

FINANCING SMALL AND MEDIUM ENTERPRISES (SMES) IN GHANA: CHALLENGES AND DETERMINANTS IN ACCESSING BANK CREDIT

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ABSTRACT

Access to credit is crucial for the growth and survival of Small and Medium-sized Enterprises (SMEs). Thus policy makers attempt to pursue financial sector policies to propel financial intermediaries to extend more credit to SMEs. Access to credit still remains a challenge to SMEs especially those in developing economies and continues to dominate discussions both within business circles and at the corridor of various governments. In Ghana, for instance, a survey by the Association of Ghana Industries (AGI) for the second quarter of 2011 indicated that lack of adequate access to credit topped the factors hampering the growth of small businesses in Ghana.

The ability of SME's to grow depends highly on their potentials to invest in restructuring, innovation etc. All of these investments need capital, and therefore access to finance. Against this background the consistently repeated complaint of SME's about their problems regarding access to finance is a highly relevant constraint that endangers the economic growth of countries.

The general objective of this study is to examine the challenges and determinants of access to bank credit in Ghana by focusing on SMEs in the Wa Municipality. The study employed the quantitative approach to research in which the probability sampling criteria specifically the stratified and simple random sampling was employed to select eighty entrepreneurs from the Wa Municipality. The major findings for the study indicated that there exist significantly, positive relations between certain attributes of a firm and access to credits. There are also, some financial activities such as business registration, documentation/recording, business planning, asset ownership, and others that also impact heavily on SMEs access to bank credits.

Key Words: *Financial Intermediaries, Access to Credit, Economic Growth, Determinants, Challenges*

1.1 BACKGROUND TO THE STUDY

Access to credit is important for the growth and development of Small and Medium-sized Enterprises (SMEs). However, access to credit is still a challenge to most SMEs, especially those in developing economies and it is also still a key issue both within the private and public sectors. In Ghana, the Association of Ghana Industries (AGI) stated that lack of adequate access to credit is the leading factor stifling the growth of small businesses in Ghana (AGI, 2011).

Very demanding requirements, in addition to the bureaucratic lending procedures by the formal financial institutions is the biggest challenge to credit

access by SMEs. This is also what leads most SMEs to resort to informal financial institutions such as savings and loans companies, traditional money lenders, friends and relatives. Financial Repression Hypothesis and the Credit Rationing Theory captured this phenomenon as explained in Graham (1996) and Udell (1992). They assert that policies (such as the imposition of ceilings on deposit and lending rates, directed credit policies and exchange rate controls) that lead to artificially low interest rates and high reserve requirements often result in financial market distortions. Such distortions are basically in the form of fragmented financial markets where the financial needs of SMEs crowd out of the financing activities of formal financial institutions. In the end, low risk borrowers (including SMEs) do not have access to formal financial institutions hence resorting to the informal financial institutions for assistance; which in

most cases are not adequate (Graham, 1996 and Udell, 1992).

Fernando, Chakraborty and Mallick (2002) revealed that, "For small businesses, owner characteristics may be the most important determinant of the banks' credit decisions. However, most of these attributes cannot be unambiguously documented by any dataset (Stein, 2000). For instance, the owner might be a skilled entrepreneur with specialized knowledge and experience in a field or enterprise. For the bank, the owner's expertise may rather be the most important determinant in making a credit decision. Sociologically, interactions between the bank and firm overtime could lead to private networks of social relations between entrepreneurs and bank officials, leading to higher credit limits (Uzzi, 1999).

Sharpe (1990) on the other hand, attributed the cause of financial market malfunctioning to information asymmetry which compels financial institutions to adopt non-price strategies such as credit rationing in allocating credit in imperfect markets. To them, interest rates are used as a screening device to distinguish good borrowers from the bad ones. Individuals who are willing to pay high interest rates are, on the average, worse defaulters; they are willing to borrow at high interest rates because they perceive their probability of repaying the loan to be low. Alternatively, low risk borrowers (including SMEs) who are faced with high interest rates, all other things being equal, will be expecting negative returns and thus are eliminated from the stream of potential borrowers. Therefore low risk borrowers such as SMEs may not go to the formal financial institutions for credit, thus limiting their access to credit.

The study has the objective of examining the determinants of access to bank credit in Ghana by SMEs. It attempts to find out the factors that distinguish successful loan applicants from unsuccessful applicants.

THEORITICAL ISSUES

2.1.1 Small and Medium-sized Enterprises (SMEs)

SMEs are businesses that are basically privately owned and operated, with a small number of personnel, and a relatively low volume of sales. Small businesses are normally privately owned corporations, partnerships, or sole proprietorships. There is no universally accepted definition of a small and medium-sized business. The legal definition of a

"small sized enterprise" depends on each country, ranging from fewer than 15 employees under the Australian Fair Work Act 2009, to fewer than 500 employees in U.S, which qualifies a business for the small business Administration Programme. The European commission (2003) defines SMEs as enterprises which employ fewer than 250 persons and/or have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million. Thus, the definition of SME varies and is dependent upon whose point of view (Taylor and Adair 1994).

