ACCESS TO CREDIT FROM NON-BANK FINANCIAL INSTITUTIONS (NBFIs) BY

SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) IN KUMASI METROPOLIS

By

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DECLARATION

I hereby declare that this thesis submitted to the Department of Planning of the College of Architecture and Built Environment (CABE), Kwame Nkrumah University of Science and Technology (KNUST), is my work towards the award of Master of Science degree in Development Policy and Planning. To the best of my knowledge, this thesis does not contain any material previously published by another person or material which have been accepted for the award of any other degree by Kwame Nkrumah University of Science and Technology (KNUST) or other university, except where due acknowledgement has been made in the text.

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ABSTRACT

Access to credit for Small and Medium Scale Enterprises (SMEs) in Kumasi Metropolis in the Ashanti Region of the Republic of Ghana, is one of the thorny issues as far as growth and development of SMEs is concerned. This study is meant to highlight on how SMEs could reasonably access credit from financial institutions. It also gives an expose on credit delivery processes of Non-Bank Financial Institutions (NBFIs) to economically support SMEs. The study received responses from 329 owners of SMEs, three (3) NBFIs, National Board for Small Scale Industries (NBSSI) and experts in credit delivery processes and SMEs activities. Questionnaire was used to gather primary data for the study through cross-sectional survey design. Secondary data from literature review of the study supported questionnaire administered to collect data from respondents. The study used tables, percentages and Microsoft Excel to produce bar graphs for data presentation, analysis and discussion.

The study identified inadequate SMEs funding, non-formalization of SMEs credit from friends and family members, cash lien, collateral security, insider loan fraud, high interest rates, misclassification of borrowers of credit and credit repayment periods as challenges of SMEs access to credit and credit delivery processes of NBFIs. The study called for the establishment of SMEs Development Fund (SMEDEF), formalization of SMEs credit from friends and family members, proper administration of collateral security for loans, proper classification of borrowers in credit delivery, effective management of cash lien, competitive interest rates on loans, flexible credit repayment periods, restrictions on insider loan fraud and SMEs capacity building to streamline credit delivery in SMEs and NBFIs operations.

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LIST OF ABBREVIATIONS AND ACRONYMS

ACCA	Association of Certified Chartered Accountants
CGA	Credit Guarantee Association
CRID	Credit Risk Information Data
EDIF	Export Development and Investment Fund
FDI	Foreign Direct Investments
FUSMED	Fund for Small and Medium Scale Enterprises Development
GDP	Gross Domestic Product
GEDC	Ghana Enterprise Development Commission
GRATIS	Ghana Appropriate Technology Industrial Services
GSE	Ghana Stock Exchange
GTZ	Deutsche Gesellschaff Fur Technische Zusammenarbert
ICTB	Informal Credit Transaction Bureau
IDE	Institute of Developing Economies
IPO	Initial Public Offer
ITTUs	Intermediate Technology Transfer Units
JETRO	Japan External Trade Organization
LAP	Land Administration Project
MASLOC	Micro Finance and Small Loan Centre
NBFIs	Non-Bank Financial Institutions
NBSSI	National Board for Small Scale Industries
NGOs	Non-Governmental Organizations
OISL	Opportunity International Savings and Loans Limited
PAMSCAD	Programme of Action to Mitigate Social Cost of Adjustment
SASL	Sinapi Aba Savings and Loans Limited

SCF	Supply Chain Financing
SEC	Securities and Exchange Commission
SMEs	Small and Medium Scale Enterprises
SMEDEF	SMEs Development Fund
SPER	Support for Public Expenditure Reforms
USAID	United States Agency for International Development
VCTF	Venture Capital Trust Fund

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CHAPTER ONE

GENERAL INTRODUCTION

1.1 Background

In Africa and across the globe, SMEs play vital role in economic growth and development. These SMEs form more than 90 per cent of enterprises in the economic environment and could generate 50 to 60 per cent of employment (Ahiawodzi and Adade, 2012). Kessey (2014) lent credence to the view of Ahiawodzi and Adade (2012) that SMEs in Africa, of which Ghana is no exception provides about 70 per cent of employment to the working population in urban areas. Whenever there is mass employment, there could be improvement in Gross Domestic Product (GDP) of a country. Abor and Quartey (2010) posited that in Ghana, SMEs take centre stage in terms of employment provision and their contribution to GDP is about 70 per cent.

In Ghana, SMEs are challenged by access to credit and this urged the government to provide SMEs funding schemes to boost economic investments. The government of Ghana introduced Micro Finance and Small Loan Centre (MASLOC), Venture Capital Trust Fund (VCTF), Export Development and Investment Fund (EDIF) and Fund for Small and Medium Scale Enterprise Development (FUSMED), to support growth and development of SMEs. These SMEs financing schemes performed below expectation (Mensah, 2004).

One of the indicators for survival of SMEs is proper business records that increase their chances to obtain credit from financial institutions. It is disappointing to note that majority of SMEs do not put premium on appropriate business records. Bunting (2010) was of the view that improper business management skills kills ambitions of SMEs to have access to credit in financial institutions. Mensah (2004) also maintained that high lending risk, high borrowing cost and unpredictable patterns in interest rates affect SMEs access to credit.

In order to sustain economic values of SMEs, government of Ghana established NBFIs through Non-Bank Financial Institutions Act 328 of 1991, to provide credit to SMEs and other business entities. It is interesting to note that these NBFIs do not have full financial capacity to fund SMEs and this causes inadequate funding for SMEs (Kessey, 2014).

NBFIs do not have enough business credit to fund SMEs and they are faced with lending risks when granting credit. When lending risks are not properly managed, banking operations shall be thrown out of gear. Financial institutions could manage credit risks if sound credit policy exists. Credit policy spells out mechanisms that must be put in place by financial institutions to sanitize credit delivery processes in the banking industry (Sinkey, 2002).

Even though financial institutions have credit policies, there is high default rate in credit repayment. High default rates in credit repayment calls for credit appraisal to establish creditworthiness of a borrower. It must be emphasized that unsatisfactory credit appraisal could negatively affect credit repayment schedules (Mensah, 2004).

The depositor, borrower, financial institution and government are stakeholders in credit delivery. The depositor wants the best of interest on his/her deposits, the borrower would like to obtain credit from financial institutions at lower and competitive interest rates, financial institution needs best of returns in credit delivery and government puts emphasis on fairness in credit delivery processes. In any case, all stakeholders in credit delivery must ensure fair play in their transactions (Olashore, 1988).

SMEs are challenged by regular flow of funding for their investments. Central government credit for SMEs has suffered major setback due to high default rates in repayment and this has triggered discourse for sustainable strategies meant to sufficiently fund SMEs. The study shall attempt to provide mechanisms to satisfactorily resolve problems in credit delivery.

1.2 Problem Statement

In Ghana, limited access to credit, high levels of taxation and low purchasing power militate against operations of SMEs (Abbey, 2012). SMEs have low income earning capacity and if they are able to access credit, they pay high interest rate of 3 per cent per month on credit obtained from financial institutions. This has the tendency to reduce their earnings for business investments. The high interest rate payable by these SMEs creates an environment where uninterrupted credit repayment is questionable (Kessey, 2014). Funding scheme from central government to support SMEs has been affected by massive default rates in repayment. This was evident in Fund for Small and Medium Scale Enterprises Development (FUSMED) that registered 45 per cent default rate in credit repayment (Abbey, 2012).

Under the auspices of the central government of Ghana, the Austrian Import Programme for SMEs was instituted in 1990 and one (1) out of twenty (20) SMEs that benefited from the facility repaid credit granted. Business Assistance Fund was meant to provide financial support to SMEs. The programme was politically abused and credit disbursed were mostly declared as bad debt (Mensah, 2004).

Every credit delivery system is connected to collateral security to serve as guarantee to repay credit. Binks et al., (1992), stated that most SMEs have poor capacity to meet collateral requirements and when they are able to access credit from financial institutions, economic value of their collateral security is woefully inadequate. SMEs collateral security is estimated at „carcass value" to ensure that disbursed loans are realistically recovered in case of default in repayment.

Sufficient funding is crucial for survival of SMEs. As cited by Kessey (2014); NBFIs own 5 per cent of total financial assets in the financial market and they cannot bridge funding gap in SMEs operations. A lot of SMEs do not have capacity to keep good records for their businesses in order to access credit from lending institutions. This was corroborated by Coleman (2000) that improper records of SMEs business transactions affect their quest to obtain credit from lending institutions.

SMEs earnings are low, business records are deficient, funds for SMEs business investments are woefully inadequate and government‟s effort to support SMEs has been disappointing to date and this has amplified the problem of inadequate credit for SMEs. What has not been given prominence is total quality management dynamics in the operations of NBFIs that could produce time tested mechanisms to relatively reduce or phase out chronic syndrome of shortfall in supply of SMEs credit and endless delinquency in credit repayment.

1.3 Objectives

The main objective of this study is to point out sustainable approaches to fund SMEs and improve credit delivery in the economic environment. Specific objectives of the study are as follows:

1. To identify SMEs funding options for business transactions.
2. To assess credit delivery processes of NBFIs in funding SMEs.

1.4 Research Questions

The research questions of the study are as follows:

1. How could SMEs access unlimited credit for business transactions?
2. How could credit delivery processes of NBFIs improve SMEs access to credit?

1.5 Scope

This study focused on access to credit from NBFIs by SMEs in Kumasi Metropolis in the Ashanti Region of the Republic of Ghana. In order to achieve the main objective of the study, existing sources of SMEs financing, alternative sources of SMEs financing and credit delivery processes of NBFIs were considered.

It is reasonable to point out that choosing Kumasi Metropolis as study area is based on the following reasons:

1. According to Ghana Statistical Services (2012), Kumasi Metropolis has dense human population and is predominantly trade and commerce area with employment level of 71 per cent. Kumasi Metropolis an established central business districts and financial institutions that offer services to stakeholders in the metropolitan economy;

2. In reference to objectives of the study, selection of Kumasi Metropolis as a study area made room for the researcher to contact SMEs who have had numerous encounters and experience with different financial institutions in terms of credit delivery; and

3. Selection of Kumasi Metropolis as study area, would be relatively easier for the researcher to contact SMEs. Undertaking the study in other regions in Ghana would imply that the researcher must travel extensively to contact respondents for the study.

Even though there have been research on SMEs and credit delivery processes of NBFIs in some regions in Ghana, the study is restricted to Kumasi Metropolis because of the volume of business transactions. The study shall cover five (5) to ten (10) years of SMEs operations and NBFIs credit delivery system. The five (5) to ten (10) year period is good enough for meaningful assessment on credit acquisition and credit delivery dynamics.

1.6 Relevance

This study could serve as source of reference for academia, civil societies, NonGovernmental Organizations (NGOs), central government, local authorities and other agencies that are interested in formulating appropriate social, economic, public, political and other policies to effectively and efficiently steer affairs of SMEs in Ghana to promote real economic growth and development.

SMEs access to credit is limited. The outcome of this study could provide proposed mechanisms that would serve as reference point to satisfactorily fund SMEs in terms of credit delivery in Ghana.

This study could provide database for central government, NGOs and policy makers to come out with business transaction forecasts on tax rebates and industrialization that could benefit SMEs activities in Ghana. These business transaction forecasts could directly or indirectly stimulate or influence Foreign Direct Investments (FDIs) and local investments in SMEs operations in Ghana.

A sound database could facilitate close collaboration between SMEs and other organizations in terms of technical and financial assistance in the business environment.

1.7 Limitations

This research did not reflect general views of all SMEs and NBFIs in Kumasi Metropolis. The ideal situation was to get feedbacks from as many respondents as possible but resource constraints had a toll on the research. Regardless of resource constraints, the researcher made an attempt to have fair representation of respondents to give credence to research findings and recommendations.

There was difficulty in getting vital business information from respondents. The respondents occasionally consider business information as „business sensitive" that could affect their business strategies in terms competition in the market. Confidentiality in access to information was crucial in collating responses from respondents based on research questions.

Respondents were tired of responding to research issues that do not see any meaningful implementation. Respondents were assured of an initiative that could operationalize research findings and recommendations to promote economic growth and development.

The level of literacy among respondents relatively affected responses to questionnaire for the study. Respondents were guided to come out with needed responses to research questions devoid of prejudices or element of bias.

1.8 Organization of the Study

This study is in five (5) Chapters. Chapter one (1) covered background of the study, problem statement, objectives of the study, research questions, scope of the study, relevance of the study, limitations and organization of the study. Chapter two (2) reviewed concepts of SMEs, SMEs financing options and credit delivery processes of NBFIs. Literature review was based on the objectives and research questions of the study. Chapter three (3) highlighted on profile of study area and research methodology. Research Methodology gave an overview of how the study was carried out in the context of research design, sampling procedures and data collection techniques. Chapter four (4) dealt with data presentation and data analysis. Chapter five (5) highlighted on summary of findings, recommendations and conclusion of the study.

1.9 Summary

Having considered background of the study, objectives of the study, research questions of the study, justification of the study, scope of the study, limitations and organization of the study in Chapter one (1), Chapter two (2) shall pave way for review of SMEs concepts, financing options for SMEs and credit delivery processes of NBFIs.

CHAPTER TWO LITERATURE REVIEW

2.1 Introduction

This chapter reviewed literature on meaning of SMEs, SMEs financing options and credit delivery issues of NBFIs. The essence is to give insight into how SMEs could be financed through various options and point out credit delivery processes in the operations of NBFIs.

2.2 Meaning of SMEs

Abor and Biekpe (2010) indicated that SMEs have different meanings. It is pertinent to note that variables like business capital assets, skill of labour in business, level of business turnover, legal status of business and method of production could be used to define SMEs in various contexts (Curran and Blackburn 2001:8, Walters 2001:4). The 1971 Bolton Committee‟s Report pointed out that definition of SMEs has qualitative and quantitative features. Quantitative definition of SMEs uses variables like employee numbers, business turnover, value of business fixed assets and business balance sheet. Qualitative definition of SMEs lays emphasis on business ownership, business responsibility, level of autonomy and SMEs market share. Table 2.1 shows SMEs definition according to 1971 Bolton Committee‟s Report.

Table 2.1. Statistical Definition of SMEs by Bolton Committee

Industry	Statistical Definition
Manufacturing	200 employees or less
Retailing	₤50,000 p.a. turnover or less
Wholesale Trades	₤200,000 p.a. turnover or less
Mining/Quarrying	25 employees or less
Motor Trades	₤50,000 p.a. turnover or less
Construction	25 employees or less
Miscellaneous Services	₤50,000 p.a. turnover or less
Road Transport	5 vehicles or less

Source: Adapted from Goss (1991:30)

European Commission similarly agreed with Bolton Committee"s definition of SMEs. They stated that SMEs could be defined in terms of number of employees, financial size of business and independent business. Independent business means a business enterprise that is less than 25 per cent owned by one (1) enterprise or jointly by several enterprises. European Commission"s definition of SMEs is spelt out in Table 2.2.

Table 2.2. European Commission Definition of SMEs

Criteria	Micro	Small	Medium
Employees	Maximum 10	Maximum 50	Maximum 250
Maximum turnover (in million EUR)	-	7	40
Maximum balance sheet total (in million EUR)	-	5	27
Independence	-	25%	25%

Source: (European Commission 1996:4)

In Ghana, indicators like number of employees and capital assets could be used to define SMEs. Based on these indicators, SMEs are entities that employ not more than nine (9) workers and has plant and machinery (excluding land, buildings and vehicles) not exceeding GHS10million (Kessey, 2014).

Curran and Blackburn 2001:8, Walters 2001:4, Bolton Committee"s, European Commission and Kessey (2014) toed common line using qualitative and quantitative indicators to define SMEs. It could be inferred from various definitions of SMEs that Curran and Blackburn 2001:8 and Walters 2001:4 strikingly came out with more elaborate definition of SMEs that borders on business ownership, business responsibility, business flexibility, level of business autonomy and market share, apart from their views on quantitative definition of SMEs.

