Civil and Environmental Research
ISSN 2222-1719 (Paper) ISSN 2222-2863 (Online)
Vol 2, No.6, 2012

Exploring the Challenges and Barriers in Accessing Financial Facilities by Small and Medium Construction Firms in Ghana

Francis Kwesi Bondinuba

Department of Building Technology, Kumasi Polytechnic. O. Box 854, Kumasi, Ghana,

∗ E-mails of the corresponding author: francis.kbondinuba@kpoly.edu.gh or fkbondi@yahoo.com

Abstract

This study sought to explore the challenges and barriers facing Small and Medium Construction Firms (SMCFs) in Ghana in their quest to access finance from financial institutions for their business purposes. This study was a cross-sectional survey that used semi-structured questionnaire to collect data from the sample. 50 questionnaires were distributed to construction firms in Kumasi and Accra Metropolis through a convenience sampling technique.

The findings are that the key challenges that make it difficult for SMCFs to access finance include policy regulation, inadequate financial infrastructure, stringent collateral security requirement, and lack of institutional capacity of SMCF sector. The key barriers identified include informational barriers, lack of managerial skills with SMCFs. Limitations of the study have been noted and recommendations for developing innovative approaches to making finance accessible to SMCFs in Ghana have been discussed. The study contributes to the body of knowledge in the area of financing construction firms in developing countries in general, and in Ghana in particular.

Keywords: Access, Challenges, Finance, Construction firms, Ghana.

1. Introduction

This study reports on an in-depth study into demand and supply side issues relating to access to finance by construction firms in Ghana. There is evidence that some construction firms face difficulties in accessing bank finance from lenders (CEEDR, 2007). Finance is the set of activities dealing with the management of funds. More specifically, it involves the decision of collection and use of funds. Construction project finance is a unique funding and collections service that is specifically designed to support those in the construction industry offering informed funding and services specific to construction business needs. Access to finance includes issues such as the availability of financial services in the form of deposits, finance, payments, or insurance to individuals or firms. The availability of such services can be constrained for instance by physical access, affordability or eligibility.

Construction industry contributes significantly in terms of scale and share in the development process of Ghana. The construction industry provides the necessary public and private infrastructure for many industrious actions and services. The industry is not only important for its ended product, but it also employs a large number of groups (directly and indirectly) and therefore has an effect on the cost-cutting measure of a nation or state during the real construction process (ILO, 2001). It also contributes to the national socio-economic development by providing significant employment opportunities at non-skilled and skilled levels Beyond that, it provides the infrastructure and services that required for other sectors of the country to grow such as; schools for education and training, factories and shops for commercial etc. In a typical modern society, around half of all physical assets are created by the construction industry generating about 5- 10% of national wealth. (Ahadzie, 2010).

Small and Medium Enterprise (SMEs) have been noted to be the engine through which the growth objectives of developing countries can be achieved and are potential sources of income in many developing countries (Kayanula and Quartey, 2000). Over the years, SMEs have been supported through a number of means, from government assistance, financial institutions assistance, donor agencies, plough back profits, to family support and franchising arrangement, among others (Abor and Biekpe, 2006). One of the major forms of finance for SMEs is through the financial assistance (FA) from banks in the form of loans, etc. However, access to FA from financial institution (FI's) has become a challenge to most SMEs in many developed and developing economies including Ghana. Most SMEs appear to be challenged in financing their business operations (Abor and Biekpe, 2006).

Though some studies have been conducted in the past in the area of financing SMEs in general (e.g. Abor and Biekpe, 2006; Biekpe, 2004; Kayanula and Quartey 2000), very little empirical evidence exists on the phenomenon in the developing countries in general and in the construction industry in particular. This study is an attempt to contribute to the literature on the critical challenges and barriers faced by SMEs in the construction industry in Ghana in accessing FA from FI's. The study will contribute to the understanding of the unique factors that pose a challenge to SMCFs in accessing financial facilities (FF's) from FI's in Ghana. This could provide useful avenues to the SMCFs to develop strategies to overcome such challenges. It could also help FI's to understand the challenges and potential barriers impeding access to FF's by SMCFs and how new strategies could be developed to improve upon their FA to SMCFs.

