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Assessment of Demand-Side Factors of SMEs and External Financing by Rural Banks in Ghana

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Abstract:
SMEs' socio-economic roles played in the private sector have become very significant in literature and global debates. They hold a very significant position in global statistics and national histories. Yet, their full potentials, growth and development are limited by financial constraints. Hence, this study examines the demand-side factors in financing SMEs by Rural Banks in Ho, Ghana. Qualitative (descriptive) approach coupled with survey strategy was used. A sample size of eighty (80) was used. The study explored global perspective of literature in application to Ghanaian cases. The findings highlight the financing-gaps between the demand-sides (SMEs) and Rural Banks, that both sides have reciprocal constraints. Demand side factors such as cost of finance, legal issues, management skills, market, collateral, business plan, technology, financial/business tract records and information asymmetry are common constraints identified. The study recognises the significance of finance in growth and development of SMEs in Ghana. There is critical need for the policy makers to focus attention on SME sector through private sector development schemes to efficiently create enabling business environment for growth and development of SMEs. Therefore, findings of this study will provide relevant insights on financing SMEs to the key players of the sector.

Keywords: *Demand-Side, Financing, Ghana, Rural Bank, SMEs*

1. Introduction

Though SMEs' definitions are not universally uniform, most researchers and authors make reference to the number of employees to define Micro, Small and Medium Enterprises, generally written as "SMEs". Others consider the sales revenue, assets, and the firm's industry (Abor & Quartey, 2010; Stephanou & Rodriguez, 2008; Kayanula & Quartey, 2000). These are based on the legal structures backing the operation of SMEs in every country. Some countries have legal definition for SMEs while others do not. Thus, there are legal and country specific definitions for SMEs.

In Ghana, problems in financing small firms have significantly hindered their roles in the overall macroeconomic performance of the Ghanaian economy and deeply rooted since the overthrow of the first Republic of Dr. Kwame Nkrumah (Abor & Biekpe, 2006). The insight from the literature revealed that the long-history debate on financing SMEs is not one country's issue but a global concern (Ganbold, 2008). The key stakeholders, including researchers and authors, applaud SMEs for their socio-economic impacts. However, all financing interventions by decision makers and financiers did not yield full expected results. Surely, one may ask a thought-provoking question that: if SMEs are the engine of economic growth and development, with government interventions through international and national supports for private sector reform initiatives (Abor & Quartey, 2010; Beck *et al*., 2008; Bank of Ghana, 2007; Mensah, 2004; Kayanula & Quartey, 2000), why then is accessing finance still a challenge? This innovative, informative and technological era suggests that SMEs need financial and non-financial support to grow and maintain their competitive advantage, which will enable them deliver their promises on national development.

SMEs' socio-economic impact is popular in the literature. They are larger employers of labour which reduces pressure on the government; they pay taxes for state development; contribute to GDP; a factor of rural development; they bridge the gaps created by big organisations; and they are innovative (CIA, 2011; Abor & Quartey, 2010; Ubabuko *et al*., 2010; Tetteh & Frempong, 2009). If they could perform to that appreciable standard despite financing difficulties, then they can do better if sufficient financial and non-financial supports are made available to them. This phenomenon raised a significant interest in researching into this topic to better understand the contemporary debates on SMEs finance and recommend actions for policy decisions.

Rural Banks are established to close the national financial-poverty-gaps created (Bank of Ghana, 2007). Since SMEs have emerged as major channels to help close the poverty gaps, it is expected that Rural Banks take up the challenge to finance them on flexible terms; yet, that is not fully achieved. It is clear from literature that there is a direct relationship between financing SMEs and their business growth and development (Beck *et al*., 2008; Beck *et al*., 2006; Kotey, 1999). It was also observed that the Ghanaian SMEs' socio-economic contributions and financial/non-financial constraints are consistent with other developing countries' and partly with the global perspective (Abor & Biekpe 2006; Quartey, 2002; Bigsten *et al.*, 2000; Aryeetey, 1998; Sowa *et al.*, 1992).
Therefore, the study assesses the demand side factors that drive access to external finance. The structure of the paper is as follows: literature framework on SMEs and finance. The following section highlights the methodology employed for the study. Results are presented and discussed in the fourth section. The final section provides conclusion and implications for policy decision in addressing the SME finance gap.

2. Purpose of the Research

The main purpose of the study is to assess the demand-side factors in financing SMEs by Rural Banks in Ho, Ghana. This study adds to the available literature on the development of demand-side (SMEs) financing and focuses on external funding from Rural Banks rather than the Commercial Banks as the focus of most researchers.

3. Theoretical Background

3.1. Meaning of SMEs

All businesses were once small businesses. "Small businesses have been linked to the flowers in the spring: rich in diversity, often colourful, full of the promise of better things to come" (Chadwick, 1978, p.85). A major issue facing SME sector in Ghana is SMEs' definition. The term "SMEs" has multiple definitions leading to multiple criteria for accessing finance due to lack of legalising the definition. Interestingly, Georgia Institute of Technology alone has more than 50 definitions for SMEs (Bock, 1989). Since there is no unique or single uniformly acceptable definition, most countries use criteria such as the number of employees, turnover, assets, capital and profitability (Kayanula & Quartey, 2000). The term is understood and defined in this study to include Micro, Small and Medium Enterprises, "SMEs" for short. More reference definitions can be found in (Abor & Quartey, 2010; Canada Statistics, 2009; US Small Business Administration, 2009; Ganbold, 2008; Industry Canada, 2008; Stephanou & Rodriguez, 2008; Alabi *et al*., 2007; Amonoo *et al.,* 2003; European Commission, 2003; NBSSI Annual Report, 1997).

- "A unilateral definition of SMEs has continued to be controversial, several international organizations with global influence have all tried to set a definition for what really the SME should be, and however, there has not been a consensus. This is mainly because of the diversities with different economies and other indices and factors of development that are associated to the different member countries of these global institutions. The case is no difference in Africa,………" (Ubabuko et al., 2010, p.4).

3.2. Socio-economic Contributions of SMEs in Ghana

Chadwick (1978, p.85) sets the background for the essential impact of SMEs on the global economy. SMEs are socially and economically important; they represent a significant percent of all enterprises. They contribute significantly to socio-economic development relating GDP, employment, tax revenue, etc. (CIA, 2011; Abor & Quartey, 2010; Ubabuko *et al*., 2010; Tetteh & Frempong, 2009; Hussain *et al.,* 2008; Judd & McNeil, 2008; Oke *et al.*, 2007; Harding & Cowling, 2006; Hussain *et al.,* 2006; Lucey, 2006; RAM Consultancy Services Sdn Bhd, 2005; Fraser, 2004; Mensah, 2004; Kayanula & Quartey, 2000). Nevertheless, Kayanula and Quartey (2000) argued that the impact of SMEs has been contended as a statistical flaw; that there is hardly a direct relationship between increases in employment and increases in productivity. SMEs are still under the shocks of unresolved financial, legal and management issues that affect the sector.

3.3. Demand-side-driven Factors

SMEs play crucial roles; but face basic tailbacks in accessing finance. Therefore, this section focuses on examining the demand-side factors that limit SMEs' access to Bank finance. The literature revealed multiple drivers of access to finance as discussed below.

