

**ASSESSMENT OF STANBIC BANK GHANA LIMITED (S.G.B.L) IN FINANCING
S.M.Es IN GHANA, A CASE STUDY OF KUMASI BRANCH.**

BY

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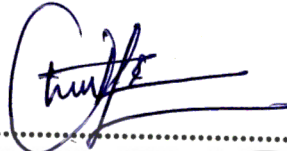
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DECLARATION

I hereby declare that, except for specific references which have been duly acknowledged, this work is the result of my personal field research and it has not been submitted either in part or whole for any other degree elsewhere.

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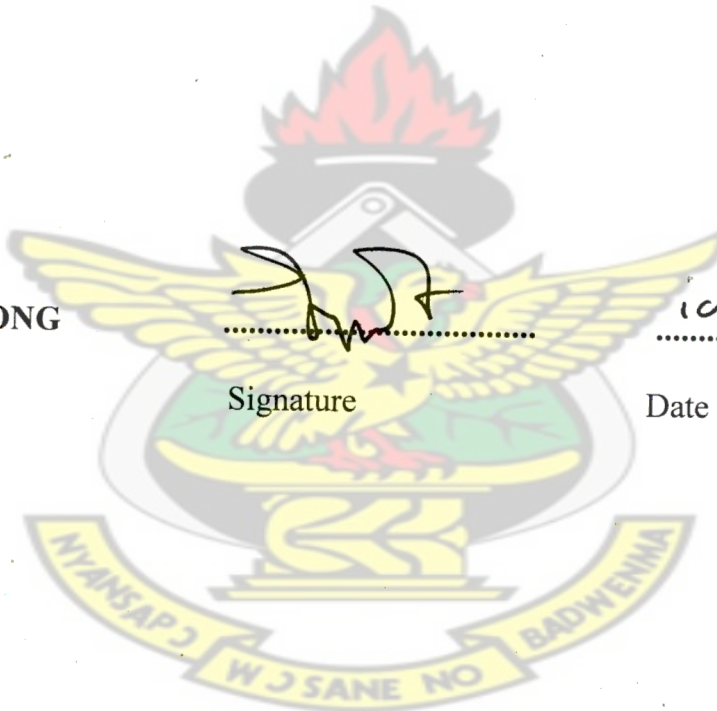
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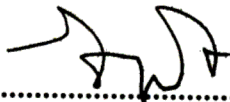
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DEDICATION

This work is dedicated to my mother, for all her love and support.



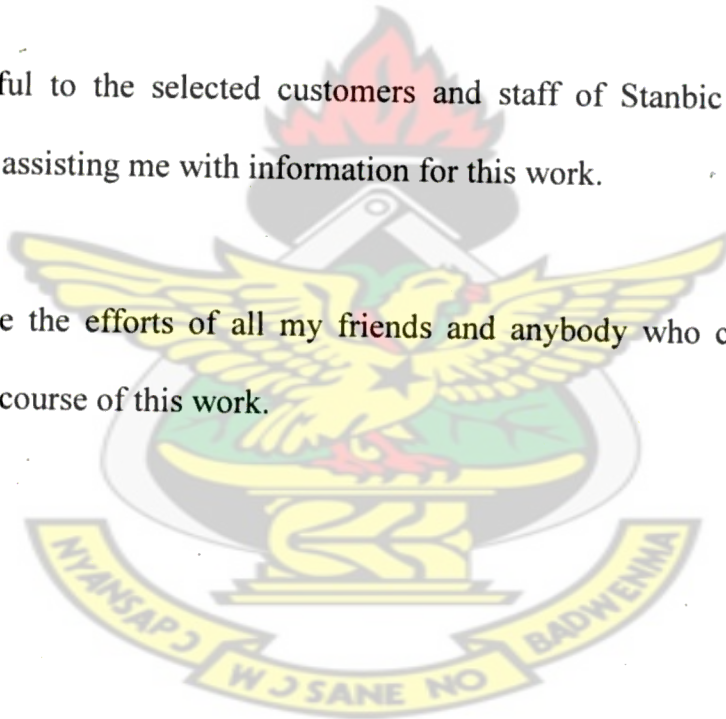
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DEFINITION OF TERMS

Collateral: An asset that secure repayment on a loan. The main form of collateral is real estate.

