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**THE UTILIZATION OF FINANCIAL INSTITUTIONS IN GHANA: SME's
PERSPECTIVES**

(A CASE STUDY OF SMEs IN THE TEMA METROPOLIS ASSEMBLY)

BY

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**THIS LONG ESSAY SUBMITTED TO THE DEPARTMENT OF FINANCE,
UNIVERSITY OF GHANA IN PARTIAL FULFILMENT OF THE REQUIREMENTS
FOR THE AWARD OF THE DEGREE OF MASTERS OF BUSINESS
ADMINISTRATION IN FINANCE**

JULY, 2020

DECLARATION

I hereby declare that this thesis is entirely my own work, done under the guidance of my Supervisor. All references used in this research have been fully acknowledged. Therefore, to the best of my knowledge this research has not been presented by anyone for any academic work in this or other institution.

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.....
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CERTIFICATION

I hereby certify that the long essay was prepared by the student and was supervised in accordance with the guidelines on supervision of long essay laid down by the University of Ghana.

.....

DR. CHARLES ANDOH
(SUPERVISOR)

.....

DATE

DEDICATION

This thesis is dedicated to my family, who have contributed immensely to enable me reach this level.

ACKNOWLEDGEMENT

My gratitude goes to the Almighty God for His ability and strength impacted into me to complete this research work. I sincerely want to thank Mr. and Mrs. Anane and my family for their support and encouragement. A special appreciation goes to Rev. Dr. and Dr. Mrs. Afrifa-Anane for their contribution towards the success of this work. I am indeed grateful to my supervisor Dr. Charles Andoh for his guidance and direction in producing this thesis. Finally, I wish to thanks all my friends especially Ernest Appiah, and an account staff of Tema Metropolis Assembly institution for their contribution towards the complete of this research work.

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ABBREVIATIONS

CSP_{ro} - CENSUS SURVEY PROCESSING

GDP - GROSS DOMESTIC PRODUCT

GSS - GHANA STATISTICAL SERVICE

NBSSI - NATIONAL BOARD OF SMALL SCALE INDUSTRIES

SME - SMALL AND MEDIUM ENTERPRISES

SPSS - STATISTICAL PACKAGE FOR SOCIAL SCIENCE

TMA - TEMA METROPOLIS ASSEMBLY

ABSTRACT

This study aims to examine the perceptions of SMEs when accessing loans from financial institutions. A random sampling technique was used to select the SMEs and banks operating in the Tema Metropolis Assembly to obtain information on the factors influencing the SME when accessing loans, the challenges that militate against the growth of their business and their perceptions when accessing loans from financial institutions. Data from questionnaire were collected from 264 SMEs and 10 banks, between 12th March and 31st July, 2020. The data was presented and analyzed using frequencies, percentages and graphs.

Findings show that lack of collateral, unaudited financial statement and high interest rate charges influence SME business when accessing loans from banks. More than half of SME business did not have much knowledge about Cash-Back savings which serves as collateral for securing loans. In addition, the results show that less access to finance, high cost of production and inadequate technology are the major challenges that militate against the growth of SME business. Also, SME had the perceptions that the application process for loans is very cumbersome, banks are very reluctant in granting long term loans, there is lack of sympathy from bank officials and there is no promptness in receiving loans from banks.

There should be sustained SME education on the requirements for loan applications, especially securing a collateral and ensuring proper financial obligations in order to improve on the level of approval of loans by financial institutions.

Keywords and phrase: *Collateral, financial institutions, loans, perceptions, SMEs, Tema Metropolis Assembly.*

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Ghana has initiated strategic programmes to revamp Small and Medium Enterprise (SME) businesses to reduce poverty and unemployment in the country. The concept to finance SMEs was to help endogenous business to thrive and promote developmental projects in the country. However, there has been numerous restraints that serve as stumbling blocks to SME businesses in the country in accessing finance from the financial institutions. Hence, there is a traditional way of people taking small amount of loans from individuals, groups and institutions to help them start their businesses (Asiama & Osei, 2003). This study seeks to examine the perceptions of SME Business when accessing loans from financial institutions in the Tema Metropolis Assembly.

In Ghana, the growth of the national economy largely depends on the private sector that are mostly dependent on SMEs. This business stimulates the level of entrepreneurial spirits and skills within an individual because of its geographical presence in developing countries. SMEs are often described to provide opportunities for employment and thereby dealing with the issue of poverty and promoting economic development (Adjei, Oteng, & Fianu, 2014).

Majority of businesses in Ghana are found in the SME market and these have evolved into the major suppliers and service providers of larger corporations over the years. Such corporations include multinational and transnational ones which have contributed by expanding output of their services, affording value-added programmes in the manufacturing sector, thus influencing the broadening of Ghana's export base.

Institutions which have less than ten workers are considered as Small Scale and Enterprises per the definition from the Ghana Statistical Service (GSS) whereas institutions which have more than

ten workers are referred as Medium and Large-Sized enterprises. Similarly, the GSS defines firms with 9 workers as Small and Medium Enterprises. On the other hand, SME is also defined using the number of fixed assets in the organization. According to the National Board of Small Scale Industries (NBSSI) in Ghana, both the fixed assets and number of workers can be used to define SMEs. Therefore, per the NBSSI, an SME is a firm which has not more than 9 workers with plant and machinery of not more than ten million Ghana Cedi excluding assets such as lands, buildings and vehicles.

Small and Medium Enterprise (SME) business in Ghana plays a significant role to social and economic development. According to Abor and Quartey (2010), the SMEs contribute about more than three-quarters (85%) of manufacturing employment and about seventy percent (70%) of Gross Domestic Product (GDP) in Ghana. This shows that SMEs make up about ninety percent (90%) of the contributions from the private sector to Ghana's GDP. The SME's contributed about twenty-two percent (22%) to the GDP as well as accounting for ninety-two percent (92%) of businesses in Ghana, thus covering over 60% of labour force (NBSSI, 1990).

This suggests that SME's play a critical role in enhancing development, creating job opportunities and dealing with poverty in African countries. Therefore, as SMEs grow, it encourages the system of both inter and intra-regional decentralization which enhance in attaining goals of the economic life of greater economies in most developing countries. In general, the creation of more SME's as described contributes to speeding up the goal of broadening socioeconomic objectives which includes alleviating poverty (Cook & Nixon, 2000).

Scholars define financial institutions as companies which involve themselves in the activities of financial and monetary transactions which include deposits, loans, investments and currency exchanges. It includes firms such as commercial banks, saving and loans companies, mortgage

companies, pension companies and investment companies (Saunders & Cornett, 2008). In Ghana, most of these financial institutions are regulated by the Central Bank of Ghana. These institutions have a key role of providing greater incentive to ensuring that information about customers are collected and well monitored. They are viewed as a source of financing to businesses in promoting developmental projects in the country. In recent years, the Bank of Ghana has identified serious challenges of financial institution resulting to the revocation of license of some banks due to financial challenges, poor corporate governance and other financial malpractices. This poses some doubt in the minds of depositors to lack confidence in the financial institution.

The Tema Metropolis Assembly (TMA) is among the ten districts in the Greater Accra Region which has four districts; Tema East, Tema south, Tema West and Tema North. This metropolis has twenty-six communities and the most popular and busiest community is Community One market center. The Tema metropolis assembly has major trading centers in the capital city of Ghana. The businesses in the Assembly are mostly dominated by small businesses which include manufacturing, trading, logistics, freight forwarding, warehousing, shipping companies and clearing agency.

1.2 Problem Statement

SMEs have greater returns compared to the large-scale competitors. This is because they easily adapt to market conditions, since they have broadly skilled technologies. In both rural and urban cities, the SME sector has much potential as it contribute immensely towards the reduction of poverty among the people in many developing countries such as Ghana.

Most of the challenges they faced are due to lack of financing of their business which affect the growth or the survival of their business. Majority of these SME businesses find it difficult to approach financial institution for financial support to expand their business.

SME owners are limited by the perceptions they have about accessing loans from financial institutions to expand their business. In general, some perceive that there are high interest rates charged on loans, high demand for collateral and the perception that the processes are cumbersome which takes time for the financial institution to disburse the loan to be used. In addition, others are of the view that they may lose their entire savings or investments in case the bank collapses.

These and other perceptions which will be explored in this study have the potential ability of affecting the contributions of SME to development in the country.

1.3 Research Purpose

The purpose of the study is to examining the SME's perception when accessing loans from banks operating in the Tema Metropolis Assembly.

1.4 Research Objectives

- i. To examine the factors influencing the SME's when accessing loans from a financial institutions.
- ii. To highlight the challenges which may have militated against the growth of SME's businesses in Ghana.
- iii. To assess the perceptions of SME business owners when accessing loans from financial institutions.

1.5 Research Questions

- i. What are the factors that influence SME businesses in accessing loans from financial institutions?
- ii. What are the challenges that militate against the growth of SME's businesses in Ghana?
- iii. What are the perceptions of SME business owners when accessing loans from financial institutions?