In Ghana, the most commonly used definition of SMEs is the number of employees of the enterprise. In applying this definition, however, there is some controversy in respect of the arbitrariness and cut off points used by the various official records (Dalitso and Quartey, 2000). The Ghana Statistical Service (GSS) defines small businesses as enterprises that employ less than 10 persons while those that employ more than 10 people are classified as Medium and Large-Sized Enterprises. Alternately, the National Board for Small Scale Industries (NBSSI) in Ghana utilized both the 'fixed asset and number of employees' criteria to define SMEs. According to the NBSSI, enterprises with not more than 9 workers, has plant and machinery (excluding land, buildings and vehicles) and not exceeding 10 million Cedis (US\$ 9506, using 1994 exchange rate) are considered as Small Scale Enterprises.

The operational definition of SMEs for this study is the one by Osei et al. (1993). They used employment in defining SMEs. Osei et al classified SMEs into four main categories; micro enterprises are those that employ less than 6 people; (ii) very small enterprises constitute those employing 6-9 workers; small enterprises are business units that employ between 10 and 29 employees while medium sized enterprises are those that employ between 29 to 50 people. Hence, for this study, SMEs are enterprises that employ not more than 50 people. The choice of this definition is reflective of the situation in Ghana and allows for a wider inclusion of many enterprises in the study.

In view of the above definition, the following are some informal sector groupings of SMEs in Ghana. The Ghana Private Road Transport Union (GPRTU), Ghana National Chemical Sellers Association, Ghana National Tailors and Dressmakers Association, National Drinking Bar Operators Association, Chop Bar Keepers and Cooked Food Sellers Association, Hair Dressers Association of Ghana, Susu Collectors

Association, Blacksmiths and metal workers union, amongst many (Yankson,1992).

Access to Finance

Access to credit (also referred to as financial inclusion) can be seen as the absence of both price and non-price barriers in the use of financial services. In literature, there are many supporting and skeptical arguments about SMEs access to credit. Lending to small businesses can be seen to be time consuming and costly for banks and other financial intermediaries. Such small firms lack proper accounting procedures and owners easily mix their business and personal finances, making their financial statements often unreliable. This study considers loan applicants whose loans were approved by commercial banks as having access to credit and those whose loan application were rejected are seen not to have access to credit.

Inefficiencies in Financial Markets

Some small businesses may not contact formal financial institutions for credit because of the lending requirements. They therefore end up going to the informal financial institutions such as Savings and Loan Companies, traditional money lenders, friends and relatives for credit. This subsequently reduces their access to credit (both price and non-price) for expansion and growth.

The Credit Rationing Theory and Access to Finance

The credit rationing theory, propounded by Stiglitz and Weiss (1981), provides a framework for analyzing financial market inefficiencies. It asserts that, information asymmetry is the main cause of financial market malfunctioning in developing countries. Banks that advance loans to economic agents are not only interested in the interest they receive on loans, but also the risks of such loans. Also, the interest banks charge on loans have the tendency to affect the risks of a pool of loans by either sorting potential borrowers (the adverse selection effect) or affecting the behavior of borrowers (the moral hazard problem). The end result of these two decisive problems are that banks have to resort to various screening means to identify potential borrowers who are more likely to pay back their loans; since the expected return on such loans depends crucially on the probability of repayment. One of the methods of screening suggested by Stiglitz and Weiss is the interest rate that an individual is willing to pay. This is because, given the efficient financial markets hypothesis, individuals

who are willing to pay high interest rates may on the average not pay back the loans collected and banks are mostly discouraged to give loans to such borrowers. On the other hand, low risk borrowers, faced with high interest rates, all other things being equal will be expecting negative returns and hence will not go for such loans. Therefore, in our world today where people can easily get all the information they need, banks could precisely predict all actions by borrowers but may not be able to control such actions. The terms of loan contract are thus designed (by banks) in a manner that induces borrowers to take actions in the interest of banks, and that also attracts low risk borrowers. For both reasons, the expected returns of banks increase less rapidly than the interest rate and beyond a certain point, actually declines. The moral hazard problem, on the other hand, is that a risk-neutral firm will prefer projects with low probability of bankruptcy and hence make lower expected returns.