SMEs could be branded as business entity comprising of a business manager who has specified business capital and employees and a common goal to contribute to economic growth and development. A missing element in respective definitions of SMEs is absence of legal opinion on real definition of SMEs.

2.3 Overview of SME Development in Ghana

In 1970, Ghana Enterprise Development Commission (GEDC) played vital role to develop and promote SMEs. GEDC"s had an objective of assisting Ghanaian businesses to favourably compete with foreign businesses. It also rolled out business packages to strengthen technical and financial capacities of SMEs. NBSSI established entrepreneurial development programme to train and assist persons with entrepreneurial abilities into self employment. In 1980s, Intermediate Technology Transfer Units (ITTUs) arranged to upgrade small scale industries through application of appropriate technology. This raised employment levels and productivity (Kayanula and Quartey, 2000). The Ministry for Private Sector Development was established to focus on improving business capacity of SMEs. Under the supervision of World Bank, Programme of Action to Mitigate Social Costs of Adjustment (PAMSCAD) provided funds to support SMEs. This was based on the premise that SMEs do not have full access to credit (Aryeetey et al., 1994).

The state deemed it fit to fund SMEs to promote economic growth and development.
SMEs financing schemes set up by government and donor agencies include Austrian Import Programme, Business Assistance Fund, Private Enterprises and Export Development Fund, Export Development and Investment Fund, Deutsche Gesellschaft Fuer Technische Zusammenarbeit (GTZ) and Ghana Investment Fund, FUSMED (Mensah, 2004). In spite of numerous financing schemes for SMEs in Ghana, there were financing gaps in operations of SMEs (Abor and Biekpe, 2006).

Overview of SMEs gave prominence to external sources of SMEs financing schemes. As per the view of Abor and Biekpe (2006), numerous financial interventions for SME financing were not sustainable due to financing gaps. A discussion on financing options for SMEs could show how SMEs could be financed in their operations.

2.4 Internal Sources of SMEs Financing

According to Husain (2005), personal savings and retained profit in business constitute internal sources of SMEs financing. Tonge (2001) opined that apart from personal savings, credit or funds from relatives or friends of SME entrepreneurs could be considered as internal sources of SME financing. In his opinion, internal sources of SMEs financing is one of the major sources of start-up capital for business investment.

Tonge (2001) and Husain (2005) generally settled on personal savings as internal source of SMEs financing. Difference in opinions of Tonge (2001) and Husain (2005) is inclusion of retained profit and credit from friends or family members as internal sources of SMEs financing. Opinions expressed by literature on internal sources of SME funding were silent on how to formalize credit from friends and family members in order not to distort SMEs business transactions in terms of irregular demands for credit repayment.

2.5 Prospects of Internal Sources of SMEs Financing

Internal sources of funding for SMEs provide funds for SMEs who are initially challenged by start-up business capital. In the event of inability to provide collateral security for credit, internal sources of SMEs funding is the best option and it offers long term financing with minimum cash outflow in the form of interest (Ou and Haynes, 2006). Bass et al (2003) pointed out that internal sources of SMEs funding is a way of avoiding stringent banking measures in terms of credit delivery. They argued that internal sources of SMEs funding has higher chances of increasing capital for business investments to promote economic growth and development.

2.6 Challenges of Internal Sources of SMEs Financing

Cook and Nixson (2000) observed that SMEs are heavily constrained by limited internal financial resources available to boost business investment objectives. The view of Cook and Nixson (2000) was supported by Kauffmann (2005) that SMEs overdepend on internal sources of funding and have unsatisfactory access to external funds and this hinder eventual growth of business enterprises. Credit from friends and family members as source of internal SMEs funding bears an unpleasant price tag because those who provide credit interfere in business operations by demanding irregular credit repayment that distorts SMEs transactions (Kuriloff et al. 1993; Longenecker et al. 1994).

It could be inferred from prospects and challenges of internal SME funding that more often than not, internal sources of SME financing are limited in supply relative to its demand in the business environment. Overdependence on internal sources of SME financing is not advisable. External sources of SME financing may be laudable to achieve desired investment objectives in SMEs.

2.7 External Sources of SMEs Financing

In the opinion of Husain (2005), bank loans, overdrafts, venture capital, state funding and funding from development partners constitute external sources of funding for SMEs. In the sphere of external sources of SMEs funding, the role of the state, financial institutions and development partners is crucial to bridge financing gap in SMEs operations. As opined by Mensah (2004), external sources of SME financing in Ghana are Official Schemes and Financing from financial institutions.

2.7.1 Official Schemes

The government of Ghana with support of its development partners introduced official schemes as external source of SMEs financing. Examples of official schemes are Austrian Import Programme, Japanese Non-Project Grants, Canadian Structural Adjustment Fund and Support for Public Expenditure Reforms (SPER). The prime objective of the official schemes is to assist importers in the business environment. Beneficiaries of official schemes are obliged to use their funds to purchase equipment, machinery, raw materials and related business services from countries that are sponsoring official schemes.

2.7.2 SMEs Financing from Financial Institutions

In Ghana, it is obvious that SMEs cannot operate without funding from financial institutions. Application for credit by SMEs in financial institutions has broadened SME loan portfolio in the banking industry. Financial institutions are cautious of lending to SMEs because of lending risks. Some banks in Ghana have loan products for SMEs that are donor funded and access to such facilities are hedged against collateral security to relatively minimise defaults in credit repayment.

2.8 Prospects of External Sources of SMEs Financing

Zecchini and Ventura (2009) were of the view that external sources of SMEs funding provides means of lowering degree of discrimination that SMEs face in financial institutions in terms of lending costs and unmet demand for funds. According to Mensah (2004, p. 3), external source of SMEs funds introduced by close collaboration between government, donor agencies and other financial institutions is a means to increase flow of SMEs financing. It has been argued that such collaboration has the potential to relatively reduce or phase out difficulties associated with access to additional credit by SMEs (Boocock and Shariff, 2005).

2.9 Challenges of External Sources of SMEs Financing

SMEs have an unending challenge in terms of access to external funding due to high interest rates and excessive collateral requirements in the financial market. This obviously affect their growth and development. According to United States Agency for International Development (USAID), SMEs find it extremely difficult to obtain medium to long-term financing needed for capital investment (USAID, 2009). Kessey (2014) supported the view of USAID (2009) that high interest rates are killing businesses of SMEs. Bank of Ghana (2006) pointed out that government‟s financial assistance to SMEs did not yield desired results or returns because of appalling rate of credit repayments and the fact that beneficiaries of SME loans were at some points in time, „politically or socially connected‟ to SMEs funding managers.

As a result of fear of being competed out of the market, Business Managers try to conceal business information when it comes to external funding. This have negative effect on business start-up capital (Winborg and Landstrom, 2000). The opinion of Winborg and Landstrom (2000) was supported by Coleman (2000), who stated that most SMEs in Ghana lack capacity to provide comprehensive business information and audited financial statements that could enable them access credit from financial institutions. Winborg and Landstrom (2002) and Coleman (2001) pointed out that improper business records limit SMEs access to the credit market. All in all, institutional performance in credit delivery is unsatisfactory as far as credit delivery is concerned (Mensah, 2004). Regardless of prospects and challenges of internal and external financing for SMEs, discussion on alternative sources of funding for SMEs could augment financing strategies of SMEs.

2.10 Alternative Financing Options for SMEs

A discussion on the alternative SMEs financing are as follows:

2.10.1 Securitization of SMEs Loans Scheme

According to Institute of Developing Economies (IDE) and Japan External Trade Organization (JETRO), securitization of SME loans through capital market is a complex financing scheme for SME Sector. This scheme has been adopted in Japan and Singapore. The securitization of SMEs loans scheme combine credit guarantee scheme with sharing risks arising from lending to SMEs. Under this scheme, a loan to an SME is securitized to distribute risk of the original loan and attract investors with a variety of risk appetite. Securitization of SMEs loans scheme demands that credit guarantees are provided by the state to cover SMEs loans through establishment of Credit Guarantee Association (CGA). SMEs that receive credit guarantees from CGA must submit their financial information to CGA to facilitate compilation of Credit Risk Information Database (CRD) of SMEs in terms of credit delivery. The banks use CRD to provide credit for SMEs operations (IDE and JETRO, 2008).

2.10.2 Supply Chain Financing (SCF)

According to Association of Certified Chartered Accountant‟s Global Forum, Supply Chain Finance (SCF) is a transaction between an entity that provides business funds and a large company. In SCF, business financier agrees to give short-term funding to a large company on condition that invoices issued by large company‟s supplier have been formally approved for payment. The large company is an SME who is also referred to as customer to the business financier. SCF provides the following benefits to the supplier, customer and business financier:

1. The supplier is able to raise finance against approved payables as a result of creditworthiness in business transaction;
2. The customer benefits from cheaper cost of working capital because funds are provided by business financiers as far as supply of goods and services are concerned. The customer is able to optimize its own working capital position due to supply payment flexibility; and
3. The business finance provider is able to manage credit risk since credit information on a company is available in the developed market.

SCF is component part of a rapidly growing part of the trade finance product range offered by large international banks (ACCA‟s Global Forum, 2014).

2.11 Prospects of Alternative Options of SMEs Financing

Alternative SME financing helps entrepreneurs to diversify banking relationships and reduce overdependence on lending institution (Silbernagel and Vaitkunas, 2010). Alternative sources of SMEs funding is a means of providing funds for survival of SMEs despite insufficient funding from credit market (Abdulaziz and Worthington, 2013).

2.12 Challenges of Alternative Options of SMEs Financing

According to Association of Certified Chartered Accountants (ACCA) Global Forum on SMEs, SMEs have limited or no knowledge on alternative funding for their businesses. Series of legal frameworks in the financial market impede flow of SMEs funding (ACCA‟s Global Forum, 2014).

SMEs financing options have been discussed and none of them passed without a challenge. Whatever the case may be, SMEs cannot do away with financial institutions that deliver credit for their businesses. A discussion on credit delivery principles and processes of financial institutions shall highlight on how these institutions create avenue for access to SMEs credit.

2.13 Principles of Credit Delivery in Financial Institutions

Borrowers and Lenders Act, 2008 (Act 773) outlines principles in credit delivery in Ghana. This legislation highlights on rights of prospective borrower to apply for credit from financial institution, protection against discrimination of borrower in respect of credit disbursement and arrangement to have full knowledge of borrower in terms of credit delivery (Borrowers and Lenders Act, 2008).

Asiedu-Mante (2011) pointed out that credit delivery must have the following principles:

1. A financial institution must be legally approved to disburse credit to borrowers;
2. Financial institutions must genuinely grant credit to creditworthy borrowers;
3. Credit disbursed must be earmarked for viable and feasible business venture;
4. Credit given out by financial institutions to business entities must be sufficient for productive investments;
5. Credit delivered by financial institution is recoverable based on proper credit appraisal and thus relatively reduce loan delinquency; and
6. Existence of proper management information to monitor credit delivery processes.

Harold et al. (1998) posited that in disbursing productive and credible loans, the following rules and regulations must be observed:

1. Appraisal of purpose of loans disbursement and loan repayment schedules is crucial;
2. Character of loan applicant, capacity of loan applicant to repay credit granted, collateral security arrangements and other loan disbursement conditions must be evaluated;
3. Returns on credit transaction and associated risk should be determined; and

4. Financial institution must have expertise and capacity to grant loans to prospective loan applicants.

Ekumah and Essel (2001) were of the view that as part of credit delivery principle, a borrower is under obligation to operate an account with a bank for at least six (6) months. An application for loan is assessed to determine its feasibility and viability. After assessment of credit application, credit may be approved depending on credit approval standards.

Ekumah and Essel (2001) generally gave highlights on credit delivery principles. The most elaborate credit delivery principle was espoused by Asiedu-Mante (2011) and Harrod et al., (1998). Credit delivery principles of NBFIs are informed by Borrowers and Lenders Act 773. The missing link is inability of Borrowers and Lenders Act 773 to provide uniform and cross-cutting credit delivery principles for financial institutions in Ghana. Aside principles of credit delivery, it is important to comment on credit delivery processes of NBFIs.

2.14 Credit Delivery Processes in NBFIs

According to Mishkin (2001), banks are the most important source of credit for business transactions. Credit delivery processes are expressed in the context of credit application, credit appraisal, credit evaluation, credit risk control, credit approval, credit disbursement, credit monitoring and credit repayment.

2.14.1 Credit Application

Credit application is where lending institutions consider business registration certificates, information on type of business, credit transaction history and cash flow statements in order to disburse credit to business entity. Good clients are granted credit and bad clients are rejected due to high incidence of default in credit repayment (Ssewagudde, 2000). Amimo et al (2003) indicated that credit application involves history of past loan, type of enterprise and business ownership that have considerable influence on the probability of credit applicant to obtain financial facility from financial institution. A financial institution could go further to consider a borrower‟s credit application if it is „satisfied‟ with relevant credit application documents. In the opinion of Coleman (2000), reasons for rejecting credit applicants are inaccurate information on financial condition, earnings and earnings prospect of business enterprise.

Application for credit faces potential challenge where credit applicants prove dodgy and the lender may not be in a position to identify good or bad borrower. In the opinion of Tullio and Marco (2002), asymmetric information between borrowers and lenders can prevent efficient allocation of credit. Lenders are unable to observe characteristics of borrowers, including riskiness of their investment projects. Rebel et al (2002) stated that thorough assessment on borrowers background information is not easy and this affect credit application process.

Ssewagudde (2000) and Amimo (2003) specified documents needed to apply for credit from lending institutions. As regards challenges of credit application, Tullo and Marco (2000) and Rebel et al (2002) were of the notion that it is not easy for lenders to truly identify good or bad borrowers in the financial market. What is more glaring is that financial institutions are more than excited to increase their credit portfolio and might loosely overlook the subject matter of future default in credit repayment. Application for credit does not end at credit application stage. Lending institutions takes steps to thoroughly examine merits and demerits of credit application and this leads to credit appraisal.

2.14.2 Credit Appraisal

Credit appraisal is wise credit decision making process made by financial institution with respect to demand for and supply of credit facility. This appraisal must be made according to credit policies of lending institution (Van Greuning, 2003). Credit appraisal is the process by which a lender appraises creditworthiness of a prospective borrower. This normally involves appraising borrower"s payment history and establishing quality and sustainability of his/her business and income. Success or failure of credit disbursed depends on proper or improper credit appraisal (Milcah et al., 2014). There are conditions attached to every credit appraisal to satisfy lenders and borrowers. As cited in Resty (2009), credit appraisal demands that financial institutions look out for initial capital invested by borrower in business, capacity of borrower to repay loans, character traits of borrower with respect to demand for credit, good collateral security to repay credit in times of default and proper credit documentation. Mutual disclosure of credit information is crucial to establish true business relationship between financial institution and borrowers.

Difficulty in credit appraisal is that mistake in credit documentation by lending institution may be utilized by untruthful borrowers to the detriment of lending institution (Colquitt, 2007). According to Bielecki and Rutkowski (2002), the main problem faced by banks concerning credit appraisal is lack of information on potential client in credit delivery or where credit officers skew credit appraisal in favour of borrowers for valuable consideration.

Van Greuining (2003) and Milcah et al (2014) shared similar sentiments on credit appraisal as due process to assess creditworthiness of prospective borrowers. Resty (2009) delved into some of the elements involved in credit appraisal to facilitate unimpeded credit delivery. The contentious issue is that despite „due diligence" in credit appraisal, why is it that there are delinquencies and default in repayment? Other thorny issue is that in credit appraisal, mutual disclosure is crucial and how do we measure level of trust, commitment, confidence and good relationship between lending institutions and borrowers. Financial institutions have the mandate to find out whether credit disbursed conforms to its credit policy and this brings about discussion on credit evaluation.