2. Literature Review

2.1 Definition of Small and Medium Construction Firms (SMCFs)

There is no universally agreed definition of SMCFs, which are also considers as enterprise or business. Some of the commonly used criteria are the number of employees, value of assets, value of sales and size of capital as well as turnover (Eyiah *et al*., 2003). The Bolton report (1971) described a small business as having a small share of its market or alternatively a large share of a very small market. The business must be managed in a personalized way and not through the medium of a formalized management structure by the owners or part owners and should be independent in that it does not form part of a larger organization. Management should be free from outside control in taking principal decisions (Burns 1989). In Ghana, The National Board for Small-Scale Industries (NBSSI 1990) also defines small and medium enterprise as one which employs not more than twenty-nine persons with plant and machinery value (excluding land, buildings and vehicles) not exceeding the equivalent of US$100,000. It again applies both the "fixed asset and number of employees" criteria and defines a small-scale enterprise as a firm with not more than 9 workers, and has plant and machinery (excluding land, buildings and vehicles) not exceeding 1 million Ghana cedis. Kayanula and Quartey (2000, p.9) also observed that ".there is no single, uniformly acceptable definition of a small firm, because firms differ in their levels of capitalization, sales and employment. Hence, definitions which employ measures of size (number of employees, turnover, profitability, net worth), when applied to one sector, could lead to all firms being classified as small, while the same size definition, when applied to a different sector, like the construction sector could lead to a different result". The first attempt to overcome this definition problem was by the Bolton Committee (1971) as reported in Kayanula and Quartey (2000, p.7) "when they formulated an "economic" and a "statistical" definition."Under the economic definition, a firm is regarded as small if it meets the following three criteria:

- "Has a relatively small share of their market place";
- "Is managed by owners or part owners in a personalized way, and not through the medium of a formalized management structure"; and
- "Is independent, in the sense of not forming part of a large enterprise".

For small firms the number of people employed should be between 10 to 99 employees and medium firms the number of people should be between 100 to 200 employees. The value of fixed assets in the firm has also been used as an alternative criterion for defining small and medium Construction Firms. The definition of small and medium firms in industrialized countries is given as small - firms' employs 99 or less workers and medium - firms employs between 100-499 workers. The classification given for developing countries is small - firms employs between 5-19 workers and medium - firm's employs between 20-99 workers.(Elaian, 1996). The Ghanaian building construction firms comprises of a large number of firms of various sizes as registered and categorized by the Ministry of Water Resources, Works and Housing (MWRWH) as D1K1, D2K2, D3K3 and D4K4. Based on factors such as annual turnover, equipment holding, personnel etc, the D2K2 construction firms are medium and D3K3 and D4K4 are small firms. The firms, according to MWRW&H are registered as financial class 2 (the medium firms) are capable of undertaking projects up to US$ 500,000, while the small firms (financial class 3) which are also capable of undertaking projects up to US$ 200,000 and class 4 to undertake projects up to US$75,000. Small and Medium Construction Firms can therefore be defined as business or enterprise which, though mainly owner managed, employ between 5-10 and 100-200 people respectively and are pre-qualified and classified by MWRWH as D4 to D2 and class 4 up to class 2.

