

UNIVERSITY OF GHANA BUSINESS SCHOOL

**TOWARDS THE PROMOTION OF SMALL AND MEDIUM-SIZED ENTERPRISES:
A STUDY ON CHALLENGES OF FINANCING IN GHANA**



**THIS THESIS IS SUBMITTED TO THE UNIVERSITY OF GHANA BUSINESS
SCHOOL, LEGON IN PARTIAL FULFILMENT OF THE REQUIREMENT
FOR THE AWARD OF MSC. DEVELOPMENT FINANCE DEGREE**

JULY, 2019

DECLARATION

This is to certify that this thesis is the result of research undertaken by Barbara Emefa Atutonu towards the award of Master of Science degree in Development Finance in the University of Ghana Business School and has not been presented by anyone for any academic award in this or any other university. I hereby declare that this thesis is entirely my own work, done under the guidance of my supervisor. All references used in this work have been fully acknowledged. I bear sole responsibility for any shortcomings.

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DEDICATION

I dedicate this work to my dad, the late Mr. Harry Atutonu.

ACKNOWLEDGEMENT

My sincerest gratitude goes to the God Almighty for the strength and wisdom He has given me for my education and most especially my project work. I am grateful to my parents and siblings as well as my entire relatives for their relentless financial, emotional and spiritual support throughout my education.

I am highly indebted to Prof. Anthony Q.Q. Aboagye, my thesis supervisor, for the keen interest he showed in supervising my work. I appreciate his guidance and inputs right from the start to the completion of this study. I also wish to express my appreciation to the staff of Microfinance and Small Loans Centre (MASLOC) and National Board for Small Scale Industries (NBSSI) for providing me with all the necessary materials and information during the data collection.

ABSTRACT

Small and Medium-sized Enterprises (SMEs) are largely touted as the means through which a country's development goals and objectives can be realized. The prospects of SMEs include employment opportunities, sources of income, sources of government revenue. In spite of the prospects that these enterprises offer to the development of any economy, there are hindrances confronting the development and growth of the sector. Literature on SMEs financing illustrates that there is a knowledge gap of the challenges of SME financing in Ghana (Beck and Cull, 2014; Osei-Assibey, 2014). In an effort to substantiate the incidence of the situation, the research attempted to examine the challenges of financing that are faced by SMEs within the Accra metropolis.

The case study approach was employed to carry out the research. The study depended on both primary and secondary sources. Data were gathered through interviews with operators of SMEs; Microfinance and Small Loans Centre (MASLOC); and National Board for Small Scale Industries (NBSSI) using interview guide. The study unveiled the sources of capital by SMEs as well as the conditions that facilitated and hindered SMEs' access to credit facilities. The study found that the sources of funding for SMEs within the study area included personal savings, retained profits, financial support from family and friends, loans from universal banks, loans from non-bank financial institutions, money lenders as well as government support. It was also found that SMEs' access to credit was influenced by characteristics of the firm as well as that of owners and managers. The study revealed that information asymmetries, poor credit experience, high lending rates, lack of collateral requirement, and lack of personal guarantor were the barriers that hindered the improvement of access to finance by SMEs in the study area.

Based on these challenges, the study recommended an intensification of SME training by government lending institutions; registration/licensing of SMEs by Accra Metropolitan Authority; recreation of an enabling financing environment for SMEs by lending institutions; development of well-structured succession plan by SMEs, to improve access to finance for SMEs.

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LIST OF ABBREVIATIONS

GSGDA	Ghana Shared Growth and Development Agenda
GSS	Ghana Statistical Service
MASLOC	Microfinance and Small Loans Centre
NBSSI	National Board for Small Scale Industries
RPED	Regional Project on Enterprise Development
SME	Small and Medium-sized Enterprises
SPSS	Statistical Package for Social Sciences
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization

CHAPTER ONE

GENERAL INTRODUCTION

1.1 Research Background

During the industrial revolution, in the later 1970s and the early 1980s, the development of Small and Medium-sized Enterprises (SMEs) gained prominence as a result of the economic decline of employment and industrial growth in many African countries (Beck and Cull, 2014). In the contemporary economy, activities of SMEs constitute a substantial proportion of overall economic sector activities and therefore contribute immensely to output, employment and income (Rauch et al., 2018).

In Ghana about 92 percent of registered companies are SMEs and they are tagged as the driving force of the private sector's development, competition and economic growth (Bastiat Ghana, 2014). The Government of Ghana has initiated and implemented several policy initiatives to assist SMEs (Alhassan and Sakara, 2014). Among the key strategies of the GSGDA II (2014–2017) was to build the capacity of the private sector and enable it to as the engine of growth and prosperity. The policy focus was to develop a private sector that would resolve the above mentioned challenges through increase in access to credit, entrepreneurial skills and ease of business registration.

Despite the numerous interventions implemented by governments to ameliorate credit constraints facing SMEs, both in the rural and urban parts of Ghana, access to funds remains a major challenge in the SME sector in the country (Baah-Nuakoh, 2003; Osei-Assibey, 2014). Thus, in spite of the policy direction, the problem of SMEs' access to credits to expand their business entities still

prevails. It is indicated that generally SMEs face numerous obstacles to their growth, however a number of empirical studies have found lack of credit accessibility as a major setback facing SMEs, both in developed and developing countries especially Sub-Saharan African states (Beck and Cull, 2014; Baah-Nuakoh, 2003; Aryeetey et al., 1994).

Numerous research works have indicated the growing significance of credit facilities to the survival, productivity and growth of SMEs both in developed and developing countries (Osei-Assibey, 2013; Aryeetey et al., 1994). In other words, improved access to credit helps SMEs to be effective, competitive and increase outputs in both the local and the global market (UNCTAD, 2002).

1.2 Research Problem

Small and Medium-sized Enterprises (SMEs) are largely touted as the means through which a country's development goals and objectives can be realized. The prospects of SMEs include employment opportunities, sources of income, sources of government revenue, reduction of rural –urban drift and so forth. In spite of the prospects that these enterprises offer to the development of any economy, there are hindrances confronting the development and growth of the sector (Megginson et al., 2003). These challenges revolve around lack of financing which is a prime cause of inadequate management in the form of limited business knowledge, business failure, inadequate planning and inexperience, low level of technology as well as bureaucracy and over-regulation in terms of securing licenses.

Several empirical studies indicate that small scale and medium-sized enterprises are severely challenged with regards to access to funding (Aryeetey et al., 1994; Baah-Nuakoh, 2003). For

instance in their study, Abor and Beikpe (2006) indicates that the inability of SMEs to access credit or funding opportunities is as a result of low participation in the capital markets partly due to higher costs of intermediation for smaller firms, perception of higher risk, and informational barriers. Without adequate financing, SMEs are unable to establish linkages with larger firms, acquire new technologies, and compete in both the local and the global market (UNCTAD, 2002).

Globally, it is estimated that only ten (10) percent of owners of small scale and medium-sized enterprises have access to funds (IFAD, 2004). A study in Ghana by Appiah (2007) revealed that the absence of adequate credits is the major constraint hampering the development of Small and Medium-sized Enterprises despite the contribution from government and lending institutions towards providing credit for these enterprises in the country. Thus, the contributions of these groups over the years have not wholly addressed the problem of financing faced by the SMEs in Ghana.

Literature on SMEs financing illustrates that there is a knowledge gap of the nature of financing challenges of SMEs in Ghana (Beck and Cull, 2014; Osei-Assibey, 2014). In an effort to substantiate the incidence of the situation, the research was initiated.

1.3 Research Purpose

In Ghana, empirical studies show that a major constraint to SMEs' expansion include lack of access to finance. This research therefore attempts to examine the obstacles and challenges of financing that are faced by these enterprises in the establishment, growing, and effectively running of such businesses within the Accra metropolis.

1.4 Research Objectives

- To ascertain the sources of capital for establishment and development of SMEs;
- To assess the conditions that facilitate and hinder SMEs' access to credit facilities; and
- To examine channels to improve access to finance for SMEs.

1.5 Research Questions

- What are the sources of capital for the establishment and development of SMEs?
- What are the conditions that facilitate and hinder SMEs' access to credit facilities?
- What are the channels to improve access to finance for SMEs?

1.6 Significance of the Research

Small scale businesses' contribution to employment growth and sustainable development is now widely acknowledged and therefore needs not to be over-emphasized. Spill over benefits towards propagation of small scale businesses are enormous and essential to the realization of the needed socio-economic transformation to any economy. Although the challenges SMEs encounter in accessing finance are documented, literature on SMEs financing illustrates that there is a knowledge gap of the nature of financing challenges of SMEs in Ghana (Beck and Cull, 2014; Osei-Assibey, 2014). Also, there is less attention given to the management practices in the area of access to credit facilities by SMEs. The study intends to fill this gap in knowledge by analyzing nature of the challenges of financing that are faced by SMEs.

The study presents an analytical perspective to national authorities in understanding the source of capital for the establishment of the SMEs as well as the supports provided by institutions in

improving SMEs' access to funding. Also, the study would be a wakeup call to national authorities to move beyond policy formulation and dwell on investing in SMEs in order to ensure a sustainable approach for SMEs financing. It is expected that the study's findings would serve as the basis for policy formulation and implementation to create an enabling financing environment for SMEs and lending institutions.

Finally, the study makes available empirical data on the hindrance to credit accessibility by SMEs. Thus, the research would contribute to the body of academia. It would also serve as a database or reference point for other research to be carried out so as to address the financial challenges associated with SMEs. This will inform the kind of recommendations to be employed to the achievement of the twin objectives of accelerated growth and poverty reduction in the country.

1.7 Research Limitation and Assumption

The study anticipates a limitation. Thus, inadequate time and resources would serve as hindrances to reaching a larger sample size of respondents (SMEs). Based on the limitation, it is assumed that the chosen sample size is fair and representative for the study.

1.8 Chapter Outline

The study is organized into five main chapters. Chapter one presents the introduction, background information of the research and the statement of the problem. It explores the nature of the problem, causes of the problem, and effects. Chapter two highlights a review of literature that provides the theoretical basis for the research.

Chapter three outlines the research approach and methodology used for the study to arrive at the findings and conclusions of this study. This includes the research design, the criteria for selecting

the unit of analysis, and sampling technique. It further presents research methods adopted in the collection of primary and secondary data, as well as the approaches to analyzing the collected data and presentation.

Chapter four is devoted to data analysis and discussion on the sources of capital for the establishment of the SMEs; management practices of SMEs that enhance access to credit facilities; challenges of financing that are faced by SMEs; and supports provided by institutions in improving access to finance for SMEs. Lastly, Chapter five gives summaries of the main findings of the study and recommend ways to address the challenges identified through the analysis.

CHAPTER TWO

A REVIEW OF LITERATURE

2.1 Introduction

Chapter two presents an overview of literature that is significant to this study. The chapter seeks to build upon the previous chapter by reviewing relevant literature in relation to the study from global and national perspectives. The central issues reviewed include: overview of SMEs; sources of capital by SMEs; conditions that facilitate and hinder SMEs' access to credit facilities; as well as interventions to improve credit accessibility. In the concluding part of the chapter, a conceptual framework, which provides direction for the study, is presented.

2.2 The Concept of Small and Medium-sized Enterprises

A study by Gockel (2003) has noted that the challenge faced by small businesses, particularly with respect to financing is comparatively as a result of diverse definitions and understanding by financial institutions. It is argued that there is no uniformly acceptable description of Small and Medium-sized Enterprise (Kayanula and Quartey, 2000). This is partly because nations have diverse political, structural and cultural motives to embrace diverse meanings of Small and Medium-sized Enterprise. Hence, numerous classifications have been considered in defining SMEs.