2.14.3 Credit Evaluation

Credit evaluation determines whether a borrower is qualified or disqualified in terms of credit disbursement policy of a lending institution. When a borrower wants to obtain credit, he/she is evaluated based on personal character, credit repayment capacity, cash flow statements and collateral security to guarantee credit repayment in case of default. Any borrower with sound financial position is likely to pass credit evaluation test and obtain credit than business entity with haphazard financial records.

It must be stated that bad debt to total loan ratio, non-performing loans to total loan ratio, loans arrears rate and loan portfolio risk must be considered in credit evaluation (Sudhakar and Krishna, 2014). In credit evaluation, the type of lending activities of the bank to ensure returns on credit disbursed must be examined. Lending institution must find out whether their credit policies support credit application of borrowers (USAID, 2006).

Credit evaluation has connection with credit scoring. Sudhakar and Krishna (2014) were of the view that credit scoring is a technique that helps credit providers to decide whether to grant credit to its clients. Credit scoring is an important indicator to determine creditworthiness of borrowers in a financial institution. It is applied to reduce current and expected risks of borrowing from banks. This technique decides which borrower will get credit, how much credit should be given to a borrower and what operational strategies will enhance credit disbursement profitability (Beynon, 2005; Sudhakar and Krishna, 2014).

Credit evaluation cannot pass without a challenge. In the opinion of credit managers are constrained by time associated with checking credit references of borrowers and how swift response on credit reference could be delivered to borrowers. One of the elements of credit evaluation is credit scoring and in credit scoring, there appears to be difficulty in classifying good and bad clients Sudhakar and Krishna (2014).

In credit evaluation, collateral security of borrower is considered as a form of guarantee for credit repayment. According to Zakaria (2007), financial institutions require collateral security because lending is among riskiest ventures in the business environment and it is not easy for business entities to procure required collateral security to obtain credit for investments. Badagawa (2006) was of the view that collateral security demands by financial institutions from SMEs have restricted investment objectives of SMEs. Whenever credit application is evaluated, financial institutions are not able to give status reports on collateral security for credit. Bharath et al., (2007) pointed out that financial institutions demand collateral security before granting credit but it is a big task for lending institutions to monitor and update data on collateral security to guarantee credit repayment in times of default.

Sudhakar and Krishna (2014) stated that credit evaluation is a process to determine who qualifies for credit. Sudhakar and Krishna (2014) and USAID (2006) did justice to the requirements in credit evaluation. Sudhakar and Krishna (2014), Zakaria (2007), Badagawa (2006) and Bharath et al., (2007) stated credit scoring and collateral security issues as challenges in credit evaluation. Lending institutions „loosely pay attention" to legal implications on collateral security issues and that negatively affect credit delivery.

In every lending institution, risk element in credit disbursement is crucial and a discussion on credit risk control shall go a long way to streamline credit delivery.

2.14.4 Credit Risk Control

Credit risk control is a process of identifying, controlling and minimizing risks in credit administration. Credit risk control process is subject to review to suit credit disbursement dynamics (Ardrey et al., 2009). Hull (2007) posited that credit risk control is a mechanism in every financial institution that establishes portfolio of current credit risks and future risks in the financial market.

Every credit risk control must have a credit culture. According to Colquitt (2007), an effective credit culture should include maximum annual growth rates for credit application, targeted returns on credit disbursed, exposure levels of different debt types, desired composition of loan portfolio, risk appetite, lending authority and approval limits. In the opinion of Strischek (2002), credit culture must have the following elements:

1. Management must ensure strict adherence to the policies of credit delivery;
2. Periodic review of communication in terms of credit culture is essential; and
3. Issues on risk appetite, internal risk rating system, loan review and collection, and lender accountability is a necessity.

It must be pointed out that credit risk control is challenged by inadequate institutional capacity, inefficient credit guidelines, inefficient board of directors, low capital adequacy ratios, compulsory quota-lending as a result of government interference and lack of proper supervision by the central bank (Sandstorm, 2009).

Lapses in credit risk control could reduce financial capital resource base of a bank for further lending, weakens staff morale and affects borrower‟s confidence. Cost of managing overdue loans tends to be very high and this can reduce banks profitability levels. In some cases, cost on unpaid loans are shifted to other customers or borrowers in the form of higher interest margin charged on loans (Afriyie and Akotey, 2013).

Ardrey et al., (2009) and Hull (2007) maintained that credit risk control is management of risk in credit delivery process to sustain credit portfolio of lending institutions. Sandstorm (2009), Laker (2007) and Afriyie and Akotey (2013) did justice to challenges in credit risk control. The big question is what constitutes appropriate assessment of risk in credit delivery. Credit approval follows credit risk control after a thorough assessment of risk in credit delivery.

2.14.5 Credit Approval

Credit approval depends on ability and willingness of creditor to lend money to borrower and ability and willingness of borrower to accept credit and repay credit disbursed with interest as stipulated by credit agreement. Credit approval is where business entity shows that it could repay credit based on lenders requirements. It must be stated that type of business and rationale for borrowing could inform credit approval. Credit approval should include confirmation of borrower‟s credit risk rating and requirements for credit monitoring by credit officer (Siskos, 2000).

Quality of credit approval processes depends on transparent and comprehensive presentation of credit risks when granting loans (USAID, 2006). The challenge of credit approval is that lending institutions either approve of full or installment credit requested due to supply of credit dynamics based on lending institutions point of view and risk factors associated with business of borrower. Lower amounts approved could either result in diversion of funds for other purposes that might not be productive to ensure prompt credit repayment (Owusu, 2008).

According to Federal Deposit Insurance Corporation (FDIC) of United States of America, credit approval challenges could be outlined as follows:

1. Informational overrides occur when information not included in credit scoring process becomes known to management;
2. Policy overrides occur when management establishes special rules for certain types of credit applications; and
3. Intuitional overrides occur when management makes decisions based on judgment rather than credit scoring model (Source: FDIC, 2007).

Siskos (2000) shared thoughts on credit approval. USAID (2006), Owusu (2008) and FDIC (2007) cited challenges of credit approval. What is conspicuously missing is what happens during timely and untimely approval of credit. After lending institution has approved credit to a borrower, the next step is for appropriate authority to disburse credit to borrowers.

2.14.6 Credit Disbursement

Credit disbursement is an act of granting credit to borrowers for investment after criteria associated with loan application has been certified (Romana and Milivoje, 2011). Credit disbursement is a process whereby a borrower is given credit after he/she has satisfied financial institutions requirements in terms of credit delivery (Rana-Al-Mosharrafa, 2013). In the opinion of USAID (2006), credit disbursement is the net or installment amount of credit paid to borrowers after satisfying loan application requirements.

According to World Bank (2006), credit disbursement could be differentiated as follows:

(a) Reimbursement: The Bank may reimburse borrower for expenditures eligible for financing pursuant to Loan Agreement that the borrower has prefinanced from its own resources;
(b) Advance: The Bank may advance loan proceeds into a designated account of borrower to finance eligible expenditures as they are incurred and for which supporting documents will be provided at a later date;
(c) Direct Payment: The Bank may make payments, at borrower‟s request, directly to a third party (e.g., supplier, contractor, consultant) for eligible expenditures; and (d) Special Commitment: The Bank may pay amounts to a third party for eligible expenditures under special commitments entered into, in writing, at the borrower‟s request and on terms and conditions agreed between the lending institution and borrower (World Bank, 2006).

According to Federal Financial Institutions Examination Council (FFIEC), issue of „insider loan fraud‟ is a threat to credit disbursement. On the issue of insider loan fraud, employees in a financial institution could form syndicate and apply for loans through dubious means and circumvent loan regulations to the detriment of credit market (FFIEC, 2002).

Romana and Milivoje (2011), Rana-Al-Mosharrafa (2013) and USAID (2006) gave definition of credit disbursement. It must be stated that USAID (2006) went further to determine quantum of disbursement based on prevailing circumstances in credit delivery. The World Bank (2006) gave commentary on credit disbursement arrangements. FFIEC (2002) spelt out credit disbursement challenges. It is worthy to point out that timing for credit disbursement must be a subject matter of interrogation. Attention must be drawn to the fact that apart from physical collateral security for credit from banks, borrowers are obliged to pay cash lien, which is an amount paid to qualify for credit disbursement and this is another form of collateral demanded by banks. Non-payment of cash lien disqualifies borrower in credit disbursement.

2.14.7 Credit Monitoring

Romana and Milivoje (2011) posited that credit monitoring is regular analysis of how credit could be repaid by borrower. Regular analysis involves developments or changes in a borrower‟s business environment that has a high propensity to soar or discourage credit repayment. According to USAID (2006), credit monitoring is to identify as soon as possible any changes in borrower‟s financial condition or performance that could affect borrower‟s capacity to repay outstanding credit to lending institution as agreed in loan agreement.

In credit monitoring, absolute authority given to loans officers may lead to a situation where loan officer may conceal deteriorating business condition of borrower that could affect credit repayment (Milcah et al, 2014). Lapses in credit monitoring may trigger demand for additional collateral security to guarantee credit repayment, increase in interest rate and immediate loan repayment (USAID, 2006).

Romana and Milivoje (2011) and USAID (2006) explained credit monitoring as a way of averting incidence of bad loans that is counterproductive in credit delivery. Milcah et al, (2014) and (USAID, 2006) specified challenges of credit monitoring process. What happens to credit monitoring if borrower changes business strategy that he/she deems it fit could facilitate prompt loan repayment? Is there any sanctions for such erring borrower? Credit monitoring goes hand-in-hand with credit repayment and financial institutions try to fuse those activities to ensure effectiveness and efficiency in credit delivery.

2.14.8 Credit Repayment

Credit repayment is to ensure that principal and interest on loan disbursed are promptly paid by borrowers as per loan agreement between borrower and financial institution (Pandey, 2004). Credit repayment is a schedule of activity where a borrower is given time to repay business credit bearing in mind legal agreement on credit disbursed (Mensah et al., 2013).

Olomola (2002) found that repayment performance is significantly affected by borrower‟s characteristics, lenders characteristics and loan characteristics. As adapted from Makorere (2014), credit repayment issues is affected by gender of borrower, household size of borrower, moral behaviour of borrower, age of borrowers business, business risk of borrower, profit margin of borrowers business, interest rates on loans, taxation on business, grace period on loan repayment and economic stability of a business environment.

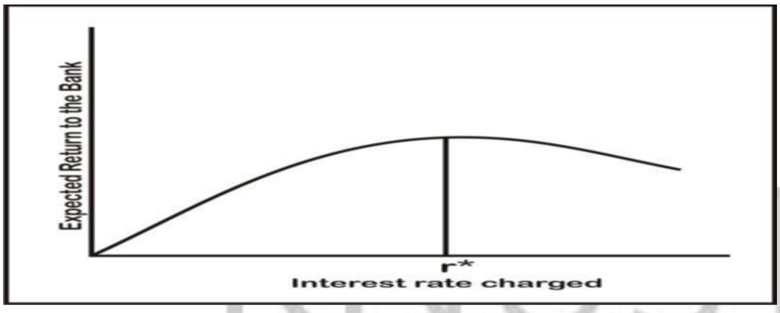
Olomola (2002) stated that credit repayment problems can be in the form of loan delinquency and default. Borrowers alone cannot be held responsible in terms of repayment. It is prudent to examine the extent to which borrowers and lenders comply with loan agreement rather than blame borrowers. In the view of Makorere (2014), one of the obstacles in credit repayment is „grace period‟ given to borrowers before they repay credit disbursed for their business enterprise. It was pointed out that unpredictability in business inflows and outflows renders „grace period‟ a challenge. Lending institution feels that „grace period‟ for credit repayment is fair and reasonable and SMEs are of the view that internal and external business shocks render „grace period‟ for loan repayment ineffective.

Pandey (2004) and Mensah et al., (2013) shed light on meaning of credit repayment. Olomola (2002) and Makorere (2014) gave a mix of requirements for what it takes for a borrower to fit into credit repayment. Olomola (2002) and Makorere (2014) stated challenges of credit repayment in credit delivery. What is more disturbing is inability of borrowers to voluntarily repay credit and avert incidence of using money meant for credit repayment for other business or social ventures. Theory behind SMEs financing options and credit delivery processes of NBFIs is credit rationing as pontificated by Stiglitz and Weiss (1981). A discussion on theoretical framework in credit rationing would explain economic reasoning in credit delivery.

2.15 Theoretical Framework

In the opinion of Sitwala (2014), theoretical framework is a guiding principle in research. It involves application of set of concepts to explain an event or give an insight on a particular phenomenon or research problem. Access to credit is underpinned in credit rationing theory as propounded by Stiglitz and Weiss (1981). This theory explains differences in the credit market. It is argued in the theory that information obstacles on borrowers results in high incidence of credit rationing by lending institutions even if demand and supply of credit are in equilibrium. As a result of deficiencies on borrower‟s credit data, financial institutions granting credit are concerned about interest rate on credit and credit risk and this ultimately induces them to attract high-risk borrowers through adverse selection effect. Adverse selection effects and moral hazards exist because of scanty information on borrowers after thorough evaluation of credit application. Forecasted returns on credit delivery depend on repayment capacities of borrowers and financial institutions are more likely to grant credit to creditworthy borrowers. Interest rates play crucial role in credit rationing as it determines riskiness or non-riskiness of credit disbursed to borrowers. As long as there could be change in interest rate, collateral requirements and other terms in credit delivery, borrowers‟ attitude towards credit application would change. Credit rationing theory shows that higher interest rates lead to moral hazard because they motivate firms to undertake riskier projects with lower probability of success but higher payoffs when successful. Stiglitz and Weiss (1981) used diagrams to explain credit rationing theory as evident in Figures 2.1, 2.2 and 2.3.

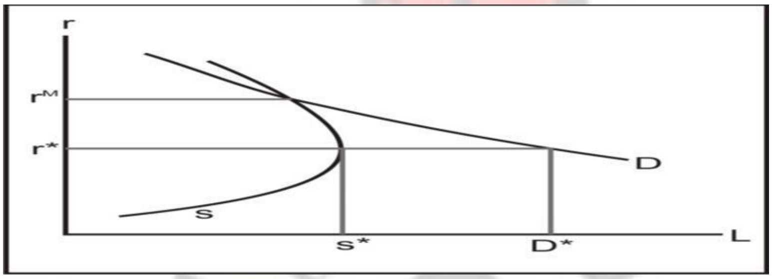
Figure 2.1. Diagram showing credit rationing



D = demand, S = supply; r = interest rate

Source: Stiglitz and Weiss Credit Rationing Theory, 1981

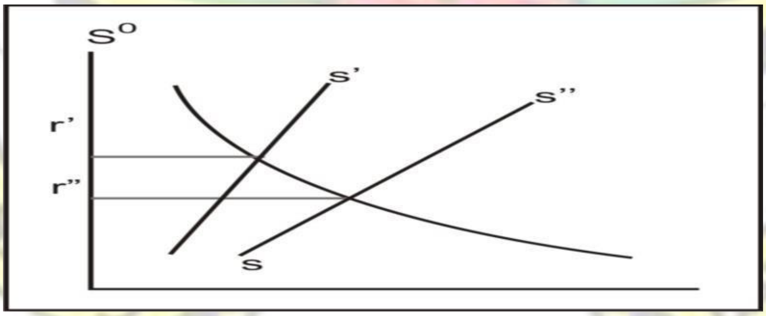
Figure 2.2. Diagram showing credit rationing



D = demand, S = supply; r = interest rate

Source: Stiglitz and Weiss Credit Rationing Theory, 1981

Figure 2.3. Diagram showing credit rationing



D = demand, S = supply; r = interest rate

Source: Stiglitz and Weiss Credit Rationing Theory, 1981

Explanation to Figures 2.1, 2.2 and 2.3 on credit rationing theory

Where information is scanty in the financial market, it leads to adverse selection and moral hazard problems. When this happens, the expected rate of return for financial institutions in terms of credit delivery will not show a sharp increase than the interest rate as shown in figure 2.1. A financial institution experiences maximized returns at an interest rate of „*r*'*. At a maximized interest rate of „r*' a bank is reluctant to raise its interest rates on credit even if demand for credit exceeds supply of credit for lending. It stands to reason that supply of credit will be backward-bending, at interest rates above „*r*'*. It is evident that at an interest rate of „*r*',* demand for credit at „*D**‟ is more than supply of credit at „*S**‟ as shown in figure 2.2.