1.6 Significance of Study

The study will reveal in much insight to the financial institutions or banks on how best to address problems faced by SME business in Ghana. Findings from this study will be important for future studies by students and other researchers. Besides, the results of the research will help policy makers in planning strategies to the development in the country regarding the financial institution and the need to address the challenges faced by SME business in Ghana.

1.7 Scope and Limitations

Limitation encountered during the conduct of the research includes information constraint as a result of non-disclosure of information which may be sensitive to the firm. In addition, this study shall make use of a fairly small sample size because of time constraint, cost associated with studies relating large sample size and the effect of the coronavirus pandemic (COVID-19).

1.8 Organization of the Study

There will be five chapters in all which are organized and arranged in the following manner:

Chapter one will provide a background to the study, statement of problem, objectives of the research, research questions, significance of study and scope and limitations. Chapter two deals with the literature review of the study, while chapter three addresses the methodology of the study. In chapter four, the findings and analysis of data will be presented. Finally, the summary, conclusion and recommendations of the research based on the data collected will be presented in chapter five.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The literature review focused on key areas under the following themes; the definition of SME, the contribution of SMEs towards economic development, the challenges of SME business in accessing loans from financial institution in Ghana, factors influencing in accessing loans, the challenges faced by financial institution from lending to SME business, SME's perception of accessing loans from financial institution.

2.2 Conceptual Review

2.2.1 Definition of Small and Medium-Scale Enterprise

Small Medium Enterprises (SMEs) are independent businesses, with a small market share managed by its owner or part-owners. Scholars such as Kayanula and Quartey (2000) have said that, there is no single, universal, or uniformly acceptable definition of small scale enterprises. Therefore, several measures have been used to define SMEs.

Dwelling on the definitions from Ghana Statistical Service (GSS) and the National Board for Small Scale Industries (NBSSI), small enterprises employ between six (6) and twenty-nine (29) persons or with fixed assets not exceeding a monetary level of US\$100,000 excluding lands and buildings. However, medium scale businesses or firms have a range from thirty (30) to one hundred (100) employees.

2.2.2 Contribution of SME to Economic Growth and Development

The contributions of SMEs cannot be overemphasized. Abor and Quartey (2010) deduced from their studies that SMEs contribute more three-quarters of (85%) of manufacturing employment and a little below three-quarters (70%) of GDP in Ghana. Additionally, SMEs are also known to

make up of 92% of all businesses in Ghana (Abor & Quartey, 2010). Besides, SMEs have great contributions as they are the preferred markets for industrial and consumer goods manufactured by other huge enterprises through their claim for these goods and services (Abor & Quartey, 2010). A study by Seibel (1996) shows that, small businesses typically work in market areas and that makes them unappealing for large enterprises because of the low level of profits. In the study, he found that small institutions can strengthen local economic sequences and inter-sectoral relations, an important factor for successful industrialization strategies. Besides, in countries with businesses of huge numbers of agriculturalists and industrial relations which are underdeveloped, the SMEs can operate cheap, labour intensive and appropriate technologies (Seibel, 1996).

2.2.3 The Financial Institution in Ghana

There are three main categories of financial system in Ghana. These are as follows: the formal financial system, semi-formal financial system and informal financial system.

- i. The formal financial system - These financial systems are licensed by Bank of Ghana under the Banking Law 1989 (PNDCL) or Non-Banking Law 1993 which are responsible to offer financial service regulated by Bank of Ghana. It consists of Commercial banks, Savings and Loans Companies, Microfinance.
- ii. Semi-Formal financial system - These financial institutions consist of companies that are incorporated by limited guarantee under the company's code 1963 (Act 179). It includes Non-Governmental Organization and Credit Union are not licensed by Bank of Ghana. The Non- Governmental Organization are not licensed to take deposit from public but rather use external source of funds raise through donation. The Credit Union is registered by the Cooperatives Department approved to take deposit from member who have registered under the union and also to give loans to its members only.

- iii. Informal financial system - These kind of system includes activities of Susu Collectors, Money Lenders, Trade Creditors, Personal loans from friends and family. However, the Money Lender system are licensed by the police under the Money Lenders Ordinance 1957. These systems are mostly owned by Club association.

2.2.4 Types of Financial Institutions in Ghana

Basically, the main transaction of financial institution consists of making loans to customers and purchase of investment securities in the financial market. The financial institution in Ghana provide variety of financial service which includes transferring of funds, storing financial information, insurance service protection scheme, loans etc.

The types of financial institutions are as follows;

- i. Depository institution - Commercial Banks, Merchant Banks, Savings and Loans Companies, Credit Unions.
- ii. Non- Depository institution - Life Insurance, Pension Funds, Mutual Funds, Leasing, Investment Institution.

2.2.5 Sources of Funds Generated for SME business

Generally, there are two main type of sources of finance to start up a Small and Medium Enterprise business. These consist of internal and external sources of funds.

Internal Sources of Funds

- i. Personal Fund - This may be said to be the first place that a business owner would need to look out for start-up money. This is type of fund which is generated by the owner from his or her personal savings to invest into the business. It is considered as the least source of funds for start-up business. Thus, investing in personal savings maximizes the control of the owner over his or her business.

- ii. Borrowing from Friends and Family - This is the type of fund whereby the owner or the enterprise solicit for funds from friends and family to support or expand their business. After utilizing the personal savings source of funds, the owner would have to contact a friend or a relative who might be prepared to invest in the business venture. This type will help the owner to benefit from the borrowed funds without making any payment of interest.
- iii. Profit retained from business - This is whereby the owner uses his or her entire profit which is converted into cash and invested into the business in order to expand the business. Thus the owner use the profit generated from the business to create an opportunity to purchase the additional items.
- iv. Share Capital invested by Entrepreneur - This is the situation whereby the owner decides to invest the share capital of the company with its aim of forming a start-up business. Dividend are distributed to the shareholders, once the company makes profit in the period.

External Sources

- i. Commercial Loan - This is a short-term loan which involves the bank granting a loan to the small-scale business owner without insistence of pledging a collateral as security against the loan in case of default. The business owner would be expected to repay the whole amount of loan at maturity. At times the interest due will be repaid, by being deducted from the total amount borrowed. The savings and loan companies in Ghana requires that a business owner must provide some forms of security such as personal guarantor and collateral for the loan acquired.
- ii. Business Angel - Business Angel is an investor whose interest is to invest in business with high growth prospect. These investors make it flexible for the business owner to achieve

their objectives. They are considered to be professional investors who invest millions of cash funds in a prospect business.

- iii. Venture Capital - They are specifically investment companies to invest in well-established business that need some expansion and to sustain it.

2.2.6 Challenges that militate against the growth of SME business

i. Input Constraint

According to Levy (1993) most of SME businesses have problem with accessing materials to expand their business. This is due to high transaction cost and poor cash flows. A research conducted by Aryeetey, Baah-Nuakoh, Dugglieby, Hettige, and Steel (1994) revealed that input constraints are a major problem to the growth of SME business in Ghana.

ii. Market Constraint

There is a high competition among SME business in Ghana due to similar business activities operated within the same geographical area. SME are faced with greater competition which affect the growth of their business.

iii. Legal Constraint

The process and requirement to commence business has becomes very burdensome for the SMEs in Ghana. There are issues regarding the process of securing license and registration certificate from appropriate authorities.

iv. Technological Constraint

The effect of technological advancement has simplified the various operational activity of the business by saving time, increasing production and improving communication. Ashrafi and Murtaza (2008) found that most of the SMEs who use Information Communication Technology (ICT) have seen the benefits and are very optimistic in investing into it to harvest the benefits.

2.2.7 SME's perception when accessing loan from financial institutions

There are numerous complications faced by SME when accessing finance from financial institution to expand their business. Some of these complications include the financial institution being very hesitant to provide long-term finance to support SME business, the process and procedures in accessing the loan becomes very cumbersome, there is lack of sympathetic attitude on the part of bank officials and there is no promptness in receiving the loan. SMEs owners may not seek for financial support if there are perceived issues. Some of the perceived ideas could be that they fear being unsuccessful and so there is a slim chance in applying for a loan or a perception that they will not have the information and good credit history that they perceive as requirements of banks.

2.3 Theoretical Review

i. Information asymmetry theory

This theory states that decisions made by two parties exist when one party has more information better than the other parties. There is imbalance of powers between the parties which is cause by information asymmetry.

Matthews and Thompson (2008) observed that there are “problems of moral hazard, where a party will take risks because of the final cost of that risk, as well as adverse selection”. However, in the case of contrary results, the parties have different evidence and therefore the problem may cause inadequacy connected to the flow or transfer of funds from the lenders to the borrowers. For instance, those who borrow are more likely to get more information than those who lend. Thus the source of information related with the risk associated with the investments is likely to be available to the borrower than the lender.