<u>3.3.1. Collateral Security</u>

Most literature emphasised collateral as a common hindrance to SMEs' access to finance. Due to risky nature of SMEs and fear of default, collateral security is required to safeguard the credit facilities. This takes the form of personal and business fixed assets (Pandula, 2011; Johnsen & McMahon, 2005; Kumar & Francisco, 2005; RAM Consultancy Services Sdn Bhd, 2005; Amonoo *et al.*, 2003; Williams, 2003; Wattanapruttipaisan, 2003; Bhaduri, 2002).

<u>3.3.2. Business Plan</u>

Wattanapruttipaisan (2003) and Asian Development Bank (2003, p.29) assert that "as collateral, a business plan provides the roadmap and benchmarks for loan appraisal and the monitoring of business activities under implementation. This helps to minimize diversion and other misuses of borrowed funds which are a clear possibility without demonstrated financial discipline by SMEs and close supervision from banks". RAM Consultancy Services Sdn Bhd (2005) and Kishel and Kishel (2005) affirm that business plan is one of the major requirements by Banks.

3.3.3. Bank Account and Guarantors

Having Bank Account is prerequisite in most Banks. However, to safeguard loans, Banks require that credible persons pledge their incomes or cash flows on behalf of the loan seekers to hold themselves liable for future defaults (Lucey, 2006; Williams, 2003). A study conducted by Amonoo *et al*. (2003) revealed that Banks currently insist on personal guarantors (89 percent) and being a customer of the Bank (89 percent). Hence, personal guarantors can encourage Banks for funding (Williams, 2003).

3.3.4. Financial Statements

Banks require reliable financial information, preferably audited financial statements, as useful basis for granting credit facilities to SMEs, because they can obtain the relevant financial information such as profitability, cash flows, assets and capital structure from the statements. Unfortunately, most SMEs fall victim to this clause. Majority do not keep proper books of account. Their records are normally mere single-entry, incomplete records and cash books. The problem is traced to the cost of hiring experts to prepare and audit such accounts. Though a challenge globally, developing countries, including Ghana, are found guiltier to this factor (Pandula, 2011; Bass & Schrooten, 2005; Amonoo *et al*., 2003; Williams, 2003).

3.3.5. Performance/Profitability

One major signal of SMEs' success and growth is measured through profitability. SMEs with increasing trends of profits and sales are more attractive to Banks than the poor performing ones. Some studies revealed that, higher (lower) sales and profits lead to higher (lower) access to finance (Pandula, 2011; Bigsten *et al*., 2000). Tetteh and Frempong (2009) revealed that in 2006, Ghanaian SMEs made monthly profit of less than US$20 (46 percent) and only 5 percent could make more than US$200. Relating profitability to pecking order theory, Abor and Biekpe (2009) argued that SMEs with higher profitability rely on retained earnings rather than external sources; while growing firms may require more external finance for their expansion operations.

3.3.6. Networking

Pandula (2011, p.264) concluded a research that "businesses with networks are more likely to have easy access to bank credit compared to those who do not have such networks". Networking through unionisation/association increases external business links; enhances learning and problem-solving opportunities; builds goodwill and inter-personal references/referrals; provides information on other sources of finance and guarantorship. Therefore, relationship banking is improved for easy access to credit facilities, since financial institutions believe peer pressure in cooperatives often reduces the risk and defaults (Abor & Quartey, 2010).

3.3.7. Education and Management Skills

Pandula (2011) found that there is a strong positive correlation between higher education and easier access to Bank facilities; thus, highly educated owner-managers can grow their businesses faster and have quicker access to Bank credits. This is because they: possess better finance, managerial and communication skills; can prepare acceptable financial statements and business plans; and can win favour from the Banks easily through relationship banking. (See also Irwin and Scott, 2010; Dobbs and Hamilton, 2007; Kumar and Fransico, 2005). However, Abor and Quartey (2010) contended that there are still skill-gaps in SME sector, because most SMEs cannot afford the high cost of training and advisory services. In Ghana, most SMEs' owners have low level of education, making access to Bank credit difficult (Tetteh & Frempong, 2009).

3.3.8. Firm's Age

Pandula (2011) concluded that younger firms (1-3 years) find it difficult to accumulate funds and assets, since sources of finance change overtime. Since SMEs rely heavily on internal funding through retained earnings, it is hard for young firms to accumulate more funds within three years (Deakins *et al*., 2008). They may also have limited business/financial track records, hence less competitive to accessing credits from Banks. Aryeetey *et al*. (1994) as in Pandula (2011) revealed that only 10 percent of start-up firms in Ghana could obtain Bank loans but medium-sized enterprises and older firms are provided with credit three times more often than their smaller counterparts. The findings of Tetteh and Frempong (2009) and Abor and Biekpe (2009) revealed interrelated trends of start-up capital difficulties in Ghana. Yet, empirical evidence revealed interesting contrary findings that external sources were found more than internal sources at the commencement of a business (Fluck, 1998; Berger & Udell, 1998).

3.3.9. Firm's size

A firm's size plays an important role in accessing finance: smaller the firm, higher the restriction to credit facilities as compared to larger counterparts. Smaller firms are riskier with higher failure rates, because they are owner-managed with fewer assets for collateral and majority do not keep proper books of accounts (Pandula, 2011; Abor & Biekpe, 2009).

3.3.10. Interest Rates and Processing Fees

Location can influence the charges, so also the loan size, quality of collateral, risk/default and information asymmetry (Pandula, 2011). Wattanapruttipaisan (2003) submitted that additional justification to safeguard the credit facility as collateral is the higher interest rates and processing fees. Amonoo *et al.* (2003) support that interest rates are the main determinants of savings and investments or drivers of demand and supply of money. It is argued that borrowers can make higher returns if they can borrow at lower rates of interest (Wood, 1972). Evidence shows that Banks charge high rates but provide poor services. More than 70 percent of SMEs in UK are dissatisfied with Banks' charges; they are overcharged to the extent of £500 million a year (Burns, 2007).

3.3.11. Industry Sector

Financiers (Banks) may prefer certain sectors to others because of high growth rate, lower risk and quick cash flows. A study revealed that food processing firms had higher access to credit than metal-mechanic and wood-furniture firms, because Banks rated them as having faster cash flows and lower risk levels (Pandula, 2011). Silva and Carreira (2010) noted that most service firms are constrained to access finance for lack of relevant tangible assets for collateral. Therefore, the SMEs' existence, access to finance, growth and development depend on the choice of relevant sectors (Pandula, 2011). This is consistent with locational challenges faced by SMEs (Pandula, 2011; Abor & Quartey, 2010; Deakins e*t al.,* 2008, Amonoo *et al*., 2003).

Generally, access to finance is hindered by physical access, eligibility and affordability (Beck & Demirguc-Kunt, 2008). Yet, Banks will remain at the heart of Africa financial system (Honohan & Beck, 2007), because their financial support to the SME sector will however attract new entry, growth, innovation, optimum loan size and ultimately reduce associated risks (Demirguc-Kunt and Beck, 2008). Contrary to Stephanou and Rodriguez (2008) study, Demirguc-Kunt and Beck (2008) argued that foreign Banks are likely to increase financial access for SMEs and the role of non-Bank finance will also increase. Since SMEs would like to manage their financing situation to maximise their firms' value, they would end up preferring their internal finances to external sources under pecking-order theory.