Existing reviews on SME definitions are centred on diverse standards including annual rate of turnover, number of staff and fixed assets value. However, the accepted criterion across countries is the number of employees, nonetheless this classification comes with divergent views on the exact quantity of employees to be used (Ayagari et al., 2007).

According to a global definition an enterprise is classified as small enterprise when it employs at most 50 employees and have annual sales and total assets of not more than \$3 million; and as medium-sized enterprise when it employs at most 300 employees and have annual sales and total assets of not more than \$15 million (World Bank, 2013). In Ghana, the Ghana Statistical Service (GSS) and National Board for Small Scale Industries (NBSSI) use the value of total fixed assets and number of employees as criteria to describe SMEs.

The significant contributions and roles of SMEs to the development and growth of national economies are enormous (Kayanula and Quartey, 2000). SMEs are involved in producing different kinds of goods and services for any economy. It is empirically found that SMEs help in employment creation and boost manufacturing output. For instance In low and middle income countries, SMEs is said to account for 50 percent of manufacturing output, and 50 percent to 80 percent of industrial employment (UNCTAD, 2005). It is indicated that SMEs' contribution to GDP is about 70 percent and 85 percent of manufacturing employment and as well constitute about 92 percent of economic activities in Ghana (Abor and Quartey, 2010).

Generally, in developing countries the challenges SMEs face include increasing competition, lack of access to credit, and insufficient supply of business inputs (Seibel, 1996). Empirical studies conducted in Ghana have shown that the main challenges to SMEs' development and growth encapsulate financial challenges, technological challenges, infrastructure challenges, management challenges, marketing and business environment problems (Kayanula and Quartey, 2010; Baah-Nuakoh, 2003).

2.3 Sources of Capital for SMEs

SMEs require capital for their operations in purchasing assets, paying employees' remuneration, as well as covering operational expenses. Fundamentally, the major sources of financing for SMEs involves external and internal channels (Osei-Assibey et al., 2012). The external sources comprise of borrowing from formal, semi-formal and informal sources while the internal sources of finance are mostly self-finance by SMEs' owner(s), including retained profits and savings. (Osei-Assibey et al., 2012). According to Aryeetey et al. (1994) though adequate statistics on the financial performance of SMEs in Ghana is not known, recent surveys point out that borrowing from lending institutions as well as supplier credit are the primary external sources of capital for SMEs. The following details highlight the main sources of external SME financing.

- Formal sources of credit

This category includes the community and rural banks as well as conventional (universal) banks (Osei-Assibey et al., 2012). It has been expressed that the formal financial sector largely include development and commercial banks that provide both long, medium and short-term loans for individuals and businesses (Aryeetey and Gockel, 1990). Bank loan can be identified as a key source of credit to SMEs both in developed and developing countries. According to Stephanou and Rodriguez (2008), SMEs' relationship with banks have significantly improved in recent times and presently form a major part of bank's commercial loan portfolio. In other circles, the SME sector is seen to be profitable and favourable to banks (De la Torre et al., 2008).

In Argentina and Chile a study conducted revealed that besides the overdrafts and short-term loans banks offer as financing working capital for SMEs, banks also provide pre-trade financing as well as leasing and investment loans (De la Torre et al., 2008). However, the study indicated that bank

lending requires interest payment and collateral on the loan, though firm for long term loan and flexible for larger businesses.

- Semi-formal sources of finance

This category of finance consist of non-bank financial institutions: credit unions, savings and loans companies, and micro finance institutions. It is opined that SMEs appears to be more welcomed by non-bank financial institutions. This is because these non-bank financial lenders bear the screening costs involved in overcoming information asymmetry (Osei-Assibey et al., 2012).

- Informal sources of credit

The informal sources of credit consist of a number of financial establishments that are not legally recognised (Osei-Assibey et al., 2012). These sources comprise activities of “susu” operators and money lenders as well as funding from relatives, properties selling, barter for services and so forth. It indicated that though the informal sources of credit is credible, the informal sources provide limited amounts of credit to SMEs (ibid., 2012).

2.4 Conditions that Facilitate and Hinder Access to Credit Facilities

According to literature the conditions that facilitate access to credit facilities among SMEs can be categorised into demand-side and supply-side (Pandula, 2011). The supply-side refers to the bank’s position on a credit facility. For instance, a bank may reject a SME loan application due to high risk or lack of viability of the proposal. Conversely, the demand-side comes from the firms’ or credit applicants’ ability to provide sufficient and required information about the business or venture.

In his study, Pandula (2011) found that financial institutions take into consideration both the firm-specific characteristics and owner-specific characteristics. The finding is in line with the view of Osei-Assibey (2014) that SMEs' access to credit facilities is influenced by characteristics of the firm as well as that of owners and managers. The following describes the conditions that facilitate and hinder SMEs' access to credit facilities.

2.4.1 Firms' Characteristics

The following characteristics of a firm have been identified as key factors considered in accessing finance by SMEs. These features, in other circles, have been argued to escalate the possibility of SMEs having access to funding in Ghana.

- Firm's innovation

In their study, Ahmed and Hamid (2011) have argued that firm's innovation increase the likelihood of SMEs having funding access. Though, Freel (2007) in his argument points out that firms that have no innovation are likely more successful in credit markets than most innovative firms because of financier's perception about uncertainties and risk associated with product innovation. However, the study of Ahmed and Hamid (2011) differ in terms of measures of firm innovativeness. According to literature "innovative firms are as those which have introduced a new process only over the last three years" (Ahmed and Hamid, 2011).

- Firm's size

Firm size is generally described as the "number of full time employees of the firm, from top to lower level management" (Pandula, 2011). In assessing a firm's creditworthiness, a firm's size becomes a major criteria used by financial institutions (Pandula, 2011; Kumah, 2011). Pandula (2011) in his study is of the view that large firms have more access to funding than small firms

because of their capacity to produce information for screening as demanded by financial institutions.

Also, an empirical study by Kumah (2011) indicates that larger businesses have more assets to provide as collateral security and hence increase their possibility of having access to finance. Also, the findings of Vos et al. (2004) support the general assertion that large firms have more access to funding than small firms. Vos et al. (2004) in his study provided empirical evidence and contended that since large SMEs generally have ‘good’ track records to persuade prospective financiers for loan approval, they enjoy more alternative sources of funds.

- Age of a Firm

Literature have contested that newer businesses do not face constraints in accessing funds than older firms (Osei-Assibey, 2014; Beck and Cull, 2014). In their argument, Beck and Cull (2014) expressed that firms that have been in operation for more than 15 years are bound to have access a credit facility than mid-aged and younger firms with 15 years or below 15 years of operation. Osei-Assibey (2014) also adds his voice to the argument by contesting that older firms (existed for more than 15 years) are more likely to have greater reputation and therefore increase the likelihoods of accessing loan facilities.

In the same vein, new or younger firms are less inclined to meet collateral or credit requirements generally because of the absence of established track record, lack of adequate information and sufficient fixed assets as demanded by lending institutions during granting of credits (Baah-Nuakoh, 2003; Pandula, 2011; Adomako-Ansah, 2012). These conditions of new firms make it hard for money lenders to endorse credit requests of new or younger firms (Adomako-Ansah, 2012).

- Firm's performance

The creditworthiness of a firm can be measured by the performance of the firm. This, Aryeetey et al. (1994) have contested on the grounds that performing firms are bound to have the option to pay back loans. A firm's performance is generally assessed by increase in sales; labour productivity; export growth and profit making at a given timeframe (Baah-Nuakoh, 2003; Aryeetey et al., 1994). A school of thought contests that greater access to credit are associated with profit making and greater sales (Bebczuk, 2004; Aryeetey et al., 1994).

- Firm's location

Another significant factor that money lending institutions considers most is the location of a firm (Kumah, 2011). Ahmed and Hamid (2011) have argued that there is a substantial correlation between a firm's location and accessibility to credit. Ahmed and Hamid (2011), in their study, indicates that firms that are located in cities have a greater access to credits than enterprises that are located in rural places. However, evidence from Pandula (2011) study indicated that there was no any substantial relationship between a firm's location and accessibility to credit.

- Industry/sector of operation

Evidence from empirical studies affirm that businesses in the service sector are usually bound to have access to credit than those in the agricultural sector (Baah-Nuakoh (2003; Kumah, 2011). In the words of Kumah (2011), this is largely because of the low level of risk. Moreover, a study by Deakins et al. (2010) allude to the assertion that SMEs in the manufacturing sector have low probability of access to funds especially in cases involving new technology, new products and diversification. This finding is parallel to the view of Baah-Nuakoh (2003) who found that in

Ghana, finance is a major limitation among manufacturing firms producing garments, wood and furniture.

- Firm's asset structure

Firm's asset is a key determining factor in approving loans or credits due to the transaction costs and high risks accompanying SME lending (Berger and Udell, 2006). Adomako-Ansah (2012) allude to this assertion by stating that almost all non-banks and bank institutions in Africa especially Ghana consider collateral security as the most key determining factor in loans approval.

Firm's asset serves as security for lending institutions against defaulting debtors (Osei-Assibey, 2014; Pandula, 2011; Kumah, 2011). Equally, it is often argued that the more properties a firm possessed, the easier it is for money lenders to acquire their money back. This finding contradicts the study of Bebczuk (2004) that an important determinant of access to funds is not asset tangibility of the firm because lending institutions are always at risk when granting loans to SMEs.

- Firm-bank relation

The rapport between lending institutions and SMEs determines the ease with which credit is acquired (Berger and Udell, 2006). Bebczuk (2004) argues the assertion further that the severity of the informational asymmetries is reduced through a long lending relationship. This finding supports the assertion of Deakins et al. (2010) that SMEs who have good relationship with lending institutions find it relatively cheaper and easier to access capital and likewise, lending institutions support SMEs they have good relationship with (Vos et al., 2004; Deakins et al., 2010).

On the contrary, a study in Argentina by Bebczuk (2004) discovered that even though the relationship between lending institutions and SMEs increases the likelihood of accessing funds,

the rapport is not statistically significant. Generally, this is due to the fact that lending institutions are keen in investing in SMEs with good opportunities and ability to repay loans (Bebczuk, 2004).

2.4.2 Owners' Characteristics

The following characteristics of an owner have been identified as significant factors considered in accessing finance by SMEs. These features of an owner of SME including gender, experience and skills, affiliation and educational level of the owner are key success factors in accessing finance among SMEs.

- Gender of owner

A study by Cole and Mehran (2009) on the nexus between gender differences in SME ownership and access to credit facilities found that female-owned SMEs are significantly credit constrained as compared to male-owned SMEs. On the contrary, a study by Beck and Cull (2014) observe that in the global south female-owned SMEs have greater access to credit facilities than male-owned SMEs. This finding was attributed to an agenda of lending institutions termed as women empowerment.

Also, empirical studies by Osei-Assibey (2014) and Kumah (2011) have found that no substantial correlation exists between gender differences in SME ownership and credit accessibility especially in Ghana. This is because of the fact that lending institutions tend to be non-discriminatory and fair and most likely are keen in investing in SMEs with good opportunities and ability to repay loans.

- Experience and skills of owner

It is argued that there is a substantial correlation that exist between managerial experience and skills of the SME owner and SMEs' credit accessibility (Ahmed and Hamid, 2011). It is indicated that "a percentage increase in manager's years of experience increases access to finance 1.062 percent" (Zarook et al., 2013). Deakins et al. (2010) opined that the number of years in operation by SME owners is likened to the managerial experience and skills of SME owners. Hence, young and inexperienced SME owners are usually credit constrained because of factors revolving around security, personal resources, credibility, and trading records.