It is discussed that the sensitivity of the information asymmetries between bank officials and owners of the business becomes uncertain as a way to prevent SME financing in Sub-Saharan Africa. Nevertheless, the space between financial banks and SMEs can be lessened by developing the financial systems that are more adapted to local perspectives. Moreover, some ways should be acknowledged by sharing the risk in order to reduce risks by financial banks and promote SME sustainable guarantee funds to enable improved access to their financing (Leffleur, 2009).

For instance, SMEs may not have good record keeping and so may affect proper accounting. There are also cases where entrepreneurs may be unwilling to give all details about the prospect they are taking advantage of, as a result of concerns that by disclosing them, they may be exposing themselves to exploitation (Shane & Cable, 2002).

ii. Borrower Effect Theory

This theory is applied where SME owners are disallowed by their own or others experiences from requesting for debt finance. A study by Jappelli (1990), shows that some firms are discouraged from applying for external finance or a bank loan for fear that their application will not be approved. There are also instances when banks do not fully examine the firms that apply for loans, though they see it their application to be positive (Kon & Storey, 2003). Some small business owners are discouraged from applying. This provides a discouraged borrower effect (Fraser, 2005). For instance, SME owners who are women, may be discouraged because of the perception of bureaucracies or strict financial requirements and the perception of being refused on the first call (Deakins, Ishaq, Smallbone, Whittam, & Wyper, 2005). Entrepreneurs have perceived issues which prevent them from accessing financial support. Their perception is that they may not be successful as they may not have certain important details such as good credit history which are basic requirements from the banks.

2.4 Empirical Review

Several aspects have been taken into consideration to explain the issues of banks supporting SMEs. In Ghana, empirical studies from 133 institutions, showed that access to finance is a major challenge to the growth and expansion of firms; more than half (60%) thought that financing was a serious problem (Aryeetey, Baah-Nuakoh, Dugglieby, Hettige, & Steel, 1994). In another study which explored the obstacles to growth and expansion of some selected 200 manufacturing firms, Baah-Nuakoh (2003) found that, getting access to capital is the most frequently mentioned problem of all institutions and firms in Ghana.

Gariba (2015) in his study made an attempt to identify the determinants of access to credit among SME's in Ghana as well as the challenges faced by SME's and lending financial institution. The study found that access to credit is influenced mostly by certain characteristics of the firm including the firm's innovation, their registration status, location, possession of an operating account and having audited financial statements. In addition, demand for credit is influenced by factors as ownership of land, an audited financial statement and plans to expand business in the future.

A study by Gockel (2003) opined that lack of access to credit is the consequences of improper financial reforms in the periods before and after independence. Gockel (2003) further notes that during the late 1980, financial sector reforms, included the active participation of governments in the financial system mostly through state-ownership of banks attached with monetary requirements such as high reserve requirement and credit policies.

Osei (2011) observed that the market women experience problem with application procedures when trying to access a loan. However, there was no clarity as to whether this only affected one

sector or other sectors. Adjei (2012) opined that SMEs face serious challenges when they apply to access credit facilities as well as support from financial institutions.

This study will address the gap by checking whether SME's in Tema Metropolis Assembly also experience problems in application procedures and in accessing the finance from financial banks.

2.4.1 Factors influencing SME business in accessing loans from Financial Banks in Ghana

A major concern to the growth and impact of SMEs in Ghana is worth noting that governments and administrations have not been able to firm their impact in the economy despite all efforts from them. This underlines the fact that there exist fundamental issues that have not been attended to although SMEs are still facing such issues. From the literature, the major problem is access to loans.

Cook and Nixson (2000) observed that, “notwithstanding the recognition of the role of SMEs in development process in many developing countries, SMEs development is always constrained by the limited availability of financial resources to meet a variety of operational and investment needs”. The main problem confronted by SMEs is access to credit facilities. There are factors that influence access to loans of SMEs when accessing loans from financial institution which are discussed below;

i. Financial Illiteracy

Financial illiteracy is one key known factor globally as the major problem for the inability of SME to access loans from financial institutions. This form of illiteracy affects most SMEs, as they are unable to efficiently understand regulations and conditions, and thus are not aware of the appropriate interpretations of issues such as the interest placed on loans. Thus, most SMEs are worried when they realized that the periods for repayment seem to be longer than expected. Most microfinance institutions have been commended for stepping in to provide loans to SMEs, but they

do not disclose the full truth about their operations and products for SMEs. This has been found to be that some of these financial institutions capitalize on their educational weakness, and do not provide full details with explanations the interest rates and its corresponding implications on the loans lent to small businesses. Therefore, when it is time to repay the loans, it becomes a problem (Donkor, 2012).

ii. Factors that financial institutions consider before lending to SMEs

Most of small enterprises are not aware of the various requirement financial institutions consider before lending to their customers. Generally, financial institutions will not lend to customers who are not able to pay the loans at a higher interest rates, because this allows them to interact with riskier borrowers who may not be faithful with their businesses. Also, they have several means of verifying the credit worthiness of their customers. Financial Banks lend to businesses, they believe are more capable of repaying loans applied for (Ocansey, 2006). It has been revealed that SME's inability to understand the operations of the banks is a major key factor to their inability to access financial assistance. Hence, SMEs do not receive credit facilities from the banks on time to operate their businesses.

Banks require for audited financial statement, business plan, and bank proposal before approving financial support to small business. However, most small enterprises lack the technical capacity to prepare for these items and hence find it difficult to access loans.

iii. Strict vetting of credit applications

Banks are also strict when vetting credit applications of small businesses. Most financial institutions are guided by procedures they have documented in their lending policies. To mention a few, some of the procedures include, prescribed minimum loan amounts, measures for complicated application procedures and restrictions on credit for specific purposes (Schmidt &

Kropp, 1987). The procedure of vetting loan applications could take a long time and thus delay the facilitation for the intended purposes.

iv. Stringent conditions

Most SMEs do not get access to loans from banks because of the requirements attached to the loan. Banks turn down the applications of small businesses since they do not have proper collateral to secure their loan. Other researchers have suggested that, bank financing should be secure by collateral (Storey, 1994). Collateral as asset is the lone means for banks to recover their money in case of any default. Banks usually demand collateral to reduce the risk associated with giving out loans. Therefore, SMEs with poor business plans and also do not have adequate collateral, are usually refused credit support, because the banks cannot risk losing the loans and also avoid non-repayment of loans.

2.4.2 Challenges of Financial institution lending funds to SME's business

i. High transaction Costs

Unlike any other business, banks also incur costs to do a business, such as assessing credit, processing and monitoring of loans. Transactional cost has direct relation which affect the profitability of business. A high cost of processing a transaction means that there is a low return. Processing SME loans often take a lot of time and energy to assess, monitor and manage.

ii. Lack of reliable information

Small businesses often refuse to provide correct information about their business, and this makes it difficult for financial institutions to assess their creditworthiness, thus affecting lending to them. It therefore becomes easier to examine and approve their creditworthiness and reduce risk of defaulting should SMEs provide accurate information to the banks. When that is done, financial institutions would be empowered to give good terms of payments to SMEs. According to Baas and

Schrooten (2005), because there is lack of reliable information, the banks also inflict high interest rates on loans even though there may exist a long-term relationship between borrower and bank.

iii. Lack of adequate financial statements

Since it is not mandatory by law that SMEs prepare financial statements, most of them do not do it. The case is the same in some developed economies. For instance, SMEs in the European Union, are not obliged to report on their financial standing as a standardized measure if they do not reach a significant threshold in total assets, turnover and/or number of employees. Therefore, several SMEs globally do not prepare a true reflection of their financial data, which could be assessed by creditor when it comes to loan application (Ricupero, 2012). This implies that, having an audited financial statement is very important in this whole process of requesting for credit from financial institutions, which banks consider to approve credit.

iv. Lack of Collateral

Gitman (2003) describes that a collateral refers to as assets which the borrower uses as security on debt payment when committed to the lender. The loan is secured by assets in a form of collateral such as houses, vehicles, and land in case of any default. These securities are sold under normal market condition, at a fair market value for immediate payments. A research conducted by Kamau (2009) found that lack of collateral is a major challenge to assessing credit facility. SMEs find it difficult to obtain any form of loan without proper security or collateral and appropriate documentations (Aris, 2007). A research survey conducted by Vuvor and Ackah (2011) on challenges confronted by small and medium enterprise in obtaining credit in Ghana findings showed that the major challenges faced by SME's Ghana is inability to provide collateral to access bank loans.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This section of the study deals with the approach in which the research objectives are addressed. It comprises the research design, source of data collection, sample frame, sample procedure and data analysis.

3.2 Research Design

This serves as a guide to the research in the process of collecting, analyzing and interpreting results. The research adopts the descriptive and explanatory analysis. This was carried out on randomly selected samples.