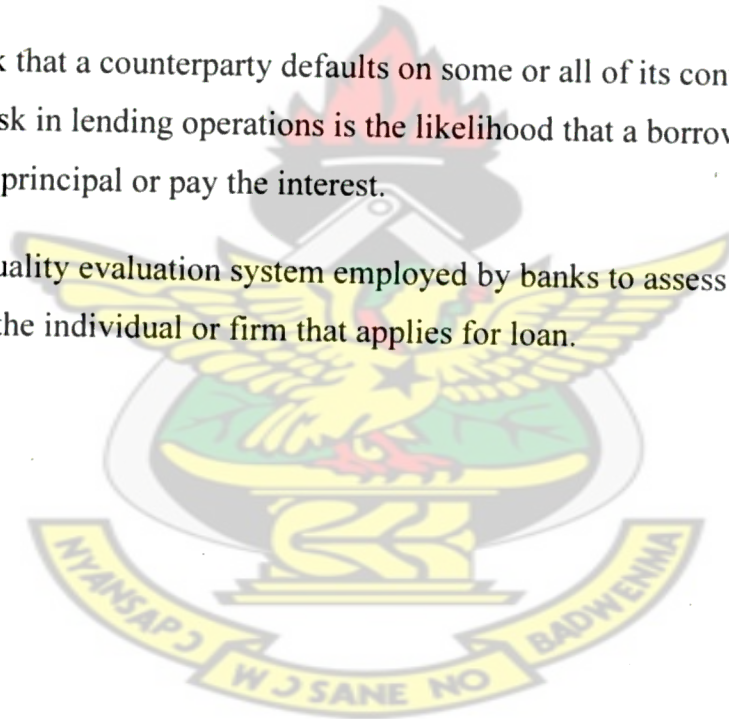
Commercial bank: An institution that undertakes traditional banking activities: deposit taking, lending and payments

Credit facilities: Facilities available to individuals and companies such as loans, overdraft and lines of credit.

Credit rationing: A technique used by banks to limit the amount of credit available to specific segment of customers.

Credit risk: the risk that a counterparty defaults on some or all of its contractual obligation. Credit risk in lending operations is the likelihood that a borrower will not be able to repay the principal or pay the interest.

Credit scoring: a quality evaluation system employed by banks to assess the creditworthiness of the individual or firm that applies for loan.



LIST OF ABBREVIATIONS

- ATM:** Automated Teller Machine
- CSES:** Centre for Strategy & Evaluation Services
- CBS:** Commonwealth Business Council
- DTI:** Department of Trade and Industries
- GEDC:** The Ghana Enterprise Development Commission
- GSS:** Ghana Statistical Survey
- KNUST:** Kwame Nkrumah University of Science and Technology
- KSB:** Kwame Nkrumah University of Science and Technology Business School
- NBSSI:** National Board for Small Scale Industries,
- OECD:** Organization for Economic Cooperation and Development,
- P.B.B:** Personal and Business Banking Department
- ROSCA:** Rotating Savings and Credit Associations
- SME:** Small and Medium Enterprises
- SBGL:** Stanbic Bank Ghana Limited
- UNIDO:** United Nations International Development Organization

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ABSTRACT

Small and Medium Enterprises (SMEs) in Ghana have been identified to face difficulties in accessing credit facilities. This study presents how far Stanbic Bank Ghana Limited which has currently been ranked as the 1st most profitable Company in Ghana by Ghana Club 100 (2009 Report), been able to bridge the SMEs financing gaps. Data gathered using personal interviews and questionnaires from a sample size of 200 SME clients and 7 bank personnel were analysed. Descriptive statistics were employed and the results revealed that majority of SMEs have employees level of 0-5. They are mostly traders and finance about 80-100% of their business from their personal sources. Only 10% of these SMEs get about 41-60% credit facilities from the bank. The prominent challenge of the bank in financing these SMEs is high rate of default and so carries out regular visits in monitoring them. The main challenge of the SMEs in accessing credit was Lack of collateral. The intentions of Borrowers and Non-borrowers reveal that they need financial support from the bank. These findings are important to both the bank and policy makers in improving financing schemes to SMEs in Ghana.

Key words: Bank, credit facilities, financing, Ghana, SMEs.