- Affiliation of owner

According to Pandula (2011), owner's affiliation can be defined as participating in or belonging to any professional, social or business group with common agenda including financing needs. Empirical studies have pointed out that SME owner's affiliation or networking increase or ease SMEs' access to funding opportunities (Vos et al., 2004; Kumah, 2011; Pandula, 2011). McKenzie (2009) explained that liability of a group is mostly preferred by lending institutions in a sense that it lessens situations or issues that leads to market failures as far as lending is concerned. Thus, group lending ease SMEs' access to funding opportunities because the group would monitor and screen one another to see to it that funds are used judiciously (McKenzie, 2009).

- Educational status of owner

The educational status of SME owner is argued to be among the key determining factor of credit accessibility by SMEs. In a study by Berger and Udell (2006), it was realized that lending institutions favoured those with higher level of education than those with lower academic qualifications. This situation is attributed to the point that SMEs owners with higher educational

status understand present financial information, how to efficiently run their operations, loan application procedures, and able to build closer relationships with their bankers (Ahmed and Hamid, 2011). In the words of Pandula (2011), owner's level of education is an indication of managerial ability and skill and therefore leads to the ability to acquire a loan or funding.

2.5 Interventions to Improve Credit Accessibility

In this section measures implemented in Ghana in order to improve credit accessibility for small scale and medium-sized enterprises are reviewed and presented.

In Ghana, just like any other country, providing funding to small scale and medium-term businesses has been done with the motive of helping develop SMEs (Baah-Nuakoh, 2003). There have been several policy initiatives implemented by the private sector and government to assist SMEs (Gariba, 2015). Also, SMEs in Ghana have benefitted and received substantial technical and financial support from international donor and government institutions such as United Nations Conference on Trade and Development (UNCTAD) and United Nations Industrial Development Organization (UNIDO). In addition, Gockel (2003) has indicated that non-bank monetary organizations have been instituted in the country to help meet the financial requirements and obligations of small scale and medium-term businesses.

Furthermore, SMEs have benefitted from institutional support training in cost accounting, financial accounting, financial proposal as well as financial reporting (Baah-Nuakoh, 2003). These institutions consist of the National Board for Small Scale Industries and Microfinance and Small Loans Centre. Besides, the establishment of a new ministry in charge of business development by the recent government administration is similarly a significant step to help develop and sustain SMEs financially.

Examples of financial initiatives implemented by the donor agencies and government to assist SMEs involve “Trade and Investment Programme, Ghana Investment Fund, Export Development and Investment Fund, Business Sector Programme Support, National Entrepreneurship and Innovation Programme, Private Enterprises and Export Development Fund, Support for Private Enterprise Expansion and Development, Deutsche Gesellschaft Fuer Technische Zusammenarbeit (GTZ), Ghana Private Sector Development Fund, Africa Project Development Facility, Business Assistance Fund, Revolving Loan Fund, Promotion of Small and Micro Enterprise Fund”. In spite of these interventions, small scale and medium-sized enterprises are challenged with regards to access to funding (Osei-Assibey, 2014).

2.6 Conceptual Framework

The study conceptualizes that SMEs’ credit accessibility is facilitated and hindered by owner-manager characteristics and firm-specific attributes. This is due to the fact that lending institutions take into consideration SME’s ability to repay loans as well as the SME’s creditworthiness based on these attributes. Literature has revealed that lending or granting funds to SMEs involves huge risks due to information asymmetry that SMEs faces. As indicated by Pandula (2011), information on owner-manager characteristics and firm-specific attributes is assessed by lending institutions in their loan evaluation process.

Firm specific attributes such as innovation, size, age, performance, location, industry/sector, asset structure, firm-bank relation affect not only the likelihood of accessing credit but also chance of applying for credit. In the same vein, owner-manager attributes including gender, experience and skills, affiliation and educational level influence both credit demand and credit supply.

Hypothetically, financial challenges of SMEs have been explained by Stiglitz and Weiss (1981) through the credit rationing concept. The hypothesis posits that it is the result of information (attributes of the owners of enterprises including gender, experience and skills, affiliation and educational level) asymmetries resulting in inefficiencies of financial market. Lending institutions are not able to acquire all information about the potential SME in order to assess the profitability or their credit worthiness of the purpose for which the credit is required.

According to Stiglitz and Weiss (1981), the amount of credit lending institutions are able to offer SMEs depends generally on the ability of SMEs to repay loans. Additionally, regulatory constraints, market failures, financial infrastructure deficiencies, financial institution capacity and supervisory weaknesses influence the supply of credit facilities to the SME sector (Malhotra et al., 2007).

Although small scale and medium size enterprises generally face a number of obstacles with regards to the establishment, growing, and effectively running of such businesses, numerous empirical studies have found lack of credit accessibility as a major setback by SMEs, both in developed and developing countries especially Sub-Saharan African countries (Beck and Cull, 2014; Baah-Nuakoh, 2003; Aryeetey et al., 1994).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Following the literature review in the previous chapter, this chapter focuses on the *modus operandi* that was used to address the key research question. In this chapter the research design, units of enquiry, data collection methods, internal validity, ethical consideration and data analytical process are presented.

3.2 Research Design

This research attempts to examine the obstacles and challenges of financing that are faced by small scale and medium-sized businesses within the Accra metropolis. The study adopted the case study approach in order to achieve its purpose. A case study is defined as “an empirical inquiry that probes in a current phenomenon within its real-life situation; when the differences that exist between phenomenon and context are not clearly obvious; and in which numerous sources of evidence are used” (Yin, 1984 cited in Zainal, 2007).

A case study helps to understand the complexity and dynamism of social issues that require lasting responses. Its reliance on multiple sources of evidence provide for triangulation to limit biases or inaccuracies in collecting data. Thus, the case study approach is preferred because it permits for both comparative and independent analysis of data.

3.3 Unit of Enquiry

In order for the case study approach to be fulfilled, three (3) unit of enquiries were selected for the research. These were (i) operators of SMEs; (ii) Microfinance and Small Loans Centre (MASLOC); and (iii) National Board for Small Scale Industries (NBSSI). The purpose for the selecting these institutions is to help triangulate data in order to limit the biases in data collection.

3.4 Sample Size Technique

The study adopted the convenience and purposive sampling technique to select the unit of enquiries. Convenience sampling technique was used to select the operators of SMEs within Accra metropolis. A convenient sample of 200 SMEs was selected from the database of the NBSSI. The sample of 200 SMEs was selected based on Regional Project on Enterprise Development's criteria for SMEs in the country. This implies that the target for the study sample involves SMEs in the Accra metropolis (drawn from all sectors) with employee size of less than one hundred (100). Finally, purposive sampling technique was adopted in the study to select institutions such as Microfinance and Small Loans Centre and National Board for Small Scale Industries.

3.5 Data Collection

The study depended on multiple sources of data and this helped in promoting data triangulation. The data was collected from both primary and secondary sources. Primary data in the context of this study refer to all field data that were assembled through field interviews and observations. The primary data were gathered through interviews with operators of SMEs; Microfinance and Small Loans Centre (MASLOC); National Board for Small Scale Industries (NBSSI) using interview guide. The interview guide as shown in the Appendix consisted of questions that solicited

information on sources of capital by SMEs; conditions that facilitate and hinder SMEs' access to credit facilities; as well as interventions to improve credit accessibility.

Secondary data are the data collected by a party not related to the research study but collected these data for some other purpose and at different time in the past. The secondary data were gathered with the aid of a checklist, which is designed to cover the following themes: sources of capital for the establishment of the SMEs; determinants and hindrances of access to credit facilities among SMEs; and interventions to improve financing of SMEs. These were obtained through a review of documented reports, articles, and publications on the internet.

3.6 Ethical Consideration

According to Bell (2004), human research may be conducted only with ethical approval. In conducting the research, a letter, introducing the study to the respondents, was obtained from the School of Business at the University of Ghana. A duplicate copy of this letter was given to the heads of the institutions covered in the study. This was to enable them to be adequately informed about the study's purpose before the interview commencement. The other basic ethical principles that were considered include:

- Informed Consent

The study ensured that there was informed consent from participants before they took part. Participants were informed exactly about what the risk were before participating.

- Confidentiality

Informants were assured that their identities and confidential information were protected.

3.7 Internal Validity

Internal validity was ensured through the data gathering from diverse sources, primary source and secondary source. The multiple sources helped in promoting triangulation of data.

3.8 Analyses and Presentation of Data

Data analysis is the process of bringing order, structure and meaning to the mass of collected data (Dornyei, 2007). The analysis of data involved making complete statements and investigative descriptions of the implications of answers or statements made by respondents. The analysis started after coding and editing the responses, with justification using Statistical Package for Social Sciences (SPSS). Furthermore, SPSS was used to make comparison easier through cross-tabulating of data. The implications of the statistics generated was made after carefully reviewing the data. Inferences were made out of the analysis and recommendations were suggested.

CHAPTER FOUR

ANALYSES AND DISCUSSIONS

4.1 Introduction

In the preceding chapter, the research methods were discussed. This chapter covers a presentation on the data analysis and discussion of findings. Data collected were collated and analysed in line with the specific objectives of the study. For the sake of internal validity, results are presented and analysed in comparative forms integrating and triangulating responses from various units of enquiry. Findings from the study were also compared to existing literature on challenges of access to credit facilities among SMEs. This was basically to position the findings of the study within global and national discussions. The chapter is presented in three sub-sections based on the research objectives. These include (i) sources of capital for the establishment of the SMEs; (ii) conditions that facilitate access to credit facilities among SMEs; and (iii) hindrance to credit accessibility.

4.2 Background of Respondents

This section presents a brief background of the respondents. The respondents' background presents the gender and age group, level of education, years of experience, nature of business, specialization of business as well as average monthly income of business.

4.2.1 Sex and Ages of Respondents

A total of 200 SMEs' owners were interviewed during the field survey. The survey conducted revealed majority of the respondents being males (57%), an incidence affirming the dominance of males in the small and medium-sized enterprise sector. The survey also revealed that majority of the SME operators (51%) were within the ages of 41-50 years. This was followed by 33 percent and 11 percent of the respondents who fell within the ages of 31-40 years and 51-60 years respectively. The respondents who fell within 20-30 years (5%) were the least encountered during the survey.

Figure 4.1 and 4.2 show the sex and age structure of respondents. This study found that the respondents were matured and that they were likely to have knowledge of the challenges of financing that were faced by SMEs in the establishment, growing, and effectively running of such businesses within the Accra metropolis.

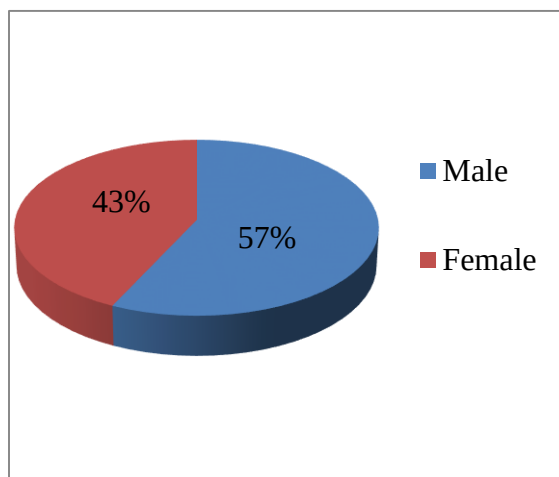


Figure 4.1: Sex of Respondents

Source: Author's construct, 2019

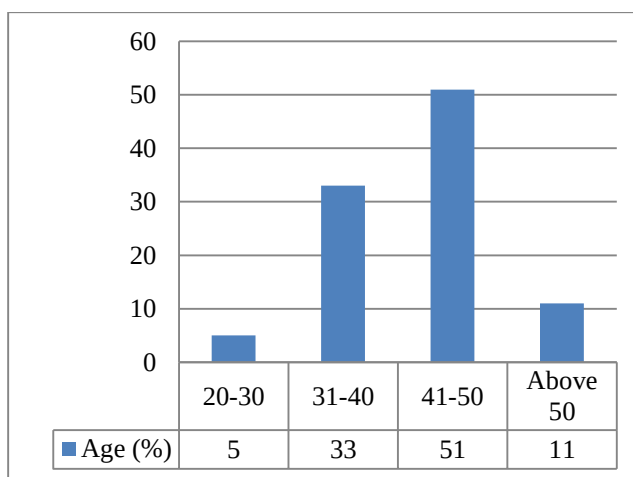


Figure 4.2: Ages of Respondents

Source: Author's construct, 2019

4.2.2 Educational Status

Education is the key to success and one's ability to read and write makes it easy for the person to carry on certain activities effectively. In considering the educational status with respect to the survey conducted, SSCE, diploma and bachelor degree were the main educational levels attained by respondents representing 26 percent, 55 percent and 19 percent respectively (*see Figure 4.3*). The finding indicated that all respondents at least have had formal education and hence literates. It can therefore be inferred that owners of SME within the Accra metropolis largely were literates, a situation likely to cause greater work output.