3.3 Sampling Frame and Sample Procedure

From the IBES (2016), the total number of SMEs operating in the Tema Metropolis Assembly is 17,250. The sample size is determined based on the formula provide by Yamane (2005) which is given by

$$n = \frac{N}{1 + N(\alpha)^2}$$

where n = sample size, N = total population, α = the confidence level of 5% (0.05)

$$n = \frac{17,250}{1 + 17,250(0.05)^2}$$

$$n = 390.93 \approx 391$$

The sample size for SMEs business based on the sample frame is 391. The study made use of simple randomly sampling method in order to get reliable and accurate data. Randomly sampling is more scientific which will best enable the research question to be answered and meet the objectives of the research. A random sampling technique was used to select ten (10) bank staff

from ten (10) financial institutions comprising of five (5) commercial banks and five (5) savings and loans respectively.

3.4 Study Area

The research was conducted in Tema Metropolis Assembly specifically in the Tema Community One. Tema Community One was selected because it is the most popular and busiest community market center in the Metropolis. The major business activities operated in this community include trading, manufacturing, clearing agency, shipping companies, logistics and warehouses etc.

3.5 Population of Study

For the purpose of the study, the population consists of all Small and Medium Enterprises and banks operating within the Tema Metropolis Assembly. However, due to time and financial constraints the research concentrated on SMEs business categorize under service, trading and manufacturing totaling about Seventeen thousand, two hundred and fifty (17,250) SMEs. A sample size of three hundred and ninety-one (391) SMEs and ten (10) banks were used.

3.6 Data Collection

3.6.1 Sources of Data

The data for this study is solely primary data. The primary source of data is the source of gathering data for the research done with structured questionnaire which comprise of open-ended and close-ended questions as well as unstructured interview.

3.6.2 Procedures

The questionnaire was distributed to the SME owners and the bank staff of selected banks operating within Tema Metropolis Assembly. A team of data collectors were trained and after a pilot study, were sent to the selected Banks and SMEs to conduct the interviews. In administering the questionnaire for banks, the interview was conducted among the managers or credit officers of

banks to find out the challenges of financing SME's business. The Census Survey Processing (CSPro) software was used to capture data onto phone tablets for easy data transformation.

3.7 Data Collection methods and Instrument

3.7.1 Questionnaires

The questionnaire is structured to ensure that respondent give relevant information for the data. It has both open-ended and closed-ended questions. The open-ended type of questions was used to enable the respondents give as much information as possible. This is because the questionnaire may not be able to reveal all the information the research needs. More than a few items on questionnaire were designed and adapted from relevant literature. Some of the items were accessed using a five-point Likert-type scale with responses ranging from 5 for strongly agree to 1 for strongly disagree respectively.

The questionnaire comprised of two parts. Part one has the questionnaire for SME which was divided into six (6) sections. Section A dealt with the background of respondents which included variables like gender, age and educational level. Section B focused on general information about the company. Section C dwells on the source of business records and credit attitude. Section D focused on the challenges that militate against the growth of SMEs business. Section E looks for the factors the influence SME business when accessing loans from financial institution. Section F dwells on the perception of financial institution by SME when accessing loans.

Part two has the questionnaire for financial institutions which was divided into four (4) sections. Section A focused on the gender, position of the staff and the number of experiences. Section B dealt with general information of financial institutions, which included name of bank, category of the bank and location of bank. Section C focused on types of borrowers banks prefer to grant loans.

Section D dwelt with the reason for not granting loans and the source of document assessed before granting loans.

3.8 Data Analysis

The data was entered, coded and analyzed using Statistical Package for Social Science (SPSS) version 17.0 software. Descriptive statistics such as frequencies, percentages and graphs were used to describe the data. The findings were critically examined to make sure that they were consistent with the research objectives.

3.9 Limitation of Methodology

A total number of 401 questionnaires were distributed and out of this only 274 were received. This was made up of 264 SMEs and 10 financial banks. It was very difficult to distribute questionnaire while engaging with respondents during the Covid-19 era from 15th March, 2020 to 31st July, 2020. However, the team overcame the challenge by installing CSPro Entry on phone tablet to collect the data. The CSPro Entry software enabled the researcher to collect data swiftly by organizing the data for easy analysis. With the CSPro software in place the researcher had reduced contact with the respondents while observing Covid-19 protocols.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter seeks to analyze the perceptions of SME's business owners when accessing loans from financial institutions. As part of the research tools, questionnaires were administered to respondents to seek the views of the selected SME's business regarding the access to loans from financial institutions. Two hundred and sixty-four (264) SMEs and ten (10) banks were interviewed.

4.2 Characteristics of SMEs

4.2.1 Sex, Age and Educational attainment of respondents

The result presented in Table 4.1 shows that more males (78.4%) were interviewed compared to females (21.6%). The mean age of respondents was 37.6 years; this indicates that averagely the study sample is youthful. Specifically, the highest proportion (68.2%) of the respondents were aged between 35-44 years. This was followed by those between the age of 25-34 years (22%) and less than one-tenth (9.8%) was aged between the 45-55 years (Table 4.1). All the respondents had attained some level of formal education. Specifically, 60.6% had attained higher level of education, about a third (30.7%) had attained vocational education and less than one-tenth (8.3%) had completed secondary/senior high school (Table 4.1).

Table 4.1 Percentage distribution of respondents by sex, age and educational attainment

Characteristics	Number	Percentage
Sex of respondent		
Male	207	78.4
Female	57	21.6
Age of Respondent		
25-34	58	22.0
35-44	180	68.2
45-55	26	9.8
(Mean \pm Std. dev.)	37.6 \pm 4.9	
Education		
JHS	1	0.4
SHS	22	8.3
Vocational	81	30.7
Tertiary	160	60.6

4.2.2 Registration status of SME businesses

The results from Table 4.2 indicate that almost all the SMEs were registered except a few (0.8%) which had not been registered. The majority (70.8%) of the SMEs were registered with both the Registrar General and District Assembly. Less than one-tenth (9.8%) was registered with only the District Assembly and about one-fifth (18.9%) had registered with only the Registrar General (Table 4.2).

Table 4.2 Percentage distribution of SMEs by Registration status

SME's Business Registration	Number	Percentage
Registration Status		
No	2	0.8
Yes	262	99.2
Agency registered with		
Registrar General	50	19.1
District Assembly	25	9.5
Both	187	71.4

4.2.3 Type of Business and length of operation

More than a third (65.2%) of the SMEs was sole proprietorship, about a third (34.1%) was Limited Liability Company while a few (0.8%) was partnership. The main business activity of the SMEs was service (51.5%), this was followed by trading (40.2%) and a few (8.3%) were into manufacturing (Table 4.3).

The number of years that respondents had been in business is shown in Table 4.3. The highest proportion (60.2%) of respondents had been in business between 3 to 5 years, more than one-fourth (27.7%) had been in business between 6-10 years and 3.4% had been in business for eleven and more years. The average number of employees of respondents was 8 people (Mean 8.00 ± 16.35).

Table 4.3 Percentage distribution of SME by type of business, activity and length of operation

Businesses	Number	Percentage
Type of Business		
Sole Proprietorship	172	65.2
Limited Liability	90	34.1
Partnership	2	0.8
Business Activity		
Trading	106	40.2
Service	136	51.5
Manufacturing	22	8.3
Number of years in Business		
<3 years	23	8.7
3-5 years	159	60.2
6-10 years	73	27.7
11+ years	9	3.4

4.3 Characteristics of Banks

4.3.1 Portfolio of respondents

Amongst the total sample, 50% were operation managers, 30% were credit managers and 20% were branch managers (Table 4.4).

Table 4.4 Percentage distribution of Bank respondents by portfolio

Portfolio	Number	Percentage
Branch Manager	2	20
Operations Manager	5	50
Credit Manager	3	30
Total	10	100

4.3.2 Years of experience

The results presented in Table 4.5 indicate that that the highest proportion of respondents had 6 to 10 years of working experience. Also, an equal proportion of them, 20% had 1 to 5 years and 11 years or more experience, respectively.

Table 4.5 Percentage distribution of years of experience of Bank respondents

Years of experience	Number	Percentage
1 – 5 years	2	20
6 – 10 years	6	60
11+ years	2	20
Total	10	100

4.3.3 Category of Bank

An equal proportion (50%) of commercial and savings and loan bank respondents were interviewed, respectively (Table 4.6).

Table 4.6 Percentage distribution of respondents by category of Bank

Category of Bank	Number	Percentage
Commercial	5	50.0
Savings and Loans	5	50.0
Total	10	100.0

4.3.4 Category of borrowers

With respect to category of borrowers, 60% of the respondents lent money to both registered and unregistered SMEs while 40% lent to only the registered businesses (Table 4.7).