3.4. Pecking Order Theory (POT)

SMEs prefer internal finance, this is because the owners are risk averse to dilute their ownership interest and control; keen credit criteria, information asymmetry, and they cannot issue public equity (Abor & Biekpe, 2009; Brealey et al., 2009; Pike & Neale, 2009; Gregory et al., 2005; McMahon et al., 1993; Holmes & Kent, 1991). In short, POT endeavours to explain why SMEs prefer internal to external finance (Lucey, 2006).

4. Research Methodology

The research was conducted on two Rural Banks in the capital of Ho municipality and their clients. The choice of rural banks was deemed appropriate because they were established to serve the SMEs (Bank of Ghana, 2007) and also, they are not the focus of most researchers. Structured questionnaire was the main instrument for data collection from eighty (80) respondents. Survey questionnaires offer standardised data that is relatively quick and easy to compare and analyse (Saunders *et al.,* 2009). Questionnaires allow the respondents to relax and carefully provide objective opinions on the topic. Norton (1990) upholds that surveys help to access data that are not in the public domain or data that cannot be easily quantified; and can help test the qualitative assumptions and finance theories. A qualitative technique, specifically descriptive approach was adopted. The preference for this technique is to allow the researcher explain the criteria used by Rural Banks to advance loans to SMEs (Saunders *et al*., 2012). Statistical tables and simple bar charts were used for data analysis. Tables enabled easy summary of the large data collected; and relatively easy to interprete and compare. Tables were useful in summarising the characteristics of categorical, nominal and ordinal data collected as well as percentatges (Easton & McColl, 2011; Saunders *et al.,* 2009; Creswell, 2003). Bar Charts were useful to illustrating the characteristics of data in a convenient form, where vertical triangles (bars) were used to represent proportions of data categories from the survey (Easton & McColl, 2011; Saunders *et al.,* 2009; Creswell, 2003).

5. Results and Discussions

5.1. Personal Data

The age and gender distribution (Table 1) shows that male (69 percent) dominates the SME sector as compared to female (31 percent). The majority of male (20 percent) and female (13 percent) are between the ages of 31 and 40 years. This age distribution indicates that the majority (79 percent) of respondents fall within the active age of below 50 years; hence capable of engaging in active businesses.

There is a common assumption that it is only less-privileged educated people who engage in running businesses; however, in Table 2, majority of SME male respondents (44 percent) have had tertiary (university level) education and at least 8 percent had basic education. Secondary education (12 percent) was relatively higher among female SMEs owners. If good education is necessarily a means to succeed in business, SMEs owner-managers in Ho-Ghana would have succeeded with their relatively high educational background. However, education enhances success of accessing finance as previously reported in the literature.

5.2. Demand-Side Financing Factors

It is evidenced (Table 3) that majority of SMEs (64 percent) in Ho have officially registered their businesses, while 36 percent did not register at all. Despite challenges SMEs face in the official registration, it is possible that their non-registration can affect the national database and hence limits adequate provisions for the sector. Figure 1 shows that majority (23 percent) of SMEs are established for more than 10 years; and the least 7 percent are between 2 and 4 years of age. Since most SMEs are more than 4 years old, the researcher sees no reason why their performances are still low. They were not able to accumulate enough funds and assets as collateral, which could help them access external finance. This could be an indication of mismanagement as some researchers argued.

In Ghanaian perspective (NBSSI) definition of SMEs, majority (55 percent) of firms are Micro (1 – 5 employees); 25 percent are Small firms (6 – 29 employees) and 10 percent are Medium firms (30 – 99 employees) (see Figure 2). Since majority of firms are micro and small, engaging in petty trading, they may not realise significant turnover as a requirement for accessing Bank finance. Here again, if there is efficient financial management, the researcher believes SMEs can still perform better.

Majority (81 percent) of SMEs are owner-managers, while 19 percent are non-owner-managers (Figure 3). The telephone interview results indicate that, the closer the owner is to the business with strategic control mechanisms, better the performance. Trust and independence is important but ‘two heads may still be better' to ensuring the realisation of ‘synergical' results. Besides, unexpected events like risks, sickness or death of owner-managers can adversely affect the business. Respondents were asked to state the business activities they engage in. Wholesale and retail businesses (40 percent) form the majority. Manufacturing, hotel/restaurant, agriculture and construction businesses are closely related in popularity on average. 8 percent of respondents engage in other businesses such as hairdressing salon, telecommunication, wood/timber, school, ICT-Training & Services, banking/micro savings & loans, tailoring/fashion designing, bee-keeping and photography (Figure 4).

Respondents were asked to state the present stage of their respective businesses. In Figure 5, a significant number of respondents (52) representing 68 percent indicate that their firms are at the growth stage; followed by 18 percent at birth/introduction stage; 12 percent of SMEs are at maturity stage; and 1 percent at saturation/decline stage. The distribution at the growth stage (68 percent) is a very encouraging stage of every business, indicating growth potentials of the sector; yet requires more financial and non-financial attention to withstand the existing and new competitors. The survey indicates in Figure 6 that 33 percent of SMEs own assets above GH¢10,000; 30 percent fall within GH¢5,001 to 10,000; 22 percent fall within ¢1,001 to 5,000; and the least of 13 percent fall within GH¢1 to 1,000. This distribution highlights that majority of businesses in Ho are Micro and Small firms. This shows relatively weak resource base, which can limit external finance. Due to limited access to external finance (debt), most SMEs' capital structure is low geared; or they want to avoid external interferences from financiers.

Again, 26 percent of SMEs achieve GH¢5,001 to 10,000 average annual turnover; 25 percent achieves GH¢1,001 to 5,000 turnover; 23 percent achieves a turnover above GH¢10,000; the least of 17 percent achieves GH¢1 to 1,000 average turnover. 9 percent abstained (Figure 7). It implies that the annual sales revenue base of SMEs is relatively weak (less than £5,000 per annum). This can result into liquidity problems of the firms, especially at the growth stage where more funds would be required for expansion. The profitability follows a relative trend in the turnover above. This low level of profit could affect retained earnings and liquidity of the firm. 34 percent of SMEs earns annual profit before interest and tax between GH¢1 and 1,000; 26 percent earns between GH¢1,001 and 5,000; 19 percent earns between GH¢5,001 and 10,000; and only 12 percent earns profits above GH¢10,000; but 9 percent abstained (Figure 8).

Respondents were asked whether they keep records/accounts of their businesses. A significant number (75 percent) says "yes"; 24 percent says "no" (Figure 9). The common accounts prepared are sales and purchases accounts; cashbook; trading profit and loss accounts; balance sheet; debtors and creditors accounts; journals; and single entry. Interestingly, some of SMEs keep jotters rather than accounts. Those who say they do not keep records argue that it is expensive to keep records using experts. Some blame the situation on the bad business and the small nature of the business. Interestingly, one respondent says he does "mind-record keeping". This lack of proper accounts could be one of the causes of inaccessibility to Bank finance.

In Figure 10, majority (57 percent) of respondents use manual applications in record keeping; 4 percent uses computer application only, while 35 percent uses both manual and computer applications. This could be due to factors such as affordability and technical know-how of SMEs' owner-managers for computer applications. This does not speak well of a firm in this dynamic innovative, informative and technological era; hence making SME sector lag behind the modern technologies.