Stiglitz and Weiss (1981) further argued that the problem of adverse selection and credit rationing can again occur if banks require collateral for loans. They argue that since low-risk borrowers (borrowers who face a lower rate of return if a project returns its highest outcome) expect a lower rate of return if the rate of inflation is high, they are on the average less wealthy than high-risk borrowers (after some time period) and even, are unable to provide more collateral for extra loans (as they may not have the necessary collateral). Thus, as the collateral requirements for loans by banks increase, the same adverse selection problem, as observed in the case for high interest rates, takes place. Altogether, low risk borrowers (which likely include SMEs) are eliminated from the stream of potential borrowers and banks may not be interested in granting loans to them.

The most important conclusion from Stiglitz and Weiss argument is that information asymmetry in the form of adverse selection and moral hazard is the source of market inefficiency in developing countries and this leads to low risk borrowers such as SMEs being sidelined or even excluded from the stream of potential borrowers.

2.3 Entrepreneurial Characteristics and Access to finance

The characteristics of owners of small and medium-scaled enterprises cannot be easily separated from their business. This is because most SMEs are mainly made of sole proprietorship and partnership form of

business where ownership is inseparable from control. Even in the case of limited liability companies where there exists a separate legal entity, ownership can rarely be separated from control. A number of studies on entrepreneurial characteristics and SMEs access to credit focus on factors such as the managerial competence, level of education, experience, age and gender of SMEs owners.

Schmitz (1982) asserted that small scale producers in developing countries fail to expand primarily because they lack managerial ability, and that the issue of managerial competency is one of the criteria used by banks in taking their lending decisions.

Access to Finance and SME Development

Steel and Webster (1991) observed that despite the wide-ranging financial reforms instituted in various regions, SMEs face a variety of constraints due to the difficulty of absorbing large fixed costs, the absence of economies of scale and scope in key factors of production, and the higher unit costs of providing services to smaller firms. Below is a set of constraints identified within SME development.

Access to finance remained a dominant constraint to small scale enterprises. Credit constraints pertaining to working capital and raw materials are cited by respondents in a survey conducted by Parker and others (1995). Aryeetey et al (1994) reported that 38% of the SMEs surveyed in Ghana mention credit as a constraint; in the case of Malawi, it accounted for 17.5% of the total sample (Daniels and Ngwira, 1993). This stems from the fact that SMEs have limited access to capital markets, locally and internationally, in part because of the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms. As a result, SMEs often cannot obtain long-term finance in the form of debt and equity.

To Antwi-Asare and Addison (2000) the Financial Institutions Structural Adjustment Programme (FINSAP) generally addressed the structural and institutional weaknesses of the financial sector in Ghana. They held the view that a strong and competitive financial sector could make significant contributions towards increasing access to finance by businesses. It is right to suggest that the financial sector liberalization was to provide access to funding for SME's. Most studies consider the access problem as a creation of the financial institutions through their lending policies. For instance, Tagoe, et al (2005)

indicated that the type of financial institutions and its credit policy will determine the access problem. Where required security does not fit the needs of target group, potential borrowers will not apply for credit even where it exists and when they do, they will be denied access.

According to Abor and Quartey (2010) financial intermediaries that uses the asset-based lending techniques looks at the underlying assets of the firm (which are taken as collateral) as the primary source of repayment. For working capital financing, banks use short-term assets, such as accounts receivable and inventory. For long-term financing, they use equipment. He noted that the pledging of collateral by itself does not distinguish asset-based lending from any of the other lending technologies. Collateralization with accounts receivable, inventory and/or equipment is often associated, for example, with financial statement lending, relationship lending, and credit scoring where collateral is used as a secondary source of repayment. Ideally, small businesses should have well-established systems for gathering information and forecasting, and also addressing several constraints to minimize the access to credit problem.

RESEARCH APPROACH

The study used the quantitative research approach. The various SMEs were stratified and given quotas. This method was used due to the heterogeneity of small and medium scale enterprises in the metropolis. It allowed a fair representation of the various types of SMEs in Ghana. As a result, data was solicited from these respondents using questionnaires of both close-ended and open-ended questions. Again, choice of the tool was to enable SME operators to attend to the questions at their own convenience and pace though in a specified time.

Population and Sampling Techniques

The population studied consist of the small and medium scale enterprises in the Wa Municipality. This sample frame was further stratified into categories of small and medium scale enterprises with common characteristics. According to Trager (1987), no one doubts that small scale enterprises are heterogeneous since they are everywhere. Saunders et al. (2000) cited in Ofori (2009) indicated that, "dividing the population into a series of strata means that the sample was more likely going to be representative, as it can ensure that each of the strata

was represented proportionally within the sample". Following the pattern of registered small and medium scale enterprises issued by the office of the Registrar General – Wa, the following categories of small and medium enterprises were identified; Chop bar operators/fast-food operators/restaurants, Textile/Leather Works, Woodworking, Metal Fabricating, Repair Services, Auto repairs, chemical sellers/pharmacies, and retailers, spare part dealers, motorbike dealers, hair dressers/barbers and sachet water producers.