Table 4.7 Percentage distribution of category of borrowers from the Banks

Category of Borrowers	Number	Percentage
Only Registered Businesses	4	40.0
Both Registered and unregistered Businesses	6	60.0
Total	10	100.0

4.3.5 Package for SMEs and finance to SMEs

Table 4.8 shows the percentage distribution of packages that respondents had for SMEs as well as the proportion of SMEs that have been financed by financial institutions. All the respondents had packages for SMEs (100%) and they had all financed SMEs (100%).

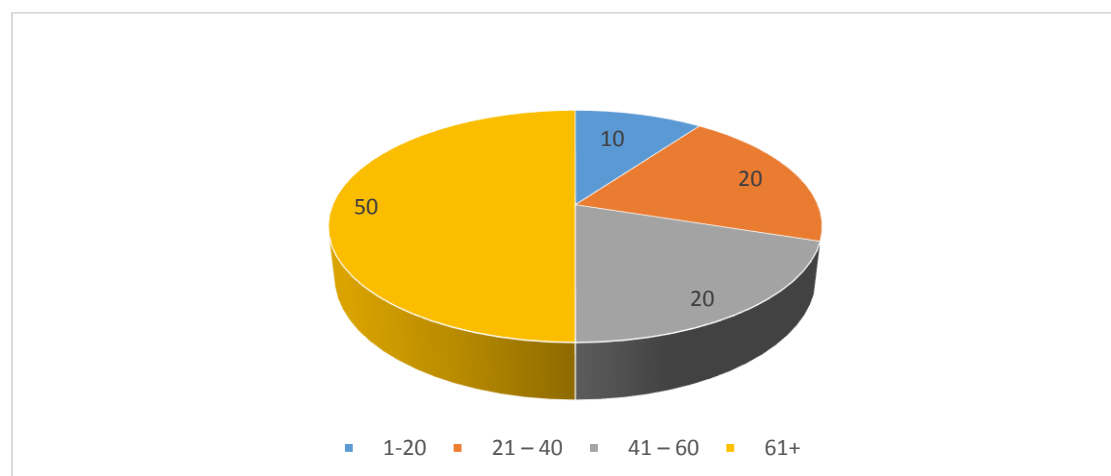
Table 4.8 Percentage distribution of respondents by packages for SMEs and financed to SMEs

Variable	Frequency	Percentage
Package for SMEs		
No	0	0.0
Yes	10	100.0
Finance to SMEs		
No	0	0.0
Yes	10	100.0

4.3.6 Number of SMEs financed

Half (50%) of the respondents had financed more than sixty SMEs, one-fifth (20%) had provided financial support to 21 to 40 and 41 to 60 SMEs, respectively. Also, one-tenth (10%) had provided financial assistance to 1 to 20 SMEs (Figure 4.1).

Figure 4.1 Percentage distribution of SME that are financed by Banks



4.4 Factors Influencing SMEs business when accessing loans from financial institution

From Table 4.9 below, on the issue of lack of collateral influence on SME business when access loans from financial institutions, the Likert scale showed that 10 respondents representing 3.8% strongly disagreed that lack of collateral influence on SME business when accessing loans from financial institution. One hundred and eleven (111) respondents representing 42.0% agreed that lack of collateral influence on SME business when accessing loans from financial institution. This indicate that majority of SME respondents agreed that lack of collateral influence on SME business when accessing loans from financial institution.

Concerning unaudited financial statement's influence on SME business when accessing loans from financial institution, 13 respondents representing 4.9% strongly disagreed that unaudited financial statement influence on SME business when accessing loans, 86 respondents representing 32.6% strongly agreed that unaudited financial statement influence on SME business when accessing loans from financial institution. This indicates that majority of SME agreed that unaudited financial statement influence on their businesses when accessing loans.

Regarding high interest rate charges influence on SME business when accessing loans from financial institution, 2 respondents representing 0.8% strongly disagreed that high interest rate charge influence on SME business when accessing loans from financial institution. 163 respondents representing 61.7 % strongly agreed that high interest rate charges influence on SME business when accessing loans from financial institution. This indicate that majority of SME businesses agreed that high interest rate charges influence on their decision when accessing loans from financial institution.

With respect of financial illiteracy influence on SME business when accessing loans from financial institution, 127 respondents representing 48.1% disagreed that financial illiteracy influence on

SME business when accessing loans from financial institution. 3 respondents representing 1.1% strongly agreed that financial illiteracy influence on SME business when accessing loans from financial institution. This indicates the majority of SME disagreed that financial illiteracy influence on SME business when accessing loans from financial institution.

Finally, on the issue of incorrect records influence on SME business when accessing loans from financial institution, about 12 respondents strongly agreed that incorrect records influence on SME business when accessing loans from financial institution. 119 respondents representing 45.1% were not sure that incorrect records influence on their business when accessing loans from financial institution. This means that incorrect records majority of SME were not sure that incorrect records had influence on their business when accessing loans.

Table 4.9 Factors Influencing SMEs business when access loans from Financial Institution

Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	N (%)	N (%)	N (%)	N (%)	N (%)
Lack of Collateral	10(3.8)	65(24.6)	55(20.8)	111(42.0)	23(8.7)
Unaudited Financial statement	13(4.9)	17(6.4)	64(24.2)	84(31.8)	86(32.6)
High Interest Rate Charges	2(0.8)	4(1.5)	10(3.5)	85(32.2)	163(61.7)
Financial Illiteracy	31(11.7)	127(48.1)	60(22.7)	43(16.3)	3(1.1)
Incorrect Records	37(14)	57(21.6)	119(45.1)	39(14.8)	12(4.5)

N - Number

4.5 Challenges that may have militated against the growth of SME's business in Ghana

From Table 4.10 below, regarding less access to finance which militates against the growth of SME's business in Ghana, the Likert scale showed that 101 respondents representing 38.3%

strongly agree that less access to finance militates against the growth of SME businesses. Three (3) respondents representing 1.1% strongly disagreed that less access to finance militates against the growth of SMEs business in Ghana. This means that majority of SME respondents agreed that less access to finance is a major challenge that militates against the growth of SME business.

Findings from the study also shows that high cost of production militates against the growth of SME's business in Ghana; 98 respondents representing 37.1% strongly agreed that high cost of production militates against the growth of SME business. 20 respondent representing 7.6% disagreed that high cost of production militates against the growth of SME business. This indicates that majority agreed that high cost of production militates against the growth of SME business.

Concerning the issue of regulatory and legal constraints, 34 respondents representing 12.9% strongly agreed that regulatory and legal constraints militates against the growth of SME business. 81 respondents representing 30.7% disagreed that regulatory and legal constraints militates against the growth of SME business. This indicates that majority disagree that regulatory and legal constraints militates against the growth of SME business.

With respect to the issue of inadequate technology, 118 respondents representing 44.7% agreed that inadequate technology militates against the growth of SME business in Ghana. 7 respondents representing 2.7% strongly disagreed that inadequate technology militates against the growth of SME business. This indicates the majority of respondents agreed that inadequate Technology militates against the growth of SME business.

On the issue of energy crises, 22 respondents representing 8.3% strongly disagreed that energy crises militates against the growth of SME business in Ghana. 85 respondents representing 32.2% were not sure that energy crises militates against the growth of SME business in Ghana. This

indicates that majority of SME were not sure that energy crises militates against the growth of SME business in Ghana.

Table 4.10 Challenges that may have militated against the growth of SME’s business in Ghana

Factors	Strongly Disagree	Disgrace	Neutral	Agree	Strongly Agree
	N (%)	N (%)	N (%)	N (%)	N (%)
Less access to finance	3(1.1)	33(12.5)	34(12.9)	93 (35.2)	101 (38.3)
High Cost of Production	32(12.1)	20(7.6)	56(21.2)	58 (21.2)	98 (37.1)
Regulatory and Legal Constraints	39(14.8)	81(30.7)	61(23.1)	49 (18.6)	34 (12.9)
Inadequate Technology	7(2.7)	34(12.9)	32(12.1)	118(44.7)	73 (27.7)
Energy Crises	22(8.3)	53(20.1)	85(32.2)	61(23.1)	43 (20.1)

N - Number

4.6 Perception of SMEs when accessing loans from financial institution

From the Table 4.11 below, regarding the perception that financial institution are very reluctant in granting long term loans to SME business, 2 respondents representing 0.8% strongly disagreed that financial institution are reluctant in granting long term loans to SME business. One hundred and seventeen (117) respondents representing 44.3% agreed that financial institution are reluctant in granting long term loans to SMEs business. This indicates that majority of SME perceived that financial institution are reluctant in granting long term loans to SME business.

Concerning the perception that loan application process is very complicated when accessing loans, 2 respondents representing 0.8% strongly disagreed that loan application process is very complicated when accessing loans. One hundred and twenty two (122) respondents representing

46.2% agreed that loan application process is very complicated when accessing loans from financial institution. This indicates that majority of SME perceived that loan application process is very complicated when accessing loans from financial institution.