Table 5 shows that, majority of respondents (30 percent) use personal savings; retained earnings (23 percent); external finance – Bank loans/overdrafts (18 percent); Credit unions/Cooperatives/Susu facilities (12 percent); Family/relations/friends' support (7 percent); Trade credit (6 percent); Government grants (3 percent) and NGOs/Donors (1 percent). This indicates how SMEs owners-managers are risk averse and do not want external intrusions; or due to external finance constraints. Respondents were asked to indicate the source of finance most convenient and satisfactory to them. Figure 11 shows that 65 percent prefer personal savings/retained earnings to other sources of finance. Bank followed with 26 percent as a preferred external source of finance; while 5 percent indicated non-Bank finance. Internal finance encourages personal freedom of decision making and does not attract charges; but firms with weak liquidity may be financially constrained. To enquire further, Table 6 shows that majority (47 points) rank personal savings as first; credit unions second (45 points); retained earnings third (12 points); Bank loans fourth (11 points) at strongest ranking level (R1). At the weakest ranking level (R7), Government supports/grants scores the highest point (23) indicating unpopular usage. In short, respondents prefer internal finance to external (Banks) finance; explaining that it is easier to access at interest free rate, and difficulty getting loans. Those who prefer Bank finance explained that loans are easily accessible and Banks can offer huge funds to them. Asking respondents about what determines/influences their capital structure, firm's goals (26 percent) and availability and limits of external sources (24 percent) prove strongest closed views. Availability of internal sources (19 percent) and cost of equity & debt (14 percent) indicate average views; dilution of ownership interest and control (2 percent) and corporate tax saving (1 percent) show weakest influences on capital structure determination. This is a positive indication that SMEs are run on specific goals and objectives; and the owners are sensitive to the sources and cost of finance.

What type of finance do you obtain from your Bank? Figure 12 shows that 67 percent applies for loans; 20 percent applies for bank overdrafts; 9 percent applies for both facilities; and 2 percent applies for others (Susu loans). Since overdrafts may be subject to the firm's current account balance, which may not attract more credit facilities, loan could be a better option for SMEs. The value of facility applied for is normally approved (57 percent); but 39 percent testifies that what they applied for is not always given them because of inadequate collateral security and Banks' fear of default. Due to information asymmetry and defaults, Banks perhaps are very careful in their financial offerings to SMEs. The highest (43 percent) facility accessibility is between GH¢1,001 and 5,000; the lowest (13 percent) is between GH¢1 and 1,000 (Figure 13). Majority (69 percent) of SMEs repays their debts within one year. Since SMEs operate more on working capital, they find short-term sources of finance more convenient.

The popularity and severity of Banks' finance access barriers noted by SME respondents reveal the following six major trends (Table 7&8): collateral barriers (57 points); high cost of finance (33 points); cumbersome bureaucratic procedures (32 points); unqualified guarantors (28 points); lack of annual financial statements (19 points); and lack of business plan (18 points). However, lack of adequate knowledge about the existence of the finance source/package; lack of market and location of the business; and the traditional perceptions of fear of rejection and inferiority complex (4 points each) were found least among the barriers. No significant differences in access barriers across the Rural Banks were found. However, respondents (Figure 14) indicate that there is cordial personal and business relationship with the Banks and officials. In all, it is a good strategy in favour of SMEs that can influence the relationship lending by Banks.

6. Conclusion

The study assesses demand-side (SMEs) financing factors by Rural Banks in Ho, Ghana. Survey was conducted on 80 respondents. Findings are qualitatively analysed using statistical tables. The results indicate that most respondents are within the active age (below 50 years) with good education that can enhance proactive business management. The study found that there is no globally uniform and legal definition for SMEs; yet, most researchers focus on turnover, number of employees and assets value.

Majority of firms are sole proprietorships and owner-managed. Pecking-order theory is more applicable in Ghanaian SMEs' financial management. They heavily depend on internal finance through personal savings and retained earnings for fear of external influence and trust. Findings clearly show that Ghanaian SMEs contribute to socio-economic development, especially to GDP, tax revenue, employment and other social-responsibilities. Nonetheless, the full potential of the Ghanaian SME sector is not yet fully tapped due to some constraints, especially access to credit facilities, hampering the development of the sector. This is blamed on the keen credit criteria set by the banks, such as collateral barriers; high cost of finance; cumbersome bureaucratic procedures; unqualified guarantors; lack of annual financial statements; and lack of business plan. There are consistent and interrelated access barriers across the Rural Banks. Bank managers however indicated seven most commonly used criteria for accessing their facilities: assets for collateral; sales/turnover; firm's location/industry; financial statements; having Bank Account; guarantors; and the size of SMEs' business. Nevertheless, favourable personal and business relationships were observed among the SMEs and Banks which may influence relationship lending. Short-term loans and overdrafts were common facilities granted to SMEs, which are not always fully granted due to high default rates and other constraints. The findings from respondents (82 percent) confirm that finance improves SMEs' financial performances, especially at the growth stage, where more funds are needed to stand the test of a high competition. Hence, there is a direct relationship between SMEs finance and business growth and development (Kotey, 1999; Beck & Demirguc-Kunt, 2008).Nevertheless, the study is relatively small in scope and sample size. It is evidenced from the study that issues on SMEs are very broad, hence cannot be fully and economically exhausted in a single research project if quality is the hallmark. The study adds to the existing body of knowledge and a precursor for future researches.

7. Implications

The strength of the study is that it uses global perspective, indicating a significant signal to SME managers, owners and entrepreneurs, financiers, researchers, the government and policy makers on the areas of focus to improve the sector. Though the Banks perceive SME sector very risky with high default rates, there is no doubt that they have bright future prospects and are strategic agents of socio-economic development. Leveraging drivers such as sources of finance, time horizons, returns and the risk factors to create value and attain the optimum goal of the firm is paramount.

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Appendix

Age	Frequency			Percentage		
Years	Male	Female	Total	Male	Female	Total
Below 31	11	9	20	14	11	25
31 – 40	16	10	26	20	13	33
41 – 50	14	3	17	18	3	21
Above 50	12	3	15	15	4	19
Non-responses	2	-	2	2	-	2
Total	55	25	80	69	31	100

Table 1: Age/Gender Distribution
Source: Field survey, July 2011.

Education	Frequency			Percentage		
	Male	Female	Total	Male	Female	Total
Primary	6	4	10	8	5	13
Secondary	8	10	18	10	12	22
Tertiary	35	8	43	44	10	54
None	-	-	-	-	-	-
Non-responses	6	3	9	7	4	11
Total	55	25	80	69	31	100

Table 2: Level of Education
Source: Field survey, July 2011.

Responses	SMEs using the Rural Banks' finance	Other SMEs	Total	Percentage
Yes	21	28	49	64
No	7	21	28	36
Total	28	49	77	100

Table 3: Is your business registered?
Source: Field survey, July 2011.

£1.00 = GH¢2.4618	
Ghanaian Cedi (GH¢)	British Pounds Sterling (£)
1 – 1,000	0.41 – 406.21
1,001 – 5,000	406.61 – 2,031.03
5,001 – 10,000	2,031.44 – 4,062.07
Above 10,000	4,062.07

Table 4: Currency Conversion Rate
Source: Exchange-Rate.Org, 24/07/2011.

Sources of finance	Frequency (Ticks)	Percentage
Personal savings	60	30
Plough-back/retained earnings	45	23
Family/relations/friends' support	14	7
Credit unions/Cooperatives/Susu facilities	24	12
Trade credit	13	6
Bank loans/overdrafts	35	18
Government grants	5	3
NGOs/Donors	2	1
Total	198 Ticks	100

Table 5: Sources of Finance
Source: Field survey, July 2011.
[Please use 1 to 7, 1 being the strongest and 7 being the weakest].