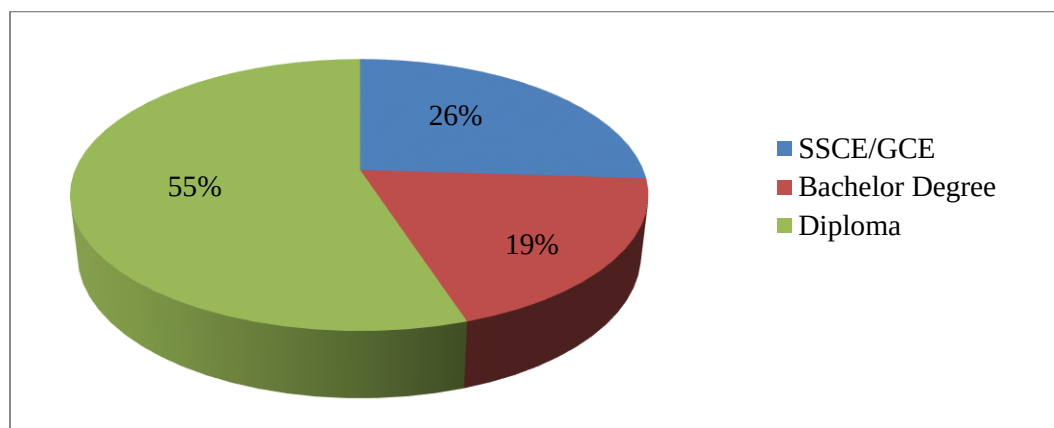


Figure 4.3: Educational Status of Respondents

Source: Author's construct, 2019

4.2.3 Years of Experience

The survey as shown in Figure 4.4 indicated that almost half of the respondents (47%) had been in business over the last ten (10) years. About 41 percent of the respondents had been operating the enterprise for not less than five (5) years whiles the other 12 percent had served for less than

one (1) year. This gives an indication that almost all the respondents have had the experience in managing businesses as far as small and medium enterprises were concerned. Also, based on this observation it was appropriate to infer that the SMEs sampled for the study have been in existence for not more than two decades.

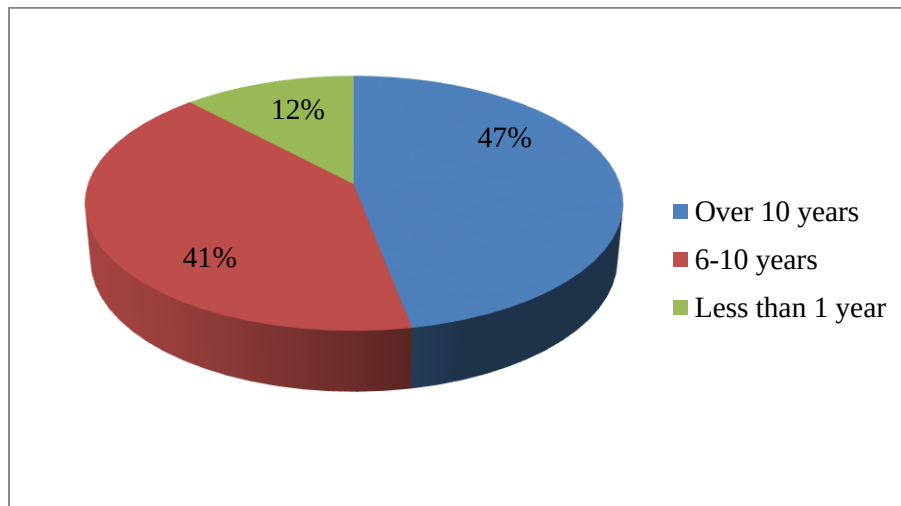


Figure 4.4: Years of Experience

Source: Author's construct, 2019

4.2.4 Nature of Business

The respondents were asked to indicate the nature of business they were into and it was found that about 66 percent of the businesses were owned and run by one person while a total of 34 percent of the enterprises were registered as private limited companies. Further enquiry into the high level of sole proprietorship nature of business revealed that the current unemployment status of the country drove the operators to establish their own firms in order to sustain their livelihoods and make ends meet.

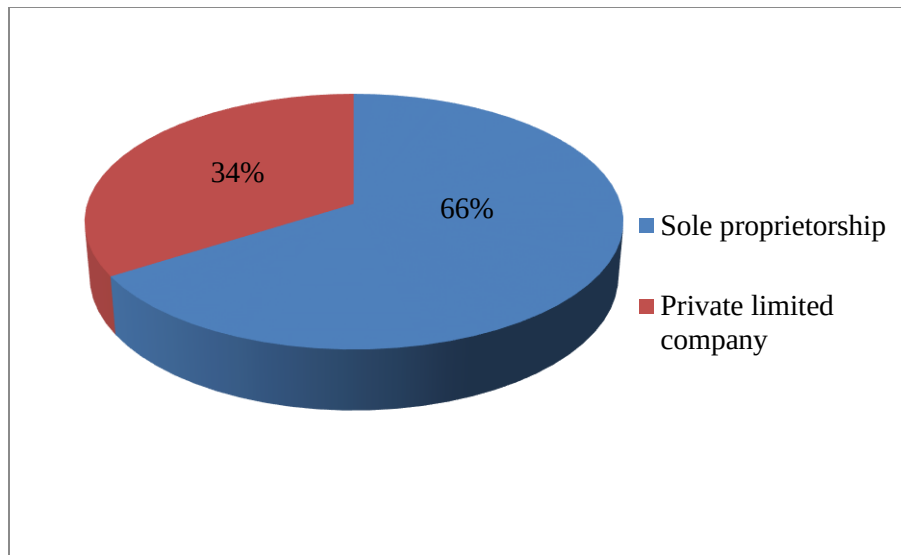


Figure 4.5: Years of Experience

Source: Author's construct, 2019

4.2.5 Area of Specialization

The study found that owners of SMEs operated different kinds of commercial activities ranging from manufacturing to retail trading. Figure 4.6 depicts the sampled SMEs within the Accra metropolis that were engaged during the study. The survey revealed that there were several kinds of SMEs' activities within the Accra metropolis. However, grocery and fashion shops dominated with 14 percent and 10 percent respectively. This could be attributed to the notion that Accra metropolis is noted for retail businesses.

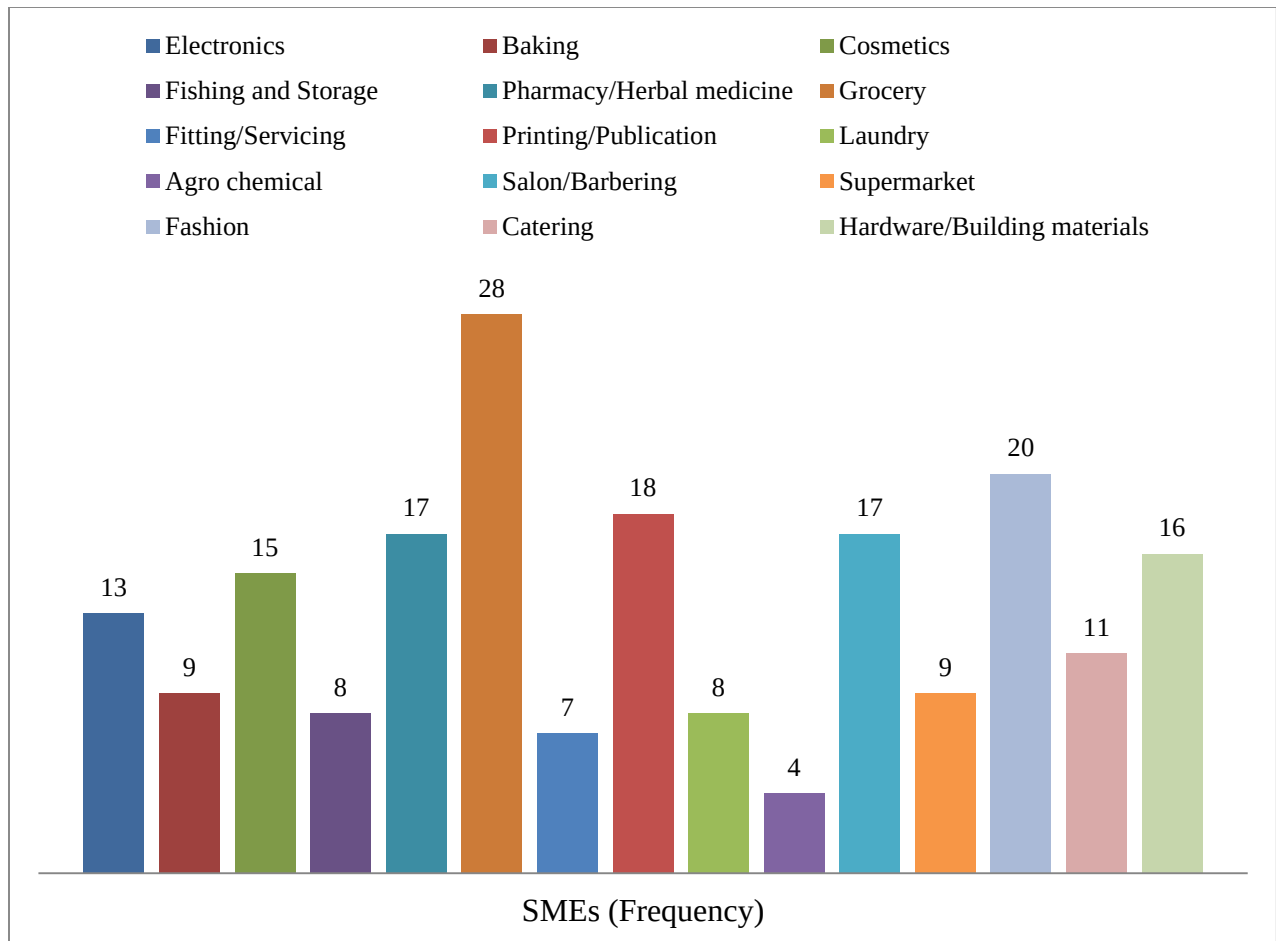


Figure 4.6: Specialization of SMEs

Source: Author's construct, 2019

4.2.6 Average Monthly Income of Business

An enquiry into the monthly income of SMEs revealed that those within the group of GHS 5,000 and below represented 69 percent whiles those within the group of GHS 5,001 and GHS 10,000 also had 25 percent. The respondents whose income fell above GHS 10,000 were the least (6%) encountered during the survey (*see Figure 4.7*). This implies that more than two-third of the respondents have their average monthly income below GHS 10,000. This observation is an

indication that access to credit is a major challenge towards the growth of SMEs within Accra metropolis.