2.2 Challenges of SMCF in Accessing Finance

The challenges that Small and Medium Construction Firms encounter when trying to access financing can be due to an incomplete range of financial products and services, regulatory rigidities or gaps in the legal framework, lack of information on both the banks and the SMCFs side. Banks may avoid providing financing to certain types of SMCFs, in particular, start ups and very young firms that typically lack sufficient collateral, or firms whose activities offer the possibilities of high returns but at a substantial risk of loss. There are many challenges to construction development and growth. These include policies regulations, inadequate financial infrastructure, firm regulations, trade regulations, tax regulations, changing government policies, tax rates, corruption, labour regulations, cost of capital, and keen competition for limited opportunities (Uriyo 2004). Kayanula and Quartey (2000) argued that factor like availability and cost of finance are the most common constraints faced. Other are lack of collateral requirement, Informational barriers, Regulations and rules that impede construction firms access to finance, The legal framework and policies around investment and FI's lending are fundamental, Lack of access to appropriate technology, weak institutional capacity, Lack of management skills and training in the construction firms, Lack of proper book keeping etc. The legal and regulatory frameworks that exist in Ghana also fail to provide the right support infrastructure to facilitate SMCFs lending by the financial institutions. The lack of collateral, lack of proper financial management, lack of fiscal incentives for SMCFs, strict prudential regulations which restrict flexibility of FI's, unduly complex or onerous administrative procedures and even simply the lack of a consistent definition or enabling law for SMCFs are some of the impediments to SMCFs financing. A large majority of SMCFs do not employ a qualified individual to manage their finances and that, compared to other aspects of running the firms, confidence in dealing with financial issues was not high. Lack of adequate management skills, strategic and operational factors further exacerbate the failure of SMCFs in accessing finance. Even though SMCFs tend to attract motivated managers, they can hardly compete with larger firms.

2.3 Sources and types of financing to SMCFs in Ghana.

The sources of finance available to SMCFs could be from a variety of sources. These sources can be classified based on a number of factors which includes internal and external, formal and informal. It is also crucial for construction firms to choose the most appropriate source of finance for their several needs as different sources have its own benefits and costs.

There are many known method (forms) of finance to finance a new venture include: Equity Financing method includes promoters funds, family and friends, business angels, venture capital, capital markets. This is the act of raising money for company activities by selling common or preferred stock to individual or institutional investors. In return for the money paid, shareholders receive ownership interests in the corporation. (Schmid, 2001).Equity finance can sometimes be more appropriate than other sources of finance, e.g. bank loans. In this type of finance there is less cost which means interest is not paid on it. Raising finance through equity require much harder effort as investors need to be convince of the market potential and of the business and good returns expectations. Equity financing can serves as a powerful tool for small-firm development when used for the true reasons. When a company does not hold a sufficient record of achievement or the collateral needed for a bank loan, and if the owners do not have adequate personal savings, equity financing may be the only option when cash is required though a percentage of the ownership and profits is given up. Equity financing is used not only to secure cash, but as well to make key persons committed to the company's success.

Debt based finance method are those of microfinance banks, universal banks, non-bank Intermediaries, NGOs.Debt financing is a loan or direct obligation to pay back to a FI of what the firm borrowed. Debt finance exists in various forms and the tenure can be arranged in three principal terms thus, short term, medium term, and Long-term debt.

Most traditional lenders prefer manufacturing or industrial operations where funds will be used to purchase fixed assets, like land, buildings or production equipment than construction sector. The benefit of debt financing is that it is finite and the debt is paid over time to a zero sum balance without any further obligation to the lender. The biggest advantage of debt financing is that it allows the firm owner to retain control of his or her company, also interest payments are tax deductible; there is no dilution to existing equity holders. Others are Quasi finance method includes guarantees, performance bonds, tax savings, trade credit finance, factoring and invoice discounting; business angels financing; venture capital funding; and leasing and hire purchase.

2.4 The role of the financial institutions towards financing SMCFs

The financial sector plays an important role in the construction industry especially to the SMCFs by given the firm's financial services. The financial sector provides various financial services to the construction industry.

2.4.1 Role of banking sector

The primary roles of the banking sector are the acceptance of deposits and provision of FA etc. The banking sector also play a role in providing a number of important debt products which are used by SMCFs.These includes bank-overdraft facilities, bank loans, factoring and invoice discounting, asset finance and equity finance. The banking sectors currently provide most of these products very effectively to SMCFs in Ghana.