It is worth noting that, the list of registered entrepreneurs or small and medium scale enterprises was only to serve the purpose of guiding the researcher's process of classifying and determining the size of eighty (80) small and medium scale enterprises in the metropolis. It helped to accurately group and ensure all groups are represented. It also included SMEs there were not registered with the Registrar Generals Department since it took a general look at SMEs' access to bank credit.

FINDINGS

Entrepreneurial Characteristics and their Influence on Bank Credit Accessibility

The findings highlight some entrepreneurial characteristic of Small and Medium Scale enterprises and how they affect their access to bank credit in the Wa Municipality. It specifically discusses gender, age, marital status of entrepreneurs, the number of dependents, educational background, and social participation of entrepreneurs.

Entrepreneurial Gender and Access to Bank Credit

In an attempt to determine credit accessibility of small and medium scale enterprises based on the gender of the operator or the owner, the study

revealed that, 72.5% of respondents were male while 27.5% of respondents were female. Fourteen (14) entrepreneurs who were males had applied for bank loans and were given the loans. No female respondent had her loan application approved. It was further discovered that, 66.7% male and 33.1% female respondents had applied for loans but were not approved and given loans by the banks. Interestingly, about 66.7% male and 33.3% female entrepreneurs did not apply for bank loans at all indicating that, they had relied on other sources of funds to finance their operations. In all it could be explained that, of the total respondents studied, only 14 had access to bank credits while 15 of them applied for loans but were rejected. However, 51 of them did not apply for any form of loan and have relied on other sources of funds to finance their operations. These discoveries contravene the position of Pearson and Greeff (2006) who argued that, due to women's ability to carefully manage tighter budgets coupled with the possibility of lower default among women, they could be more favoured by financial institutions in terms of credit facilities. While the situation seems to concur with the assertion of Bennet and Goldberg (1993) that, women may face greater constraints in the credit market due to land tenure systems and other cultural practices which forbids women from acquiring properties in some traditional societies. It was realized that the inability of women to access bank credit in the Wa Municipality could be a result of such traditional practices which hinders the empowerment of women in the community. However, most financial institutions prefer to give loans to such women who form groups as the group serves as a form of collateral in case a member defaults. It is also observed that the economic activities in the metropolis are male dominated. Hence, male entrepreneurs in the Wa Municipality are more favoured in the credit market than their female counterparts. This is depicted on Table 1.

Table 1: Cross Tabulation of Gender * Bank Credit Accessibility

Gender	Count	Bank Credit Accessibility			Total
		Yes: applied & approved	Yes: applied but not approved	No to all	
Male	Count	14	10	34	58
	(%)	100.0%	66.7%	66.7%	72.5%
Female	Count	0	5	17	22
	(%)	.0%	33.3%	33.3%	27.5%
Total	Count	14	15	51	80
	(%)	100.0%	100.0%	100.0%	100.0%

Source: Authors Field Survey, January 2013

Entrepreneurial Age and Access to Bank Credit

With regards to the age of entrepreneurs and credit accessibility, the study revealed that 21.4% of male entrepreneurs who had their loan applications approved successfully were between the ages of 20-30 while 26.7% of entrepreneurs also found within the same age group were discovered to have applied for loans but were rejected. The study further discovered that, 23.5% of entrepreneurs within that same age group (20-30) did not apply for loans at all. With regards to those between the ages 31 and 40, it was seen that, 50.0% of entrepreneurs within that age were granted loans while 40.0% of them applied but were not granted loans. However, 45.1% of entrepreneurs within this age category said they have never applied for any form of bank loan. Interestingly, 28.6% of entrepreneurs in the older age group of 41-50 years have accessed loans while 33.3% applied for loans but were rejected. About 31.4% of entrepreneurs within this age group (41-50) also said they have never applied for any bank loan either to start or expand their businesses. From the data, entrepreneurs within the age group of 31 to 40 years can be said to be more credit worthy since they received more credit from financial institutions than any other age group. It could be asserted that, older entrepreneurs may be wiser and more responsible than younger ones hence the positive relationship between age and experience in business management. This explains commercial banks' willingness to

extend more credit to the older entrepreneurs than the younger ones.

Firm Characteristics and Access to Bank Credit

This section looks at some features of the entrepreneurial firm and their influence on bank credit accessibility in the Wa Municipality. These features include the industry sector, the size of the firm in terms of employees, the ownership structure and location of the venture.