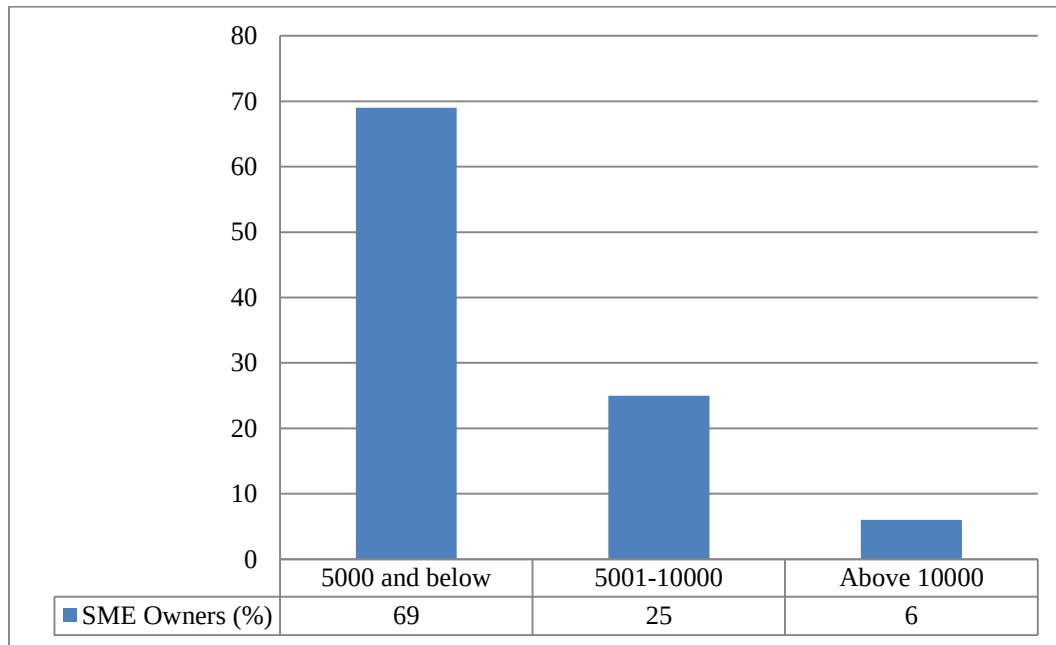


Figure 4.7: Average Monthly Income of SMEs

Source: Author's construct, 2019

4.3 Sources of Capital

Having obtained demographic background of the respondents and SMEs' characteristics, the study sought to identify the sources of capital for the establishment, growing, and running of the SMEs. Under this section respondents were asked to indicate lists of funding that were favourable and not favourable. The data (see Figure 4.8) showed that the sources of funding for SMEs within the study area included personal savings, retained profits, financial support from family and friends, loans from universal banks, loans from non-bank financial institutions, money lenders as well as government support.

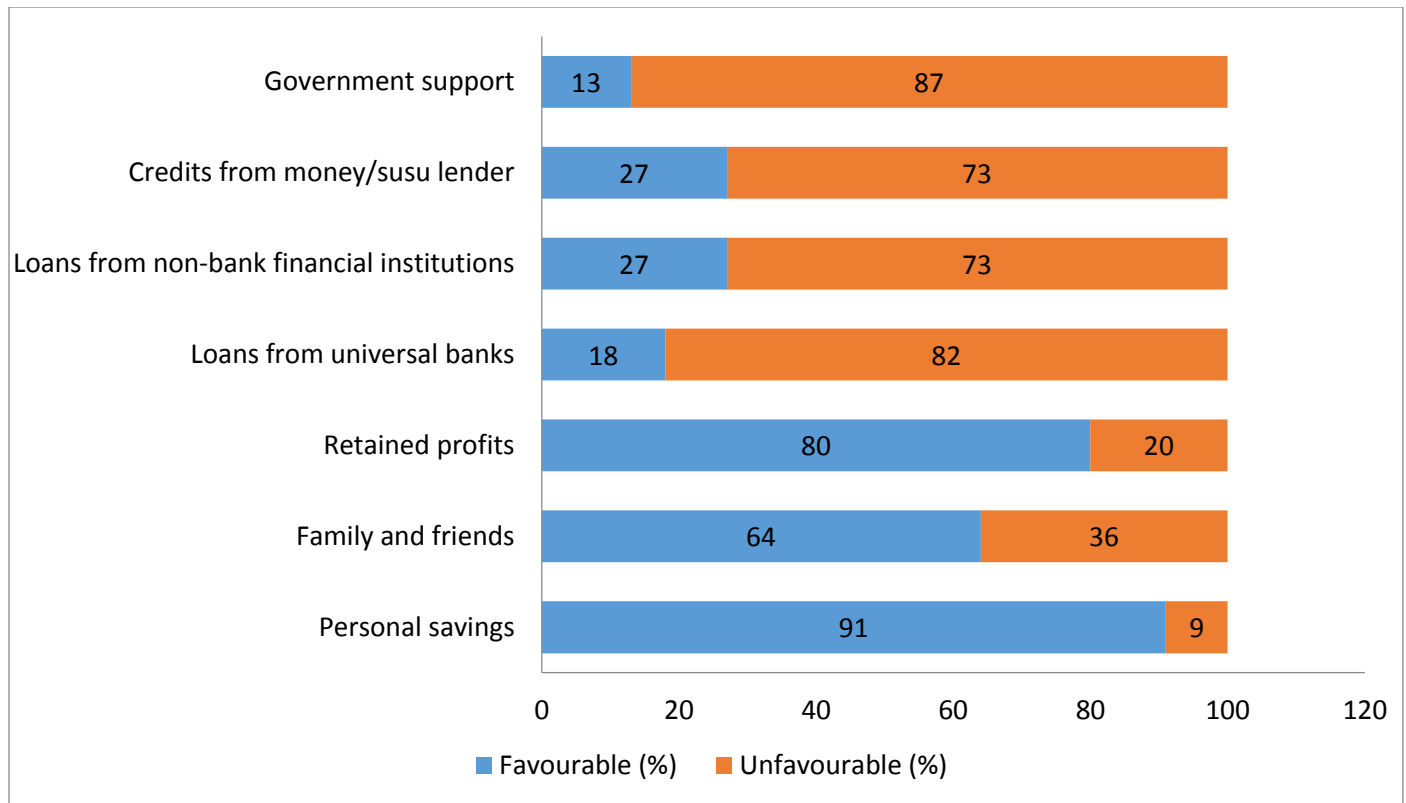


Figure 4.8: Responses on Sources of Capital of SMEs

Source: Author's construct, 2019

From Figure 4.8 it was observed that the favourable sources of funding included personal savings, retained profits, financial support from family and friends. Further enquiry into the findings from the SME owners revealed that funding sourced from personal savings, family and friends and retained profits were quite easy to mobilize since they do not require details or information of business, loan guarantors and collateral security. Moreover, it was expressed that though the funding sources were credible and served as major funding for their firms, the funding sources provided limited amounts of credit for SMEs to scale their operations causing low production and low profit.

On the other hand, sources of funding such as loans from universal banks, loans from non-bank financial institutions, money lenders as well as government support seemed not to be favourable to most of the SME owners in the Accra metropolis (*see Figure 4.8*). Probing into the finding revealed that before loans could be granted, lending institutions required interest payment, guarantors and collateral on the loan. These conditions scared and prevented SME owners from accessing such lending opportunities. This finding contradicts the views of Osei-Assibey et al. (2012) and De la Torre et al. (2008) that the SME sector is seen to be favourable to financial institutions.

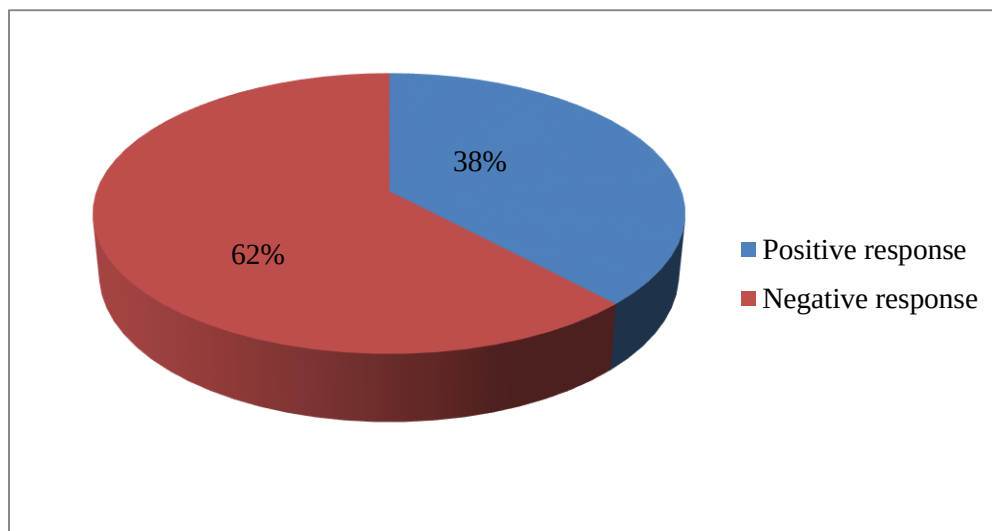


Figure 4.9: Result of Access to Government Support

Source: Author's construct, 2019

It was necessary to find out if any of the SME owners had benefitted from any government support. Out of a quarter of the total respondents who had made efforts to solicit for support from government, only 38 percent (*see Figure 4.9*) of them had benefitted from Microfinance and Small Loans Centre (MASLOC). Perhaps an indication of the low response rate can be inferred from a

response given by a SME owner to the question of satisfaction of credit facilities provided by government (see Box 4.1).

Box 4.1: An Interview with SME Owner

“...not all SMEs appear to be welcomed by government institutions (e.g. MASLOC) set out to support SMEs. This is because the government institutions grants financial support to SMEs whose owners are political party members who helped the party during their campaign”.

Source: Author's Field Survey, 2019

Further enquiry at the Business Advisory Unit of MASLOC indicated that SME's application processes for financial support were handled with due diligence as SMEs were required to provide credible information in order to qualify. However, the government institution recognised an obstacle in carrying out its functions. It was found that the centre was handicapped logistically especially with respect to transport for community sensitization. This hindered their operations by not executing all their functions as required by their mandate though it had succeeded in at least bringing various traders to a common table for training on how to work in a coordinated manner. This finding of capacity gap is an obstacle for effective implementation of national programme as discussed by Rahel (2011).

4.4 Conditions that Facilitate Access to Credit Facilities

Having found the sources of funding of SMEs within the Accra metropolis; an attempt was made to examine the conditions that facilitated access to credit facilities. The study found that SMEs' access to credit was influenced by characteristics of the firm as well as that of owners and managers. The finding is in line with the view of Pandula (2011) and Osei-Assibey (2014) that

access to credit facilities by SMEs is influenced by characteristics of the firm as well as that of owners and managers. The following describes the conditions that facilitated SMEs' access to credit facilities.

4.4.1 Firm-specific Characteristics

In analysing how firm-specific characteristics facilitated access to credit facilities by SMEs the relative index technique was used to measure the determinants that influenced access to credits. The expected level was pegged at "5" indicating a very high response based on the likert scale of 1 = strongly disagree to 5 = strongly agree. A summary of how firm-specific characteristics facilitated access to credit facilities by SME owners is presented in Figure 4.10.

