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An Assessment of the Role of Financial Institutions in Financing Small and Medium Enterprises (SME's) in Ghana

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Abstract:
The main objective of the study is to assess the roles and contributions of financial institutions in financing SME's in Ghana. In most jurisdictions, commercial banks as a group are the main source of external finance for SMEs. However there are a number of rigidities of a macroeconomic, institutional and regulatory nature that may bias the entire banking system against lending to SMEs. The commercial banks are most often unwilling to increase loan funding without an increase in the security given thereby leading to stagnation of growth of the SMEs and therefore unable to serve as an engine of national growth and development.
The research design of this project was a non-experimental or a survey, one which determined the perceived level of involvement of commercial banks in the financing of SME's in the Wa municipality.
Findings from the study confirmed that commercial banks have the ability to improve the activities of SME's, and this can only be possible if the SME's plan their businesses and manage their finances well. It was recommended that banks should create a separate department for the SMEs; the establishment of a common fund by the government for SMEs; there should be a national policy on SMEs by the government to educate the owners and managers of SMEs in the efficient and effective financial management of their businesses in order to sustain the SME's to grow into much bigger industries in the near future.

Key words: *Growth, Industrialisation, Economic Development, Small Ventures, Contribution, National Policy, Indigenous Base*

1.Background To The Study

Brau, & Woller (2004) stated that: "the encouragement of Small and medium enterprises (SME's) in both rural and urban areas should be a high priority in Africa, not only for the development impact of the growing indigenous private sector but also as a recruitment and training process for future enterprises".

SMEs represent over 90% of private business and contribute to more than 50% of employment in most African countries (UNIDO, 1999). Even in the advanced countries such as USA and UK, the role of Small and medium enterprises (SME's) to their economic development cannot be underestimated. According to Brau, & Woller (2004), small businesses in the US employ 58% of the total work force, account for 55% of all business innovation and make up 40% of the gross national product..

In Ghana about 70% of the total employment is provided by the SME's. A recent nationwide survey of all industrial establishments by the Ghana Statistical Service at (2003) reveals that SMEs contribute about 97% and employ 46% of the total industrial labour force. According to Stanley and Moser (1995), they see indigenous based industrialization process as a means of mobilizing capital towards productive ventures. Due to the low capital requirement, individuals can set up their own firms through their own resources, thereby, serving as means of mobilizing funds for economic activities.

Although assistance has been given to SME's in Ghana, the sector has not been making contribution to the economic development of the country, though some have made immense contributions to the economy. Financing has been viewed as a critical element for the development of Small and Medium Enterprises. Previous studies have shown that (SME's) have limited access to acquire loans as compared to larger enterprises and that is affecting their growth and development (Berger and Udell, 2004). Commercial banks always have the intention to offer loan to Small and Medium Enterprises (SME's) but because of the high level of default and the poor management and accounting practices by the Small and Medium Enterprises (SME's), the commercial banks find it difficult to grant them the loan.

As much as the commercial banks will like to help the Small and Medium Enterprises, the Small and Medium Enterprises (SME's) often operate at such a low scale that is unattractive to the banks. Many of them are unincorporated and banks are not forthcoming in investing in a multiplicity of small ventures that are scattered all over the municipality. Besides, Small and Medium Enterprises are mostly family businesses and they are therefore reluctant to open their businesses up, especially to the banks that they regard as intruders.
There are so many ways through which firms generate their funds to run their activities, both internal and external. In the case of Small and Medium Enterprises, bank loan is a major alternative of external funding. According to Valverde et al (2005) bank credit plays a crucial role in providing external financing to Small and medium enterprises (SME's) but the high interest rates charged by commercial banks as well as savings and loans companies makes it very difficult for Small and Medium Enterprises (SME's) to go for loans to expand their business.
According to the finance minister's interim budget for 2013 the prime interest rate in the country revolved around 16 percent. This therefore leads to an increase in bank charges. The minimum Bank charges now range between 21-25 percent (www.myjoyonline.com, 2012). According to the Ghanaian Chronicle News paper (February 2008), the Deputy Minister of Finance and Economic Planning, Professor George Gyan-Baffour, indicated that high interest rates charged by commercial banks as well as savings and loan companies are killing businesses in the country, especially Small and medium enterprises (SME's). According to him, the problem of high interest rates is an impediment on the economy since it forces more businesses to close down.

2.Theoritical Issues

2.1.The Definition And Concept Of SME's

Abor and Biekpe (2010) indicated that the issue of what constitutes a Small Enterprise is a major concern in literature. Different authors have usually given different definitions to this category of business. SME's have indeed not been spared with the definition problem that is usually associated with concepts which have many components. The definition of firms by size varies among researchers. Some attempt to use the capital assets while others use skill of labour and turnover level. Others define SME's in terms of their legal status and method of production. The Bolton Committee (1971) first formulated an "economic" and "statistical" definition of a small firm. Under the "economic" definition, a firm is said to be small if it meets the following three criteria: it has a relatively small share of their marketplace; it is managed by owners or part owners in a personalized way, and not through the medium of a formalized management structure; and it is independent, in the sense of not forming part of a large enterprise.
Under the "statistical" definition, the Committee proposed the following criteria, the size of the small firm sector and its contribution to GDP, employment, exports, etc.; the extent to which the small firm sector's economic contribution has changed over time; and applying the statistical definition in a cross-country comparison of the small firms' economic contribution.
The Bolton Committee applied different definitions of the small firm to different sectors.
Whereas firms in manufacturing, construction and mining were defined in terms of number of employees (in which case, 200 or less qualified the firm to be a small firm), those in the retail, services, wholesale, etc. were defined in terms of monetary turnover (in which case the range is 50,000-200,000 British Pounds to be classified as small firm). Firms in the road transport industry are classified as small if they have 5 or fewer vehicles. There have been criticisms of the Bolton definitions. These centres mainly on the apparent inconsistencies between the defining characteristics based on number of employees and those based on managerial approach.
The European Commission (EC) defined SME's largely in terms of the number of employees (are firms with 0 to 9 employees - micro enterprises; 10 to 99 employees - small enterprises; and 100 to 499 employees - medium enterprises) Thus, the SME sector is comprised of enterprises (except agriculture, hunting, forestry and fishing) which employ less than 500 workers. In effect, the EC's definitions are based solely on employment rather than a multiplicity of criteria. Secondly, the use of 100 employees as the small firm's upper limit is more appropriate, given the increase in productivity over the last two decades (Shane, 2003).
Gavin and Reid (2003) consider small businesses as privately held firms with 1 – 9 people employed. Sogorb-Mira (2005) defines SME's as firms with fewer than 100 employees and less than €15 million turnover. Michaelas et al (1999) consider all small independent private limited companies with fewer than 200 employees and López and Aybar (2000) considered companies with sales below €15 million as small. According to the British Department of Trade and Industry, the best description of a small firm remains that used by the Bolton Committee in its 1971 Report on Small Firms. This stated that a small firm is an independent business, managed by its owner or part-owners and having a small market share (Department of Trade and Industry, 2001).