When there is no scheme for credit rationing, borrowers who need more credit in the face of shortfall in supply of credit would pay higher interest rate for business credit until demand for credit equates supply at „*rM'*. It is worthy to note that even though supply for credit is not equal to demand for credit, the equilibrium interest rate for credit is at „*r*'*. As far as it is not prudent to raise interest rate when there is increase in demand for credit relative to supply, the bank will apply measures that would ensure that credible credit applicants are given loans. Lending institutions ensure that rejected credit applicants must not be given loans even if they offer to pay high interest rate on loans disbursed.

Non-price barriers (financial access problem) and poor regulatory framework in access to credit makes the supply curve vertical at the origin. Supply and demand for services do not intersect and credit access problem is created as shown by „*S*0‟ in figure 2.3. When non-price barriers are phased out and there is intersection of supply of credit (*S´*) and demand for credit at equilibrium, prices for financial services may be high and this create credit access problem leading to financial exclusion because of absence of competition in the credit market. There must be an institutional policy to breed competition in the activities of credit providers and build relevant financial infrastructures to shift the supply curve to the right (*S″*) and subsequently reduce prices and make credit delivery affordable to borrowers. Essence of credit rationing theory is that when supply of credit is less than demand for credit, there is scramble for credit leading to high interest rates, adverse selection for creditworthy entities and other hazards associated with credit delivery.

2.16 Lessons from Review of Literature

Literature review of the study has revealed that SMEs are major stakeholders in economic development of any country across the globe. Economic functions performed by SMEs could be sustainable if there is unrestricted access to credit for business transactions. SMEs problem in accessing credit is compounded by inability of SMEs to provide collateral security for credit, high interest rate and shortfall in supply of credit. Access to credit has been compounded by inability of NBFIs to provide sufficient credit for SMEs operations. Inability to provide credit by NBFIs is as a result of low credit generation capacity and deficiencies in credit delivery processes. Literature review subsequently revealed that alternative financing options for SMEs could go a long way to boost economic growth and development. Review of literature could not establish mechanisms to relatively minimize or phase out endless or chronic shortfall in demand and supply of business credit as far as SMEs and NBFIs are concerned in credit market. Based on identified gap(s) from review of literature, analysis and discussion of the study attempted to highlight on how SMEs could be satisfactorily financed by NBFIs through efficient credit delivery systems.

2.17 Summary

Existing and alternative funding for SMEs and credit delivery processes of NBFIs have been reviewed and there are challenges associated with each element in credit delivery. Uniqueness in credit delivery strategy of NBFIs is missing in Borrowers and Lenders Act 773. Review of literature in chapter two (2) has shed more light on credit delivery and this has set the tone as to how this study could be carried out in the context of profile of study area and research methodology.

CHAPTER THREE PROFILE OF THE STUDY AREA AND RESEARCH METHODOLOGY

3.1 Introduction

This chapter covered profile of study area and research methodology. Profile of study area captured salient features of Kumasi Metropolis in terms of population, administrative structure and business enterprises. Research methodology was expressed in the context of research design, research instrument, data analysis and reporting, sources of data and methods of data collection, data requirements and sources of data requirements, sampling frame, sample size, sampling techniques, unit of analysis and validity and reliability of research instruments.

3.2 Profile of the Study Area

Kumasi Metropolis is in the Ashanti of the Republic of Ghana. As indicated in Table 3.1, the Metropolis" population increased from 496,628 in 1984 to 1,170,270 in 2000 indicating a population growth rate of 5.2 per cent. The Metropolis" population growth rate is 52.9 per cent and 92.6 per cent higher than the regional and national population growth rates respectively as indicated in Table 3.1.

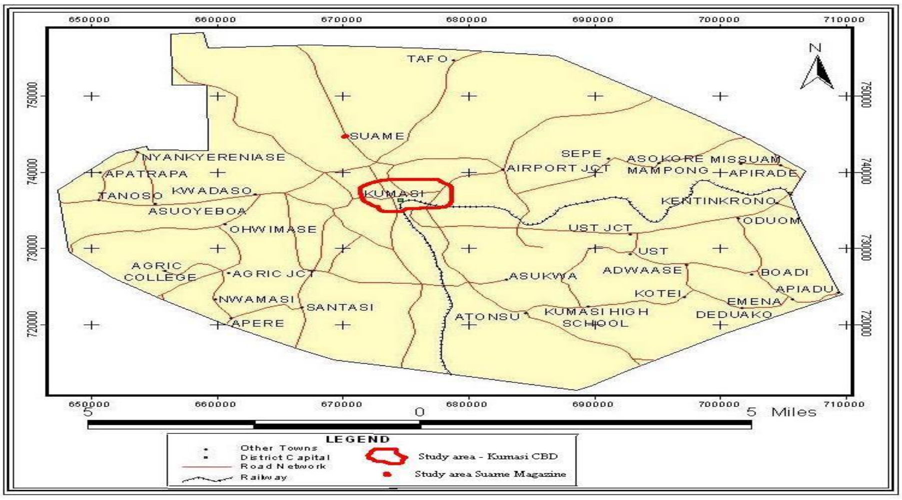
Table 3.1. Population of Kumasi (1960 – 2010)

Year Area	1960	Growth rate	1970	Growth rate 1960-70	1984	Growth rate 1970-84	2000	Growth rate 1984-00	Estimated 2010
Kumasi	218,172	-	346,336	4.5	496,628	2.5	1,170,270	5.2	1,961,531
Ashanti	1,481,698	-	2,090,100	3.8	2,948,161	3.8	3,612,950	3.4	
Nation	6,726,320	-	9,632,000	2.4	12,296,081	2.6	18,912,079	2.7	

Source; Population Census Report (1960, 1970, 1984, 2000) in KMA 2006

Kumasi Metropolitan Assembly (2006) revealed that high population growth rate of Kumasi is attributed to its vibrant commercial activities in banking, trade and other business activities. The ever increasing population provides demand for services rendered by economic actors (SMEs and Financial Institutions) in the Metropolis. The activities of the economic actors are sustained by the high population growth rate in Kumasi Metropolis. According to KMA (2006: p.3) about 86 per cent of the Metropolis‟ labour force is employed in the SMEs sector. The industrial sector and agricultural sector employ 24 per cent and 5 per cent respectively of labour force of the Metropolis. Major land use patterns of Kumasi Metropolis are made up of residential (43.8 per cent), commercial (2.4 per cent), industrial (7.4 per cent), educational (17.5 per cent) and civic and culture (14.4 per cent). These land use patterns complement each other in sustaining local economy. There are three (3) major industrial estates in the Metropolis absorbing majority of the labour force employed in the industrial sector (KMA, 2006: p.3). The first is the industrial estates located along Asokwa-Ahinsan-Kaase stretch. These large scale industries are engaged in timber milling, plywood manufacturing and brewery. The second industrial estate is Suame Magazine Industrial Enclave where small engineeringbased industries are sited.

Figure 3.1. Map of Kumasi Metropolitan Assembly



Source: Kumasi Metropolitan Assembly, 2015

The last industrial estate is Sokoban Wood Village (formerly at Anloga),which processes timber logs to meet the needs of clients from all parts of the country and beyond. It is worthy to mention that light industries are also clustered in the Kumasi Metropolis. Kumasi Metropolis has a host of NBFIs. It is pertinent to note that Easy Investment Services Limited, Opportunity International Savings and Loans Limited and Sinapi Aba Savings and Loans Limited were chosen for the study based on research ethics and appropriate sampling techniques.

- **EASY INVESTMENT SERVICES LIMITED**

Easy Investment Services Limited was licensed by the Bank of Ghana as NonBanking Financial Institution in 2006. The financial institution has SMEs Loans, Individual Loans, Susu Loans, Salary Loans and other banking products. The financial institution operates Savings Account, Current Account and other money transfer accounts. It is headquartered in Kumasi and in the process of extending its branches nationwide (Easy Investment Services Website, 2015).

- **OPPORTUNITY INTERNATIONAL SAVINGS AND LOANS LIMITED (OISL)**

Opportunity International Savings and Loans Limited (OISL) was licensed by the Bank of Ghana as Non-Banking Financial Institution in June 2004. OISL have financial institutions established in Africa, Asia, Europe and Latin America. The main focus of

OISL is to help the poor and those excluded from mainstream banking. The financial institution helps SMEs to promote economic development in the country. They have twelve (12) loan products including SME loans, Group Loans, Individual Loans, Adehye Loans, Susu Loans, Edu-finance, Education Loans, Greater Opportunity Access for Learning (GOAL) Student"s Loans, Agric Loans, Church Loans, Salary Loans and Ahoto Housing Loans. Other product portfolio of OISL are Savings Insurance Account, Current Account, Fixed Term Deposit, Susu Savings, Agro Saver Account, Micro Insurance, Western Union Money Transfer, Moneygram, MTN Mobile Money, E-Zwich and E-Banking Products. In Ghana, OISL have one (1) head office in Accra and twenty four (24) other branches dotted across the country. In Ashanti Region, OISL have its head office at Kejetia-Kumasi and other branches at Offinso, Bekwai, Abuakwa, Asafo and Suame (OISL Website, 2015).

- **SINAPI ABA SAVINGS AND LOANS LIMITED (SASL)**

Sinapi Aba Savings and Loans Limited (SASL) was granted licensed by Bank of Ghana to operate as Non-Banking Financial Institution in March 2013. SASL has the vision to become a sustainable institution dedicated to poverty alleviation in Ghana. SASL supports SMEs with credit and capacity building. The company has its headquarters in Kumasi (GALE HOUSE) and forty seven (47) networked branches and agencies offering its services to clients. SASL branches in Ashanti Region are at Obuasi, Bekwai, Adum, Abuakwa, Konongo, Old Tafo, Mampong and Kejetia Central Market. The banking products of SASL are Group Loan, EFIPA (Micro Housing) Loan, Sinapi Aba Festive Loan, Micro Enterprise Loan, Micro School Loan, Sinapi Aba Education Loan, Sinapi Aba Special Agricultural Loan, Small and Medium Enterprise (SME) Loan, Sinapi Aba Business Asset Loan, Sinapi Aba Susu Loan Account, Sinapi Aba Church Loan, Sinapi Aba Salary Loan, Overdraft, Current Account, Fixed Deposit Account and other remittance services like Western Union, Cash for Africa, Merban Money Transfer and MoneyGram (SASL Website, 2015).

3.3 Research Design

According to Jankowicz (2000:190), the rationale behind research design is that different kinds of data gathering are combined so that the data will be:

1. relevant to the thesis presented;
2. an adequate test of the thesis;

3. accurate in establishing causality in situations where the researcher wish to go beyond description to provide explanations for whatever is happening; and

4. capable of providing findings that can be generalized to situations other than those of the immediate organization.

The study adopted cross-sectional study design. In cross-sectional study design for research, the entire population or a subset of the population could be selected, and from entire population or a subset of the population, data are collected to help answer research questions of interest. It is called cross-sectional study design because the information about X and Y that is gathered represents what is going on at only one point in time (Chris and Diane, 2004). The cross-sectional study design is appropriate for the research because it applies questionnaires to obtain varied opinions given by stakeholders on a particular issue of public interest.

3.4 Research Instrument

Questionnaires were designed as basis of getting information for the study. In designing the questionnaires, much care was taken to avoid ambiguous questions. Questionnaires were in open-ended and close-ended statements. Respondents were asked to tick (√) applicable answer to close-ended questions, while space was provided for responses on open-ended questions. Questionnaires were administered at the offices of SMEs, NBFIs, NBSSI and Experts (Credit Officers of the sampled NBFIs, academia and consultants in banking and finance) in credit delivery strategies. Questionnaires were administered such that they were easy to code, record and analyze results quantitatively and easy to report results.

3.5 Data Analysis and Reporting

After data collection, responses from respondents were edited and coded. Data analysis and reporting were based on research questions. Qualitative approach and quantitative approach were used in data analysis and reporting. In the qualitative approach, valid statements were made to compliment quantitative approach that uses mathematical tools such as percentages, tables, pie chart and bar graph. Each research question was analyzed based on responses given by respondents during data collection.

3.6 Sources of Data and Methods of Data Collection

The study used secondary and primary sources of data to provide required responses to research questions of the study. Secondary sources of data for the study included published or unpublished documents, textbooks, articles and journals that provided an opinion on access to credit by SMEs and credit delivery processes of NBFIs. Primary data was gathered through the use of questionnaires. The sources of primary data collection included sampled SMEs who do business with sampled NBFIs, sampled NBFIs, opinions from Experts (Credit Officers of the sampled NBFIs, academia and consultants in banking and finance) and NBSSI.

3.7 Data Requirements and Sources of Data Requirements

The following were data requirements for the study:

1. Categories of SMEs and NBFIs;
2. Existing and Alternative Financing Options of SMEs;
3. Prospects and Challenges of Existing and Alternative Financing Options of SMEs;
4. Views of NBSSI on state/development partners funding of SMEs and credit delivery; and
5. How to improve SME financing and credit delivery systems.

Sources of data collection were sampled SME Operators, NBFIs, NBSSI and Expert Opinions. A summary of data requirements and sources of data requirements are presented in Table 3.2:

Table 3.2. Data Requirements and Sources of Data Requirements

Research Objectives	Data Requirements/Variables	Sources of Data
1.Assessment of existing sources of SMEs financing	1.Existing sources of SME financing 2.Processes involved in accessing existing sources of SME financing 3.Challenges and prospects of existing sources of SME financing 4.Awareness of state/development partners funding of SMEs	1.SME Operators 2.NBFIs 3.Expert Opinion 4.NBSSI
2.Identification of alternative financing options for SMEs	1.Types of alternative SMEs financing 2.Prospects and challenges of alternative SMEs financing	1.SME Operators 2.NBFIs 3.Expert Opinion 4.NBSSI

3.Credit delivery processes of NBFIs	1.Category of NBFI/Type of NBFI 2.Credit delivery processes 3.Prospects and challenges of credit delivery systems of NBFIs 4.Prospects and challenges of internal and external sources of SME funding 5.Views on alternative sources of SME funding 6.Prospects and challenges of alternative sources of SME funding	1.NBFIs 2.SME Operators 3.Expert Opinion 4.NBSSI

Source: Author‟s Construct, 2014

3.8 Sampling Frame

Sampling frame of the study consists of SMEs that are clients of the sampled NBFIs, sampled NBFIs in Kumasi Metropolis, state institutions in SMEs operations and Experts (Credit Officers, Consultants in banking and Finance and Academia).

3.9 Sample Size

Sampling frame for the study is one thousand eight hundred and fifty (1,850) SMEs comprising Easy Investment Services Limited-600 SMEs, OISL-450 SMEs and SASL-800 SMEs. These SMEs are business clients drawn from sampled NBFIs.

Slovin‟s Formula was used to determine sample size of the study. According Spiegel and Stephens (2008), Slovin‟s Formula is given by:

$n = N/1 + N\ (e^2)$

Where „n‟ denotes the sample size, „N‟ is the sampling frame, „1‟ is constant and „e‟ is the error margin, which is 0.05 (5%).

Therefore, the sample size is given by:

$n = N/1 + N\ (e^2) =$

$1{,}850/1 + 1{,}850\ (0.05)$

$= 329$ approximately

In addition to sample size, total number of Experts contacted for this study was twenty (20). NBFIs for this study were covered by consensus because they agreed to be part of the research. For ethical reasons other NBFIs who did not participate in this research were not coerced to do so. NBFIs that were covered by consensus were Easy Investment Services Limited, OISL and SASL. The office of NBSSI was considered in the study.