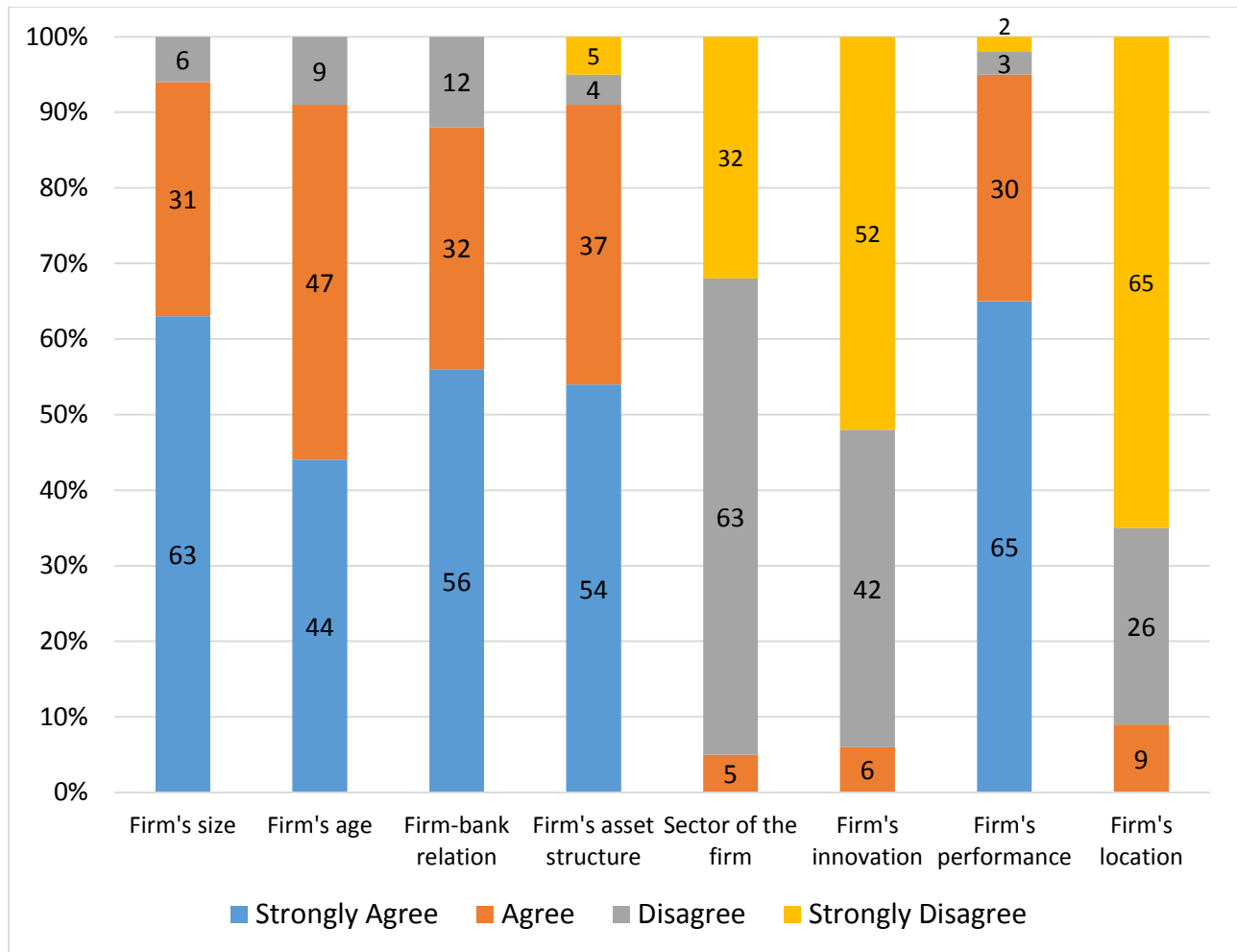


Figure 4.10: Responses on Firm-specific Characteristics

Source: Author's construct, 2019

Figure 4.10 shows that there was a very high perception among SME owners about how firm's size, firm's age, firm-bank relation, firm's asset structure, firm's performance and firm's location facilitated access to credit facilities. Interactions with SME owners within the study area revealed that about 94 percent of the respondents affirmed that a firm's size was largely considered by financial and government institutions in granting credits to SMEs.

The respondents were of the view that big firms had more access to funding than small firms because of capacity to produce adequate information for screening as demanded by financial and government institutions. This finding is parallel with that of Kumah (2011) that larger businesses have more assets to provide as collateral security and hence increase their possibility of having access to finance. The result implies that larger firms normally ride on information adequacy and information availability to persuade financial and government institutions for loan approval.

On the issue of how firm's age influenced access to credit facility, about 91 percent of SME owners answered in the affirmative that old firms did not face constraints in accessing funds than new businesses with the reason been that old firms were more likely to have greater reputation and therefore increase the likelihood of accessing loan facilities from financial and government institutions. In the same vein, respondents opined that new or younger firms were less inclined to meet collateral or credit requirements generally because of the absence of established reputation or track record, lack of adequate information and sufficient fixed assets as demanded by lending institutions during granting of credits. This response is in line with the assertion of Baah-Nuakoh (2003) and Adomako-Ansah (2012) that money lenders find it difficult to endorse credit requests of new or younger firms due to the lack of track records.

Furthermore, the study found that as high as 88 percent of the respondents agreed to the fact that the rapport between lending institutions and SMEs determined the ease with which credit was acquired. The result implies that SMEs who have good relationship with government and financial institutions find it relatively cheaper and easier to access capital and likewise, lending institutions support SMEs they have good relationship with. Some of the SME owners recounted how their relationship with MASLOC has affected their business (*see Box 4.2*).

Box 4.2: An Interview with MASLOC Beneficiaries

“...MASLOC and our firms are in good terms. We always make ourselves available when MASLOC needs us and because of that we have been benefiting from their trainings revolving around book keeping and marketing”.

Source: Author's Field Survey, 2019

On the contrary, a significant number (12%) of SMEs owners expressed that the rapport between lending institutions and SMEs did not necessarily increase the likelihood of accessing funds. Probing further the respondents asserted that government and financial institutions were keen in investing in SMEs with credible information, good opportunities and ability to scale their operations and repay loans. This finding is consistent with the study of Bebczuk (2004) that in Argentina though the relationship between lending institutions and SMEs increased the likelihood of accessing funds, the rapport was not statistically significant.

Besides, with regards to how firm's asset influenced access to credit facility, about 54 percent of SME owners strongly agreed that since all lending institutions in Ghana considered collateral security as the most key determining factor in loans approval due to the transaction costs and high risks, a firm's asset therefore played a key role as collateral security. Pandula (2011) follows the line of argument that a firm's asset serves as security for lending institutions against defaulting debtors. Equally, about 37 percent of SME owners agreed that the more properties a firm possessed, the easier it is for money lenders to acquire their money back. This finding contradicts the study of Bebczuk (2004) that an important determinant of access to funds is not asset tangibility of the firm because lending institutions are always at risk when granting loans to SMEs.

Again, with respect to how a firm's performance influenced access to credit facility, as high as 95 percent of SME owners answered in the affirmative that the creditworthiness of a firm could be measured by the performance of the firm. This, respondents opined that performing firms were likely to achieve or attain increase in sales; labour productivity; export growth and profit making and hence were bound to have the ability to pay back loans. As discussed by Aryeetey et al. (1994), a firm's greater access to credit is associated with sales and profits.

Figure 4.10 depicts respondents' views on how a firm's innovation, a firm's location, as well as sector of a firm did not have significant relationship with access to credit facilities. Interactions with SME owners within the study area revealed that about 94 percent of SME owners argued that firm's innovation did not increase the likelihood of SMEs having funding access because of financier's perception about uncertainties and risk associated with product or business innovation.

This finding contradicts the study of Ahmed and Hamid (2011) that firm's innovation increase the likelihood of SMEs having funding access. The finding indicates that financial and government institutions do not care much about the innovation of a business but rather concentrate their attention on one's ability to scale their operations and repay loans.

On the issue of how sector of a firm influenced access to credit facility, about 95 percent of SME owners answered in the negative that access to credit facilities did not necessarily depend on a firm's sector it operated in. This implies that there is no substantial relationship between probability of having access to funds and the sector of a firm. The result contradicts empirical studies conducted by Baah-Nuakoh (2003) and Kumah (2011) that SMEs in the service sector were bound to have access to credit than those in the agricultural and manufacturing sectors because of the low level of risk.

Besides, with regards to how firm's location influenced access to credit facility, about 91 percent of SME owners expressed that a firm's location was not a significant factor that government and financial institutions considered in granting loan facilities in the country. This implies that there is no substantial correlation between a firm's location and accessibility to credit. This response differs from the evidence of Ahmed and Hamid (2011) that firms that were located in cities have a greater access to credits than enterprises that were located in rural places.

4.4.2 Owner/manager's Characteristics

In analysing how owner/manager's characteristics facilitated access to credit facilities by SMEs the relative index technique was used to measure the determinants that influenced access to credits. The expected level was pegged at "5" indicating a very high response based on the likert scale of 1 = strongly disagree to 5 = strongly agree. A summary of how owner/manager's characteristics facilitated access to credit facilities by SME owners is presented in Figure 4.11.

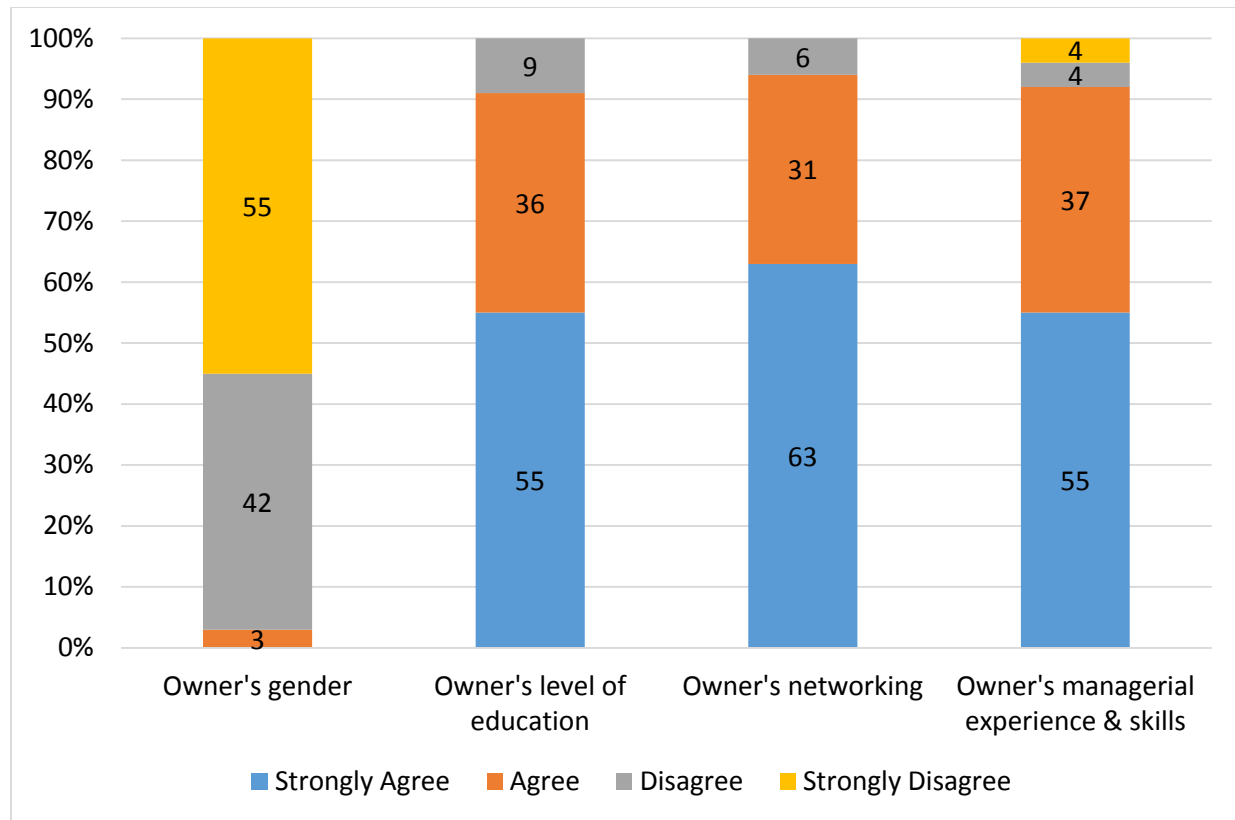


Figure 4.11: Responses on Owner/manager's Characteristics

Source: Author's construct, 2019

Figure 4.11 shows that there was a very high perception among SME owners about how owner's level of education, owner's networking, and owner's managerial experience and skills facilitated access to credit facilities. Interactions with SME owners within the study area revealed that about 91 percent of the respondents affirmed that owner's level of education largely determined one's ability to write winning proposals and investment plans for loans from government and financial institutions.