2.2.Definition Of SME's In The Ghanaian Context

Definitions vary across industries and also across countries. It is important therefore to examine definitions of SME's given in the context of Ghana. There have been various definitions given for small-scale enterprises in Ghana but the most commonly used criterion is the number of employees of the enterprise (Kayanula and Quartey, 2000). In applying this definition, confusion often arises in respect of the arbitrariness and cut off points used by the various official sources. In its Industrial Statistics, the Ghana Statistical Service (GSS) considers firms with fewer than 10 employees as small-scale enterprises and their counterparts with more than 10 employees as medium and large-sized enterprises. The GSS in its national accounts considered companies with up to 9 employees as SME's (Kayanula and Quartey, 2000). The value of fixed assets in the firm has also been used as an alternative criterion for defining SME's. However, the National Board for Small Scale Industries (NBSSI) in Ghana applies both the "fixed asset and number of employees" criteria. It 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 10 million Ghanaian cedis. The Ghana Enterprise Development Commission (GEDC), on the other hand, uses a 10 million Ghanaian cedis upper limit definition for plant and machinery. It is important to point out that the process of valuing fixed assets poses a problem. Secondly, the continuous depreciation of the local currency as against major trading currencies often makes such definitions outdated (Kayanula and Quartey, 2000).

In Ghana, and (Teal, 2002), used an employment cutoff point of 30 employees in the definition of small-scale enterprises in Ghana. Nevertheless, (Teal, 2002), classified small-scale enterprises into three categories, namely: micro - employing less than 6 people; very small - employing 6-9 people; and small - between 10 and 29 employees.

A more recent definition is the one given by the Regional Project on Enterprise Development Ghana manufacturing survey paper classified firms into: micro enterprise, less than 5 employees; small enterprise, 5 - 29 employees; medium enterprise, 30 – 99 employees; large enterprise, 100 and more employees (Teal, 2002).

2.3.Contributions Of SME's To Economic Development

There is a general consensus that the performance of SME's is important for both economic and social development of developing countries. From the economic perspective, SME's provide a number of benefits (Kongolo, 2010). SME's seem to have advantages over their large-scale competitors, in that they are able to adapt more easily to market conditions, given their broadly skilled technologies. They are able to withstand adverse economic conditions because of their flexible nature (Kayanula and Quartey, 2000). SME's are more labour intensive than larger firms and therefore have lower capital costs associated with job creation (Louknaan, 2010) . They perform useful roles in ensuring income stability, growth and employment. Since SME's are labour intensive, they are more likely to succeed in smaller urban centres and rural areas, where they can contribute to a more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Due to their regional dispersion and their labour intensity, it is argued, small-scale production units can promote a more equitable distribution of income than large firms. They also improve the efficiency of domestic markets and make productive use of scarce resources, thus facilitating long-term economic growth (Kayanula and Quartey, 2000).

In Ghana and South Africa, SME's represent a vast portion of businesses. They represent about 92% of Ghanaian businesses and contribute about 70% of Ghana's GDP and over 80% to employment. SME's also account for about 91% of the formal business entities in South Africa, contributing between 52% and 57% of GDP and providing about 61% of employment (Ntsika, 1999). From an economic perspective, enterprises are not just suppliers, but also consumers; this plays an important role if they are able to position themselves in a market with purchasing power: their demand for industrial or consumer goods will stimulate the activity of their suppliers, just as their own activity is stimulated by the demands of their clients. Demand in the form of investment plays a dual role, both from a demand-side (with regard to the suppliers of industrial goods) and on the supply-side (through the potential for new production arising from upgraded equipment). In addition, demand is important to the income-generation potential of SME's and their ability to stimulate the demand for both consumer and capital goods (Berry et al., 2002).

2.4.General Constraints To SME Development

Despite the potential role of SME's to accelerated growth and job creation in developing countries, a number of bottlenecks affect their ability to realize their full potential. SME development is hampered by a number of factors, including finance, lack of managerial skills, equipment and technology, regulatory issues, and access to international markets (Gockel and Akoena, 2002). The lack of managerial know-how places significant constraints on SME development. This is because entrepreneurs cannot afford the high cost of training and advisory services while others do not see the need to upgrade their skills due to complacency. In terms of technology, SME's often have difficulties in gaining access to appropriate technologies and information on available techniques (Cofie, 2012). Regulatory constraints also pose serious challenges to SME development and although wide ranging structural reforms have led to some improvements, prospects for enterprise development remain to be addressed at the firm-level. The high start-up costs for firms, including licensing and registration requirements, can impose excessive and unnecessary burdens on SME's. The high cost of settling legal claims, and excessive delays in court proceedings adversely affect SME operations. In the case of Ghana, the cumbersome procedure for registering and commencing business are key issues often cited. Voulgaris (2003) indicated that it takes 127 days to deal with licensing issues and there are 16 procedures involved in licensing a business in Ghana. Meanwhile, the absence of antitrust legislation favours larger firms, while the lack of protection for property rights limits SME's access to foreign technologies (Kayanula and Quartey, 2000).