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

It is recognised the world over that Small and Medium-sized Enterprises (SMEs), are very crucial to the development of economies. SMEs have aroused wide interest in the sense that the degree of success in developing such firms differ strikingly among countries. Specifically, this sector has been extremely dynamic in the United States and in a handful of other countries, but has lagged considerably in many continental European countries and Japan. Many of the latter countries believe that the lack of dynamism in this sector has broad negative repercussions for employment creation and competitiveness. As this sector has lagged, so have the special financing arrangements associated with it. (OECD, 2006)

In Ghana, SMEs form about 82% of the entire business community. (Graphic Business, Sept. 8-14, 2009). This is reflected in governmental policies culminating in the creation of a full ministry for private sector development. The government of Ghana's private sector strategy is fundamentally concerned with making the market system work better. The achievement of the 'golden age' of business is not an end in itself but a set of well-coordinated processes of world-class business practices. The ultimate aim of the development strategy is poverty reduction. For Ghana to attain a middle income status in the year 2020, the country's Gross Domestic Product (GDP) must grow at a sustained annual rate of at least 8%. Such a significant growth level can only be attained through a vibrant and competitive private sector, hence the creation of the Ministry for Private Sector Development to encourage and empower the private sector. (The Ghanaian Banker, 2004).

Empirical research demonstrates that well conceived Small, Micro and Medium Enterprises (SMEs) have a chance of making significant contributions to the development of countries (Vil-Nkomo S. 2005). A sizeable share of the population already works in micro or smaller enterprises, often at very low wages. Frequently, these enterprises have only limited access to external finance, which might enable them to increase investment per worker. Thus, a crucial element in the effort to reduce poverty hinges on the capacity of SMEs to gain access to external finance. (Organization for Economic Cooperation and Development, 2006)

From the above indications, an environment, supportive of entrepreneurship and a vigorous SME sector, is seen as manifestations of dynamism and flexibility throughout the economy.

1.2 Statement of Problem

SMEs are said to make up the vast majority of businesses and the primary engine of job creation, yet have limited access to financial services from banks. The importance of the financial system in facilitating economic development has long been accepted. In sub-Saharan Africa, we have always known that the banks in particular constitute the primary financial intermediary and form the largest repository of public funds, as such have a key role to play in the efficient allocation of resources and the analysis of credit. (The Ghanaian Banker, 2005)

According to Vil-Nkomo S. (2005), SMEs are important for the survival of the individual and the creation of opportunities for employment and innovation. He argues that SME's must be properly conceived, funded and supported, so that they can make significant contributions in addressing the problems of job creation and business innovation in Africa. A vibrant private

sector has long been seen as key player in economic growth of developing countries including Ghana (Ayiglo G.K. 2004).

A crucial role the banks can play is to acquire skills for lending and recovering loans from these SMEs, which have been declared the engines of growth. From above, without adequate funding and capacity building SMEs may not be able to play their roles effectively in the economic development of the nation. Could these problems be enough to serve as a disincentive for financial institutions to refuse to offer adequate financing to SMEs? Is the Stanbic Bank Ghana Limited, which has currently been ranked as the 1ST most profitable Company in Ghana by Ghana Club 100 (2009 Report) doing enough to ensure adequate financing of this sector of the economy?

1.3 Objectives of the Study

The broad objective of this study is to assess the role of Stanbic bank Ghana Limited in financing Small, Medium, and Micro Enterprise in Ghana, with particular emphasis on Ashanti region because of its geographical position, using Kumasi branch as a case study.

The study is specifically aimed at

1. Identifying the profile and types of SME businesses Stanbic Bank Ghana Ltd. (SBGL), Kumasi branch, is able to finance most in Ashanti region.
2. Assessing the SBGL's role in financing Small and Medium Enterprises in Ashanti region.
3. Evaluation of the bank-SMEs financing gaps.
4. Identifying the problems and challenges, if any, facing the both SMEs and the bank in credit management.

5. Making suggestions and recommendations for improving the situation.

1.4 Research Questions

1. What profile and types of SMEs businesses are financed by these SBGL?
2. To what extent has SBGL contributed to the development of SMEs in Ashanti region?
3. What percentage of funding for SMEs comes from SBGL?
4. What are the problems or challenges faced by SMEs in accessing for finance and Stanbic bank in financing SMEs, a case study of Kumasi branch?