Sources of Finance	R1	R2	R3	R4	R5	R6	R7
Personal savings	47	15	2	5	2	2	-
Family/relations/friends' support	2	10	12	8	7	14	4
Bank loans	11	12	14	9	6	11	1
Credit unions/ Cooperatives/ Susu facilities	45	6	8	21	11	7	2
Government supports/grants	5	-	4	4	6	12	23
Trade credit	-	4	16	9	16	7	6
Plough-back/retained earnings	12	23	13	4	4	2	4

Table 6: Preference of finance sources used
Source: Field survey, July 2011.

Barriers	SMEs using Rural Banks' finance	Other SMEs using Commercial Banks' finance	Total
Collateral security requirements	21	21	57
Cumbersome and bureaucratic loan application and processing procedure	11	15	32
Lack of business plan	9	3	18
Lack of good track records of the firm or owner(s)	3	3	8
High interest rates and process fees	10	14	33
Complex documentation requirements and lack of business registration	6	3	16
Lack adequate knowledge about the existence of the finance source/package	1	1	4
Lack of appropriate annual financial statements	9	5	19
Behaviour /embarrassments cause by some Bank officials	-	8	9
Traditional perceptions, fear of unknown/rejection and inferiority complex	1	3	4
Lack of qualified guarantors	12	11	28
Lack of being in a union and lack of Bank account	3	2	7
Lack of efficient managerial skills	4	2	7
Lack of market and location of the business	1	2	4
Low profitability	2	6	13
Age of the Firm influences the credit access	4	6	14
The size of the Firm influences the credit access	5	5	12
Possibility of diverting the funds for domestic and/or social activities	5	4	10

Table 7: Assessment of Access Barriers
Source: Field survey, July 2011.

*	SMEs using Commercial Banks' finance Barriers		Totally Satisfied → Totally Dissatisfied				
			1	2	3	4	5
a	Overall access criteria set by the Bank		1	7	8	3	-
b	Processing fees		4	3	4	5	2
c	Interest rates		4	-	6	8	2
d	Time for processing the loan/overdraft		3	3	5	6	2
e	Bank officials interpersonal relationship with you		4	6	4	2	1
f	Value of the facility approved as against amount applied		-	8	5	4	-
g	Non-financial support and advice provided by the Bank		3	4	2	5	5
	Non-responses	6	-	-	-	-	-
	Total Ticks	6	19	31	34	33	12
	Percentage	5	14	23	25	24	9

Table 8: Indicate your level of satisfaction with each of the following access barriers
Source: Field survey, July 2011.

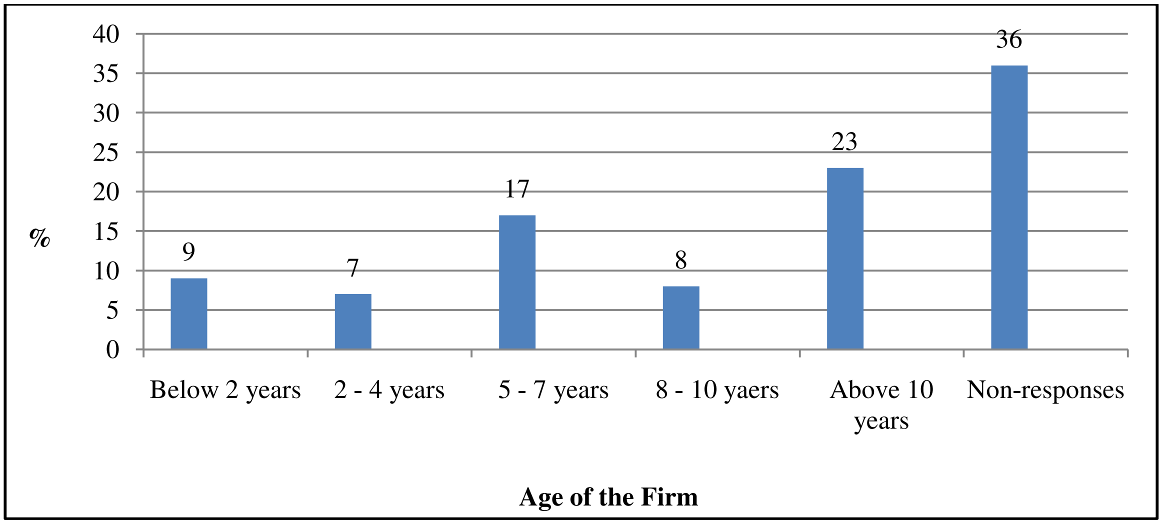

Figure 1: How old is your firm?
Source: Field survey, July 2011.

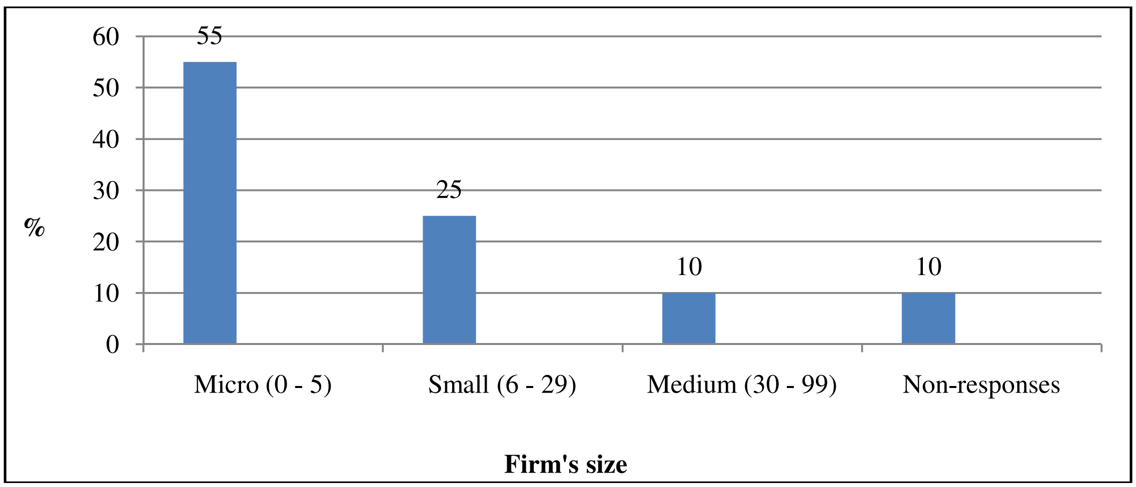

Figure 2: Firm's size
Source: Field survey, July 2011.

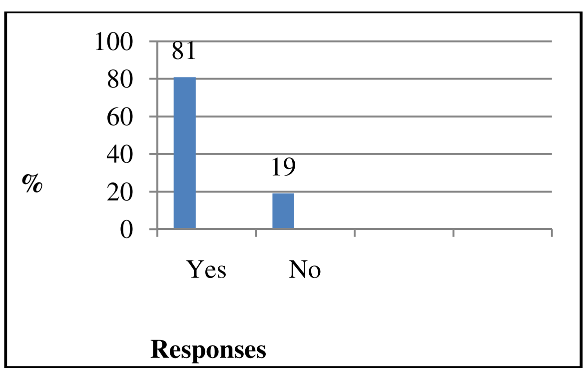

Figure 3: Are you the Owner-manager?
Source: Field survey, July 2011.