The potential providers of finance, whether formal or informal, are unlikely to commit funds to a business which they view as not being on a sound footing, irrespective of the exact nature of the unsoundness. Lack of funds may be the immediate reason for a business failing to start or to progress, even when the more fundamental reason lies elsewhere. Finance is said to be the "glue" that holds together all the diverse aspects involved in small business start-up and development (Green et al., 2002).

<u>2.4.1.Legal, Institutional And Regulatory Framework</u>

(Shane, 2003) Revealed that Banks will only seek to develop the SME market as a source of profit if the economic and business framework is calibrated to transmit reliable economic signals and the policies of the legal regulatory institutions enables banks to lend with confidence. The legal system should have a strong regime to protect property rights, including creditor rights and be relatively efficient in resolving cases of delinquent payments and bankruptcy. Additionally, the tax and regulatory framework should encourage firms to operate in a transparent manner. If these conditions are absent, the tendency to exclude SME's from lending will be more pronounced.

2.5.Functions Of Capital In Development Of SME's

The role of finance has been viewed as a critical element for the development of small Scale enterprises. Previous studies have highlighted the limited access to financial resources available to smaller enterprises compared to larger organizations and the consequences for their growth and development (Mensah, 2004).

The case of Ghana shows that despite financial sector reform, the strengthening of banking capabilities and the introduction of numerous financial instruments, such as the stock exchange, a venture capital company and business assistance funds, access to institutional credit for working capital and equipment continued to be a major constraint to small enterprise development (Teal, 2002). Even where demand for small scale enterprise products appeared strong, a lack of credit meant that many small enterprises did not have the capacity to respond and expand production. High interest rates, high transaction costs and an administration and culture unfriendly to Small and Medium Enterprises contributed to the problem (Ganbold, B. 2008). The Ghana study by. Abor and Biekpe (2006) cite similar evidence; 95 per cent of the respondents depended solely on personal resources and loans from relatives and friends. (Teal, 2002) work in Ghana and Tanzania also confirms these findings; of the 672 small scale enterprises in the Ghana study, only two had received a bank loan. In Tanzania, the formal banking system was seen to be out of reach for almost all small enterprises. The World Bank reported that around 90 per cent of Small and Medium Enterprises surveyed indicated that access to credit was a major constraint to new investment (Batra, et al., 2003).

Small and Medium Enterprises (SME's) make up the largest portion of the employment base in many developing countries and, indeed, are often the foundation of the local private sector. The entrepreneurs behind them could—and should—play a much larger role in development, but too often are held back by a lack of ready access to financing from local formal sector financial institutions. It can be said that smaller firms as costly, high-risk credit units which, many commercial banks avoid lending to and concentrate instead on "safer" options such as financing larger local or multinational corporations, or holding high-yield government bonds. Proven models of profitable small business banking do exist that can be transferred from country to country, scaled up over time, and then replicated more widely for considerable development impact (Cofie, 2012).

Almost all banks in the country have now established SME banking departments. Most notably are Barclays Bank, Merchant Bank, Standard Chartered Bank, Stanbic Bank, Commercial Bank, Metropolitan Allied Bank, Unibank, Trust Bank, Agriculture Development Bank, Ecobank, SG-SSB and National Investment Bank among others. The Small and Medium Scale Enterprises (SME) Departments are specially structured to meet the banking needs of Small and Medium Scale businesses (Ghanaian Chronicle, 2006).

2.6.The Definition And Concept Of Commercial Bank

Gockel and Akoena (2002), considers commercial banks to be a financial institution that provides services, such as accepting deposits, giving business loans and auto loans, mortgage lending, and basic investment products like savings accounts and certificates of deposit. The traditional commercial bank is a brick and mortar institution with tellers, safe deposit boxes, vaults and ATMs. However, some commercial banks do not have any physical branches and require consumers to complete all transactions by phone or Internet. In exchange, they generally pay higher interest rates on investments and deposits, and charge lower fees.

2.7.The History of Banking in Ghana

The tremendous concern for investigation of the recent developments in the banking sector is closely connected with the notion that most of the new financial products and technological changes are taking place in this industry. A study by (Ncube, 2008) shows that the financial sector in Africa is largely dominated by the banking sector. It will therefore be appropriate to discuss the origin of the banking industry in Ghana and some innovations that have occurred over the years.

The foundations of the financial system in Ghana were laid in the later years of the 19th century when the British introduced silver coins to circulate in the West African region. Some economic historians believe that the reason for the introduction of the coins was to make the collection of taxes from the colonies easier. With the economy partially monetized, a Government Savings Bank was set up in the Gold Coast in 1888 (Owusu-Sekyere, 2011). About a decade later, the first commercial bank, a branch of the British Bank of West Africa (BBWA) (now Standard Chartered Bank-Ghana) was established in Accra. In 1917 the Bank of West Africa (BWA) was joined by the Colonial Bank (now Barclays Bank-Ghana). It is believed that these two banks by their activities helped to monetize the economy of the then Gold Coast (Owusu-Sekyere, 2011). It was however blatant that the collateral requirements of these two banks made credit virtually inaccessible to the indigenes and led to agitation among the nationalists.

Following the passage of the Bank of Gold Coast Ordinance in October 1952 the first branch of the Bank of Gold Coast opened its doors to the public on 20th May 1953.

