes No

16. Do you receive some training on your cash management from these MFIs? Yes No

17. Have you accessed a group loan before? Yes No Never

18. On the whole how has the process affected your business?

.....
.....

SECTION D: Challenges SMEs face when accessing micro-credit in the Metropolis.

19. Do you face challenges in accessing credit from the MFIs in the metropolis? Yes No

20. If yes, what are these challenges? High Interest rate collateral requirement
harsh responses by officers Others

21. What is the repayment mode for client? Daily Monthly Weekly

At the end of the period

22. Rank these challenges as apply to your business in seeking credit

Challenge	Extremely High	Very High	High	Moderate	Normal	Not at all
Cost of loan applications						
Interest rate						
Collateral requirement						
Responses by officers (Harsh)						
Repayment mode favours my business						
Training programs from the MFIs						

23. How do these challenges above affect you?

Effects	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
Reduces profit					
Makes operational cost very high					
Delays operations					
Reduces interest in credit					
Puts pressure on the business					
Reduce growth. Increase mistakes					