2.4.2 Role of Non-banking sector

Non-banking sector comprise a mixed bag of institutions. Traditionally, they included all FI's that were not classified as commercial banks. But with the assimilation of building societies and other thrift deposit institutions with commercial banks as institutions that accept deposits and make loans, non-banking sector have come to mainly include leasing, factoring and venture capital companies as well as various types of contractual savings and institutional investors. These all plays an important role in SMCFs financing in Ghana.

Non-banking financial sector are FI's that provide bank services without meeting the legal definition of a bank. Non-banking FI's offer most sorts of banking services, such as loans and finance facilities, trading in money markets, underwriting stocks and shares. The role of non- banking sector to the SMCFs is serving as effective financial intermediaries. These institutions also provide wealth management such as managing portfolios of stocks and shares, discounting services e.g. discounting of instruments and advice on merger and acquisition activities. However, they are typically not allowed to take deposits from the general public and have to find other means of funding their operations such as issuing debt instruments. Non-banking sector could play an important financing role providing the initial start-up capital to SMCFs.

2.4.3 Savings and finances cooperatives

Microfinance is the provision of financial and non financial services to the productive poor in creating wealth and reducing poverty. Microfinance can be said to be a development tool intended to bring economic benefits to the productive poor or the low income clients who for various reasons cannot access financial services from the normal or the traditional banks. The Financial services generally include savings, and finance; however, some microfinance organizations also provide insurance and payment services.

2.4.4 Security market and security intermediaries

The definition of 'Securities' as per the Securities Contracts Regulation Act (SCRA), 1956, includes instruments such as shares, bonds, stocks or other marketable securities of similar nature in or of any incorporate company or body corporate, government securities, derivatives of securities, units of collective investment scheme, interest and rights in securities, security receipt or any other instruments so declared by the Central Government of Ghana. Securities Markets is a place where buyers and sellers of securities can enter into transactions to purchase and sell shares, bonds, debentures etc. Further, it performs an important role of enabling corporate, entrepreneurs to raise resources for their companies and business ventures through public issues.

A securities market plays an important role in providing debt-finance services to SMCFs.Security market and security intermediaries provide bid bonds to SMCFs when tendering for construction projects. The securities segment of the capital market complement traditional lending institutions by providing risk capital and loan capital.

2.5. Policy framework for Small and Medium Construction Firms financing in Ghana

The regulatory and policy environment provided by the state and the range of financial support services provided by public agencies and private organizations, are just one set of factors that determine the competitiveness of construction firms. As far as institutional support is concerned, SMCFs can benefit from two types of support. First, there is the government's role in creating an enabling regulatory and policy environment for SMCFs access to FA. On the other hand, there is direct support through private and public agencies that provide FA and technical services to SMCFs. It is generally accepted that the government's most important task is to provide an enabling regulatory and policy framework. Such a framework should contain stable fiscal and monetary policy settings with reasonable interest rates, a system of financial markets that provides incentives to save, and mechanisms to channel savings into investments.

The problem does not appear to be a lack of funds but rather how to make them accessible to SMCFs. Available funds are often diverted to the larger firms and only an insignificant number of SMCFs seem able to attract bank financing.

3. Methodology

A cross-sectional survey was conducted to examine the challenges and barriers SMCFs faced in accessing FFs in Ghana. The populations included some SMCFs and FIs in two major cities in Ghana, namely, Kumasi and Accra. SMCFs are scattered across the length and breadth of the country with most of them located in Ashanti and Greater Accra regions of the country. These regions were identified to have high concentration of SMCFs. Most of the SMCFs are located in these areas, so are the financial institutions. Most of the financial institutions are located in the Greater Accra region of Ghana having branches across the various regions of the country. Due to the concentrated nature of SMCFs in Kumasi and Accra, coupled with the accessibility and available of information for the study, a convenience sample size of 50 SMCFs in these regions were chosen for the survey.

3.1 Research Instrument

In order to achieve the aim and objectives of the study, a semi-structured questionnaire was designed to gather information from the 50 SMCFs in Ghana. Since this study was one of the preliminary studies, the questionnaires was designed with question items requiring respondents to mention as many challenges as possible so it consisted of structured open ended questions to explore what challenges exist with accessing financial assistance from the respondents' banks and other financial institution towards the operations of their business. Respondents' consent was sought first using a informed consent cover letter and they were assured of anonymity and confidentiality of their responses. The survey generated a response of 31 out of 50 questionnaire sent constituting 62% response rate for analysis.