(Owusu-Sekyere, 2011) indicated that after independence, a number of banks were established to fulfil certain developmental goals of the new State. Thus, the National Investment Bank (NIB) which started operations in 1964 was charged with the main object of assisting Ghanaian entrepreneurs in the establishment and expansion of their enterprises. The Agricultural Development Bank (ADB) which originally was part of the Bank of Ghana Rural Credit Unit was formed in 1965 with the aim of reaching small-scale farmers. In addition, the Bank for Housing and Construction (BHC) was established by the state in 1972 to cater for the building and construction industry.

It is important to note that the period of the establishment of these banks coincided with the “controlled regime” when the State arrogated to itself the power to make all economic decisions and allocations, to the exclusion of the private sector. However, that power was taken away through the liberalization of the financial market as part of the Structural Adjustment Programme that the country pursued in the 1980’s (Mkandawire, 2005). The result saw five private banks established with three of them in 1995. By 1996 the total number of banks in the system included five commercial banks, seven merchant banks and three development banks. In addition a number of rural banks were established. Currently several private banks have sprung up in the country all undertaking various banking practices.

2.8.General Roles Of Commercial Banks

Commercial banks play an important and active role in the economic development of a country. If the banking system in a country is effective, efficient and disciplined it brings about a rapid growth in the various sectors of the economy. The following are some of the roles of commercial banks in the economic development of a country

2.8.1.Banks promote capital formation

Commercial banks accept deposits from individuals and businesses, these deposits are then made available to the businesses which make use of them for productive purposes in the country. The banks are, therefore, not only the storehouses of the country’s wealth, but also provide financial resources necessary for economic development.

2.8.2.Investment In New Enterprises

Businessmen normally hesitate to invest their money in risky enterprises. The commercial banks generally provide short and medium term loans to entrepreneurs to invest in new enterprises and adopt new methods of production. The provision of timely credit increases the productive capacity of the economy.

2.8.3.Promotion Of Trade And Industry

With the growth of commercial banking, there is a vast expansion in trade and industry. The use of bank draft, check, bill of exchange, credit cards and letters of credit etc. has revolutionized both national and international trade

2.8.4.Development Of Agriculture

The commercial banks particularly in developing countries are now providing credit for development of agriculture and small scale industries in rural areas. The provision of credit to agriculture sector has greatly helped in raising agricultural productivity and income of the farmers.

3.Research Approach

3.1.Research Design

The research design of this project was a non-experimental or a survey, one which determined the perceived level of involvement of commercial banks in the financing of SME’s in the Wa municipality. The researcher gathered extensive data from the owners and managers of SME’s who does business with commercial banks. Managers of the banks, bank staffs and owners of SME’s in the municipality also provided information for the study. To this end, questionnaire covering the objectives of the research was prepared and used to collect data from the owners or managers of all the sampled SME’s.

3.2.Study Area

The Small and Medium Enterprises (SME’s) in the Wa municipality is one of the biggest sectors that gives employment to the people of Wa in the Upper West Region of Ghana. The Small and Medium Scale Enterprises include basketry, cloth/smock weaving, blacksmithing, pito brewing, pottery, shea butter extraction, motorbike sellers, provision shop operators, mobile phone sellers, wood works and drinking bar operators.

3.3.Sample

In designing the research study, the researchers took into consideration the need to make inferences from the sample of the population in order to answer the research questions and also meet the research objectives. A sample size of 5 respondents from 5 commercial Banks was used for the study and 51 owners of SME who have been dealing with the Banks. The managers and workers who worked in the following SME’s in the Wa municipality Basketry, cloth/smock weaving, motor bike sellers, pito brewing, pottery and shea butter extraction.

3.4.Sampling Technique

In order to get very accurate result for this study, managers of commercial banks and people who were directly involved in the activities of the SME’s as far as financing and management of the businesses were concerned, were thus selected. The purposive and Stratified Sampling method was used to select the sample from the population. The purposive sampling method was used to select the managers of the Banks.

The stratified sampling method was also used to select the SME's. Data was derived from a 51 Small and Medium Enterprises. A four-stage random stratified sampling procedure was used to select participants. First, the municipality was divided into four key areas, using the traffic light: the market area, NIB area, Tendaamba area and the area around K.G. Secondly the market area was assigned to store operators, motor bike sellers and the traders in the market, the NIB area was assigned to pito brewers and smock weavers, the Tendaamba area was assigned to internet cafe operators and saloons, the K.G area was also for wood workers and drinking bar operators. In all 51 questionnaires were administered, the market area was assigned with 13 questionnaires, 12 for the NIB area, 13 each for Tendaamba and K.G area This method is a non-random sampling where the researcher establishes a criterion devoid of randomness for selecting the sample. In the purposive sampling, the sample is chosen to suit the purposes of the study.

3.5.Method Of Data Collection

Data collection means gathering information to address the critical questions that had been identified earlier in the study. Many methods were available to gather information, and a wide variety of information sources were identified. The most important issue related to data collection is selecting the most appropriate information or evidence to answer questions raised in the study (Saani, 2012).

Primary data are data observed or collected directly from first-hand experience. This type of data is more accommodating as it shows latest information. Secondary data were data published and collected in the past. This type of data is available effortlessly, rapidly and inexpensively.

Data was collected from both primary and secondary sources. Primary data were captured through the use of questionnaires and personal interviews. Secondary data was collected using journals, textbooks, handbooks and manuals, review articles and editorials, as well as published guides. Data on the internet were located using search tools. The World Wide Web was searched for information. The convenience of the web and the extraordinary amount of information to be found on it are compelling reasons for using it as an information source (Cofie, 2012).