With respect to the perception of lack of sympathetic attitude on bank officials, 4 respondents representing 1.5% strongly disagree that there is lack of sympathetic on bank officials. One hundred and eleven (111) respondents representing 42% agreed that there is lack of sympathetic attitude on banks officials. This means that majority of SME perceived that there is lack of sympathetic attitude on banks officials when access loans.

In addition, regarding the perception of promptness in receiving loans from financial institution, 18 respondents representing 6.8% strongly agreed that there is promptness in receiving loans financial institution. 114 respondents representing 43.2% disagreed that there is promptness in receiving loans from financial institution. This indicates that majority of SME perceived that there is no promptness in receiving loans from financial institution.

Table 4.11 Percentage of Perception of SMEs when accessing loans from financial institution

Perceptions	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	N (%)	N (%)	N (%)	N (%)	N (%)
Reluctant in granting long term loan	2(0.8)	17(6.4)	64(24.2)	117(44.3)	64(24.2)
The process is very complicated	2(0.8)	8(3)	52(19.7)	122(46.2)	80(30.3)
Lack of sympathetic attitude	4(1.5)	33(12.5)	90(34.1)	111(42)	20(9.8)
Promptness in receiving Loans	68(25.8)	114(43.2)	45(17)	19(7.2)	18(6.8)

N - Number

4.7 Financial Institutions experience in financing SMEs

4.7.1 Requirements for loan application

All respondents indicated that factors such as audited financial statements (100%), and certificate of registration (100%) were very important in loan application. Also, 90% of them reported that business plan was also very important in loan application while 10% stated that it was unimportant. With respect to collateral, 90% of respondents indicated that having a collateral was moderately important in loan application while 10% reported that it was important. Majority (90%) of respondents indicated that personal guarantor was moderately important in loan application compared to a few (10%) who reported that it was unimportant (Table 4.12).

Table 4.12 The importance of loan application requirements

Loan application requirement	Unimportant	Moderately Important	Very Important
Financial Statement	-	-	100
Certificate of registration	-	-	100
Business plan	10	-	90
Collateral	-	90	10
Personal Guarantor	10	90	-

4.8 SME Perception of Accessing Loans

4.8.1 Knowledge about loan application

In Table 4.13, SME owners mentioned requirements demanded by financial institutions for accessing loans. The results showed that property and building (86.4%), bank savings and group

guarantee (75.8%) were mainly demanded by financial institutions. Inventory of stock was less reported by respondents (46.6%) as a requirement for accessing loan.

Table 4.13 Percentage distribution of respondents by financial institution requirements for loan accessing

Knowledge on requirements	Frequency	Percentage
Property and Building		
No	2	0.8
Not sure	34	12.9
Yes	228	86.4
Group guarantee		
No	4	1.5
Not sure	60	22.7
Yes	200	75.8
Inventory of stock		
No	31	11.7
Not sure	110	41.7
Yes	123	46.6
Bank Savings		
No	7	2.7
Not sure n	56	21.2
Yes	201	76.1

4.8.2 Experience with application for a loan

4.8.2.1 Application for a loan

Almost all the respondents (98.9%) indicated that they had applied for a loan (Figure 4.2). When respondents were asked with reference to the past five years, 97.7% of them reported yes (Figure 4.3). This is an indication that most of the SMEs rely mainly on loans in the operation of their businesses. However, among respondents who had never applied for a loan, reasons including high interest rate, issues of Bank sureties and the time loans would be ready were stated.

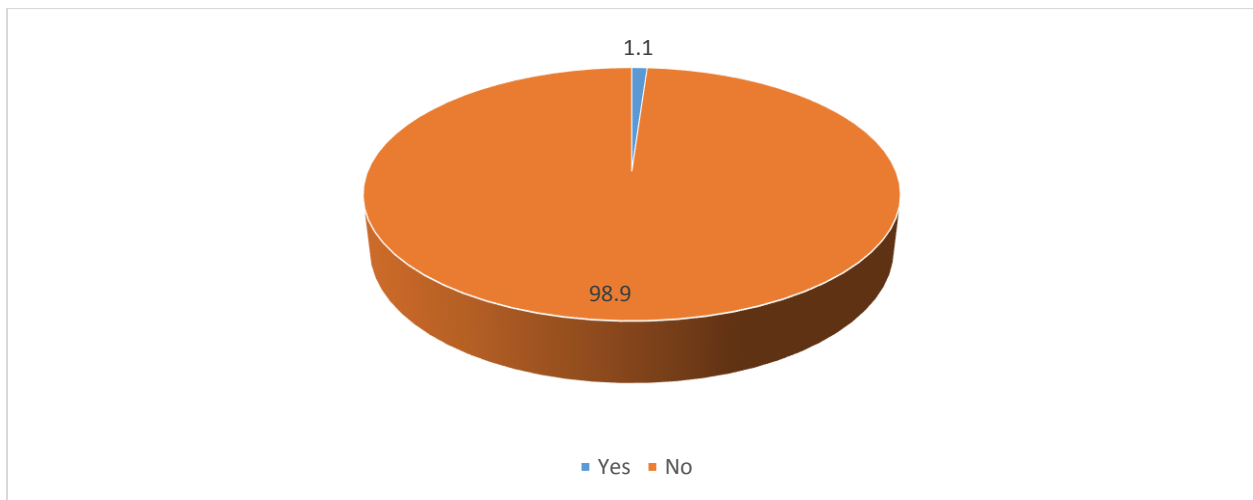


Figure 4.2 Graph showing whether SME have applied for loan

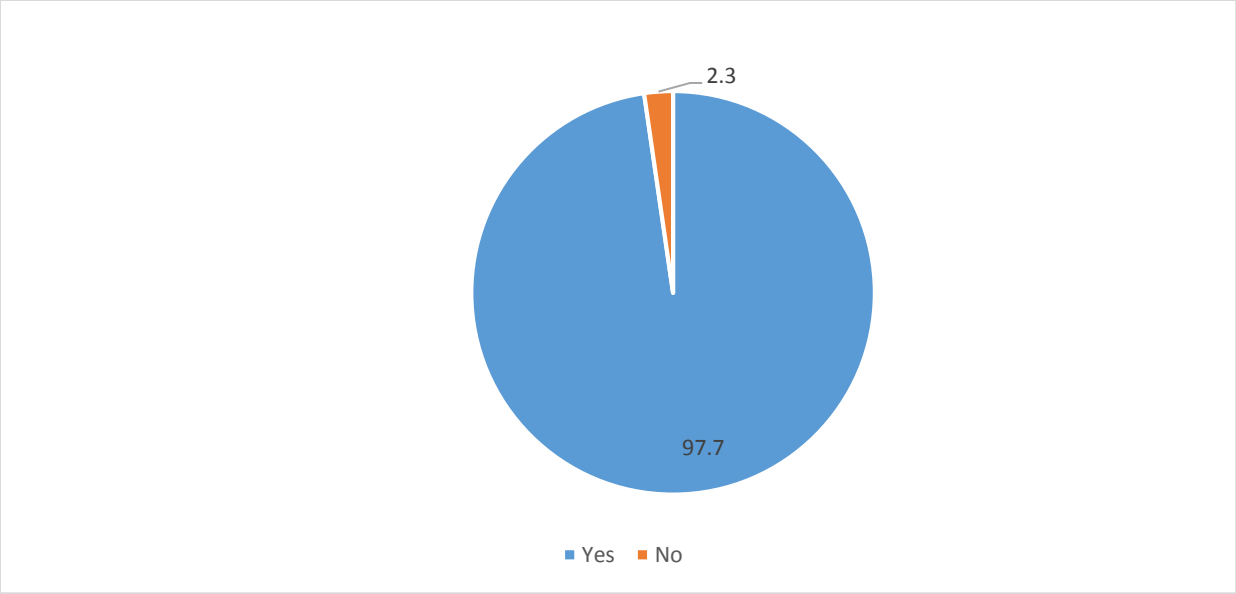


Figure 4.3 Loan application in the past five years.

4.8.2.2 Purpose of applying for a Loan and Loan Terms

Table 4.14 depicts the purpose for which respondents applied for a loan. More than half (55.1%) of the respondents indicated that they applied for a loan to expand their businesses. A quarter (25.1%) of them also stated that the purpose was to purchase an asset whereas a few (2.5%) stated that the purpose was to pay rent. About two-thirds (64.8%) of the respondents indicated that the loan was medium term, 21.5% said it was long term while 13.8% stated that it was a short-term loan.

Table 4.14 Purpose of loan application and loan terms.

Variable		
Purpose for loan application	Frequency	Percentage
Expand Business	144	55.1
Pay Rent	7	2.5
Purchase Asset	66	25.2
Working Capital	45	17.2
Loan Terms		
Short term	36	13.8
Medium term	56	21.5
Long term	170	64.7

4.8.2.3 Ever applied for loan by using Cash-Back Savings as collateral

When respondents were asked whether they have ever applied for loan by using Cash-Back Saving as a means of collateral. About 45.8% of the respondents indicate that they have used cash-back savings as collateral against the loan applied, 40.9% of the respondent said they have not used Cash-Back savings as collateral against the loans applied and 13.3% of the respondents said that they have no idea about the Cash-Back savings. This results indicate that majority of SME respondents have not use Cash-Back savings as collateral against their loan (Figure 4.4).