4. Analysis of Results

Table 1 shows the background characteristics of the SMCFs who participated in the study. In terms of the types of business organization, 74.2 % were private limited liability company, 19.4% were partnership business and 6.5% were sole proprietorship. In terms of monthly turnover, 25.8% of the construction firms earned less than GH¢15000, 22.6% of them earned between GH¢15,000 and GH¢25,000, 29.03% earned between GH¢25,000 and GH¢ 35,000, and a relatively small percentage, 9.9%, of the construction firms earned over GH¢35,000 as their annual turnover. In terms of sources of finance for expansion of their

Table 1 Background data on SMCFs

Item	Category	Frequency	Percentage
Business type	Private Limited Liability Company	23	74.19
	Public Limited Liability Company	0	0
	Partnership	6	19.35
	Sole Proprietorship	2	6.45
Monthly Turnover	Less than GH¢ 15,000	8	25.81
	GH¢15,000 – 25,000	7	22.58
	GH¢2,500 – 35,000	9	29.03
	Over GH¢ 35,000	3	9.68
Sources of finance for expansion	Bank loan	19	40.43
	Personal saving	14	29.79
	Retained profit	9	19.15
	Family and friends	5	10.64
Sources finance for start-up	Personal savings	14	45
	Family and friends	10	32
	Bank credit	6	19

Requirements for accessing loans	Collateral	18	25.71
	Cash flow statement	14	20
	Total asset	17	24.29
	Audited financial statement (account)	11	15.71
	Business plan	9	12.86
	Award letter	1	1.43
Interest on Loans borrowed	less than 20%	5	20.83
	21 – 30 %	13	54.17
	31 -40 %	6	25
Availability of loans	Yes	13	38.7
	No	19	61.3
Affordability of loans	Yes	10	32.26
	No	21	67.74

business, about 41% of them used bank loans, 29.79% of them relied on personal savings, 19.15% used retained profit, and about 11% of them used funds obtained from family and friends. In terms of sources of finance for start-up of these construction firms, 45% of them relied on personal savings, 32% depended on funds from family and friends and 19% obtained funds from banks to start-up their business activities.

In terms of the requirement for accessing loans from banks, about 26% of the SMCFs indicated that the banks demanded some collateral security from them, 20% of them were required to provide a cash flow statement of their firms' operations to the bank, 24% of them were required to provide some fixed asset for accessing the loan, 15% of them were required to submit an audited financial statement, about 13% had to produce a business plan of their present business for which they were going for the loans, and about 1.43% of them were to submit award letter from their business partners to access the loans.

In terms of the interest paid by SMCFs to the FIs, about 21% of the firms paid less than 20% interest rate on loans, 54.17% of them paid between 21% and 30% and 25% of them paid between 31% and 40% as interest rate on loans to the FIs,. In terms of the availability of loans, 38.7% of them indicated that loans are available to them, while 61.3% indicated that loans were not readily available to them. Moreover, in terms of affordability of the loans, to 32.26% of the firms, the loans were affordable, while to 67.74% of the firms the loans were not affordable to them.

4.1 Challenges and Barriers faced by SMCFs

The results of the survey for the challenges and barriers SMCFs face in accessing finance in Ghana are presented in Table 2.