3.6.Data Collection Instrument

In view of the nature of the topic, it was realized that a questionnaire would be the main and the most appropriate instrument to use. Questionnaires are an inexpensive way to gather data from a potentially large number of respondents. The researchers gave a serious thought to the wording of individual questions. This was done to ensure respondents answer objectively to the questions in the questionnaire.

The questions were in the open ended and close ended forms. In the open ended question, the respondents formulated their own answers. In closed format, respondents were forced to choose between several given options. The open ended format allowed exploration of the range of possible terms arising from an issue. It was used where a comprehensive range of alternative choices could not be compiled. The closed or forced choice-format was easy and quick to fill in. It was easy to code, record, and analyse results quantitatively and easy to report results

3.7.Data Analysis

The raw data obtained from a study is useless unless it is transformed into information for the purpose of decision making (Cofie, 2012). The data analysis involved reducing the raw data into a manageable size, developing summaries and applying statistical inferences. Consequently, the following steps were taken to analyse the data for the study. The data were edited to detect and correct, possible errors and omissions that were likely to occur, to ensure consistency across respondents. The data were then coded to enable respondents to be grouped into a limited number of categories. The Statistical Package for Social Science (SPSS version 17.0) was used to process and analyse the raw data. The Data was presented in tabular form, graphical and narrative forms.

4.Results And Discussions

This section consists of the data presentation and analysis of all the findings of the research. There are 8 (eight) commercial Banks in the Wa municipality. Out of the 8 (eight) Banks, the researchers decided to research on 5 (five), namely the Ghana Commercial Bank, Stanbic Bank, Barclays Bank, the National Investment Bank and the Agriculture Development Bank. Primary data was collected through questionnaire administered to management of the 5(five) Banks and fifty-one small and medium enterprises in the municipality.

4.1.Demography Of Respondents

<u>4.1.1.Status Of SME's Owners</u>

From the table below, it clearly indicates that 86.3 percent of the people the researchers interviewed were the owners of the business whereas 13.7 percent were care takers. From the below table there is clear indication that the business owners in the Wa municipality preferred managing their own businesses than giving it to someone to manage, this is because the income generated by the business is not enough to employ additional hands. The table again shows that only 13.7 percent of the businesses have employed people to manage their businesses.

	Frequency	Percent	Cumulative Percent
Owners	44	86.3	86.3
Managers	7	13.7	100.0
Total	51	100.0	

Table 1: Ownership Status Of SME's
Source: Field Survey, March 2013

4.1.2.Age Of SME's Owners/ Manager

From figure 1, 66.7% of the business owners are within the ages of 19-39 whiles 25.5% of them are between the ages of 40-60. Only 3.9% are between the ages of 1-18 and another 3.9% of them are above the age of 60. This indicates that, the age groups between 19-39 years are economically active and tend to be productive and resourceful. It means that the SME sub-sector serves as the grounds for ambitious and young entrepreneurs with the desire to develop and see to the growth of their own businesses confirming an earlier research by Appiah-Badu (2002).

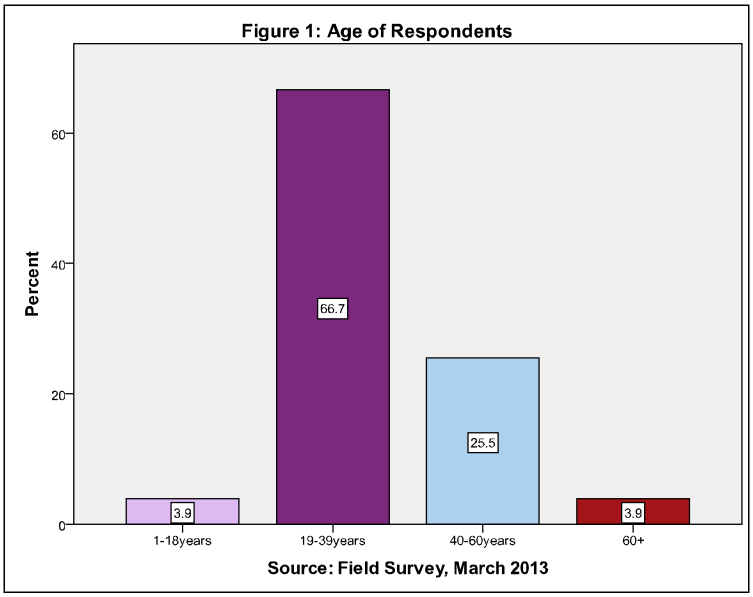

Figure 1

4.1.3.Gender Of SME's Owners

From figure 2, the survey findings indicated that out of the 51 firms interviewed, there were 15 females (29.41%) and 36 males (70.59%) owner-managers. This is contrary to the population structure of the region which has 50.81% females and 49.18 males. According to the cultural phenomenon of some people in the municipality, women are expected to use their income and part of their time in house-keeping activities.

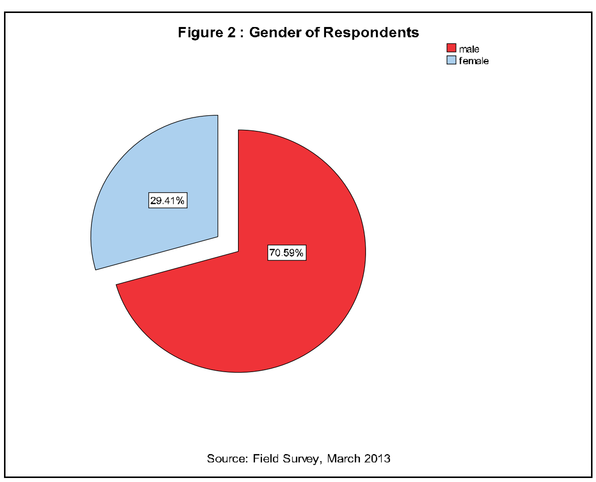

Figure 2

4.2.Extent To Which Commercial Banks Finance SME's

4.2.1.Accessing Loans From Banks By SME's

This seeks to find out how SME's access loans from banks in the Wa municipality. This was done by using bar chart to depict the proportion of respondent who confirmed they accessed loans as well as respondents who do not access loans from banks. The result from figure 3 shows that 66.7% of sampled firms have so far been successful in accessing various types of finance from the banks. The remaining gave a number of reasons to explain why they have not accessed or have been unsuccessful in accessing finance from their banks. These include size of the business, lack of collateral security, guarantors, high interest rate and high transactional cost and poor business plan. From the interactions the researchers had with the firms the realization was that most of the businesses have little knowledge about the processes needed to acquire loan from the bank.