Easy Investment Services Limited has six hundred (600) SMEs. It has been established that sampling frame is one thousand eight hundred and fifty (1,850) and sample size is three hundred and twenty nine (329). If sampling frame is equated to sample size, then sample size of SMEs of Easy Investment Services Limited could be calculated as follows:

1,850=329

Therefore 600=600/1,850 x 329=107 SMEs approximately

Opportunity International Savings and Loans has four hundred and fifty (450) SMEs. Sampling frame of the study is one thousand eight hundred and fifty (1,850) and sample size is three hundred and twenty nine (329). If sampling frame is equated to sample size, then sample size of SMEs of Opportunity International Savings and Loans could be calculated as follows:

1,850=329

Therefore 450=450/1,850 x 329=80 SMEs approximately

Sinapi Aba Savings and Loans has eight hundred (800) SMEs. Sampling frame is one thousand eight hundred and fifty (1,850) and sample size is three hundred and twenty nine (329). If sampling frame is equated to sample size, then sample size of SMEs of Sinapi Aba Savings and Loans could be calculated as follows:

1,850=329

Therefore 800=800/1,850 x 329=142 SMEs approximately

Summary of sample size of SMEs for the study is as follows:

1. Easy Investment Services Limited 107 SMEs

2. Opportunity International Savings and Loans Limited 80 SMEs

3. Sinapi Aba Savings and Loans Limited 142 SMEs

Total 329 SMEs

The SMEs that were used for the study were clothing and textile manufacturers, traders, artisans (welders, sprayers, carpenters, etc) and agro processing firms. The number of SMEs selected through sample size and simple random sampling technique and their response rate to questionnaires are specified in Table 3.3.

Table 3.3. Tabular representation of sampled SMEs for the study

Item No.	Types of SMEs	Sample Size	SMEs distribution for the Financial Institution			Questionnaires distributed	Response rate (%)
			NBFI A	NBFI B	NBFI C		
1	Clothing and Textile Manufacturers	75	25	20	30	75	100
2	Traders	182	75	42	65	182	100
3	Artisans	40	5	10	25	40	100
6	Agro Processing Firms	32	2	8	22	32	100
	Total	**329**	**107**	**80**	**142**	**329**	**100**

Source: Field Survey, May 2015

Total sample size of 329 SMEs is representative of various SMEs that do business with sampled NBFIs for the study. It must be made known that Table 3.3 has given distribution of sample size of SMEs according to the banks that do business with those SMEs. The abbreviations NBFI A and NBFI B represent Easy Investment Services Limited and Opportunity International Savings and Loans Limited respectively. NBFI C represents Sinapi Aba Savings and Loans Limited. Added to this, NBFI A has 107 SMEs, NBFI B has 80 SMEs and NBFI C has 142 SMEs. The study had 100 per cent response rate from respondents as indicated in Table 3.3. This high response rate underpins reliability of findings of the study. Additionally, high response rate was due to the urge sampled SMEs have to explore credit delivery avenues.

3.10 Sampling Techniques

Purposive sampling and simple random sampling were used in this study. According to Trochim (2006), Purposive Sampling involves assembling of a sample of persons with known or demonstrable experience and expertise in some area. Purposive Sampling assisted the researcher to select NBSSI and Experts in credit delivery for the study. Reason for using purposive sampling to select NBSSI is that NBSSI is a specialized institution responsible for growth and development of SMEs in Ghana. Rationale behind use of purposive sampling to select Experts in credit delivery is that the researcher sought to rely on their rich experience in credit delivery concepts. Simple random sampling was used to select SME Operators of the study area for data collection. According to Trochim (2006), simple random sampling is a sampling procedure that assures that each element in the population has an equal chance of being selected. To ensure proper random sampling, SME Operators List of the study area was obtained from sampled NBFIs of the study area. The names of the SME Operators were written on pieces of paper, put into a basket and shuffled before picking those to be selected. Reasoning behind simple random sampling is that every SME Operator within the study area stands the chance of being selected for the purpose of the study.

3.11 Units of Analysis

Unit of analysis of a research is the empirical units, objects and occurrences which must be observed or measured in order to study a particular phenomenon (Kumekpor, 2002: p.54). Based on the definition by Kumekpo (2002), the units of analysis for this study were sampled SMEs made up of agro processing firms, clothing and textile manufacturers, traders and artisans (welders, sprayers, wood carvers, carpenters, etc). NBFIs, NBSSI and Experts in credit delivery are part of units of analysis for the study.

3.12 Validity and Reliability of Research Instrument

Set of questionnaires based on research questions and objectives of the study were administered to test validity and reliability before the study was conducted.

Questionnaires were subjected to critical analysis before they were administered for the purpose of the study. In order to validate research instruments, questionnaires were piloted on a sample similar to what was used in the study. Challenges and mistakes associated with the questionnaires were resolved. Samples of the questionnaire were also submitted to Academic Supervisor and Course Mates at the Faculty of Planning of KNUST for their comments and necessary corrections. This was to check whether designed questionnaire can answer research questions of the study.

3.13 Summary

This chapter has given approach as to how this study was carried out. After given an outline of research methodology for this study, chapter four (4) touches on presentation, analysis and discussion of data collected for the study.

CHAPTER FOUR DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter deals with presentation, analysis and discussion of data obtained from respondents to answer research questions of the study. Data collection for this study was done basically using questionnaires. It must be pointed out that data presentation, analysis and discussion emanate from research objectives and research questions.

4.2 Characteristics and structure of respondents

As indicated in Table 4.1, out of 329 SMEs sampled for the study, two hundred (200) SMEs were owned or managed by males, representing approximately 61 per cent of sample size. One hundred and twenty nine (129) SMEs were owned or managed by females representing approximately 39 per cent of sample size. These SMEs were drawn from Suame Magazine, Sokoban Wood Village, Kaase Industrial area and other areas (Atonsu, Ahensan, Asokore Mampong, etc) that have potential industrial features for business transaction. It must be stated that SMEs for the study area has been classified as SME Group A, SME Group B and SME Group C. Summary of SME Groups is as follows:

1. SME Group A-SMEs that do business with Easy Investment Services Limited
2. SME Group B-SMEs that do business with Opportunity International Savings and Loans Limited
3. SME Group C-SMEs that do business with Sinapi Aba Savings and Loans Limited

The characteristics and structure of respondents for the study is spelt out in Table 4.1.

Table 4.1. Characteristics and structure of respondents

SME Category	Males	Females	Total of SMEs
SME Group A	75	32	107

SME Group B	45	35	80
SME Group C	80	62	142
Total	**200(61% approx)**	**129(39% approx)**	**329(100%)**

Source: Field Survey, May 2015

This sample is proportional to the number of respondents obtained at the time of the study. This was done to ensure fair distribution of questionnaire to get views of respondents. Difference in percentage of respondents is attributed to simple random sampling technique adopted for questionnaire administration for the study.

4.3 Research Question Number 1-Existing sources of SMEs financing

This tackled SMEs business categories, internal sources of SMEs funding, external sources of SMEs funding and SMEs funding from state/development partners.

4.3.1 SMEs business categories

Types of SMEs business, number of SMEs employees, SMEs fixed assets value and SMEs business ownership status were used as indicators in examining SMEs business categories of the study area.

- **Types of SMEs business**

SMEs that were used for the study were clothing and textile manufacturers, traders, artisans (welders, sprayers, wood carvers, carpenters, etc) and agro processing firms. All the entities that took part in the study qualify as SMEs as posited by Kessey (2014) who tried to explain the meaning of SMEs in the context of Ghana‟s business environment where employment statistics and fixed assets values cannot be ignored.

Number of SMEs employees

The study observed that SMEs in the range of agro processing firms, clothing and textile manufacturers, traders and artisans on the average have twelve (12) employees. Average employee size for artisans is four (4) persons per unit-this figure represents those who are learning trade as artisans. Where they exceed four (4) people, it is on „work and pay basis‟. Work and pay basis in local business parlance means a skilled labour that is employed and paid to augment work force. An interaction with respondents as to the few number of employees summarily pointed to the fact that there is no investible capital to do business let alone pay for existing and future labour cost.

SMEs fixed assets value

Using value of fixed assets as criterion in SMEs classification, it was revealed that traders have fixed assets value of GHS45,000.00, agro processing firms fixed assets value is GHS145,000.00, clothing and textile manufacturers had fixed asset values of GHS75,000.00 and fixed assets value of artisans is GHS25,000.00. Differences in fixed asset values are explained by cost variations of assets in case of machinery and equipment and business location. As to why fixed assets values of respondents are not satisfactory, majority of respondents stated that fixed assets are in the open market and the big question is availability of financial resources to procure those assets at a relatively cheaper cost for economic investments.

SMEs business ownership status

Predominantly, 95 per cent of the SMEs are sole proprietorship and 5 per cent are partnership in nature. A probe into the SMEs business ownership status showed that most of the SMEs have opted for sole proprietorship in order to avert incidence of business dilution or clashes as to who controls business activities. As regards business registration, none of the SMEs stated that it has not registered its business entity but checks at the relevant business registration agencies in Ghana (Registrar General‟s Department) showed that more than 35 per cent of SMEs are not registered. Summary of varied reasons given for registration and non-registration of SMEs are shown in Table 4.2.

Table 4.2. SMEs responses on registration and non-registration of business

SME Categories	Reasons for SMEs business registration	Reasons for non-registration of SMEs business
1. SME Group A 2. SME Group B 3. SME Group C	1.Avert clash with business laws of the land. 2.Technical and financial assistance for business 3.Future business mergers	1.Intrusion into business ownership. 2.Business taxation issues.

Source: Field Survey, May 2015

4.4 Internal SMEs financing-Personal Savings

As indicated by Husain (2005) and Tonge (2000), personal savings constitute major internal source of SMEs financing. Respondents gave „YES‟ and „NO‟ responses as to whether they fund or do not fund their SMEs from personal savings. Responses on SMEs funding from personal savings is shown in Table 4.3.

Table 4.3. Funding SMEs from personal Savings

SME Category	YES	NO	Total of SMEs
SME Group A	7	100	107
SME Group B	10	70	80
SME Group C	5	137	142
Total	**22(7% approx)**	**307(93% approx)**	**329(100%)**

Source: Field Survey, May 2015

As stated in Table 4.3, 22 SMEs representing approximately 7 per cent of sample size fund their SMEs from personal savings. Reponses from 307 SMEs representing approximately 93 per cent of sample size do not fund their business from personal savings. The SMEs gave diverse opinions as to the extent to which they are satisfied with funding their businesses using personal savings. As indicated in Table 4.3, responses from 22 SMEs revealed that personal savings is one of the major sources of SMEs internal funding. Twenty two (22) SMEs pointed out that they are content with funding their businesses solely from personal savings based on the following reasons:

1. They are risk averse in business; and
2. They would not want to be at the mercy of financial institutions that make excessive demands in the form of collaterals securities and cash flow statements.

It is pertinent to note that 307 SMEs have no option than to seek for other source of funding because of low volume of personal savings due to low incomes. Opinion from the NBFIs, NBSSI and Experts unanimously pointed out that personal savings is one of the essential sources of SMEs financing. Overdependence on personal savings for SMEs cannot be the dossier to boost SMEs investment and that credit from banks and other sources is reasonable.

4.4.1 Prospects of funding SMEs from personal savings

A question was asked as to the benefits that could be derived from personal savings in funding SMEs. Concerning prospects of personal savings, 85 per cent of 329 respondents gave the following inputs:

1. Personal savings for SMEs business is one of the surest and easiest ways to raise funds for business investments; and
2. Personal savings helps prospective SMEs to avert challenges associated with dealing with lending institutions in terms of access to credit.

This was corroborated by Ou and Haynes (2006) that personal savings is a way to easily mobilize initial capital for business and overcome bureaucracy tied to credit delivery in financial institutions.

4.4.2 Challenges of funding SMEs from personal savings

Out of 329 respondents, 75 per cent of respondents stated that personal savings is woefully inadequate to boost SMEs because of low savings arising from low profit margins in business. Cook and Nixson (2000) agreed with the opinion of respondents that SMEs personal savings is woefully inadequate to boost business investment objectives.

4.5 Internal SMEs financing-Credit from friends and family members

In connection with credit from friends and family members, respondents gave „YES" and „NO" answers as to whether they fund their SMEs from credit from friends and family member as shown in Table 4.4.

Table 4.4. Pattern of SMEs funding from friends and family members

SME Category	YES	NO	Total of SMEs
SME Group A	32	75	107
SME Group B	20	60	80
SME Group C	27	115	142
Total	**79(24% approx)**	**250(76% approx)**	**329(100%)**

Source: Field Survey, May 2015

Responses from 250 SMEs representing approximately 76 per cent stated that they do not fund their business with credit from friends and family. Opinion of 79 SMEs representing approximately 24 per cent was that they fund their businesses with credit from friends and family members. In response to the question of SMEs financing from friends and family members, 250 SMEs representing approximately 76 per cent stated that they do not fund their business from friends and family contributions because of fear of business dilution or intrusion. They further contended that there is potential danger of business impediments because repayment of credit from friends and family members could be unexpectedly demanded at a time funds are locked up in business transaction. This view is supported by Kuriloff et al., (1993) who stated that price paid for credit from friends and family members is expensive. These entities (friends and family members) interfere with credit repayment and that potentially distorts business. Respondents who fund their business from friends and family members contributions were 79 SMEs representing approximately 24 per cent of sample size for the study.

Rationale for their actions is that all things being equal demand for business capital in insatiable and borrowing from friends and family members is not a bad idea. This argument was supported by Tonge (2001) who opined that apart from personal savings, funds from relatives or friends of SME entrepreneurs could be considered as crucial source of business capital. Independent views from NBFIs, NBSSI and Experts showed that credit from friends and family members could be used as internal source of SME financing. They further called for mechanisms to regulate repayment on credit from friends and family members.

4.5.1 Prospects of SMEs funding from friends and family members

It was observed that prospects of financing SMEs from friends and family contributions are not different from personal savings. It must be noted that 85 per cent of the respondents were of the view that funding from friends and family members augment funds for business transactions as asserted by Ou and Haynes (2006). Opinions of NBSSI, NBFIs and Experts indicate that funding SMEs from friends and family contributions relatively reduces hardships associated with demand for investible capital.

4.5.2 Challenges of SMEs funding from friends and family members

It was observed in the study that 95 per cent of the respondents lamented on inadequate funding from friends and family members as pointed out by Cook and Nixson (2000) who agreed that funds from friends and family members are severely limited as an internal source of SME financing. Responses from NBFIs, NBSSI and Experts on challenges of credit from friends and family showed that unreasonable demands for repayment affect investment decisions as supported by Kuriloff et al., (1993).

4.6 External Sources of SMEs financing-SMEs funding from only one (1) or two (2) financial institution (s)

A question was asked as to whether respondents access credit from only one (1) or two (2) financial institutions to fund their business.

In response to the question, 285 SMEs representing approximately 87 per cent of respondents were emphatic that they access credit from only one (1) financial institution. The reasons for their action is that they are risk averse in business, they do not have alternative collateral security to obtain financial facility from other banks, they do not want to be overburdened by high interest rates and unending credit repayment schedules that could trigger default in repayment because of uncertainties in the business environment. The remaining 44 SMEs representing approximately 13 per cent of respondents stated that they access business credit from more than one (1) financial institution. They held the view that deficiency in business cash inflows is disincentive to good business. They contend that it is not easy to procure collateral for alternative business credit but they opt for Cash Flow Lending from the banks. Cash Flow Lending is where access to SME credit is based on cash inflows and outflows of SMEs business transactions with financial institutions. This thorny issue was corroborated by USAID (2009) that high interest rates and stringent collateral security requirements in SMEs business hinder access to credit. Table 4.5 shows types of respondents who either access credit from only one (1) or more than one (1) financial institution(s).