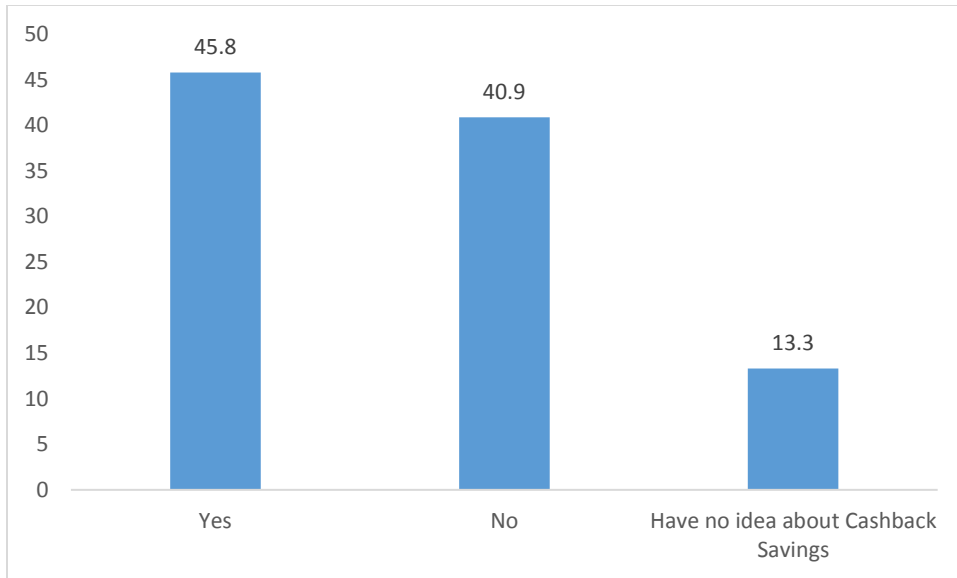


Figure 4.4 Percentage of Ever applied on Cash-Back Savings

4.8.2.4 Experience with Outcome of loan application

The results presented in Table 4.15 show that among respondents who applied for a loan in the past five years, the majority (90.4%) of them were granted the loan. Amongst those whose loan application was not approved, the highest proportion (2.3%) had no collateral. This was followed by those who had incomplete documents (1.9%), those who did not meet the criteria (1.9%), and 1.1% had insufficient collateral.

Table 4.15 Outcome of loan application

Variable	Frequency	Percentage
Loan Granted		
No	25	9.6
Yes	236	90.4
Reasons for Non-approval of loan		
Inability to pay high interest	1	0.4
Company's history	1	0.4
Incomplete documents	5	1.9
Insufficient collateral	3	1.1
No collateral	6	2.3
No guarantor	1	0.4
Poor credit history	1	0.4
Unaudited financial statement	1	0.4
Did not meet criteria	5	1.9

4.9 Discussions

Findings from this study indicate that Small and Medium Enterprises (SMEs) in the Tema Metropolitan Area (TMA) have significant contributions to the banking sector regarding loan accessibility. This is probably because small businesses are now increasingly important sources of profitability for the banks, yet access to funding is still a problem to SMEs' operations in Ghana (Agyapong, Agyapong, & Darfor, 2011). The demand on loans reveals that there is a weighty reliance of SMEs on the banking sector in the metropolis to finance their operations. More than

ninety percent of the SMEs in TMA had applied for loans and recently in the past five years. This suggest that SMEs are much dependent on loans from the banking sector for their daily operations. Aside 2.5% of the SMEs who had applied for loans to pay rent, the rest of them had the intention of using the loans to run their activities such as working capital, purchasing assets and expanding their business. This explains the fact that all the banks have as part of their products, a loan package for SMEs and that they have financed more of the SMEs in TMA. This phenomenon is supported by Sheng, Abdul Rani and Shaikh (2011) who indicated in their study in Malaysia, that loans unpaid by Small and Medium Enterprises to the banking industry was about RM 104.6 billion in the year 2006, emphasizing the fact that SMEs strongly rely on loans from the banking sector.

Clearly, financing from banks is an important source of finance to SMEs, however this demands the satisfaction of financial institutions. Studies show that SMEs resort to external funding of their activities in the event of running out of internally generated funds (Sheng, Abdul Rani, & Shaikh, 2011). Consequently, banks are critical with loan applications from SMEs. Berger and Udell (2006) discussed in their paper that banks are critical because they consider SMEs to be of a higher risk as they are relatively opaque compared to larger firms. In another study by Mole and Namusonge (2016) the authors support the assertion that financial institutions are more willing to provide financial services to larger enterprises compared to SMEs. Thus, this affects scrutiny of loan applications from SMEs.

From the analysis, it is indicated that banks are careful in deciding to grant loans to SMEs. Banks are considerate in approving loans to SMEs when they are formally registered, have collateral and proper documentation, and have low defaulting level regarding finances. The decision-making process in granting loans to SMEs in Ghana is suggested in a study by Agyapong, Agyapong and Darfor (2011). Their findings suggest that bankers consider the purpose of the loans, repayment of

previous loans, type of business and availability of collateral. This study has shown that lack of collateral as well as incomplete records were key factors for non-approval of loans. A study on financing SMEs in Ghana revealed that financial activities such as business registration, documentation and recording as well as asset ownership influence access to loans from banks (Nkuah, Tanyeh, & Gaeten, 2013). Mole and Namusonge (2016) discussed that banks require collateral to manage the risk of lending to SMEs with poor accounting practices and record keeping. In addition, having a certificate of registration and financial statement are very important documentation to loan approval, purposely for tracking SMEs and also to assess their ability for repayment. As shown in the results, SMEs with incomplete records for loan application, did not have their loans approved for them. These suggest that SMEs contribution to the growth of the economy will be sustained if they are abreast with these loan application requirements.

Several factors inhibit the growth of SME businesses. These factors are perceived by SME owners as the driving force for the approval of loans. Among the factors includes lack of access to finance, high cost of production and inadequate technology. Abdulsaleh and Worthington (2016) acknowledged in their study that no access to finance remains a formidable obstacle in the growth of SMEs.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This final chapter gives the summary, conclusion and recommendations based on the findings of this study. The recommendations provided would go a long way to significantly help SME owners, financial stakeholders, government policy makers and academic researchers.

5.2 Summary of findings

The purpose for this study was to examine the perceptions of SMEs when accessing loans from financial institutions. The three main objectives of this study are; to examine the factors influencing the SME's business when accessing loans from a financial institution, to highlight the challenges that may have militated against the growth of SME's in Ghana and to assess the perception of SMEs when accessing loans from financial institution.

For the purpose of this study, a questionnaire was administered and a total of two hundred and seventy-four (274) respondents. This is made up of 264 SMEs and 10 banks operating in the Tema Metropolis Assembly. The study used descriptive statistics such as frequencies, percentages and graphs to describe the data. The findings from the study were critically examined to make sure that they were consistent with the research objectives.

Firstly, the study found that majority of SMEs agreed that lack of collateral, unaudited financial statement influences on their business as well as high interest rate charges and incomplete records. Again, SMEs did not have much knowledge about the use of Cash-back savings which can serve as collateral when applying for loans. Secondly, the study highlights the challenges that militate against the growth of SME business. The findings established that majority of SME reported that less access to finance militates against the growth of their businesses. Also, a few number of SMEs

said high cost of production and inadequate technology militates against the growth of their businesses.

Furthermore, the findings from the analysis revealed that SME business perceived that financial institutions are very reluctant in granting long term loans. Also, majority of SME perceived that the processes of applying for loan is very complicated and that there is lack of sympathy from bank officials during the loan application process. Finally, majority of SMEs perceived that there is no promptness in receiving loans from banks.

5.3 Conclusion

SMEs are limited by perceptions they have about accessing loans from banks to expand their business. It is imperative for SMEs business to understand the various requirements for accessing loans from banks. The growth of SMEs largely depends on their capacities to capitalize on restructuring and innovation, which involves the support of financial institutions to finance their business. Notwithstanding this, SME's inability to get access to finance serves as deep constraints to their growth and eventually endangers the economic growth in the country. SME should therefore seek financial advisory services from banks that will help them to have easy access to credit facilities to expand their business. In addition, having a collateral and audited financial statement are very important documentation to loan approval, purposely for tracking SMEs and also to assess their ability for repayment. As shown in the results, SMEs without collateral and audited financial statement for loan application, did not have their loans approved for them. These suggest that SMEs contribution to the growth of the economy will be sustained if they are abreast with these loan application requirements.