4.2.1 The Industry Sector and its Influence on Bank Credit Accessibility

The study again revealed that, of the male entrepreneurs whose loan applications were granted, 42.9% were operating within the agriculture and/or the production sector which in the course of this study include entrepreneurs in the furniture and carpentry works, and metal/aluminum fabrication. It was also discovered that, 57.1% of entrepreneurs whose loan applications were granted operate in the service sector which for the purpose of this study includes the chop bar/restaurant/fast-food operators, the auto mechanics, general retailers and motor bike dealers. Of the total number of respondents who applied but could not be granted loans, 53.3% were found to have been operating in the agriculture and/or production sector while 46.7% were in the service sector.

Table 2: Cross Tabulation of Industry Sector * Access to Credit

Sector	Count	Access to Credit			Total
		Yes: applied & approved	Yes: applied but not approved	No to all	
Agric./Prod.	Count	6	8	16	30
	(%)	42.9%	53.3%	31.4%	37.5%
Services	Count	8	7	35	50
	(%)	57.1%	46.7%	68.6%	62.5%
Total	Count	14	15	51	80
	(%)	100.0%	100.0%	100.0%	100.0%

Source: Field Survey, January 2013

Again, of the entrepreneurs who did not apply for loans, 31.4% were in the production sector of the economy while 68.6% provide services and support to the consumer group. It could be said that, due to failure of the production process which is usually the case with agricultural and production processes in Ghana, financial institutions would rather give loans to those in the service sector. This confirms Roslan and Karim (2009) assertion that, banks may be more willing to extend credit facilities to SMEs in the services sector than those in the agricultural sector due to the high level of risk associated with the latter. This information is however presented on Table 2 shows the access to credit by industry.

Specific Industry Sectors and their Access to Credit

A further study into the industry sector and its credit accessibility revealed that, of the 57.1% entrepreneurs in the service sector, 35.7% are into retailing while 21.4% of them provide technical services such as auto repairs, and hair dressing/barbering. The 42.9% entrepreneurs discovered to have been in the production sector are particularly in the manufacturing fields of furniture and carpentry works, welding/metal fabrication and leather works as shown in Table 3.

Table 3: Cross Tabulation of Specific Industry Sector * Access to Bank Credit

Specific Ind. Sector	Count	Access to Bank Credits			Total
		Yes: applied & approved	Yes: applied but not approved	No to all	
Retailing	Count	5	0	11	16
	%	35.7%	.0%	21.6%	20.0%
Servicing	Count	3	7	24	34
	%	21.4%	46.7%	47.1%	42.5%
Manufact.	Count	6	8	16	30
	%	42.9%	53.3%	31.4%	37.5%
Total	Count	14	15	51	80
	%	100.0%	100.0%	100.0%	100.0%

Source: Field Survey, January 2013

Determining the Firm Size by Employee-size and Returns

With regards to the size of the firm and its accessibility to bank credit, the study discovered that, of the 14 entrepreneurs who were able to access loans, 50% had an employee size of 1 to 3 while

21.4% had about 4 to 6 employees. In addition, 14.3% of these entrepreneurs also said they have more than 7 employees. There were also, 14.3% of these entrepreneurs who accessed loans yet did not have any employees in their ventures. Of the number of entrepreneurs who applied for loans yet did not access it, 73.3% were noted to have had 1 to 3

employees whilst 26.7% were also found to have employed between 4 to 6 workers. These numbers of employees however run through the other entrepreneurs who did not attempt any loan applications. Whiles these employee numbers confirms the smallness of the ventures and for that

matter their categories, it is also worthy to note that, financial institutions have higher preference for small and medium scale enterprises with very few number of employees as opposed to those with a large human resource base. See Table 4.

Table 4: Cross Tabulation of No. of Employees * Access to Bank Credits

No. of Employees	Count	Access to Bank Credits			Total
		Yes: applied & approved	Yes: applied but not approved	No to all	
1-3	Count	7	11	17	35
	%	50.0%	73.3%	33.3%	43.8%
4-6	Count	3	4	20	27
	%	21.4%	26.7%	39.2%	33.8%
7-10	Count	2	0	8	10
	%	14.3%	.0%	15.7%	12.5%
None	Count	2	0	6	8
	%	14.3%	.0%	11.8%	10.0%
Total	Count	14	15	51	80
	%	100.0%	100.0%	100.0%	100.0%

Source: Field Survey, January 2013

In terms of returns, it was realized that about 48.8% of entrepreneurs could not ascertain their monthly returns from their businesses while 51.2% were able to tell their monthly returns from their businesses. Whiles there is doubt as to whether the figures given by these entrepreneurs represent the true situation of their yields, it is also worthy to note that, only 28.6% and 14.3% of entrepreneurs who had loans were able to declare their returns ranging from Gh¢300 to Gh¢699 and Gh¢1400 to Gh¢1700 respectively. About 57.1% of the entrepreneurs who accessed loans were not able to figure out their monthly returns from the business. Again, while this situation brings to mind the question of how they accessed their credits, there is also the notion that small and medium scale enterprises are mostly characterized by the inability to ascertain their financial status at any given point in time due to bad record keeping habits among them. However, this position is a confirmation of the earlier discovery that, financial institutions in the Wa Municipality do not consider high levels of education as an aid to easy access to credit. Perhaps, this could form the basis for a further study among banks as to what factors they consider most as aids in advancing credits to SMEs in the Wa Municipality.