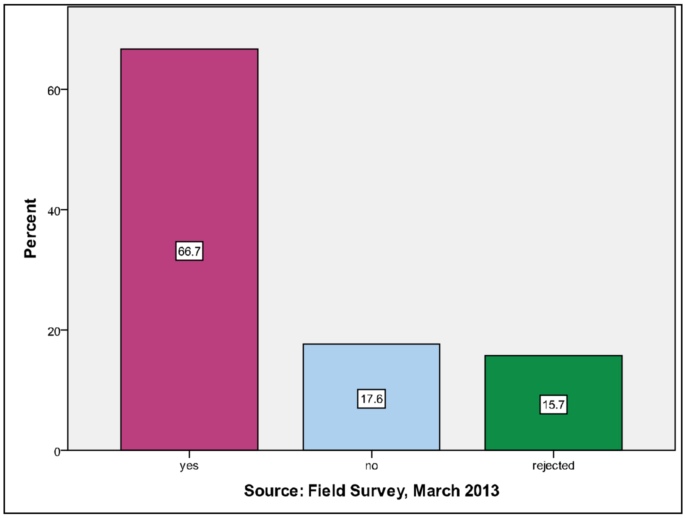

Figure 3: Accessing Loans From Banks By SME's

4.2.2.Loans Taken By SME's

This aspect of the objective (Ascertain the extent to which commercial banks finance Small and Medium Enterprises) intends to investigate into the amount of loan respondents are able to access from banks in the Wa municipality. The result shows that 25.5% of the business owners constituting majority took loans ranging from hundred and thousand Ghana cedis. However, 3.9% of the respondents constituting minority took loans ranging from thousand six hundred and thirty thousand Ghana cedis. The minority (3.9%) of the respondents had a loan within the range (1600-30000) due to the high interest rate. This is because the size of the loan determine the interest on the principal amount.

	Frequency	Percent	Cumulative Percent
gh₵100-500	12	23.5	32.4
gh₵600-1000	13	25.5	67.6
gh₵1100-1500	10	19.6	94.6
gh₵1600-30000	2	3.9	100.0
Total	51	100.0	

Table 2: Loans Taken By Respondents
Source: Field Survey, March 2013

4.2.3.Adequacy Of Loan To SME's

The aim of this is to find out whether the respondents are able to meet their needs with the loan taken from banks. This was done by using bar chart to know the percentage of the respondents who will confirm that the loan they took was adequate and inadequate for their running of the business. Figure 4 reveals that 58.3% of the respondents indicated that the money they took was not enough to meet the level of business activities. This situation confirms the findings of Coluzzi et al, (2008) in their studies which ranked inadequate credit as the prime constraint facing small and medium business in Ghana. The researchers found out that owners of small and medium enterprises have the potential to develop their businesses but do not have the required funds to expand them. However 41.67% constituting the minority stated that the loan was adequate to run their businesses.

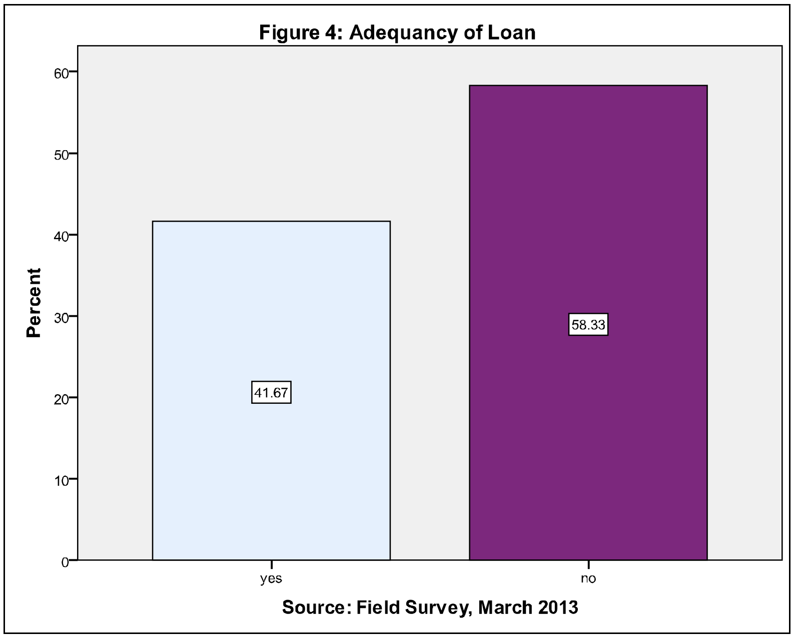

Figure 4

4.3.Challenges Faced By SME's When Securing Loans From Commercial Bank

4.3.1.Challenges Faced By SME's When Securing Loan

The aim of this objective is to identify the challenges faced by SME's in their attempt to secure loans from the commercial banks. This was done by using bar chart to summarize answers from respondents.