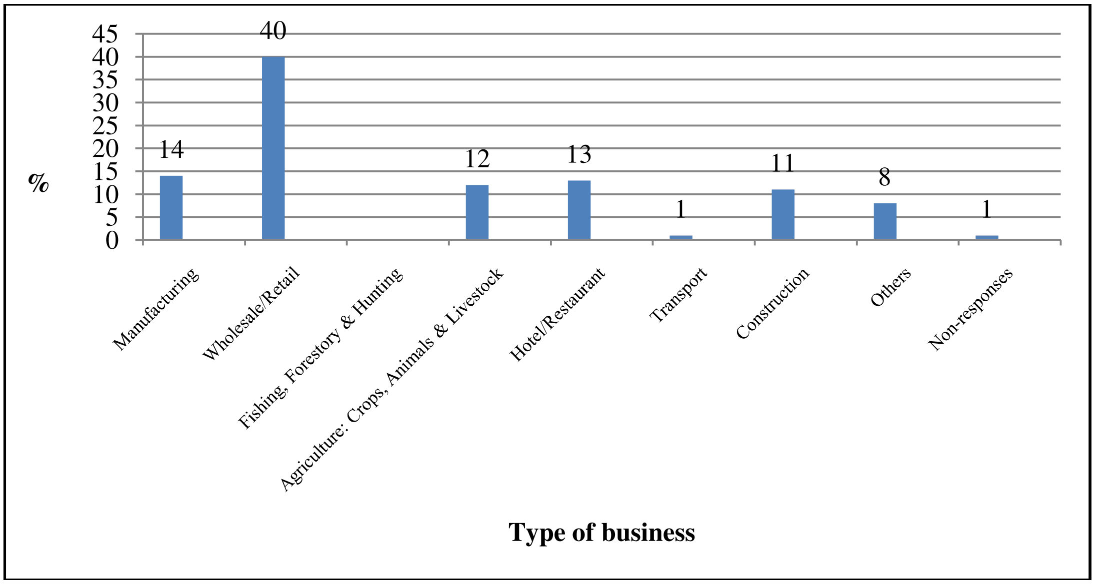

Figure 4: Type of business activity engaged in
Source: Field survey, July 2011.

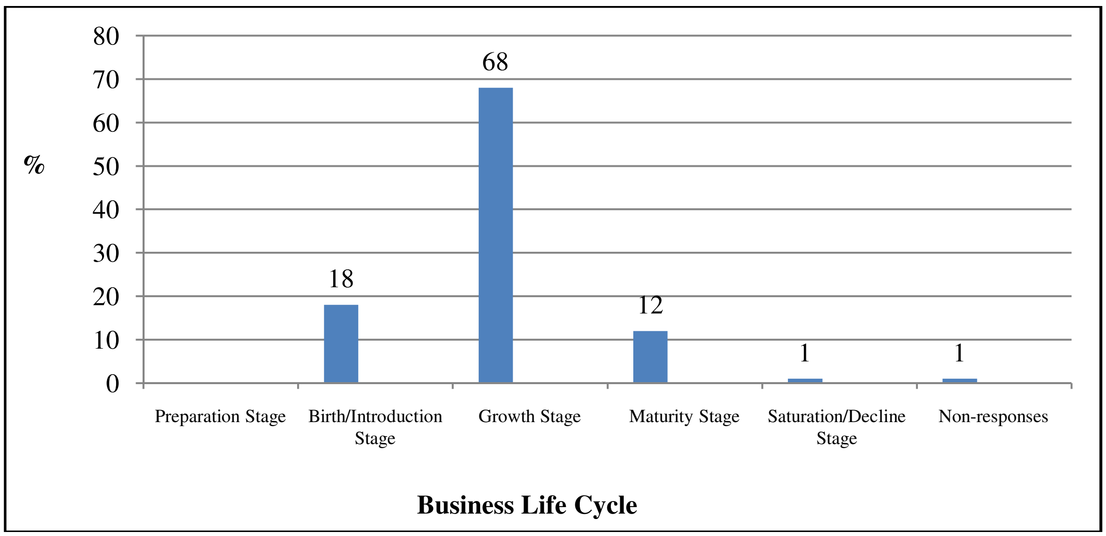

Figure 5: What stage is your business:
Source: Field survey, July 2011.

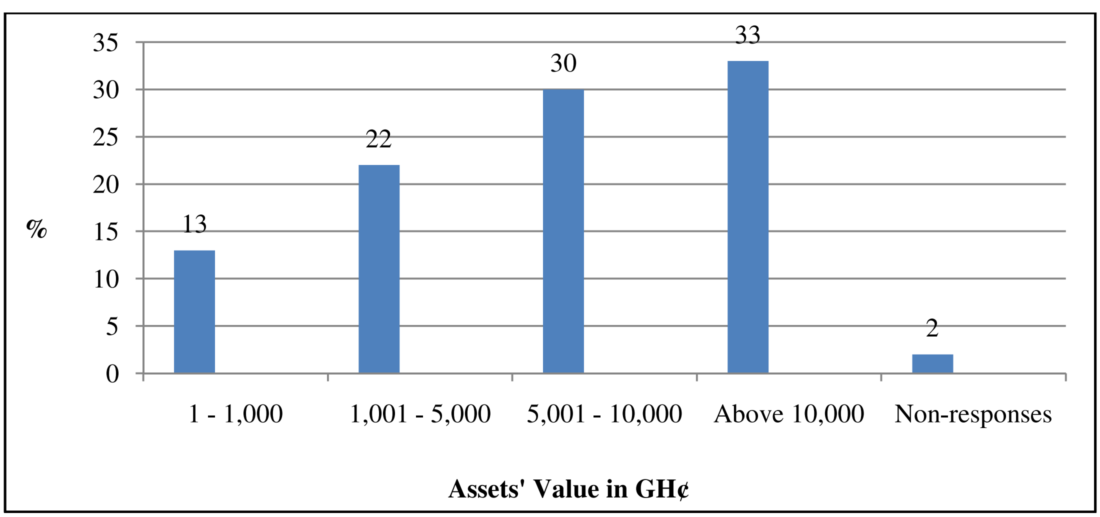

Figure 6: What is your assets value?
Source: Field survey, July 2011.

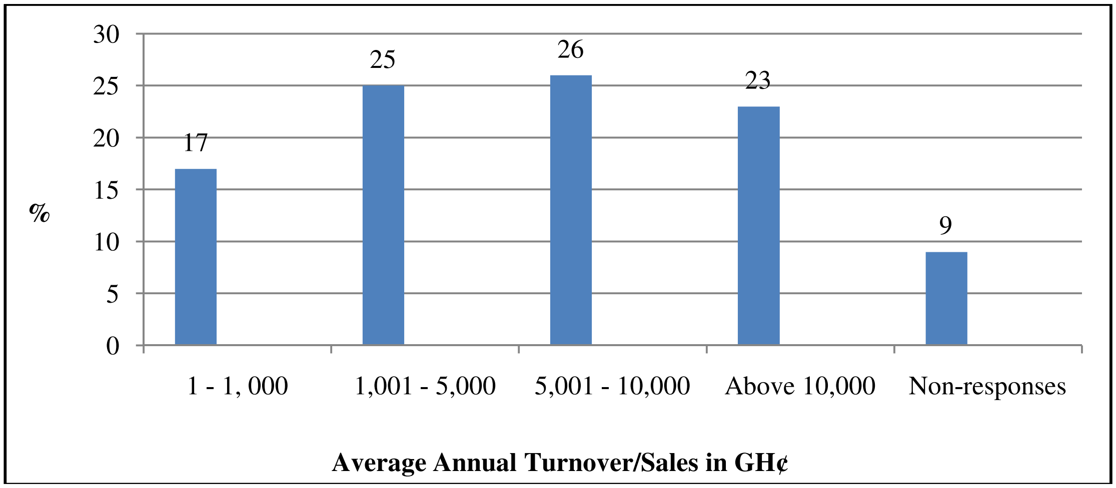

Figure 7: What is your average annual turnover?
Source: Field survey, July 2011.