Table 2 Challenges and Barriers to loan access in SMCFs in Ghana

Category	**No.**	**%**
Challenges to accessing finance		
Policy regulation	9	29.03
Inadequate financial infrastructure	6	19.35

lack of collateral requirement	6	19.35
Weak institutional capacity	9	29.03
Barriers to accessing finance		
Informational barriers	16	48.48
Lack of management skills	3	9.09
Weak institutional capacity	12	36.36
lack of managerial know –how	2	6.06
Ranking of lending rates		
Extremely high	6	19.35
High	23	74.19
Moderate	2	6.45
Low	0	0

According to the table 29% of the construction firms indicated that the policy regulation for the financing of firms by FIs, was not favourable to their business operations. 19.3% of SMCFs mentioned that inadequate financial infrastructure is another challenge they face when it comes to accessing FA from FIs, in Ghana. Moreover, according to 29% of the firms, they face the challenges of weak institutional capacity while 9.9% of them indicated that key challenge is that they lack the collateral requirements demanded by financial institution as a condition for accessing financial assistance.

On the barriers to accessing finance from financial institutions in Ghana, according to the data in Table 2, 48% of the SMCFs indicated that there is information barrier which implies communication gap between SMCFs and FIs, when it comes to managing the financial support to these firms. According to 9.09% of the firms, lack of managerial skills is a barrier to their access of FFs from FIs. 36% indicated that lack of institutional capacity is a barrier. Regarding the perception of lending rate of FIs, 19.35% of the firms perceived it to be extremely high, 74.19% perceived it to be high while 6.45% perceived it to be moderate. Thus a larger percentage perceived the lending rate to be high even though (Ayogyam, *et al*, 2012) indicated that interest rate in Ghana is generally low, this is not the case in the construction sector.

5. Discussion of Findings

According to the results (Table 1), most of the SMCFs are registered as private limited liability companies. This may be true for most developing countries like Ghana where SMCFs tend to operate as private limited companies rather than public limited company. This might possibly be due to the fact that most private individual who want to do construction business tend to consider working with people they could strongly trust. Such people tend to be from family and friends rather than from the general public since it would take some time for persons from the general public to be trusted and depended upon for strong business tiers. Another reason might be that the financial outlay needed to go public appears to be huge relative to SMCFs' annual turnover in Ghana.

Moreover, the results in (Table 1) show that most SMCFs have annual turnover between GH¢ 15000 - GH¢ 35000. This indicates a relative low turnover. Previous studies have found that low annual turnovers are a barrier to SMCFs, and tend to make it difficult for the firms to access finance from FIs (Mason, 2011). In Ghana, the kind of FIs operating in the country have limited interest in funding the SMCFs most especially those seeking funds as start-up capital for their firms because of the risk associated with new firms, where it is known that 8 out of 10 new firms fail within the first three years (Mason, 2011). In view of this, most SMCFs use their personal savings in establishing their construction firms, which in some case are inadequate to finance the start-up of the firm. This is evidenced in the results in the present study (Table 1), confirming that SMCFs finance the start-up of their firms considerably through personal saving and with the help of family and friends, apart from loans from FIs.

Furthermore, the study found that the main source of fund for expansion of SMCFs is financial support from FIs. The probable reason for this is that, to a large extent, since start-up financial support from personal savings tends to be relative small, it is not capable enough in sustaining the operations of SMCFs. Therefore, SMCFs tend to resort to and depend on mostly on external sources such as the banks, non-bank FIs in order to develop and expand their construction business operations. This is why the findings indicated that 77% of SMCFs applied for finance from FIs.

In addition to the above, the results indicate that importantly, most information required from SMCFs by FIs when accessing finance are collateral security, followed by total assert of the firms, audited financial accounts and cash flow statements. The inability of firms to meet these requirements could prevent them from accessing finance; most of the FIs according to the SMCFs require collateral from them. Consistent with other findings of the study, SMCFs tend to be unable to satisfy the requirements for accessing financial supports.

The results of the study also shows that about 80% of SMCFs pay an interest between 21 to 40% per annum on loans borrowed by SMCFs from the FIs in the country. Even for this, the results further indicated that 61% of the firms believe that the loans are not readily available for accessing and those that are available were perceived to be unaffordable by about 68% of the SMCFs and high by about 93%.