The respondents also attributed it to the fact that SMEs owners with higher educational status understood financial information, how to efficiently run their operations, loan application

procedures, and hence have the ability to put in winning proposal for funding. This finding is tantamount to a study by Berger and Udell (2006) that the educational status of SME owner is argued to be among the key determining factor of credit accessibility by SMEs. In their study it was found that lending institutions favoured those with higher level of education than those with lower academic qualifications and therefore led to SMEs' ability of acquiring a loan or funding.

On the issue of how owner's networking influenced access to credit facility, about 94 percent of SME owners answered in the affirmative that financial and government institutions took into consideration owner's affiliation to any professional, social or business group before granting loans. This finding is parallel to the empirical studies of Kumah (2011) and Pandula (2011) that SME owner's affiliation or networking increase or ease SMEs' access to funding opportunities. The result implies that liability of a group is mostly preferred by lending institutions in a sense that it lessens situations or issues that leads to market failures as far as lending is concerned.

Furthermore, the study found that as high as 92 percent of the respondents agreed to the fact that there was a substantial correlation that exist between managerial experience and skills of the SME owner and SMEs' credit accessibility. The respondents explained that inexperienced SME owners are usually credit constrained because of factors revolving around security, personal resources, credibility, and trading records. The implies that lending institutions that serve SMEs within the study area place more confidence in SME owners with substantial managerial experience and skills and therefore leads to their ability of acquiring a loan or funding.

On the contrary, Figure 4.11 depicts that owner's gender did not have significant relationship with access to credit facilities. Interactions with SME owners within the study area revealed that about 97 respondents indicated that there was no substantial correlation that exists between gender differences in SME ownership and access to credit facilities in Ghana. This finding is completely

opposite to the claim by Cole and Mehran (2009) that female-owned SMEs in the global south are significantly credit constrained as compared to male-owned SMEs. This implies that lending institutions that serve SMEs within the study area tend to be non-discriminatory and fair and most likely are keen in investing in SMEs with good opportunities and ability to repay loans.

4.5 Hindrance to Credit Accessibility

This section set out to inquire the barriers that hindered the improvement of access to finance by SMEs in the study area. In analysing the barriers of accessing finance the relative index technique was used. The expected level was pegged at “5” indicating a very high response based on the likert scale of 1 = strongly disagree to 5 = strongly agree. A summary of how these barriers hindered the improvement of access to finance by SMEs is presented in Figure 4.12.

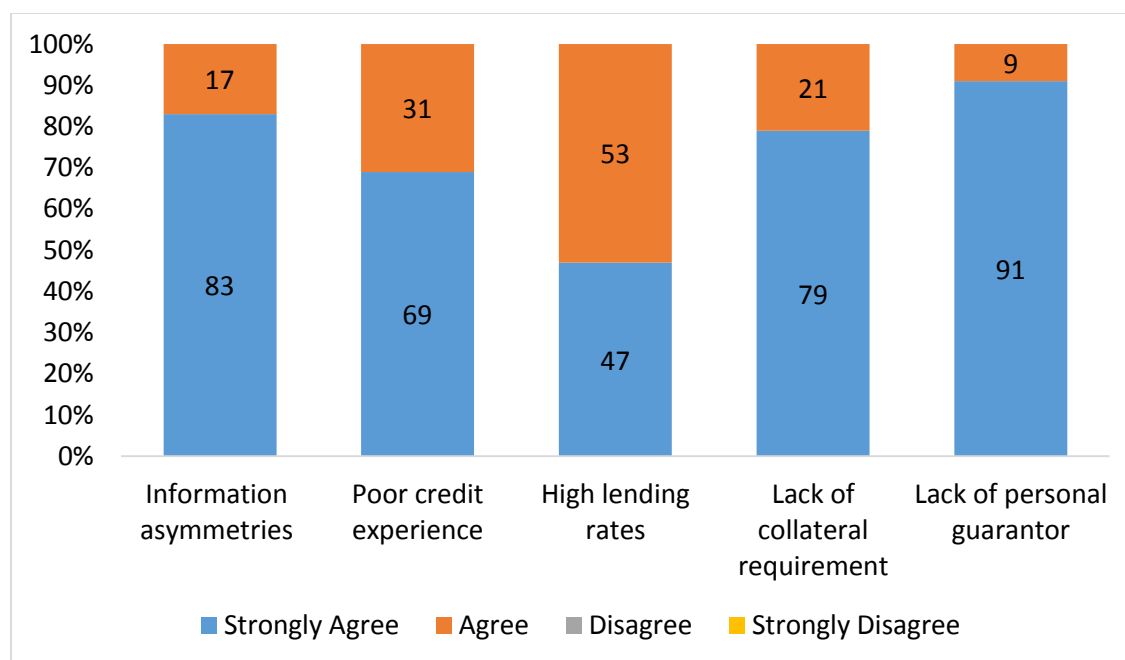


Figure 4.12: Responses on Hindrance to Credit Accessibility

Source: Author's construct, 2019

The field survey revealed that information asymmetry was a key barrier that hindered SMEs' access to finance. During the interview with owners of SMEs, it was disclosed that financial and government institutions demanded general information including business plans, financial statements and accounting/auditing records of SMEs for screening before loans could be approved. Interactions with the Business Advisory Unit of MASLOC revealed that information asymmetries arising from SMEs' lack of business registration document, investment plans, inadequate financial statements and accounting records made it challenging for the Centre to examine the creditworthiness of SMEs. This implies that firms would still remain credit constrained due to their incapacity to produce adequate and credible information for screening as demanded by financial and government institutions.

Furthermore, the study found that both the Business Advisory Unit of MASLOC and SME owners agreed to the fact that lack of collateral (property) security was another key barrier that hindered access to credit facilities. Probing further it was realized that SMEs were considered by government and financial institutions as high-risk borrowers due to high mortality rates, vulnerability to market fluctuations, insufficient assets and low capitalization. Owing to the high-risk perception associated with SME lending, SMEs were required to provide an acceptable collateral security which was often a major obstacle for SMEs especially new and young SMEs.

On the issue of how poor credit history/experience hindered access to credit facilities, the Business Advisory Unit of MASLOC and SME owners answered in the affirmative that there was a significant correlation that exist between credit history of a firm and SMEs' credit accessibility. The respondents explained that poor credit records served as a major factor that could make a firm more credit constrained in a sense that a firm of that nature was more likely to have bad reputation and therefore decreased the possibilities of accessing loan facilities from financial and government

institutions. This implies that lending institutions place more confidence in SMEs with substantial and good credit history/experience and therefore leads to their ability of acquiring a loan or funding.

Moreover, the field survey revealed that both Business Advisory Unit of MASLOC and SME owners agreed to the fact that problems relating to high lending rates were also a major hindrance to SME access to funds. Interactions with respondents revealed that the high-risk perception associated with SME lending, due to SMEs' high mortality rates, vulnerability to market fluctuations, insufficient assets and low capitalization, made lending institutions charge high interest rates or adopt conservative lending policies. This condition scared SME owners and prevented them from accessing such lending opportunities. This finding is parallel to the study of Osei-Assibey et al. (2012) and De la Torre et al. (2008) that the SME sector is seen to be profitable and favourable to financial institutions.

In addition, the study found that both Business Advisory Unit of MASLOC and SME owners agreed to the fact government and financial institutions demanded not less than two personal guarantors as well as bank statements as part of the requirements before loans could be approved. Further enquiry indicated that the personal guarantors were persons to redeem the loan in case of default by SMEs. The owners of SMEs within Accra metropolis indicated that the unwillingness and unavailability of loan guarantors made loan application requirements too cumbersome. However, the Business Advisory Unit of MASLOC also explained that the requirement of personal guarantors as well as bank statements was a means of allowing lenders reduced the high-risk of future losses. This implies that government and financial institutions are unwilling to provide credit facility if SMEs do not have personal guarantors.

CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 Introduction

Following from the data analysis and discussion in the previous chapter, this chapter covers a summary of the key findings from the study. The key findings have been captured in the context of the central ideas underpinning the specific objectives of the study. Also, efforts have been made to offer recommendations that seek to improve access to finance by the SMEs. The recommendations reflect the problem statement, objectives and findings of the study and in that light, conclusion of the study is drawn.

5.2 Summary of Findings

The general objective of the study was to identify the obstacles and challenges of financing that were faced by SMEs in the establishment, growing, and effectively running such businesses within the Accra metropolis and recommend measures to curtail these challenges. The findings are summarized in this section.

5.2.1 Sources of Capital

The study found that the sources of funding for SMEs within the study area included personal savings, retained profits, financial support from family and friends, loans from universal banks, loans from non-bank financial institutions, money lenders as well as government support. The favourable sources of funding were personal savings, retained profits, financial support from family and friends. It was found that though the funding sources were credible and served as major

funding for their firms, the funding sources provided limited amounts of credit for SMEs to scale their operations causing low production and low profit.

On the other hand, sources of funding such as loans from universal banks, loans from non-bank financial institutions, money lenders as well as government support seemed not to be favourable to most of the SME owners in the Accra metropolis. It was realized that before loans could be granted, lending institutions required interest payment and collateral on the loan. These conditions scared and prevented SME owners from accessing such lending opportunities.

The study revealed that out of a quarter of the total respondents who had made efforts to solicit for support from government, only 38 percent of them had benefitted from Microfinance and Small Loans Centre (MASLOC). The low response rate was attributed to the political nature of the process and information asymmetry.

5.2.2 Conditions that Facilitate Access to Credit Facilities

The study found that SMEs' access to credit was influenced by characteristics of the firm as well as that of owners and managers.

(i) Firm-specific Characteristics

The study found that the size of a firm was largely considered by financial and government institutions in granting credits to SMEs. The result implies that larger firms normally ride on information adequacy and information availability to persuade financial and government institutions for loan approval.

On the issue of how firm's age influenced access to credit facility, the study found that new or younger firms were less inclined to meet collateral or credit requirements generally because of the

absence of established reputation or track record, lack of adequate information and sufficient fixed assets as demanded by lending institutions during granting of credits.

Furthermore, the study found that the rapport between lending institutions and SMEs determined the ease with which credit was acquired. The result implies that SMEs who have good relationship with government and financial institutions find it relatively cheaper and easier to access capital and likewise, lending institutions support SMEs they have good relationship with.

On the contrary, it was also indicated that the rapport between lending institutions and SMEs did not necessarily increase the likelihood of accessing funds but rather government and financial institutions were keen in investing in SMEs with credible information, good opportunities and ability to scale their operations and repay loans.

Besides, with regards to how firm's asset influenced access to credit facility, it was indicated that since all lending institutions in Ghana considered collateral security as the most key determining factor in loans approval due to the transaction costs and high risks, a firm's asset therefore played a key role as collateral security. This implies that the more properties a firm possessed, the easier it is for money lenders to acquire their money back.

Again, with respect to how a firm's performance influenced access to credit facility, the study found that the creditworthiness of a firm could be measured by the performance of the firm in the area of increase in sales, labour productivity, export growth and profit making and hence were bound to have the ability to pay back loans. This implies that a firm's greater access to credit is associated with sales and profits.