Table 4.5. Access to credit from one (1) or two (2) financial institution(s)

SME Category	Credit from one (1) Bank	Credit from two (2) Banks	Total of SMEs
SME Group A	95	12	107
SME Group B	72	8	80
SME Group C	118	24	142
Total	**285(87% approx)**	**44(13% approx)**	**329(100.00%)**

Source: Field Survey, May 2015

In the same vein, NBSSI, NBFIs and Experts asserted that SMEs who opt for single access to credit are more than risk averse because of fear of losing their business in periods of default in credit repayment. They seem to be „satisfied" with their existing credit liability to the banks and would not want to be adventurous even if they genuinely need additional capital for business reinvestment. The SMEs who go for credit in more than one (1) financial institution have insatiable demand for credit for economic investment regardless of the consequences in credit delivery.

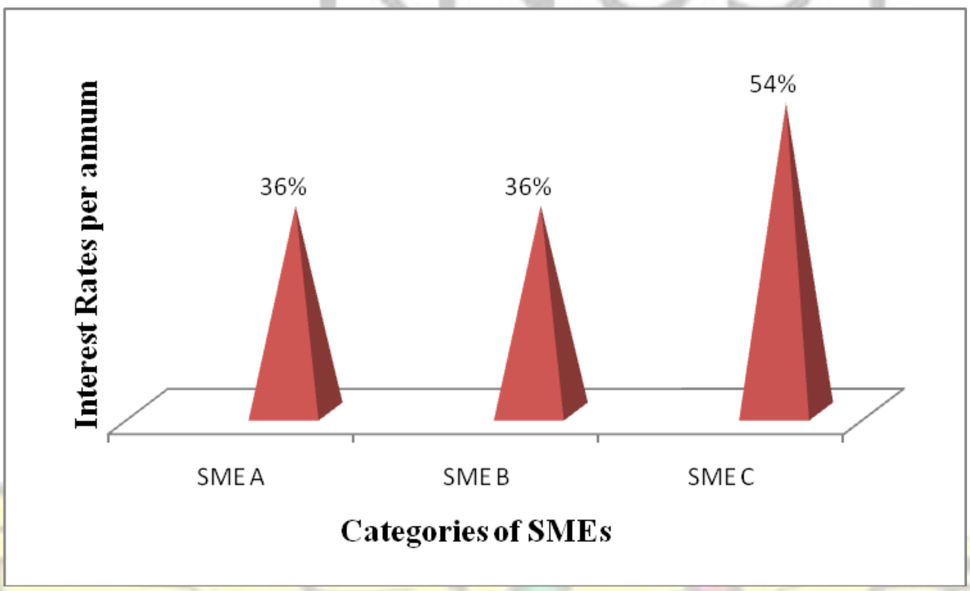
4.7 Challenges of funding SMEs by financial institutions

Unanimously, all the 329 SMEs including financial institutions, Experts and NBSSI cited interest rate, collateral security, improper business records and credit disbursement condition as challenges of credit application.

4.7.1 Interest rates on SMEs credit

Interest rate is charged on credit to establish profitability or non-profitability of credit delivery in the financial market. Figure 4.1 shows the respective interest rates SMEs pay on credit transactions.

Figure 4.1. Interest rates on SMEs credit



Source: Field Survey, May 2015

SME A (SME Group A) and SME B (SME Group B) representing 107 SMEs and 80 SMEs respectively pay interest rate of 3 per cent per month or 36 per cent per annum. SME C (SME Group C) pay interest rate of 56 per cent per annum which is 4.7 per cent per month. It is obvious that interest rate on credit is high as pointed out by Kessey (2014) that SME credit attracts „unreasonably‟ high interest rates. Same opinion was expressed by USAID (2009) that SMEs are entangled in higher interest rates in credit delivery. Responses of the SMEs were corroborated by the NBFIs, NBSSI and Experts that high or unreasonable interest rates adversely affect business investment. It was revealed that SMEs are made to pay fixed interest rate on credit during credit repayment and there is no question of varying interest rate payable on credit disbursed to SMEs.

4.7.2 Collateral Security

Collateral security is guarantee that all things being equal credit shall be repaid. A question was put to the respondents as to how collateral security affects their businesses. The responses from 310 SMEs representing 94 per cent of SME sample size stated that demand for collateral security by financial institutions affect their investment decision thereby dwindling their income generation forecast beyond 15% margin and this buttresses the assertions of Zakaria (2007) and Badagawa (2006) that collateral security issues impede SMEs investment decisions. The SMEs who were indifferent with respect to collateral security issues were nineteen (19) representing 6 per cent of the sample size. These SMEs admitted on one hand that collateral security for credit is a big challenge but were quick to add that they could relatively easily procure collateral security for loan. Table 4.6 shows responses on issues of collateral security in credit delivery.

Table 4.6. SMEs responses on collateral security issues in credit delivery

SME Category	YES	NO	Total of SMEs
SME Group A	103	4	107
SME Group B	75	5	80
SME Group C	132	10	142
Total	**310(94% approx)**	**19(6% approx)**	**329(100%)**

Source: Field Survey, May 2015

SMEs who stated that collateral security is a big challenge in credit delivery gave the following reasons:

1. They do not have the personal capacity to raise collateral security for loans;
2. They fall on close associates who are not willing to give them collateral security to enable them access credit. The unwillingness on the part of the close

associates is based on the fact that they are not certain on the future of the credit delivery; and

3. The state does not have a collateral security pool they could fall on to indemnify them in their quest to obtain credit facility from lending institutions.

SMEs who said that collateral security may not be a challenge revealed that they either have the capacity to raise collateral security or fall on their business partners for support in terms of demand for collateral security for credit. A further probe into their opinion showed that their business partners have pooled resources to procure collateral security that they use to obtain financial facility from financial institutions. Whoever qualifies to use the collateral security is based on thorough Need Assessment Factor to use that collateral security for credit through professional opinion. Redemption of the collateral security is tied to timely and mandatory repayment of credit. Collateral security shall be discharged from any liability if a business partner is deemed to have shown bad faith in credit delivery transactions.

4.7.3 Improper business records covering SMEs credit application

Proper business records play major role in enabling SMEs obtain credit facility. Table 4.7 shows responses in connection with financial record keeping of SMEs.

Table 4.7. Responses on business records

SME Category	YES	NO	Total of SMEs
SME Group A	20	87	107
SME Group B	30	50	80
SME Group C	40	102	142
Total	**90(27% approx)**	**239(73% approx)**	**329(100%)**

Source: Field Survey, May 2015

Ninety (90) SMEs representing approximately 27 per cent of sample size said that they subscribe to proper business records due to the following reasons:

1. They have the ambition to present proper business books to enable them obtain financial facility from financial institutions;
2. They want to control their businesses to avert the incidence of business leakages that could result in collapse of business; and
3. They want to preserve and promote corporate status of their businesses to attract other investments.

Responses from 239 SMEs representing approximately 73 per cent do not appreciate proper business records due to the following reasons:

1. Their level of financial literacy impede business record keeping; and
2. They desire to avert tax related issues in businesses.

SMEs are unable to provide acceptable business records to serve as basis for assessing credit. Winborg and Landstrom (2002) and Coleman (2001) pointed out that poor business records limit SMEs access to the credit market.

4.7.4 Credit Disbursement Condition on SMEs credit application

Credit disbursement is an amount given to a borrower after he/she has satisfied initial credit application requirements. Unanimously, all the 329 SMEs were not comfortable with the situation where borrowers‟ are made to pay upfront an amount that is equivalent to 10 to 20 per cent of the credit that shall be disbursed by the lending institution for business transaction. This is called „Cash Lien‟ in local banking parlance. It must be stated that if a borrower fails to pay the „Cash Lien‟, the credit requested cannot be granted. The critical issue is that SMEs are starved of business capital and implementation of „Cash Lien Policy‟ could be inimical to business investment vision, goals and objectives. The contention is that in „real terms‟ lending institutions do not grant the actual credit requested by banks and that credit granted is slashed to borrowers‟ disadvantage.

4.8 Awareness of State/Development Partners funding for SMEs

It was revealed that 250 SMEs representing approximately 76 per cent of sampled size were not aware of state/development partners funding for SMEs. An inquiry into their unawareness showed that they are not privy to information on those financial facilities. A total of 79 SMEs representing approximately 24 per cent of sampled SMEs are pretty aware of alternative SMEs funding but access is not easy. They posited that conditions to access such credit facilities are skewed towards export and import oriented entities. The administrators of the credit facilities pay no or less attention to indigenous SMEs who do not have enough funds for business enterprise. Table 4.8 shows the responses on awareness of state/development partners funding for SMEs.

Table 4.8. Responses on awareness of state/development partners funding for SMEs

SME Category	Aware	Not Aware	Total of SMEs
SME Group A	15	92	107
SME Group B	28	52	80
SME Group C	36	106	142
Total	**79(24% approx)**	**250(76% approx)**	**329(100%)**

Source: Field Survey, May 2015

As indicated in Table 4.8, majority of the respondents were not aware of the existence of state/developments funding because of inadequate publicity

4.8.1 Prospects of State/Development Partners funding for SMEs-expand

According to 75 per cent of respondents, funding from state/development partners for SMEs are important to increase funding for SMEs as supported by Mensah (2004, p.3) and Boocock and Shariff (2005). Funding from state/development partners provides an avenue where discrimination may or might not be the mantra in credit delivery to SMEs as pointed out by Zecchini and Ventura (2009).

4.8.2 Challenges of State/Development Partners funding for SMEs

Responses from 80 per cent of respondents indicated that external funding for SMEs attract high interest rates and unreasonable collateral security requirements as indicated by USAID (2009) and Kessey (2014). Respondents also held the view that social connections in external funding affect their business and this was endorsed by Bank of Ghana (2006) that government‟s financial assistance suffered setbacks because of social or political connections in the administration of the external funding.

4.9 Research Question Number 2-Alternative SMEs financing options

This shall cover alternative sources of SMEs funding, prospects and challenges of alternative SMEs funding.

4.9.1 Alternative SMEs financing

Respondents were quizzed on alternative SMEs financing and there were diverse opinions. Some of the respondents had no knowledge of alternative SMEs financing apart from funding from financial institutions, friends, family members and personal savings. Those who were „ignorant‟ of alternative SMEs financing were 285 SMEs representing approximately 87 per cent of sample size. A probe into their „ignorance‟ on alternative SMEs financing is based on the fact that publicity on alternative SMEs funding is inadequate and if there is, access to such funding is another issue. They further asserted that the nature of their business do not give them opportunity to access such funding.

A total of 44 SMEs representing approximately 13 per cent of sample SMEs are pretty aware of the alternative SMEs funding but access is not easy. Respondents called for state intervention to provide security for SMEs credit as suggested by IDE and

JETRO (2008) and ACCA‟s Global Forum (2014). Table 4.9 shows the responses on alternative funding for SMEs to boost productivity.

Table 4.9. Responses on awareness of alternative SMEs financing

SME Category	Aware	Not Aware	Total of SMEs
SME Group A	10	97	107
SME Group B	23	57	80
SME Group C	11	131	142
Total	**44(13% approx)**	**285(87% approx)**	**329(100%)**

Source: Field Survey, May 2015

It must be stated that a lot of SMEs were not aware of alternative sources of SMEs funding as evident in Table 4.9 where 285 SMEs were not aware of alternative SMEs funding. The reasons for the unawareness is that some SMEs genuinely do not know the avenues for alternative SMEs financing and others were of the perception that traditional SMEs financing from banks is frustrating and processes involved in access alternative SMEs financing would be terrible.

4.9.1.1 Prospects and challenges of Alternative SMEs financing

All in all, 65 percent of respondents were of the view that alternative SMEs financing averts overdependence on lending institutions as indicated by Silbernagel and Vaitkunas (2013). According to 85 per cent of respondents, scanty information on alternative SMEs funding dwindles their chances of investible capital for business growth and development as suggested by ACCA‟s Global Forum (2014).

4.10 Research Question Number 3-NBFIs credit delivery processes

This shall cover categories of NBFIs, credit delivery processes of NBFIs, prospects and challenges associated with credit delivery processes.

4.10.1 Categories of NBFIs

It must be stated that three (3) NBFIs voluntarily accepted to take part in this research. These NBFIs are tried and tested in non-bank industry and have more than five (5) years working experience in SMEs financing in Kumasi Metropolis. NBFIs were classified as NBFI A, NBFI B and NBFI C. NBFI A denotes Easy Investment and Savings Limited, NBFI B represents Opportunity International Savings and Loans Limited and NBFI C goes for Sinapi Aba Savings and Loans Limited.

4.10.2 Credit delivery processes in NBFIs

On the issue of credit delivery processes in their institutions, they unanimously indicated the following steps-Credit Application, Credit Appraisal, Credit Evaluation, Credit Risk Control, Credit Approval, Credit Disbursement, Credit Repayment and Credit Monitoring. The reason assigned for the adoption of these steps is that granting of credit is a risky venture and due diligence must be effected as far as credit delivery is concerned.

4.10.3 Challenges of credit delivery processes of NBFIs

Financial institutions gave the following responses in connection with the challenges of credit delivery processes:

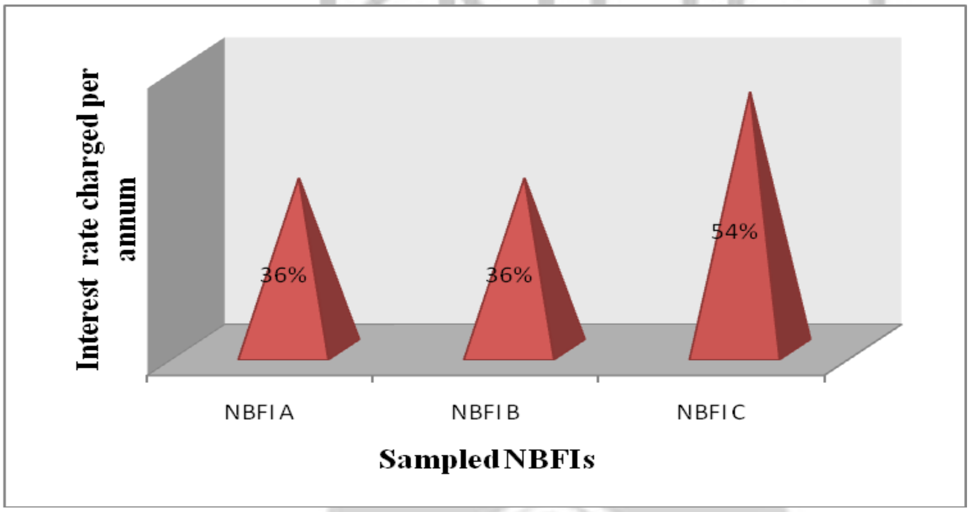
4.10.3.1Credit Application

Respondents were of the opinion that it is not easy to identify good or bad borrowers in terms of credit delivery. They indicated that as far as their respective institutions have satisfied themselves with business registration certificates, information on type of business, credit transaction history and cash flow statements as credit application requirements, they are still handicapped in terms of having full disclosure on details of borrower as pointed out by Tullio and Marco (2002) and Rebel et al (2002).

4.10.3.2 Interest Rate on credit

Respondents indicated that interest rate issues militate against credit delivery. A probe into their interest rate levels is indicated in Figure 4.2.

Figure 4.2. NBFIs interest rates on credit per annum



Source: Field Survey, May 2015

NBFI A and NBFI B respectively charge 36 per cent per annum or 3 per cent per month on credit disbursed. NBFI C charge interest rate of 56 per cent per annum, which is 4.7 per cent per month on credit disbursed. It is obvious that interest rate on credit is high as posited by Kessey (2014) and USAID (2009). Reasons for differences in interest rates payable are cost of amount borrowed by NBFI to lend to SMEs as business credit and source of the amount procured to lend to SMEs. Where cost of amount borrowed to lend as SME credit is high, interest rate would be high and vice versa. Source of amount borrowed for SME credit could be grants or concessionary loans meant for social intervention to alleviate poverty and this would eventually reduce interest rates payable by SMEs on business credit.