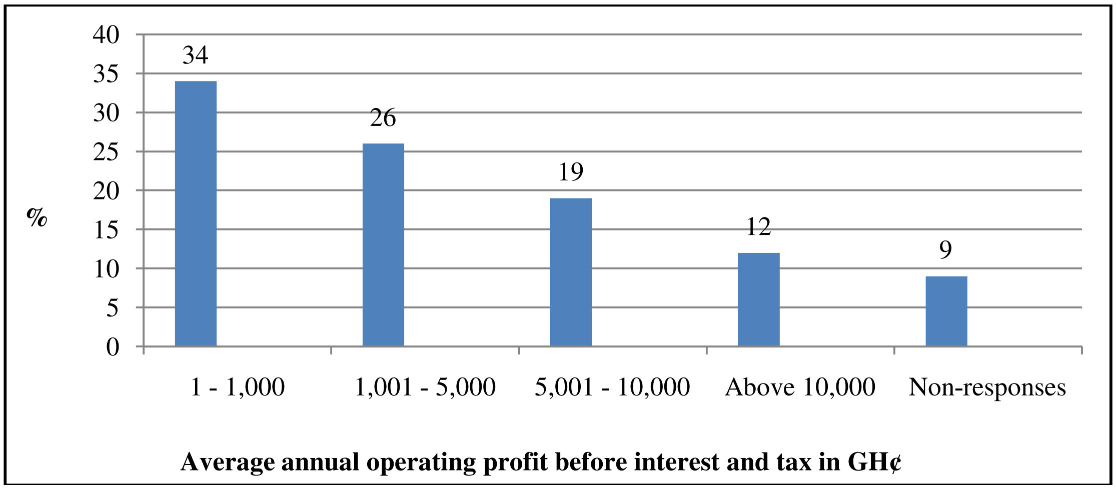

Figure 8: What is your average annual operating profit before interest and tax?
Source: Field survey, July 2011.

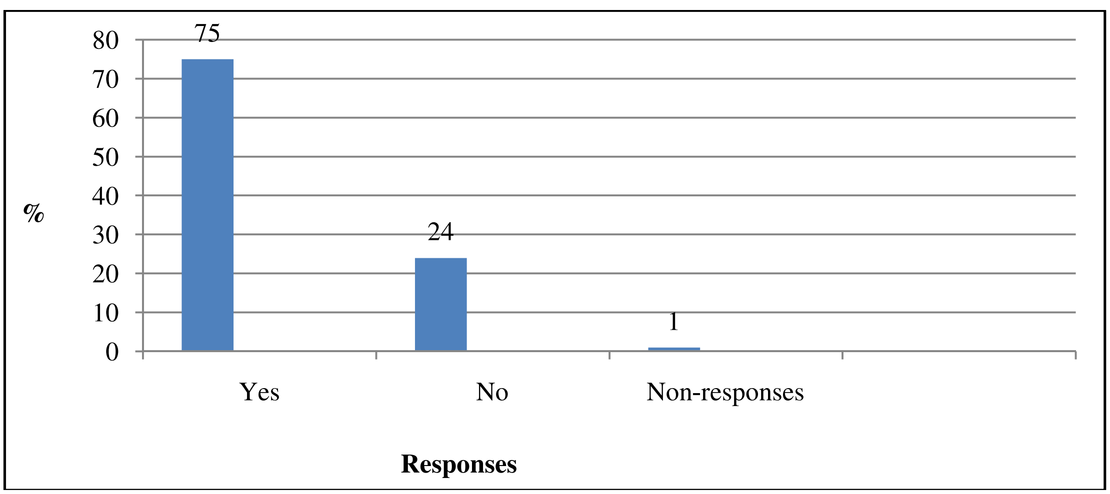

Figure 9: Do you keep records/accounts of your business?
Source: Field survey, July 2011.

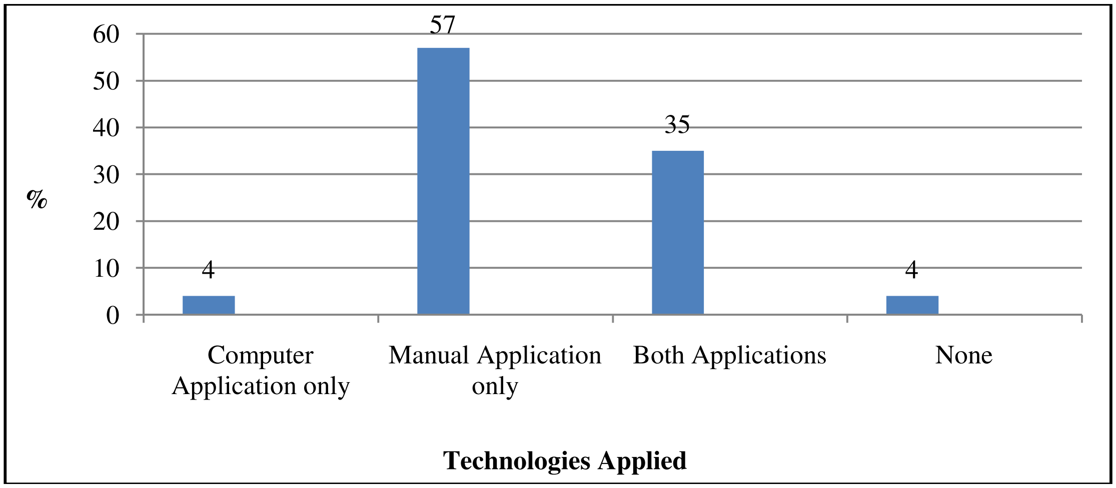

Figure 10: What technology do you apply to your business operations?
Source: Field survey, July 2011.

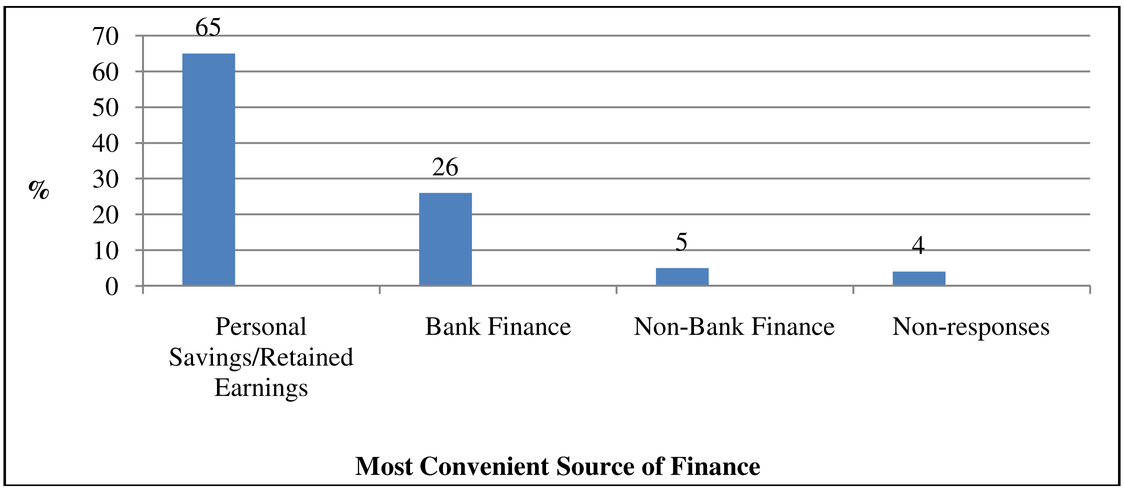

Figure 11: Which of these is most convenient and satisfactory to you?
Source: Field survey, July 2011.