On the other hand, the study found that firm's innovation did not increase the likelihood of SMEs having funding access because of financier's perception about uncertainties and risk associated

with product or business innovation. The finding indicates that financial and government institutions do not care much about how the innovation of a business but rather concentrate their attention on one's ability to scale their operations and repay loans.

On the issue of how sector of a firm influenced access to credit facility, it was realized that access to credit facilities did not necessarily depend on a firm's sector it operates in. This implies that there is no substantial relationship between probability of having access to funds and the sector of a firm.

Besides, with regards to how firm's location influenced access to credit facility, the study found that a firm's location was not a significant factor that government and financial institutions considered in granting loan facilities in the country. This implies that there is no substantial relationship between a firm's location and accessibility to credit.

(ii) Owner/manager's Characteristics

The study found that owner's level of education largely determined one's ability to write winning proposals and investment plans; understand present financial information; and to understand loan application procedures. This implies that lending institutions favoured those with higher level of education than those with lower academic qualifications and therefore leads to their ability of acquiring a loan or funding.

On the issue of how owner's networking influenced access to credit facility, it was indicated that financial and government institutions took into consideration owner's affiliation to any professional, social or business group before granting loans. The result implies that liability of a group is mostly preferred by lending institutions in a sense that it lessens situations or issues that leads to market failures as far as lending is concerned.

Furthermore, the study discovered that there was a substantial correlation that exist between managerial experience and skills of the SME owner and SMEs' credit accessibility. The implies that lending institutions that serve SMEs within the study area placed more confidence in SME owners with substantial managerial experience and skills and therefore leads to their ability of acquiring a loan or funding.

On the contrary, it was found that there was no substantial correlation that exists between gender differences in SME ownership and access to credit facilities in Ghana. This implies that lending institutions that serve SMEs within the study area tend to be non-discriminatory and fair and most likely are keen in investing in SMEs with good opportunities and ability to repay loans.

5.2.3 Hindrance to Credit Accessibility

The study revealed that information asymmetries arising from SMEs' lack of business registration document, investment plans, inadequate financial statements and accounting records made it challenging for lending institutions to examine the creditworthiness of SMEs. This implies that firms would still remain credit constrained due to their incapacity to produce adequate and credible information for screening as demanded by financial and government institutions.

Furthermore, the study found that due to the high-risk perception associated with SME lending, SMEs were required to provide an acceptable collateral security which is often a major obstacle for SMEs especially new and young SMEs.

On the issue of how poor credit history/experience hindered access to credit facilities, the study discovered that there was a significant correlation between credit history of a firm and SMEs' credit accessibility. The implies that lending institutions placed more confidence in SMEs with

substantial and good credit history/experience and therefore leads to their ability of acquiring a loan or funding.

Moreover, the high-risk perception associated with SME lending due to SMEs' high mortality rates, vulnerability to market fluctuations, insufficient assets and low capitalization made lending institutions charge high interest rates or adopt conservative lending policies. In the same vein, the study found that problems relating to high lending rates were a major hindrance to SME access to funds.

In addition, the study discovered that institutions demanded not less than two personal guarantors as well as bank statements as part of the requirements before loans could be approved. However, the unwillingness and unavailability of loan guarantors for SMEs made loan application requirements too cumbersome. This implies that firms would still remain credit constrained due to their inability to provide guarantors as demanded by financial and government institutions.

5.3 Recommendations

In the light of the findings of the study, the following recommendations have been put forth to improve access to finance for SMEs.

(i) Intensify SME training by Government lending institutions

It is important for all Government lending institutions to embark on continuous training for SMEs in areas such as credit/cash management; preparation and documentation of financial information; writing of winning proposals and investment plans; as well as loan application procedures. The training for SMEs should be made common and should aim at encouraging positive attitudes

towards credit accessibility and management. Providing training for SMEs would not only stimulate their demand for credit facilities but also improve their access to credit facilities.

(ii) Registration/licensing of SMEs by Accra Metropolitan Authority

There is the need for Accra Metropolitan Authority to encourage SMEs to register their businesses and become legally recognised. The business registration process should aim at avoiding obstacles or barriers that may hinder SMEs from registering. Registration/licensing of SMEs would help build confidence in government and financial institutions when granting credit facilities to SMEs and also increase SMEs' credibility to acquire credit facilities.

(iii) Recreate enabling financing environment for SMEs by lending institutions

There is also the need for lending institution to readjust their mandate in order to address the needs of the SME sector. The role of the government is undeniable and should consider the formulation, implementation and monitoring of SME friendly policy provisions in order to create an enabling financing environment for SMEs and lending institutions.

(iv) Development of well-structured succession plan by SMEs

In order for SMEs to find loan guarantors, there is the need for SMEs to develop a well-structured succession plan. This intervention would help curtail businesses from collapsing due to the absence of an owner of SME and hence, minimize guarantors from redeeming loans in case of default by SMEs.

5.4 Conclusion of the Study

It is an undeniable fact and a legitimate argument that Small and Medium-sized Enterprises are the engines through which the growth and development objectives of countries can be achieved.

However, evidence from the findings of the study has proved that SMEs within Accra metropolis is faced with a myriad of financing challenges. The research has established that SMEs' difficulty in accessing credit facilities was influenced by firm-specific characteristics as well as owner characteristics. The results have been a major hindrance to SME access to funding.

It is therefore necessary that pragmatic actions are taken to improve access to finance by the SMEs. It is for this purpose that the study has brought out various recommendations. When the foregoing recommendations are implemented, the growth and expansion of SMEs in Accra metropolis would be sustained.

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APPENDIX

SURVEY TOOLS

SCHOOL OF GRADUATE STUDIES UNIVERSITY OF GHANA



RESEARCH TOPIC:

TOWARDS THE PROMOTION OF SMALL AND MEDIUM-SIZED ENTERPRISES: EXPLORING CHALLENGES OF FINANCING IN GHANA

[QUESTIONNAIRE FOR SME OWNERS]

CONSENT STATEMENT

The purpose of this study is to explore the challenges of financing that are faced by SMEs in the establishment, growing, and effectively running such businesses within the Accra metropolis. You are invited to participate in this study. Please keep in mind that this research has no known risks, and your participation is voluntary. Your participation is only needed once, to answer a few questions, and should last thirty to forty minutes. If you choose not to respond to any of the questions in this interview, you are free to do so. If you decide to answer some or all of the questions, we will use the information you give us only for the purposes of research. Thank you.

Do you agree to be interviewed? Yes [] No []

Date of Interview:

Time Started:.....Time Ended:.....

Demographic Background

1. Gender? ☐ Male ☐ Female
2. Age group? ☐ 20-30 years ☐ 31-40 years ☐ 41-50 years ☐ Over 50 years
3. What is the highest level of education that you have attained?
☐ None ☐ GCE/BECE/SSCE ☐ Diploma/HND ☐ Bachelor Degree ☐ Postgraduate Degree
4. How many years of experience do you have in managing this firm?
☐ Less than 1 year ☐ 1-5 years ☐ 6-10 years ☐ Over 10 years

Firm's Characteristics

5. Name of business?
6. Nature of business?
☐ Private Limited Company ☐ Public Limited Company ☐ Partnership ☐ Sole Proprietor
☐ Family Owned Business Others (please specify).....
7. Specialisation of business?
☐ Retail trading ☐ Export ☐ Manufacturing ☐ Services ☐ Real Estate ☐ Food/Grocery
 Other (specify)
8. Average monthly income of business?
☐ Less than GHS 10,000.00 ☐ GHS 10,000.00-GHS20, 000.00 ☐ Above GHS 20,000.00

Sources of capital

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

Source	Favourable	Unfavourable
Personal savings		
Family and Friends		
Retained profits		
Loans from universal banks		
Loans from Non-Bank Financial Institutions		
Credits from money lenders/ “susu” operators		
Government support		
Any other? (specify)		

10. Give reasons/explanations for the above choices

.....

.....

.....

.....

11. Are there any other sources that you have accessed credit to finance your business?

☐ Yes ☐ No

11a. If Yes, where?

☐ Microfinance institution ☐ Ghana Venture Capital Fund (GVCF)

☐ Microfinance and Small Loans Centre (MASLOC) ☐ Others Specify).....

11b. If Yes, after providing the credit facilities, how satisfied are you?

☐ Very satisfied ☐ Satisfied ☐ Not satisfied at all

Explain your satisfaction level?.....

Conditions that determine access to credit facilities

12. Please rate by indicating whether you ‘Strongly Agree (5) Agree (4) Neutral (3) Disagree (2) Strongly Disagree (1)’ to the following conditions that determine access to credit facilities.

Firm-specific characteristics					
Determinants	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Firm’s size					
Firm’s age					
Firm-bank relation					
Firm’s asset structure					
Industry/sector of the firm					
Firm’s innovation					
Firm’s performance					
Firm’s location					
Any other? (specify and rate)					
Owner/manager’s characteristics					
Determinants	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Owner’s gender					
Owner’s level of education					
Owner’s affiliation or networking with business association					
Owner’s managerial experience and skills					
Any other? (specify and rate)					

13. Give reasons/explanations for the above choices

.....

.....

.....

.....

Improving access to finance for SMEs

14. What are the barriers that hinder the improvement of access to finance by the SMEs? (please tick all that apply)

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Informational risk					
Inadequate complied financial records and accounts					
Poor credit experience or history					
Managerial incompetence					
Lack of collateral/guarantees requirements					
High lending rates from the financial institutions					
Any other? (specify and rate)					

15. Give reasons/explanations for the above choices

.....

.....

.....

.....

16. What measures will you recommend in terms of improving of access to finance by the SMEs?

.....

.....

**SCHOOL OF GRADUATE STUDIES
UNIVERSITY OF GHANA**



RESEARCH TOPIC:

**TOWARDS THE PROMOTION OF SMALL AND MEDIUM-SIZED ENTERPRISES:
EXPLORING CHALLENGES OF FINANCING IN GHANA**

INTERVIEW GUIDE FOR:

**MICROFINANCE AND SMALL LOANS CENTRE (MASLOC)
NATIONAL BOARD FOR SMALL SCALE INDUSTRIES (NBSSI)**

CONSENT STATEMENT

The purpose of this study is to explore the challenges of financing that are faced by SMEs in the establishment, growing, and effectively running such businesses within the Accra metropolis. You are invited to participate in this study. Please keep in mind that this research has no known risks, and your participation is voluntary. Your participation is only needed once, to answer a few questions, and should last thirty to forty minutes. If you choose not to respond to any of the questions in this interview, you are free to do so. If you decide to answer some or all of the questions, we will use the information you give us only for the purposes of research. Thank you.

Do you agree to be interviewed? Yes [☐] No [☐]

Date of Interview:

Time Started:.....Time Ended:.....

1. When was this microfinance programme started?
2. What are the major objectives of the programme?
3. What kind of activities do you undertake?
4. Who are the main target groups of the programme?
5. What are the eligibility criteria used to select the target groups/clients?
6. Do clients need to have guarantors or collateral security before they are granted loans?
7. How long does it take your organization to disburse loans?
8. What is the interest rate charged on the loan?
9. Do your clients repay their loans in time?
10. If no, what problems do they face in repayment of the loans?
11. What is the repayment rate over the years?
12. What measures do you have in place to keep the repayment rates high?
13. What sort of supports other than loans do you provide to the clients?
14. What kind of challenges do you come across in delivering credit to clients?
15. What recommendations would you make to address the problems?
16. Do you think the credit is able to boost income generating activities? How?
17. Do you think credit has helped to improve the living condition of clients? Explain.
18. What measures can be taken to make microfinance more efficient and beneficial to clients?