4.10.3.3 Collateral Security

Responses from NBFIs showed that collateral security is big threat to growth and development of SMEs as far as credit delivery is concerned. These sentiments are shared by Zakaria (2007) and Badagawa (2006) that collateral security affects the quest of SMEs to obtain credit facilities from lending institutions. Further inquiry into issues of collateral security revealed that majority of borrowers do not have resources to procure collateral security that is demanded by financial institutions before credit is disbursed. Lending institutions had the following challenges as far as management of collateral security is concerned in credit delivery:

1. NBFIs were worried that the Bank of Ghana registers collateral securities during credit delivery process but when there is default in credit repayment, they do not have absolute legal capacity to authorize outright sale of collateral securities used for loans. It is unpleasant to note that whether a collateral security could be sold to repay outstanding credit disbursed depends on law court procedures; and
2. Bank of Ghana and NBFIs have no mechanism to regularly have an update on collateral securities used to obtain credit. Arguably, regular update or appraisal on collateral securities for credit is essential so as to determine in real terms the worth of collateral security to repay loan in case of default. This opinion is supported by Bharath et al., (2007) that banks demand collateral security before granting credit but lacks potency to monitor and update data on collateral securities.

4.10.3.4 Credit Evaluation

Respondents were of the view that in credit evaluation good borrowers are classified as bad borrowers and vice versa due to misapplication of credit scoring.

Sudhakar and Krishna (2014) strongly held the view that improper application of credit scoring may lead to adverse issues in distinguishing between creditworthy borrowers and bad customers. The financial institutions admitted that sometimes credit managers do not get enough time and other logistics to thoroughly assess the creditworthy status of borrowers and this buttresses the point of Sudhakar and Krishna (2014) that credit managers are constrained by time associated with checking credit references of borrowers and how swift response on credit reference could be delivered to borrowers.

4.10.3.5 Credit Disbursement

Respondents expressed concern as to how credit is wrongfully disbursed despite attempts to scrutinize borrowers in terms of credit delivery. This is amply demonstrated by banking syndicate called „insider loan fraud‟. In response to the issue of „insider loan fraud‟, the banks stated that there is a possibility and could be devastating if not detected early. They further pointed out that „insider loan fraud" is a financial crime that must be eradicated to inject sanity in credit delivery. It is no wonder that FFIEC (2002) said that issue of „insider loan fraud" is a threat to credit delivery where credit is granted to wrong entities.

4.10.3.6 Credit Repayment

Respondents were very critical of credit repayment that serves as basis of widening the net of credit disbursement. Respondents held the view that they have challenges with monitoring repayment schedules of borrowers as suggested by Olomola (2002) that credit repayment problems must also be laid at the doorstep of credit managers who woefully fail to provisions of loan agreement. Another contentious issue raised by respondents is „grace period" for repayment of credit. They felt that it is relatively difficult to determine how „grace period" is appropriately determined for credit repayment as posited by Makorere (2014), who was of the view that a major restriction on prompt repayment of credit disbursed is the „grace period" given to borrowers.

4.11 Summary

Analysis of access to credit by SMEs from NBFIs revealed that internal sources of SMEs funding, external sources of SMEs funding and credit delivery processes of NBFIs face some challenges that must be addressed to boost credit disbursement to business entities. The study revealed inadequate SMEs funding and deficiencies in NBFIs credit delivery processes. The outcome of data presentation, analysis and discussion has been proven to have a link with literature. This leads us to chapter 5 that settles on summary of findings and recommendations that could address lapses in access to credit and credit delivery strategies of NBFIs. Chapter 5 shall be concluded with a proposal on an issue that demands interrogation.

CHAPTER FIVE SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 Introduction

This chapter summarizes findings of the study and gives recommendations and conclusion. Summary of findings is based on analysis and discussion of survey data captured in chapter four (4). Recommendations of the study are based on challenges in credit delivery from point of view of respondents (SMEs, NBFIs, NBSSI and Experts).

5.2 Findings of the Study

The goal of this study is to find out the sources of SMEs financing in terms of access to credit and dynamics of credit delivery processes of NBFIs. It must be pointed out that findings of the study have connection with research objectives and research questions of the study. Findings of the study are summarized as follows:

5.2.1Registration and Non-Registration of SMEs

SMEs business categories gave insight as to types of SMEs sampled for the study and as stated in Table 4.2, formal registration of SMEs suffers setback. As indicated in Item 4.2.2 more than 35 per cent of SMEs have no formal records of registration.

5.2.2 SMEs financing from personal savings

As indicated in Table 4.3, 7 per cent of SMEs stated that they do fund their businesses solely from personal savings. SMEs who do not fund their businesses from personal savings were 93 per cent. It is worthy to note that 7 per cent of SMEs gave risk averse sentiments, fear of losing business, inability to raise collateral security for credit and stringent banking issues as reasons for not going for alternative financing of their businesses. It is pertinent to note that 93 per cent of SMEs categorically stated that funding SMEs from personal savings is inadequate and that investment decisions could be productive if they seek for other funding and add to their equity for business. It stands to reason that SMEs funding from personal savings is not enough and invariably views of SMEs who opted for purely SMEs funding from personal savings must not be discounted. The study identified that personal savings could be a major start-up business capital but it faces the challenge of inadequacy.

5.2.3 SMEs credit from friends and family members

As indicated in Table 4.4, SMEs who fund their businesses from contributions of friends and family members are seventy nine (79). SMEs that do not fund their businesses from friends and family members contributions were two hundred and fifty (250) and they cited irregular repayment schedules as reasons. SMEs that fund their businesses from friends and family members contributions were of the conviction that sources of funding is insatiable. Majority of SMEs who do not fund their businesses from friends and family members contributions advocated for formalization of credit or contributions from friends and family members.

5.2.4 SMEs access to credit from one (1) or two (2) lending institutions

As indicated in Table 4.5, the study showed that 285 SMEs representing approximately 87 per cent of sample size apply for credit in only one (1) financial institution because they are risk averse, they cannot procure extra collateral security for credit and they want to avert the incidence of being overburdened with stressful or unending credit repayment. Forty four (44) SMEs representing approximately 13 per cent of sample size indicated that insufficient funding for their businesses compel them to apply for credit in more than one (1) financial institution. They further stated that they cannot obtain extra collateral security for loans but do prefer cash lending with the lending institutions, which is relatively convenient. Regardless of whatever happens, limited access to credit is amplified.

5.2.5 Challenges of funding SMEs by financial institutions

As stated in Item 4.6 to Item 4.6.4, challenges of funding SMEs by lending institutions were enumerated as follows:

- **Interest rates on credit**

All the respondents (329SMEs) complained of paying high interest rate on credit in the range of 3 per cent or 4.7 per cent per month. They revealed that high interest rate on credit delivery is disincentive to productive investment decisions.

- **Collateral security for credit**

On issues of collateral security for credit, 310 SMEs representing approximately 94 per cent of sample size observed that they do not have capacity to obtain collateral for loans and that the state has no collateral security pool to support SMEs. Nineteen (19) SMEs representing 6 per cent of sample size stated that collateral security for loans is not easy to procure for loans but they have pooled resources together to get an appreciable collateral security that members could fall on for loans on grounds of economic rationality.

- **Business records**

As far as business record keeping is concerned, 239 SMEs do not keep good records of their business because of their level of financial literacy and business tax issues. Ninety

(90) SMEs keep proper financial records to enable them access credit all things being equal and project the corporate image of their businesses.

- **Payment of cash lien**

All the respondents (329SMEs) were not comfortable with payment of cash lien before credit is disbursed. They contend that lending institutions demand for collateral security and further call for payment of cash lien is extra collateral that overburdens them in credit delivery.

5.2.6 Awareness of state/development partners funding for SMEs

The study identified that 76 per cent (250SMEs) of sampled SMEs were not aware of state/development partners funding for SMEs as indicated in Table 4.8. They said that they do not have information on existence of the funding scheme. A total of 79 SMEs representing approximately 24 per cent of sampled SMEs are pretty aware of alternative SMEs funding but access is not easy. They stated that conditions to access such credit facilities are skewed towards export and import oriented entities.

5.2.7 Alternative SMEs financing scheme

As shown in Table 4.9, 285 SMEs were not aware of alternative SMEs financing scheme. The remaining 44 SMEs were aware of alternative SMEs funding in other countries and called for state‟s intervention to provide security for SMEs loans from the financial market.

5.2.8 Challenges of credit delivery processes of NBFIs

As shown in Item 4.9.3 to Item 4.9.3.6, the challenges of credit delivery processes of NBFIs could be enumerated as follows:

1. NBFIs do not have mechanism to compare credit application information on borrowers in terms of credit delivery. NBFIs do not have full disclosure on borrowers credit application;

2. NBFIs admitted that interest rate on credit disbursed is high and this affect credit delivery;
3. NBFIs were worried that the Bank of Ghana who keeps register on collateral security for credit delivery does not have absolute powers to authorize outright sale of the registered collateral security for credit in case of default in credit repayment. The inevitable is for the sale or non-sale of the registered collateral security to be determined by judicial process or due process of the law. The NBFIs argued that monitoring and updating of values on the collateral security to guarantee credit repayment is deficient;
4. In terms of credit evaluation, there are challenges in the use of credit scoring that ultimately misclassifies good and borrowers of business credit;
5. In credit disbursement, the NBFIs hinted on the possibility or existence of insider loan fraud-this is where staff of bank fraudulently outsmart credit delivery processes and grant credit to themselves; and
6. Among the NBFIs, there is serious contention as to how to determine the appropriate „grace period‟ for repayment of credit.

5.3 Recommendations

It has been established from this study that access to credit by SMEs is not an easy task and certain measures must be put in place to manage unending syndrome of inadequate credit for SMEs investments. In connection to access to credit by SMEs from NBFIs, the study makes the following recommendations for the attention of all stakeholders in the credit market.

5.3.1 Formal Registration of SMEs

In the short to medium term, the state must act through Registrar General‟s Department to embark on massive registration of SMEs irrespective of business status. This could inform economic policies of the state in terms of growth and development of SMEs. Massive registration must incorporate education of SMEs as to the need to register their businesses regardless of their business levels. In the long term, there must be legislation to compel all SMEs to register at the Registrar General‟s Department. Appropriate sanctions could be applied on erring SMEs who do not take advantage of the registration exercise. SMEs registration exercise must be devoid of bureaucracies and extortions. In the short to medium term all fees payable for business registration must be waived off and if there could not be waiver in fee payable for business registration, proceeds from SMEDEF as suggested in Item 5.3.2 should come to the rescue of stakeholders in business registration.

5.3.2 Establishment of a sustainable SMEs financing scheme

There must be an Act of Parliament that could be christened SMEs Development Fund Act (SMEDEF Act). SMEDEF Act must cater for all funding options of SMEs to promote growth and development of the economy. SMEDEF Act must spell out who qualifies as SMEDEF stakeholder, conditions for fund management and appropriate sanctions for breach of provisions in SMEDEF Act. SMEDEF must be in a form of share floatation at the Ghana Stock Exchange (GSE) through Security and Exchange Commission (SEC) of the Republic of Ghana. It must be mandatory for existing and prospective NBFIs and SMEs to be part of the share floatation in SMEDEF.

Other business entities and the general public could be encouraged to be part of SMEDEF as preference shareholders. All NBFIs and SMEs must be made preference shareholders of SMEDEF. The share price during and after Initial Public Offer (IPO) must be more than affordable to ensure massive patronage of the share floatation at the stock market. NBFIs and other business communities who patronize SMEDEF must be entitled to tax rebates that would not affect their profit margins before and after tax and this is subject to negotiations between the state, NBFIs and other business communities. The state must be given greater share of dividend in SMEDEF as far as it continues to offer tax holidays and other incentives to corporate entities and individuals. Revenue from SMEDEF must be invested and reinvested in appropriate yield investment. In order to ensure sustainability of SMEDEF, the state must make a lot of concessions in terms of business taxes to attract NBFIs and the other business communities. Individuals who are part of SMEDEF should also enjoy tax holidays to cushion their standard of living. In the short to medium term, there must be massive education, stakeholder consultations and provision of infrastructure on the sustenance of SMEDEF. In the long term, SMEDEF must be fully implemented. The timing of the implementation of SMEDEF must be specified in the Act and where appropriate, there could be adjustments in the implementation of the law for convenience sake. In connection with alternative SMEs financing, it is suggested that the government of Ghana could adopt strategies of Supply Chain Financing (SCF) and Securitization of SMEs Loan Scheme. This must be localized to suit prevailing circumstances in Ghana.

5.3.3 Formalization of informal credit from friends and family members It was evident in this study that credit from friends and family members suffer setbacks due to irregular demands for repayments. It is the opinion of this study that the Bank of Ghana must be given the mandate to establish Informal Credit Transaction Bureau (ICTB) to formalize SMEs credit transactions with friends and family members. ICTB must empower all financial institutions through Bank of Ghana to administer transactions on informal credit for a token fee. In order to enforce the effectiveness of ICTB, the state must empower Bank of Ghana and all financial institutions through appropriate legislation. In the short to medium term, law covering ICTB must educate the public on the need to formalize informal credit transactions for SMEs. Extensive consultations with all stakeholders in the credit market are crucial for the success of ICTB. In the long term, there could be gradual implementation of ICTB to relatively phase out or manage irregular credit repayment demands associated with informal credit from friends and family members.

5.3.4 Proper administration of collateral security for credit

Collateral security for credit would endlessly be a subject matter in credit market. It is common knowledge that Bank of Ghana has collateral security registry for all credit transactions but do not have absolute power of authorizing outright sale of collateral security to cover outstanding credit payable. It is pertinent to note that law on collateral security registry must be revised to give absolute powers to Bank of Ghana to authorize sale of collateral security when there is default in credit repayment. In order to streamline true ownership of collateral security for credit, there must be close collaboration with Land Administration Project (LAP) of the Lands Commission in Ghana to sanitize database on property ownership in order to clear doubts on all property ownership. It is not out of place for NBFIs to establish an office in their credit administration department whose mandate is to solely monitor collateral security for credit through constant updates and accordingly advice NBFIs as to whether collateral security for credit could satisfy credit repayment in times of default. Monitoring of collateral security is to do further checks on ownership of collateral security and any event that has the potential to depreciate collateral security for credit that could ultimately affect credit repayment in case of default in repayment. The state must also make conscious effort to create a pool of collateral security funded by SMEDEF (proposed funding for SMEs) that would spell out institutional and regulatory frameworks for the use of those collateral securities.

5.3.5 Classification of borrowers and effective management of interest rate, cash lien and grace period on credit

It was revealed in this study that use of credit scoring brings about misclassification of borrowers for credit. Beyond credit scoring, credit approval committees of financial institutions must establish an oversight committee that looks into lapses in credit evaluation of borrowers to avert incidence of giving credit to bad borrowers. Invariably, perception about existing and prospective borrowers must be carefully examined to avoid prejudices in credit evaluation. As a remedy to manage interest rates on credit, Bank of Ghana could make conscious effort to reduce policy rate. The higher the policy rate, the higher the interest rate on credit and vice versa. The state could also empower Bank of Ghana to give ceiling on interest rate on credit that does not impede economic investment of SMEs. Whenever ceiling on interest rate is implemented by Bank of Ghana, all banks granting credit to SMEs are entitled to negotiable corporate tax incentives that would not affect their profit margins. The state must also stop the habit of excessively borrowing from commercial banks and competing with SMEs in credit market. The study revealed that cash lien is a source of worry to SMEs in the business environment. It is therefore recommended that Bank of Ghana must be empowered through operational laws to either abolish cash lien or call for negotiation of cash lien such that neither the borrower nor financial institution is overburdened. There must be a mechanism where grace period for credit repayment is negotiated for extension. This could be possible based on thorough appraisal of borrowers business outlook in terms of sales and expenditure.