5.4 Recommendations

Based on the findings of the present study, the following recommendations are being made to improve the SME business sector in Ghana.

Firstly, in the study, it was revealed that majority of SME said lack of collateral had influence on their business when accessing loans from banks, and therefore it is recommended that the banks should create more awareness to educate SME business owners about Cash Back Savings as a product that serve as a means of collateral security on loans.

Secondly, though there have been much efforts by government and other non-governmental organizations to ease access to credit in the country, there is still much to do. The government can propose to the Central Bank of Ghana, the reduction of the base for loans offered to SMEs; this can be achieved through the provision of subsidies to the financial institutions supporting the small business sector.

Thirdly, the study recommends that banks should provide their staff with training skills on loan evaluation process which must be organized for all categories of staff of SMEs, so far as it is relevant to their business. This will solve the need to process the loans on time to avoid delays which discourages borrowers from applying for loan. Hence the perceptions SME have about access to loans from financial institution will reduce drastically.

Furthermore, SME business owners should maintain a bank account with any of the financial institutions that will help them to have easy access to their credit facilities. Having a considerable amount of money in a bank account enhances their decision to approve loans for them since the bank would have an idea of how much of capital the SME operates with them and that will guarantee their approval and ability to pay back in time.

Lastly, government should consider diversifying financial support programs for start-ups, growing and successfully operating business that will significantly contribute to the creation and development of SMEs. However, SMEs should consider other sources of finance like Venture Capital, Business Angels and Crowdfunding which offer lower cost of capital compared to the financial institutions.

5.5 Further research study

The following suggestions are made for further study:

- i. A study to assess the behavioural aspects from the lender's perspective based on causes of non-approval of loan.
- ii. A similar study can be replicated in different sectors in the Tema Metropolis Accra.

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APPENDIX 1

RESEARCH QUESTIONNAIRE (For SME RESPONDENT)

Dear Respondent,

I am undertaking a study on the utilization of financial institution by SME businesses operated in the Tema Metropolis Assembly. This is a purely academic study as a partial requirement that leads to the award of the Master of Business Administration in Finance of the University of Ghana. It's only through your response that the work can be completed well. Therefore, any information shared will be handled with maximum confidentiality. Please kindly spare a few of minutes to answer the following questions, they mostly involve ticking a response in the space provided and a few filling in.

SECTION A Background

1. Gender Male Female
2. How old are you? 18- 29 years 30 – 39years 40- 49 years
 50-59 years 60 years and above
3. Educational Level No Formal Education Basic Education
 High School Vocational Tertiary

SECTION B About Your Company

4. Name of the company/firm.....
5. Location.....
6. Have you registered your company? Yes No
7. Which body is your company registered with
 Registrar General District Assembly Both

8. Which type of business describes your company?

Sole Proprietorship Partnership Limited Liability Company

9. Type of Business Activity Service Manufacturing Trading
 Other (specify).....

10. How did your business start? Founded Inherited Bought

11. What is your preferred source of fund when starting this business?

Internal Only External Only Both Internal and External

12. On the average, how much did you start with this business?

GHS 5,000-GHS 20,000 GHS 25,000 –GHS 40,000 Above GHS 40,000

13. On the average, how much is your annual turnover or sales?

GHS 5,000-GHS 20,000 GHS 25,000 –GHS 40,000 Above GHS 40,000

14. On the average, how much is your annual profit?

GHS 5,000-GHS 20,000 GHS 25,000 –GHS 40,000 Above GHS 40,000

15. How long have you been with this business? Less than 1 year 1-2 years

3-5 years 6-10 years 11-20 years More than 20years

16. In the past five (5) years, have you ever made any loss from this business?

Yes No Not Consistent

17. Number of Employees 6-10 11-20 21-30 31-40 41-50
 51 and above

SECTION C Business Records

18. Do you keep any records of your sales? Yes No

19. How do you keep records of your sales? Piece paper personal diary

Company's Note Book Accounting Software Other Specify.....

SECTION D Credit Attitude

21. How often do you save with your bank? Daily Weekly Monthly

22. Have you ever applied for a loan? Yes No *if no, skip to Section E*

23. In the past **five (5)** years, have you applied for a loan from any financial institution?

Yes No .

24. Was the loan granted for the recent loan applied? Yes No

25. Which term of loan have you applied? Short term Medium term Long term

26. For what purpose did you apply for the loan?

Purpose	Yes	No
Expand Business		
Pay Rent		
Purchase an Asset		
Working Capital		

27. Do you understand how to calculate the interest rate on repayment of loan?

Yes No

28. Do you know that interest rate payment depends on duration of loan? Yes No

29. Do you understand the various requirements of accessing loan? Yes No

30. Indicate your level of agreement or disagreement with the requirement of accessing loan

Requirement of accessing loan	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Bank requires property or building in order to grant loan					
Bank requires guarantor in order to grant loan					
Bank requires Inventory of Stocks in order to grant loan					
Bank requires bank savings in order to grant loans					

31. Have you ever applied for Cash-Back Saving as a means of Collateral against the loans?

Yes No I don't have any idea about Cash Back Saving

32. Is it a method you will recommend to other SME owner? Yes No No idea

SECTION E The Challenges that Militate Against the Growth of Sme's Business in Ghana

33. Assess how these most severe problems are being faced by your business?

Kindly tick where appropriate

Problems	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Less access to finance					
High Cost of Production					
Regulatory and Legal Constraint					
Inadequate technology					
Energy Crises					

SECTION F Factors Influencing SME business in accessing loan

34. Assess how these factors influence your business in accessing loan from financial institution? **Kindly tick one**

Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Lack of Collateral					
Unaudited Financial Statement					
High Interest Rates Charges					
Financial Illiteracy					
Incomplete Record					

SECTION G Your perception about Financial Institution when accessing loan

35. Please indicate your view as per the level of agreement or disagreement with the statement outlined below. **(Kindly tick one)**

Perception	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The Financial Institutions are very reluctant to provide long term finance to support SME business.					
The Processes and procedures in accessing loan is very complicated					
Lack of sympathetic attitude on the part of bank officials					
There is promptness in receiving the loan					

APPENDIX 2

RESEARCH QUESTIONNAIRE (For FINANCIAL INSTITUTION)

Dear Respondent,

I am undertaking a study on the utilization of financial institution by SME businesses operated in the Tema Metropolis Assembly. This is a purely academic study as a partial requirement that leads to the award of the Master of Business Administration in Finance of the University of Ghana. It's only through your response that the work can be completed well. Therefore, any information shared will be handled with maximum confidentiality. Please kindly spare a few of minutes to answer the following questions, they mostly involve ticking a response in the space provided and a few filling in.

SECTION A

1. Gender Male Female
2. Your designation? Branch Manager Operation Manager
 Credit Manger Other.....
3. Years of Experience? 1-5 years 6- 10 years 11 years and above

SECTION B

4. Name of your bank.....
5. Location.....
6. Category Commercial Bank Savings and Loan

SECTION C

7. What categories of business borrowers does your bank prefer to work with?
 Registered Business Unregistered Business Both
8. Does your institution have facility for SME's business? Yes No

9. Do SME owners patronize in the loan scheme at your bank?

Yes No Sometimes

10. Has your institution ever financed any SME operating within the Tema Metropolis Assembly? Yes No *if no, skip to 13*

11. In the past **five (5) years**, has your institution financed any SME businesses operating within the Tema Metropolis Assembly? Yes No

12. On the average, how many SME businesses operating within the Tema Metropolis Assembly were financed by your institution? 1-20 21- 40 41-60 Above 60

13. What are the **major challenges** of your bank financing SME business in Ghana? (*kindly tick*)

Challenges	Yes	No	Sometimes
Unregistered Firm			
Lack of Collateral			
High Default Level			
Improper Documentation			

SECTION D

14. Which statements are the reason given for not approving the loan request?

REASONS FOR NOT APPROVING THE LOAN REQUEST	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The application did not meet the criteria					
Poor Credit history					
The application was not correctly completed					
The business is not viable after the review					
The SME business owner could not provide enough guarantees					

15. Which documents are required as part of the application process before a loan is granted for SME business? **(Kindly tick one)**

DOCUMENT	Very Important	Important	Moderately Important	Slightly Important	Unimportant
Business Plan					
Audited Financial Statement					
Certificate of Registration					
Collateral					
Personal Guarantor					

16. What kind of collateral is considered as a security against loan granted to SME business of an applicant applying for the first time?

Land Vehicle Cash Back-Savings Other

18. If SME's take a loan from your bank, are they able to pay?

Yes No Sometimes

19. Do you have a recovery team in your institution? Yes No

20. Does your institution outsource for recovery companies to recover loans from defaulters?

Yes No Sometimes

21. What recommendations would you give to SME business owners or people interested in starting business regarding the need to access to loans at your bank to expand their business?

.....

Thank you,

Email Address euowan@yahoo.com Contact: +233 (0) 245265731