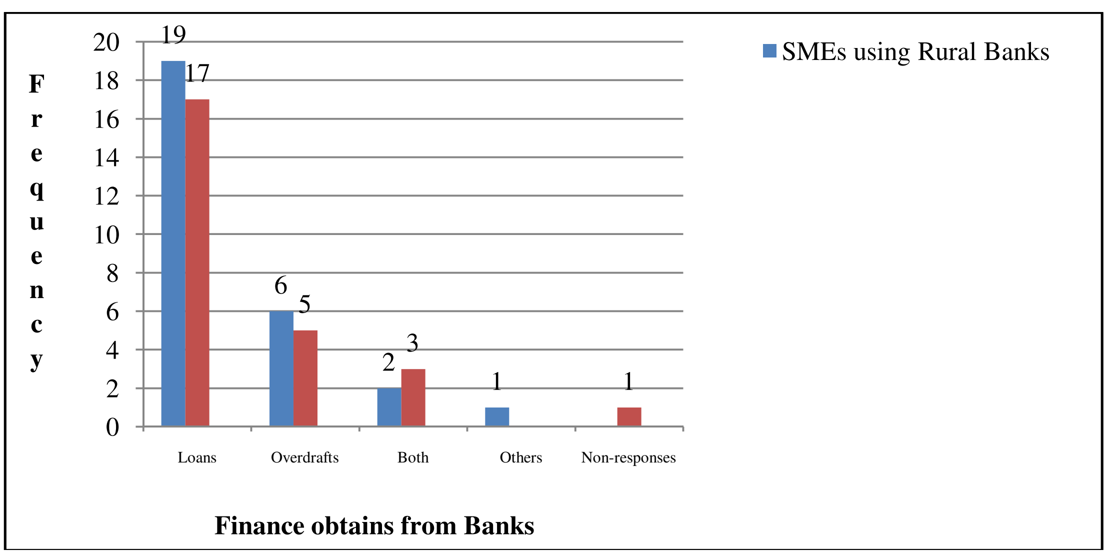

Figure 12: Credit facilities obtain from Banks
Source: Field survey, July 2011.

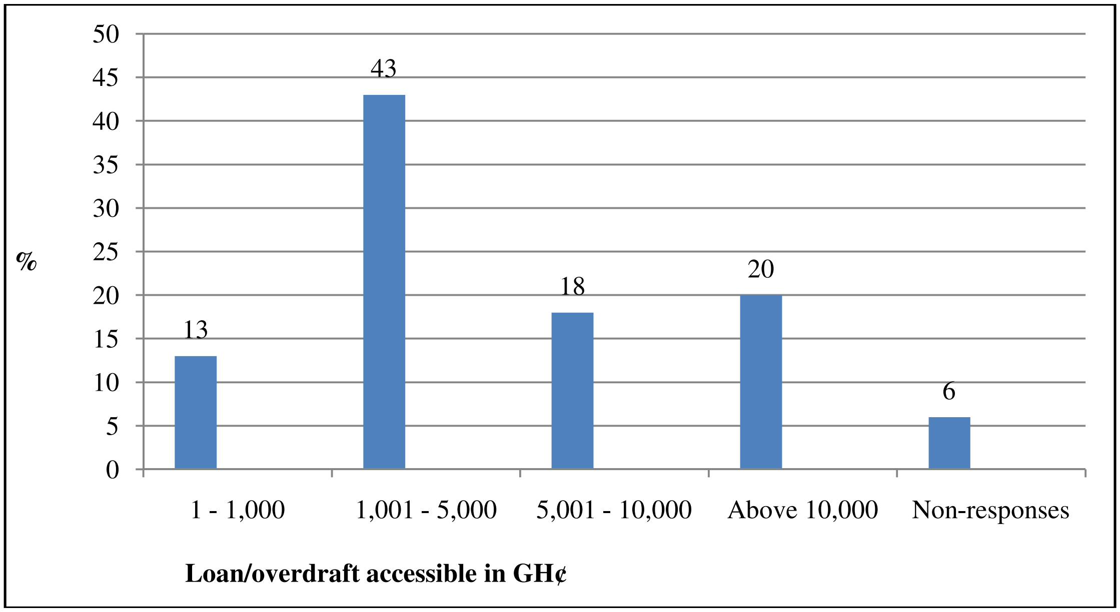

Figure 13: How much is the loan/overdraft accessible to you?
Source: Field survey, July 2011.

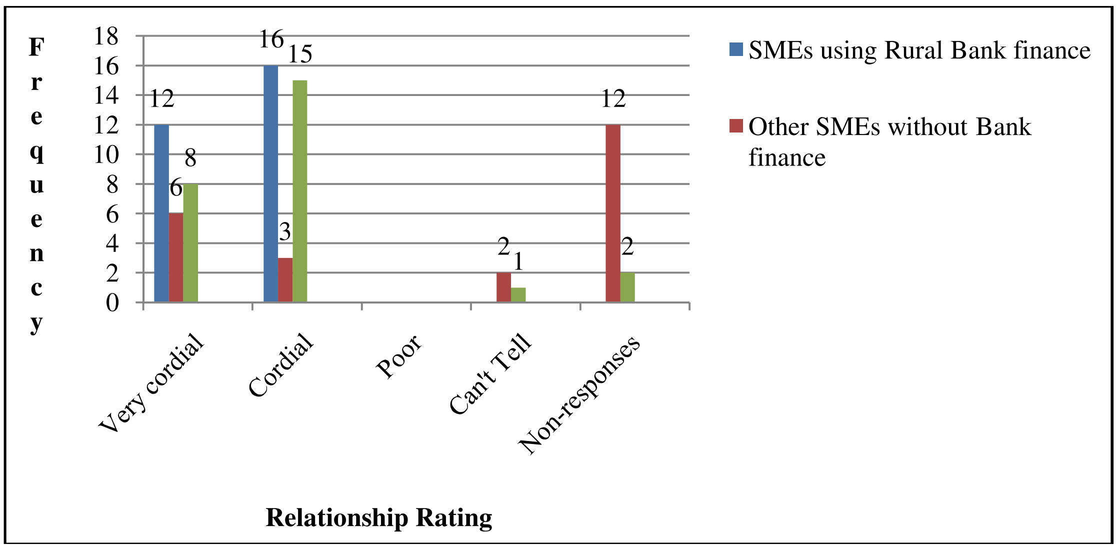

Figure 14: How is your personal and business relationship with the Bank?
Source: Field survey, July 2011.