4.2.4 Ownership Type of Business and Access to Bank Credit

With regards to the type of business ownership and its influence on bank credit accessibility, it was realized that 100% of entrepreneurs who had access to credits were sole proprietors while 100% of those entrepreneurs who applied for loans but were not granted were also identified to have been sole proprietors. However, 90.2% of entrepreneurs who did not attempt any loan application were also noted to have been sole proprietors while 9.8% of them were recognized to be in partnership and of limited liability status. Hence, with the dominance of small scale enterprises in the Ghanaian economy, it is mainly the small businesses with very few employees that financial institutions in the Wa Municipality advance loans to. It could be that they apply for loans that the banks perceive can easily be paid back. However, it is also worth noting that, the metropolis is largely dominated by the activities of these small and medium scale businesses hence the stated choice of the financial institutions in it. This is illustrated in Table 5.

Table 5: Ownership Style * Access to Bank Credit

Ownership	Count	Access to Bank Credit			Total
		Yes: applied & approved	Yes: applied but not approved	No to all	
Sole prop.	Count	14	15	46	75
	%	100.0%	100.0%	90.2%	93.8%
Partnership /Ltd. liability co.	Count	0	0	5	5
	%	.0%	.0%	9.8%	6.2%
Total	Count	14	15	51	80
	%	100.0%	100.0%	100.0%	100.0%

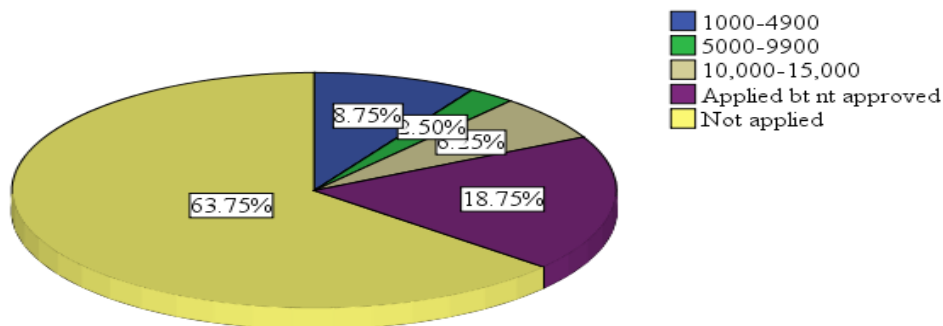
Source: Field Survey, January 2013

Loan Amounts and Purposes for which SMEs seek Bank Credits

The study further realized that, of the 14 entrepreneurs who were granted loans from financial institutions, 8.8% were granted credit within the range of Gh¢1000 to Gh¢4900 while 2.5% of them were also granted credits within the range of Gh¢5000 to Gh¢9900, the number of entrepreneurs who applied but were not granted loans is represented by 18.8% while those who did not apply at all are represented by 63.8% as demonstrated in Figure 1. About 6.3% of these entrepreneurs also accessed a credit amount of Gh¢10,000 to Gh¢15000. The

purposes for which 20% of both entrepreneurs who accessed loans and those who could not was that they wanted the loan to use as start-up capital while 16.3% also said that, the essence of the applied loans were for working capital and for business expansion activities. It can be seen that, whilst SMEs unlike the larger organisations and business societies seek for loans which are significant to their sizes, their purposes however do not differ in any way. This could be a starting point for financial institutions to acknowledge the need to nurture smallholders to become large while they benefit as well from their growth without strict and formal loan requirements