5.3.6 Restricting insider loan fraud

Insider loan fraud in financial institutions could arise from the following scenarios:

- Where banking officials use their influence to directly or indirectly breach credit transaction policies to grant loans to themselves or persons who are not party to credit transaction; and

- Where banking officials are induced by bribery and favours from close associates and brush aside credit policies to grant credit.

Insider loan fraud could be minimized or relatively phased out by banking code of conduct, sound employment practices, sound system of loan review and independent audit in banking transactions.

 Banking code of conduct

In order to curb the incidence of insider loan fraud, lending institutions must have a clear statement on its code of conduct for staff and board of directors. Banking code of conduct must state procedures to resolve conflicts of interest in credit transactions. It must be mandatory for every entity in the bank to comply with the code of conduct and breach of the banking code of conduct attracts punitive measures. In applying banking code of conduct, financial institutions must raise awareness on insider loan fraud and institute whistle blower policy for dealing with the menace.

 Sound employment practices

One of the elements to fight insider loan fraud is for a financial institution to adopt proactive and reactive measures in employing its staff members. Sound employment practices demands that proper background checks are conducted on staff of the financial institution in terms of regular biometric verification or forensic audit of employee"s status (biodata, academic data, previous employment data, criminal record, handwriting, social behavior, etc)-the financial institution must do this by hiring competent security agencies.

 Sound system of loan review

To avert incidence of insider loan fraud, review process of granting credit must be sound and loan review function must be independent of loan approval processes. There should be procedures in place to thoroughly and dispassionately review insider and non-insider loans within a reasonable period of time. To forestall insider loan fraud in financial institution, every staff of the bank must be lawfully empowered to raise concerns on credit disbursement processes that are not in consonance with credit disbursement policies of the bank and report same to superior authorities of the bank for further action.

 Independent audit in banking transactions

Financial institution must have a well resourced independent audit department that oversees procedures from credit application to credit repayment. Audit department of financial institution must also re-examine issues on compliance with banking code of conduct, staff employment practices and loan review systems. The audit department must be legally empowered to raise alarm on any dubious credit delivery transaction.

There is a mindset that is loosely stated that „who audits the auditor‟. A true meaning could be given to this mantra if all staff members are mandated to query independent auditor‟s assessment and call for second opinions in banking audit.

5.3.7 Business Management Courses for SMEs

The study identified improper business records in SMEs operations. In the short to medium term, Bank of Ghana, NBFIs and NBSSI could run short courses for these SMEs to enable them appreciate the need to keep proper records in business. In the long term, facilitators of the short courses could form oversight committees to critically appraise the impact of sensitizing SMEs in business records.

5.4 Area for further research

In view of the fact that access to credit is a big challenge in SMEs financing, insider loan fraud is an area that needs urgent attention from researchers because it is one of the potential reasons why financial institutions go bankrupt and ultimately impede access to credit for business enterprises. Research on insider loan fraud must look into the modus operandi of entities that form syndicate to commit economic crime. It must be pointed out that on the part of SMEs, the philosophy behind „endless‟ or „chronic‟ default rates in credit repayment and mismanagement of business funds must be reexamined.

5.5 Conclusion

Increasing demand for SMEs credit is a concern for all stakeholders in the financial market. All avenues for SMEs funding are short in supply relative to demand and there is the need to fashion out strategies that could sustain funding of SMEs investments. SMEs in general terms lack capacity to raise sufficient business capital and source of funding for these SMEs face challenges in terms of collateral security for credit, information on borrowers, incompetence of credit administrators and insider loan fraud. There must be thorough examination on perceived lapses in credit delivery if SMEs are to remain one of the backbones of economic development in Ghana.

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APPENDICES

APPENDIX 1-QUESTIONNAIRE FOR SMEs

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF ART AND BUILT ENVIRONMENT

MASTER OF SCIENCE IN DEVELOPMENT POLICY AND PLANNING

QUESTIONNAIRE FOR SMEs

PROJECT TOPIC

ACCESS TO CREDIT FROM NON-BANK FINANCIAL INSTITUTIONS (NBFIs) BY SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) IN KUMASI METROPOLIS

UNDERTAKING

The purpose of this questionnaire is to collect data to address access to credit from NBFIs by SMEs. Data collected would be used solely for academic purpose and anonymity of respondents will be assured.

ADDITIONAL INFORMATION

Please, use the Tick (√) where appropriate. Kindly write your responses in the spaces provided after an open-ended question.

QUESTIONNAIRE FOR SMEs

SECTION 1-SMEs BUSINESS CATEGORY

1.Gender of SME Operator-Male ( ) Female ( )

2.Which type of business are you operating?...

3.How long have you been operating your SME?..

4.What is the ownership status of your SME? a.Sole Proprietorship/One Man Business ( ) b.Partnership ( ) c. Limited Liability ( ) c.others (specify)………….

……………………………………………………………………………………………

5.How many workers have you employed in your SME?.......................................

6.Have you registered your business enterprise?YES ( ) NO ( ). If YES, please give reasons for your actions…………………………………………………………

……………………………………………………………………………………………If NO, give reasons for your actions……………………………………………………….

……………………………………………………………………………………………

7.What is the value of your fixed assets in business?………………………………

SECTION 2-EXISTING SMEs FINANCING (INTERNAL AND EXTERNAL)

SECTION 2(A)-INTERNAL SOURCES-PERSONAL SAVINGS

1.Do you fund your business from personal savings? YES ( ) NO ( )

2.if response to question number 1 is „YES‟, are you satisfied funding SMEs from personal savings?...

3.If response to question number 1 is „NO‟, what makes personal savings „unsuitable‟ for SMEs?..

4.What are the prospects/benefits of using personal savings for business operations?

..........……………………………………………………………………………………

5.What are the challenges of using personal savings for business operations?.......

.......................……………………………………………………………………………

SECTION 2(B)-FAMILY MEMBERS/FRIENDS CONTRIBUTIONS

1.Do you fund your business from contributions of friends and family members? YES ( ) NO ( )

2.if response to question number 1 is „YES‟, are you satisfied funding SMEs from contributions from friends and family members?..

3.If response to question number 1 is „NO‟, what makes contributions from friends and family members „unsuitable‟ for SMEs?..

4.What are the prospects/benefits of using contributions from friends and family members for SMEs?..

5.What are the challenges of using contributions from friends and family members for SMEs?.......……………………………………………………………………………

SECTION 3-EXTERNAL SOURCE OF SME FINANCING (FINANCIAL INSTITUTIONS)

SECTION 3(A)-ACCESS TO CREDIT FROM ONE (1) FINANCIAL INSTITUTION

1.Do you access credit from only one (1) financial institution? YES ( ) NO ( )

2.If your response to question number 1 is „YES‟, what is the reason for your actions?...

3.If your response to question number 1 is „NO‟, what is the reason for your actions?...

SECTION 3(B)-ACCESS TO CREDIT FROM MORE THAN ONE (1) FINANCIAL INSTITUTION

1.Do you access credit from more than one (1) financial institution?YES ( )NO( )

2.If your response to question number 1 is „YES‟, what is the reason for your actions?...

3.If your response to question number 1 is „NO‟, what is the reason for your actions?...

SECTION 3(C)-CHALLENGES OF SMEs FUNDING FROM FINANCIAL INSTITUTIONS

1.What are the challenges of seeking for funding from financial institutions?

....

SECTION 4-BUSINESS RECORDS ON SMEs

1.Are you aware that proper business records enable you access credit from the financial institution? YES ( ) NO ( )

2.Do you keep proper business records to enable you access credit from the financial institution? YES (   ) NO (   ). If YES, give reasons for your answer…..

……………………………………………………………………………………………

If NO, give reasons for your action………………………………………………..

……………………………………………………………………………………………

SECTION 5-AWARENESS OF STATE/DEVELOPMENT PARTNERS FUNDING FOR SMEs

1.Are you aware of state funding/development partners funding for SMEs?

a.YES ( ) b.NO ( )

2.What are the conditions for accessing state/development partners funds for SMEs development..

....……………………………………

3.What are the prospects associated with access to credit from the state/development partners?..

....

4.What are the challenges associated with access to credit from the state/development……………………………………………………………………

....

SECTION 6-VIEWS ON ALTERNATIVE SOURCES OF SME FINANCING

1.Apart from credit from financial institutions, friends, state and other traditional sources for SME financing, what do you suggest could be alternative sources of SME financing?..

……………………………………………………………………………………………

2.What are the prospects of alternative sources of SME financing?........................

……………………………………………………………………………………………

3.What are the challenges of alternative sources of SME financing?........................

………………………………………………………………………….........................

Thank you for your responses to the questions.

NAME OF STUDENT: RICHARD DARKO

SIGNATURE:…………………………………

APPENDIX 2-QUESTIONNAIRE FOR NBFIs

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF ART AND BUILT ENVIRONMENT

MASTER OF SCIENCE IN DEVELOPMENT POLICY AND PLANNING

QUESTIONNAIRE FOR NBFIs

PROJECT TOPIC

ACCESS TO CREDIT FROM NON-BANK FINANCIAL INSTITUTIONS (NBFIs) BY SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) IN KUMASI METROPOLIS

UNDERTAKING

The purpose of this questionnaire is to collect data to address access to credit from NBFIs by SMEs. Data collected would be used solely for academic purpose and anonymity of respondents will be assured.

ADDITIONAL INFORMATION

Please, use the Tick (√) where appropriate. Kindly write your responses in the spaces provided after an open-ended question.

QUESTIONNAIRE FOR NBFIs

SECTION A-CATEGORIES OF NBFIs

1.How long have you been operating your current business?……………………….

2.What is the date of registration of your business?..

SECTION B-CREDIT DELIVERY PROCESSES OF NBFIs

1.What are the credit delivery stages/processes of your institution?..........................

..................................………………………………………………………………..

2.What are the challenges of the credit delivery stages/processes of your institution?

……………………………………………………………………………………………

3.What motivates a Borrower to transact business with more than one (1) financial institution in terms of credit delivery?...

……………………………………………………………………………………………

SECTION C: VIEWS ON INFORMAL SMEs CREDIT AND ALTERNATIVE SMEs FINANCING

1.What are the prospects of personal savings and family/friends contribution in SMEs operation?..

…………………………………………………………………………………...........2

.What are the challenges of personal savings and family/friends contribution in SMEs operation?..

3.Apart from the traditional sources of credit to SMEs, do you have suggestions on alternative sources of SME funding?..

………………………………………………………………………………….........

4.What are the prospects of the alternative sources of SME financing?....................

…………………………………………………………………………………...........

5.What are the challenges of the alternative sources of SME financing?..................

Thank you for your responses to the questions.

NAME OF STUDENT: RICHARD DARKO

SIGNATURE…………………………………

APPENDIX 3-QUESTIONNAIRE FOR NBSSI

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF ART AND BUILT ENVIRONMENT

MASTER OF SCIENCE IN DEVELOPMENT POLICY AND PLANNING

QUESTIONNAIRE FOR NBSSI

PROJECT TOPIC

ACCESS TO CREDIT FROM NON-BANK FINANCIAL INSTITUTIONS (NBFIs) BY SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) IN KUMASI METROPOLIS

UNDERTAKING

The purpose of this questionnaire is to collect data to address access to credit from NBFIs by SMEs. Data collected would be used solely for academic purpose and anonymity of respondents will be assured.

ADDITIONAL INFORMATION

Please, use the Tick (√) where appropriate. Kindly write your responses in the spaces provided after an open-ended question.

QUESTIONNAIRE FOR NBSSI

SECTION A-EXISTING STATE/DEVELOPMENT PARTNERS FUNDS FOR SMEs

1.What types of state/development partners funds are available to SMEs?.............
………………………………………………………………………………………

2.What processes do SMEs go through to access state/development partners funds for business?...........………………………………………………………………………

3.Which conditions are attached to each of the processes that qualify SME Operator to access state/development partners funds for SMEs?...
………………………………………………………………………………………4
.What are the prospects of accessing state/development partners funds for SMEs?

....

5.What are the challenges of accessing state/development partners funds for SMEs………………………..

6.Do you have mechanisms to monitor credit delivery from your office?

YES ( ) NO( )

SECTION B-VIEWS ON ALTERNATIVE SME FINANCING

1.Any suggestions as to alternative sources of SME funding?………………………

....

2.What are the prospects of the alternative sources of SME funding?....................

……………………………………………………………………………………………

3.What are the challenges associated with alternative sources of SME financing?

……………………………………………………………………………………………

SECTION C-VIEWS ON INTERNAL AND EXTERNAL SME FINANCING

1.What are the prospects of personal savings and family/friends contribution in SMEs…………………………………………………………………………………..

……………………………………………………………………………………...........2

.What are the challenges of personal savings and family/friends contribution in SMEs…………………………………………………………………………………..

……………………………………………………………………………………...........

3.What are the prospects of external SMEs financing…………………………….. ……………………………………………………………………………………….

4.What are the challenges of external SMEs financing……………………………

………………………………………………………………………………………

Thank you for your responses to the questions.

NAME OF STUDENT: RICHARD DARKO

SIGNATURE:……………………….............

APPENDIX 4-QUESTIONNAIRE FOR EXPERTS

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF ART AND BUILT ENVIRONMENT

MASTER OF SCIENCE IN DEVELOPMENT POLICY AND PLANNING

QUESTIONNAIRE FOR EXPERTS

PROJECT TOPIC

ACCESS TO CREDIT FROM NON-BANK FINANCIAL INSTITUTIONS (NBFIs) BY SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) IN KUMASI

METROPOLIS

UNDERTAKING

The purpose of this questionnaire is to collect data to address access to credit from NBFIs by SMEs. Data collected would be used solely for academic purpose and anonymity of respondents will be assured.

ADDITIONAL INFORMATION

Please, use the Tick (√) where appropriate. Kindly write your responses in the spaces provided after an open-ended question.

QUESTIONNAIRE FOR EXPERTS

SECTION A-BIODATA OF EXPERT AND BUSINESS EXPERIENCE IN CREDIT DELIVERY SYSTEM

1.Gender of Respondent: Male ( ) Female ( )

2.What are the prospects of credit delivery processes of NBFIs?.............................

……………………………………………………………………………………………..

3.What are the challenges of credit delivery processes of NBFIs?.........................

………………………………………………………………………………………………4

.What is your opinion on interest rate on credit repayment?................................

............................……………………………………………………………………….

5.What factors account for Borrowers inability to fully disclose details in relation to credit transaction?..

………………………………………………………………………………………

6.What motivates a Borrower to transact business with more than one (1) financial institution in terms of credit delivery?..

…………………………………………………………………………………………

7.What mechanisms do the financial institutions adopt to check whether the money Borrowers need is strictly intended for specified or approved business but not for other purpose? ………………………………………………………………………………

…………………………………………………………………………………………

8.What are the prospects of personal savings and family/friends contribution in SMEs business?..

………………………………………………………………………………..............

9.What are the challenges of personal savings and family/friends contribution in SMEs business?..

10.Do you have suggestions on alternative sources of SME funding?.......................

………………………………………………………………………………..........

11.What are the prospects of the alternative sources of SME financing?....................

………………………………………………………………………………............

12.What are the challenges of the alternative sources of SME financing?..................

………………………………………………………………………………............

13.What motivates SMEs to reapply for additional credit after credit repayment?...... ……………………………………………………………………………………1

4.What motivates a bank to grant credit during complete credit repayment?……..

…………………………………………………………………………………………

15.What motivates a bank to grant credit if credit repayment is incomplete?……..

…………………………………………………………………………………………

16.What motivates a bank to decline granting of credit if credit repayment is complete?……………………………………………………………………………...

…………………………………………………………………………………………

17.What motivates a bank to decline granting of credit if credit repayment is incomplete?……………………………………………………………………………….

Thank you for your responses to the questions.

NAME OF STUDENT: RICHARD DARKO

SIGNATURE………………………………….