The study went on to identify whether collateral requirement is perceived as a constraint. 55.6% of the respondents (SME's) who were interviewed, perceived collateral requirement as a constraint limiting their access to credit from banks. This is because most of them do not own property to be used as collateral. Also 16.7% of the respondents confirm high transaction cost as a severe factor limiting their access to loan from the banks. This is because the respondents have to produce a lot of documents and go through cumbersome procedures before having access to the loan. Example the client need to produce some number of passport pictures, open an account or even form groups as collateral which involve high cost.

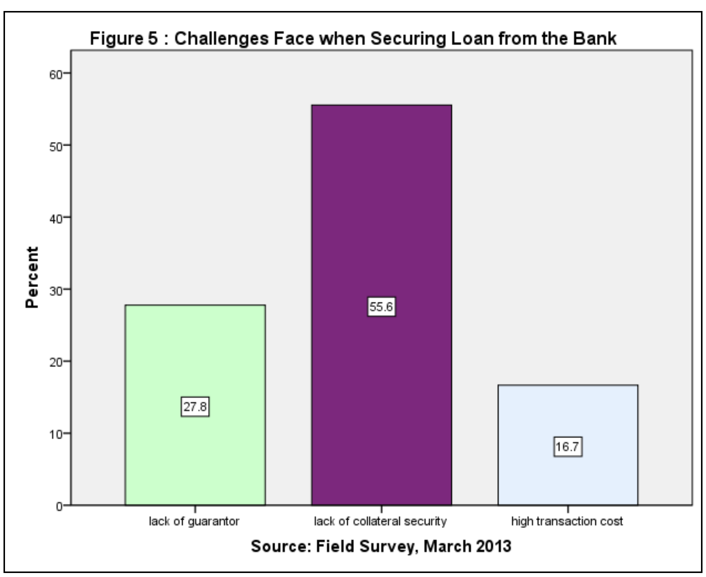

Figure 5

4.3.2.Alternative Ways Of Financing SME's

This is to find out whether respondents have alternative ways of financing their business. Result from the field shows that the majority (53.3%) of the respondents cited retained profit as an alternative way of financing the business. However, 3.3% of the respondent also cited help from relatives as a source finance for their business. Lastly, only 3.3% of the respondents cited help Non Governmental Organizations as a source of finance to their business.

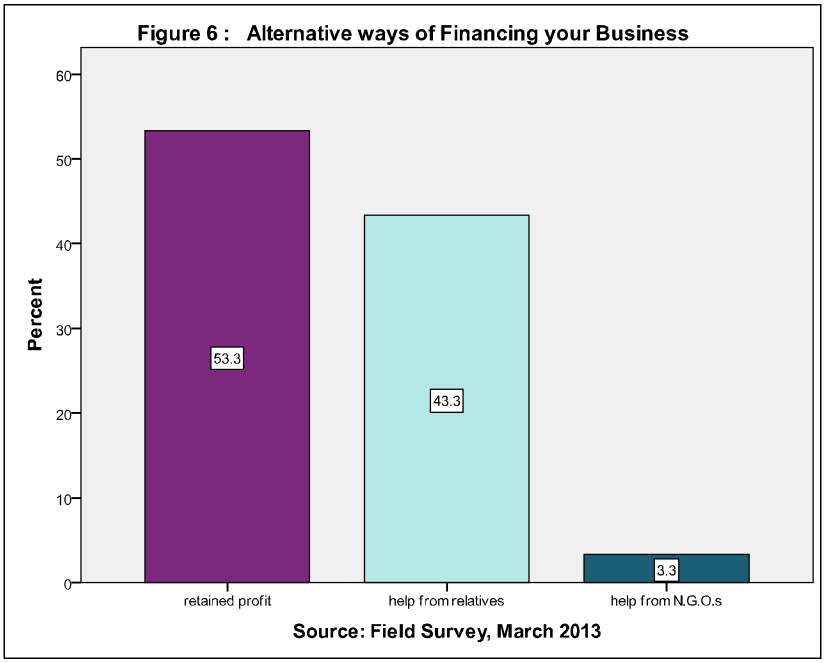

Figure 6

4.3.3.Future Plan Of SME's

This intends to find out whether SME's have future plans in terms of improving their businesses. The data collected from the field showed that 94.4% of the business owners want to expand their business; only 5.6% said they don't want to expand their business. The majority (94.4%) of the respondents wants to expand their business because they hope to have financial and technical assistance from the banks, NGO's government and other stakeholders.