Figure 1: Loan Amounts approved to the Entrepreneurs



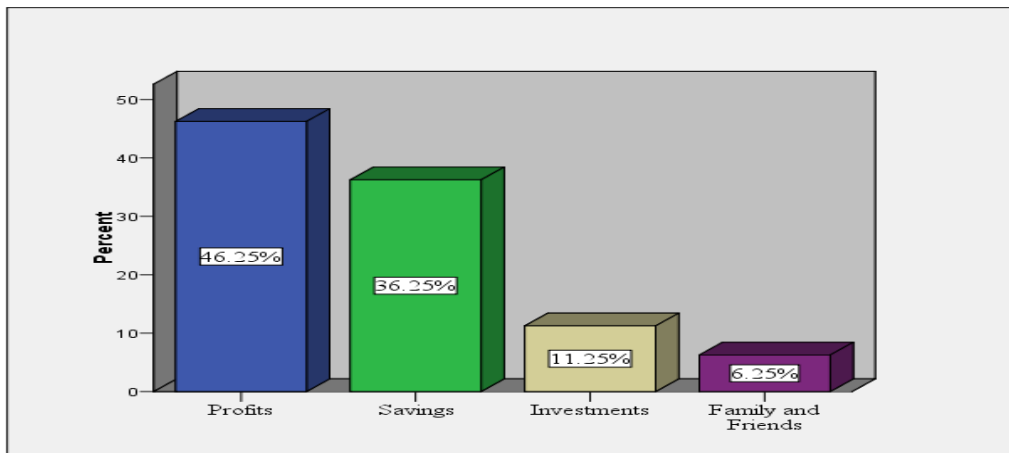
Source: Field Survey, January 2013

Other Sources of Finance Available to SMEs in the Wa Municipality

In an attempt to determine whether SMEs in the metropolis have access to other sources of finance in their ventures, it was revealed that 46.3% of respondents sampled plough back their profits in an effort to expand their businesses whilst 36.3% of entrepreneurs use savings accounts to finance their ventures. About 11.3% of entrepreneurs also use

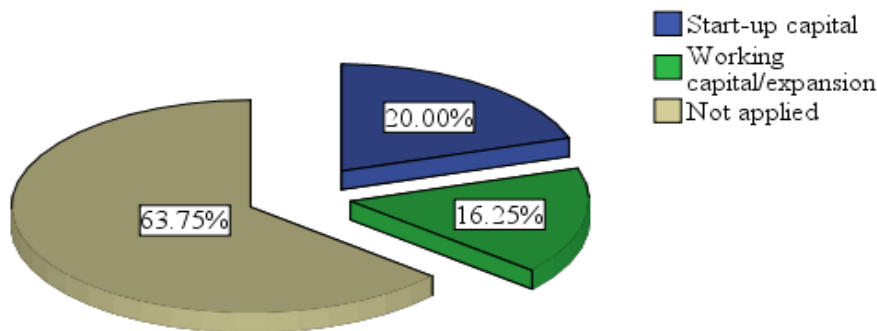
funds from other investments to finance their businesses whilst 6.2% of them relied on their family and friends for financial assistance. These sources of funds are not regular and reliable sources of funds for business hence, the intervention of the financial institutions through credit advancements is very crucial for firms to grow and establish themselves. The major sources of funds available to SMEs are shown in Figure 2.

Figure 2: Sources of Funds Available to SMEs



Source: Field Survey, January 2013

Figure 3: Purposes for Which SMEs Seek Bank Credits



Source: Field Survey, January 2013

CONCLUSIONS

Findings of the Study

As part of the entrepreneurs' characteristics, the study discovered that male entrepreneurs are most favoured by financial institutions than their female counterparts in credit accessibility. However, general credit accessibility among both genders is very low. Again, the study revealed that entrepreneurs within the age category of 31 years to 40 years as well as 41 years to 50 years are considered worthier of credit than the other age groups.

Interestingly, financial institutions in the Wa Municipality do not consider the level of education of entrepreneurs before giving them access to credits though the study shows that certain attributes in an entrepreneur helps to determine how banks give them credit.

With regards to a firm's peculiar characteristics and credit accessibility, the study revealed that firms in the service sector are most favoured than those in the production and agricultural sectors due to the volatility of the latter sector and the resultant high tendency of loan default. Specifically, firms that are into retailing and general servicing are considered worthier of financial credits than those in the manufacturing sector. It was also discovered that, SMEs with a very few number of employees are those that received credit than SMEs with more than 7 employees. From the study, it can also be said that most SMEs could not readily measure their monthly average returns from the business yet, financial institutions found them worthy of credit. Financial institutions in the Wa Municipality do not also discriminate against the sole ownership of a business in credit accessibility. However, there is generally a very low level of access to credit in the metropolis. The study further found that there is no significant relationship between the location of a business and access to credit though most of the sampled Small and Medium Scale and Enterprises were operating within the central business area of the Wa Municipality. It can therefore be seen that some characteristics or attributes of a firm significantly enhance their credit accessibility.

Furthermore, the study realized that, some financial characteristics such as business registration, accurate documentation of transactions and financial activities as well as good business planning have positive

relations with credit accessibility. However, as it is also a nature of SMEs, all the entrepreneurial ventures studied do not have branches and it did not have any impacts on their credit accessibility potentials. Also, it is worth noting that asset ownership constitutes a great deal of requirements towards accessing credits from financial institutions as all the entrepreneurs who were able to access loans said they owned assets such as houses, land, business products and business vehicles which are easily used as collateral, depending on the amount of credit being sought. However, access to credit was not tied completely to asset ownership.