Notably, the results indicated that the prominent challenges facing the accessibility of FA to finance SMCFs are Policy regulation, inadequate financial infrastructure, and lack of collateral requirement and weak institutional capacities of SMCFs in Ghana. Policy regulations are institutional guidelines for governing the financing of firms by FIs. These policies may be favourable or unfavourable to SMCFs depending on a number of factors such as size of firm, annual turnover, the industrial dynamics, and a number of other firms seeking finances at a time with a given FI, among others. The study indicated that such regulations are a challenge to SMCFs (Abor *et al*., 2006) in Ghana.

Financial infrastructure has to do with the institutional framework or legalities governing accessing FFs from FIs in the country. In Ghana, this study reveals that the inadequacy of these financial infrastructure poses a big challenges to the accessing of FFs by SMCFs since such infrastructures are not well developed, especially to cover all relevant areas of the financing the operations of SMCFs, both the income generating and non-income generating ventures (Abor *et al*., 2006).

Collateral securities are used by FIs as requirements for accessing FFs in many countries (Abor *et al*., 2006; Menkhoff *et al*., 2006). However, where collateral security is too expensive to come by it restricts the access to FFs. The results of this study indicate that meeting the provision of collateral security requirement pose a major challenge to SMCFs in accessing FFs in Ghana.

On the barriers to accessing FFs from FIs, the results of the present study show that the key barriers faced by SMCFs in Ghana include: Informational barriers, lack of managerial skills and weak institutional capacity. Regarding information provision by the banks to SMCFs, the results indicated that it is a barrier because SMCFs need to be informed and understand the kind of financial products and services available for their access. This, according to the respondents, tends to be lacking making it difficult for them to access the needed and available financial products from most FIs (Ayogyam *et al*., 2012).

Managerial competencies are sets of knowledge, skills, behaviors and attitudes that contribute to personal effectiveness (Hellriegel *et al*., 2008). Managerial competencies are very important to the survival and growth of SMCFs. Lack of managerial experience and skills are the main reasons why SMCFs fail in accessing finance. This probably is because seeking financial assistance from FIs requires some negotiation skills and insight into financial management in order to be effective in winning the confidence of financial partners and their financial support. These SMCFs personnel might have not been able to acquire such needed managerial skills and knowledge to enhance their financial management.

Last of all, the study found weak institutional capacity to be a barrier to SMCFs access to FFs in Ghana. Institutional capacity in a sense refers to ability of these SMCFs to come together to identify and solve implementation problems regarding their source of financing their construction operations and activities (Abor *et al*., 2006; Ayogyam *et al*., 2012). Until these SMCFs form formidable front of institutions to champion their cause, it could be very difficult for them, and therefore become a barrier in accessing finance from FIs in the country.

6. Implications and recommendations

The study has important theoretical and managerial implications. Theoretically, the study provides preliminary evidence on the challenges faced by SMCFs in accessing FFs from FIs in developing country contexts. This has been lacking in the construction management literature in Ghana for a long time.

Since the study found that most SMCFs are private limited liability companies, and that this could be attributable to low trust and huge financial outlay needed to form public companies, it is recommended that government should partner with some of the SMCFs in forming public companies. Government could also take over some of these companies and develop them into a full fledge construction firm to boost the construction based of the economy.

Also, since the study found that most SMCFs use their personal savings in establishing their construction firms, which in some cases are inadequate to finance the start-up of the firm, it is recommended that government and other stakeholders should keep developing innovative ways of meeting the problem of inadequate sources of funds for SMCF start-ups.

Based on the findings of the present study, the following recommendations are made:

- To improve easy access to finance, SMCFs should endeavour to form strong associations to champion their course since financial institutions believe that being in association can help them to get the right information about the firms towards gaining FA, to reduces FIs inability to trace some SMCFs to recover their loans, thereby increasing the risk of defaulting by the firms. This might go a long way to reduce any bad image of SMCFs in loan default.
- There should be provision of incentives for FIs lending to SMCFs by government and other international stakeholders. Again, although FIs may be faced with constraints, they have the capacity to mobilize financial resources to enhancing their ability to offer credit facilities to SMCFs as and when needed.
- The government through innovative initiatives should encourage specific training institutions and NGOs to provide training to SMCFs on entrepreneurial, management skills in areas like negotiation skills, writing business plans and proposal, effective records management, basic legal training in law of the country, among others.
- Government should institute some form of tax incentives to FIs involved in SMCFs lending. This will encourage other FIs to consider the option of lending to SMCFs.
- FIs that are not into SMCFs financing could consider setting up a SMCFs division or department to provide specialized services to SMCFs such as extending the repayment duration of loans. For large FIs that already have such divisions, they are usually perceived to be less important compared to other corporate lending divisions. Elevating the importance or status of SMCFs divisions would encourage greater interest and focus on the SMCFs.
- SMCFs should also reduce the reliance on banks and take advantage of institutions such as Venture Capital Trust Fund (GVCTF) and Micro Finance and Small Loans Centre (MASLOC) set up by the state to assist them in terms of finance.
- SMCFs are encouraged to adopt sound and rigorous financial management practices in order to reduce loan defaults, financial loss and mismanagement of financial resources that characterize small and medium scale enterprises in general.
- There should be dialogue between SMCFs and the FIs through trade fairs, open days, financial forums that are capable of bring to light the challenges of SMCFs and how they could be addressed effectively.
- Stakeholders in the construction industry should embark on strategic programmes to promote the development of skills in areas of management, technical, book-keeping, advisory to enable the SMCFs run their firms profitably to be able to repay loans.
- FIs in Ghana are encouraged to rethink and develop more innovative approaches to their

requirement for granting financial facilities to SMCFs. Eligibility criteria and accessing funds should be made a bit more flexible to enable more SMCFs to qualify for access to these funds.

- Establishing of factoring services by banks and non bank financial services. Factoring is a lending product which enables a company to collect money on credit sales (Ackah at al., 2011).Factoring as it is well known will help SMCFs breathe in some air when it comes to the management of their account receivable because it has numerous benefits.

7. Limitations and future research

One limitation of this study is that it uses a relatively small sample size of SMCFs. It is recommended that future studies should improve upon the sample size and use a combination of qualitative and quantitative approach to provide more evidence to support the findings of this study. Future studies could attempt to measure the extent of the accessibility in obtaining FFs by SMCFs in Ghana.

8. Conclusion

The study sought to explore the challenges and barriers in accessing FFs by SMCFs in Ghana. The challenges revealed by the study includes: Inability of SMCFs to provide collateral and other information needed by financial institutions such as audited financial statement couple with the high cost of FFs in terms of high interest rates makes it extremely difficult to access finance. In the light of the key findings, policy actions should include better information provision regarding the various sources of finance. The results of this study revealed low awareness and usage levels of the various financing initiatives among SMCFs. Most of the schemes are perceived as difficult to access. The difficulties SMCFs often face in accessing these funds include: lack of securable assets, lack of knowledge by finance providers about the nature of respondents business, stringent eligibility criteria, lack of knowledge about lending criteria, difficulty in finding out about available finance, and bureaucracy. These really limit SMCFs' ability to access FFs from these initiatives. Suggestions and recommendations for overcoming these challenges and barriers have been provided to management, government and other stakeholders in the built environment and financial sector.

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Francis Kwesi Bondinuba is a Quantity Surveyor by profession and a lecturer by occupation at the Department of Building Technology, Kumasi Polytechnic. After his HND in Building Technology from Kumasi Polytechnic in 1999, he worked in the private sector within the built environment with many construction companies in Ghana, before earning a B.Sc, (Hons) in Building Technology from KNUST in 2007, and then a M.Sc. in Construction Project Management from *Hogeschool van Arnhem en Nijmegen (*HAN University*)* The Netherlands in 2009.

He led many local and international innovative construction project management assignments and consultancies including Ernest Payer Foundation of Switzerland and German Development Cooperation (GIZ).He is committed to the expansion of opportunities in research and development in areas such as Construction Projects Infrastructure Financing, Sustainable and Affordable Housing Research, Decision Support Systems for Infrastructure Project Management, Knowledge Management and Construction Industry Development issues etc.