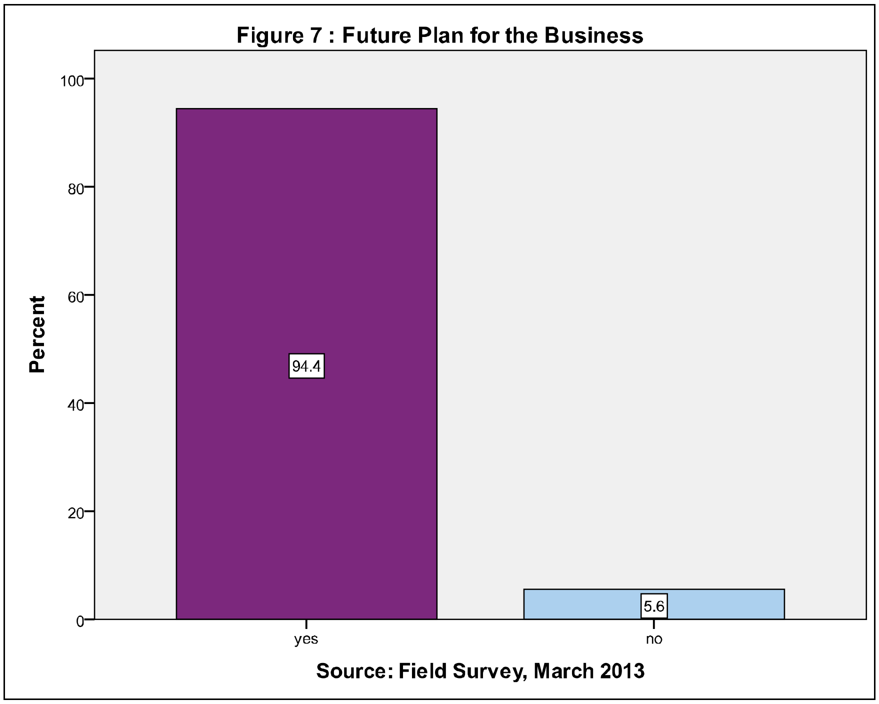

Figure 7

	Frequency	Percent	Cumulative Percent
Yes	5	100.0	100.0

Table 3: Ceiling Or Flow Given By The Bank
Source: Field Survey, March 2013

4.4.Internal Policy By The Banks In Regulating The Loans Taken By SME's

4.4.1.Ceiling Or Flow Given By The Bank To SME's
Table 3 shows that, the entire respondents the researchers administered questionnaires to admit that they gave ceiling or floor when giving loans to SME's. According to the data gathered, the reasons why they give ceiling or floor are:

- The geographical location of the business.
- The value of the collateral security of the SME's applying for the loan.
- The risk involved in the SME's businesses.

4.4.2.Level Of Default By SME's
Table 4 shows that all the banks the researchers interacted with made it clear that there is high default rate. According to the data gathered, 3 out of the 5 banks quoted 20% and the remaining 2 quoted 30% as the rate of default.

	Frequency	Percent	Cumulative Percent
20%	3	60.0	60.0
30%	2	40.0	100.0
Total	5	100.0	

Table 4: Level Of Default
Source: Field Survey, March 2013

From the table, it was observed that there was a high rate of default by bank customers. This can prevent the banks from giving loans to other SME owners who will apply for loans from them and it can lead to the collapse of these SME's if they are unable to get support from other alternatives.

4.5.Regulatory Frame Work Governing The Financing Of Businesses

4.5.1.Interest Rate Charged By The Banks
From the table 5 below, four out of the five banks charged 23% as their interest rate whereas only one of the banks charged 41% as its interest rate.

	Frequency	Percent	Cumulative Percent
23%	4	80.0	20.0
41%	1	20.0	100.0
Total	5	100.0	

Table 5: Interest Rate Charged By The Banks
Source: Field Survey, March 2013

It can be observed that the interest rates charged by the banks are high. This can prevent most SME owners who wish to apply for loans from these banks. The only few who think they can afford the interest rate charged apply for the loans.

4.5.2.Rejection Of Application By The Banks
The above data shows that, all the banks the researchers interacted with have rejected a loan application of most SME's. According to the information gathered, the following are some of the reasons why most SME's loan applications were rejected:

- Lack of collateral security

- Lack of guarantors

From table 6 below, it can be observed that all the banks place considerable emphasis on collateral security and guarantors that is, three (3) out of the five (5) banks and the remaining two (2) respectively. The collateral security must be valuable and the value should exceed the loan required and preferably immovable property especially when loan amount is huge

	Frequency	Percent	Cumulative Percent
no collateral	3	60.0	60.0
no guarantor	2	40.0	100.0
Total	5	100.0	

Table 6: Rejection of Application
Source: Field Survey, March 2013

Most SME's whose applications were rejection was as a result of lack of collateral security and guarantor. This prevents some SME owners from taking loans from the banks.

4.6.Challenges Faced By SME's Working With The Commercial Banks

4.6.1.Challenges Faced By SME's Working With The Bank

From table 7 there is clear indication that 3 out of the 5 banks the researchers interviewed identified poor planning of businesses as one of the challenges and the remaining 2 banks also identified poor financial management as challenges to the SME's.

	Frequency	Percent	Cumulative Percent
Poor financial management	2	40.0	40.0
Poor planning of business	3	60.0	100.0
Total	5	100.0	

Table 7: Challenges Faced By SME'S Working With The Banks
Source: Field Survey, March 2013

From the data gathered, it was identified that most of the SME's have poor financial management and poor business plan. In applying for loans from the banks, the banks request for these particulars. SME owners who apply for loans and are not able to provide these documents are deny the loans.

5.Conclusion And Recommendations

5.1.Conclusion

The findings of the study showed that, the higher the interest rate, the lower the demand for loans by SME's. Majority of SME owners interviewed were willing to access loans from the banks, but due to the high interest rate charged by the banks, they are not able to apply for loans from the banks In addition, the high interest rate leads to the collapse of most small and medium businesses who are granted the loans as they used the greater part of the business earnings to settle their debts. Most of SME's in the municipality who are not able to access loans from various banks depend on retained profit and help from relatives. The amount generated is not adequate to finance most SME's. This means, higher interest rates tends to have an adverse effect on the development or growth of businesses in the municipality since they depend very much on availability and accessibility to funds at reasonable or favorable rates.

Majority of SME's have obtained one type of bank credit or the other, however, those who obtained loans indicated that, their loans were not enough. The loans were insufficient to the SME owner as a result of inadequate collateral security and poor financial management of the business. It was realized that most of the banks interviewed were willing to grant loans to SME's that have collaterals. The researchers also observed that most SME's lack collateral security and guarantors to help them access loans from the Banks.

5.2.Recommendation

Based on the findings of the research, the following recommendations were made:

- Banks should create a separate department for the SMEs.
- Establishment of a common fund by the government for SMEs.
- There should be more co-operations between the financial institutions and the SME's.
- 4. In addition, the prime rate charged by the central bank should be minimized to allow the other financial institutions to also reduce their interest rates.
- There should be a national policy on SMEs by the government to educate the owners and managers of SME'S in the efficient and effective financial management of their businesses in order to sustain their business to grow into much bigger industries in the near future.

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