The study also showed that, lack of collateral security, inability to prove worthy of credits, inadequacy of managerial competence, and lack of a clear repayment plan were some of the reasons for which most entrepreneurs in the Wa Municipality could not access bank credits for their businesses. The study further revealed a repayment rate of 15% among entrepreneurs who were able to access credits. Per the data collected from SMEs, other sources of finance available to SMEs include profits plough back, savings accounts, yields on investments and assistance from family and friends. The study therefore revealed that, all the entrepreneurs sampled have established financial relations with numerous financial institutions in the metropolis in the form of bank accounts.

Finally, high utility charges, inadequate demand for produce of SMEs, too much competition from imports, lack of credit, high interest rates and also taxation issues are the factors militating against the growth of SMEs in the Wa Municipality.

5.2 Conclusions

From the study it can be said that there exist positive relations between certain entrepreneurial characteristics and access to credits whiles some other features do not impact on credit accessibility.

Again, it could be said that there exist a positive relation between certain attributes of a firm and access to credits. There are also, financial some financial activities such as business registration, documentation/recording, business planning, asset ownership, and others that also impact heavily on SMEs access to bank credits. There has been some identified constraints to the growth of SMEs in the Wa Municipality.

The study also revealed that SMEs in the Wa Municipality do not easily access financial assistance in the form of loans from the financial Institutions. This is to demonstrate that, such factors as owner's personal characteristics like gender, age, marriage, and number of financial dependants as well as the firm's own characteristics such as its legal status, size, record keeping behavior, have significant impact on the SMEs access to credit in the Wa Municipality (Steel and Webster, 1991; Aryeetey et al., 1994; Daniels and Ngwira, 1993; Abor and Quartey, 2010; Kashuliza and Kydd, 1996; Zeller, 1994; Schmidt and Kropp, 1987).

5.3 Recommendations

In view of the findings of the study, the following suggestions can help enhance credit accessibility of SMEs from the formal financial institutions.

First of all, with regards to entrepreneurs' own attributes such as gender, marital status, age, and size of financial dependants; it is advised that financial institutions should endeavour to overlook such attributes, as it is more natural and regularly peculiar to SMEs than the larger business organisation to which financial institutions often advance credits without considerations to such elements. This could be achieved through ensuring adequate supervision and monitoring of the management and use of advanced credits to SMEs to enhance economic application of solicited credit to essential business needs thereby reducing the rate of loan diversion among SMEs hence, better loan management behaviours and repayment plans among SMEs. To achieve this, financial institutions should provide platforms where they can interact with SMEs towards enhancing the scale of operation and expansion for higher gains.

In the area of financial characteristics of SMEs which hinders their access to credits, it is suggested that all small and medium scale enterprises in the metropolis develop voluntary interest in such legal activities as business registration, accurate documentation of business transactions, appropriate and clear business planning so that, it situates their ventures in the best positions to access finance to boost their operations. This is because, lending in itself is a risk and to advance a loan to a business which is not legally recognized is riskier for financial institutions. Therefore, business registration and good business conduct would attract financial institutions' interest

to do business with SMEs and to aid their growth through loan packages.

With regards to asset ownership and collateral securities, financial institutions are advised to consider other alternatives such as partnering with SMEs to finance the venture. This could take the form of banks assessing the profitability of the venture and financing the operational needs as well as expansionary needs of the venture accordingly with an agreeable interest in the venture. Even though, this process will break the sole proprietorship aspect of SMEs, it is only for a short time (say, one or two years) within which the financial institution will only act as an agent of growth, thereby producing the financial needs as well as the managerial advices necessary for the growth of the venture. This will however bring together financial institutions and SMEs in business hence, a better platform to understand each others' mode of operations. This joint venture will also influence the interest rates to be applied to SMEs in order to ensure their interest on loans and the ability to repay loans.

In terms of the challenges faced by SMEs in their operations, it is advised that entrepreneurs device possible but appropriate means to curtail their impact. For instance, high utility charges could be coped with if efficient managerial skills are deployed to ensure economic combination of resources in the production or the service process. However, authorities in charge of utility services are also advised to consider strategies towards reducing utility charges towards SMEs which will enhance their profitability and enhancement of business and economic growth.

Entrepreneurs in the small scale operations are also advised to wake up to the time by developing innovative ways of achieving their business objectives and servicing their customers in order to combat the menace of inadequate demand for their products. This would enable them compete favourably with foreign (imported) products. This could be done through ensuring consumers' value for money as the foreign products are perceived to possess.

Also, while it is widely observed that SMEs do not readily fulfill their tax obligations, thereby being unable to get tax clearance for some category of credits. It is also necessary that tax authorities' device easy and friendly payment schemes and rates for small scale operators to voluntarily file tax returns thereby reducing the incidence of tax evasion and

avoidance or at best, tax non-compliance among Small and Medium Scale Enterprises in the Wa

Municipality.

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