1.5 Justification of the Study

SMEs and entrepreneurship are now recognized world-wide to be a key source of dynamism, innovation and flexibility in advanced industrialized countries, as well as in emerging and developing economies. They are responsible for most net job creation in most countries and make important contributions to innovation, productivity and economic growth. If the SME sector does not have access to external funds for investment, the capacity to raise investment per worker, and thereby improve productivity and wages, is seriously impaired. SMEs (OECD, 2006)

The frustrations of accessing credit facilities from formal systems compel the poor and informal business enterprises to resort to different non-banking and informal arrangements to access funds for their operations. Informal Financial Institutions operating outside the scope of banking laws and regulations in Ghana include moneylenders, rotating savings and credit associations (ROSCA), and savings collectors. (World Bank Report, 1994)

The above report from World Bank shows that there are illegalities and lack of compliance in the informal sector and therefore should not be encouraged as a source of finance for SMEs. There is enough empirical evidence that there is indeed much financing gaps in most economies and emerging markets. This is evident in countries forming the Organization for Economic Cooperation and Development (OECD). The 2006 OECD report found that financing gaps are more pervasive in emerging markets than in OECD countries, but many OECD countries have partial financing gaps, especially in the equity sector.

It is hoped that the study will present a true and fair view of the situation in Ghana, Ashanti region to be precise with respect to the role of Stanbic Bank Ghana Ltd. in addressing these gaps. Stanbic Bank Ghana Ltd is a commercial bank with a universal banking licence which allows it to operate personal and business banking as well as corporate and investment banking. Currently, it is ranked as the 1ST most profitable Company by Ghana Club 100 (2009 Report) so assessing the role it has played in the growth and development of SME sector is laudable.

Again, this study will outline the challenges and problems that the banks face in financing SMEs as well as the SMEs in accessing credit facilities. This will in effect enable SMEs to get access to relevant financial information from banks.

Besides, the study will enable policy makers to identify the growth of Ghana's financial systems towards the financing of SMEs as a necessary condition for sustainable economic growth. There is again no doubt that the outcome of the study will add up to the existing body of literature on the subject matter especially with specific reference to Ghana.

1.6 Scope of the Study

The study was limited to the financing for the business with specific reference to SMEs. It involved the study of micro financing in general terms. The focus was however, on the role of Stanbic bank Ghana Ltd. as a commercial bank, especially Kumasi branch, in the development of the private sector in Ghana, Ashanti region in particular. The study covered a period stanbic bank has been providing SME services. This restriction is necessary because of time and resource constraints. The concentration was on the role the bank in filling this financing gap with little attention given to SMEs.

1.7 Organizational Profile

Stanbic Bank Ghana Limited is a subsidiary of Standard Bank, South Africa, which is the biggest banking group in Africa. Standard Bank was founded in 1862. It is listed on the Johannesburg stock exchange. Standard Bank has a market capitalisation of SAR103 billion (US\$16 billion) and Total Assets of SAR756 billion (US\$119 billion). It operates in 17 African countries and 21 countries outside Africa and has staff strength of 40,245. Standard Bank operates through a network of 984 branches and operates over 4,000 ATMs across Africa.

Stanbic Bank Ghana Limited (SBGL), part of the Standard Bank Group, was incorporated in Ghana in 1999 to provide a comprehensive range of banking services to both corporate and retail clients. SBGL's core competency is "relationship banking". This is centred on adding value to our customers by offering tailor made banking solutions, through our Ghanaian operation or by calling upon the expertise available within the Standard Bank Group.

The bank's major strength is its ability to provide personalised service offering to both its corporate customer base as well as its retail client. In Ghana, Stanbic operates through a network of about 21 Branches with 11 branches in Accra; 2 branches in Tema; and 1 branch in each of the following cities: Kasoa, Kumasi, Sunyani, Tarkwa, Takoradi, Tamale, Wa, and Bolgatanga.

SBGL operates as a Universal Bank and is in the process of broadening its representation and product offering. Currently, it is ranked as the 1ST most profitable Company by Ghana Club 100 (2009 Report). It currently offers the following services:

- a. Retail Banking – current and savings accounts, debit card services loans and advance microfinance etc.
- b. Wholesale Banking- trade finance and advisory services, corporate banking and financing leases
- c. Investment banking- loan Syndications, Project Finance and Corporate Advisory Service, Asset Management.
- d. Treasury Products- Time and call deposits, treasury bill and funds management, spot and forwards and correspondent banking,
- e. Trade Finance- import/ export letters of credits, bills on collection and specialized trade services

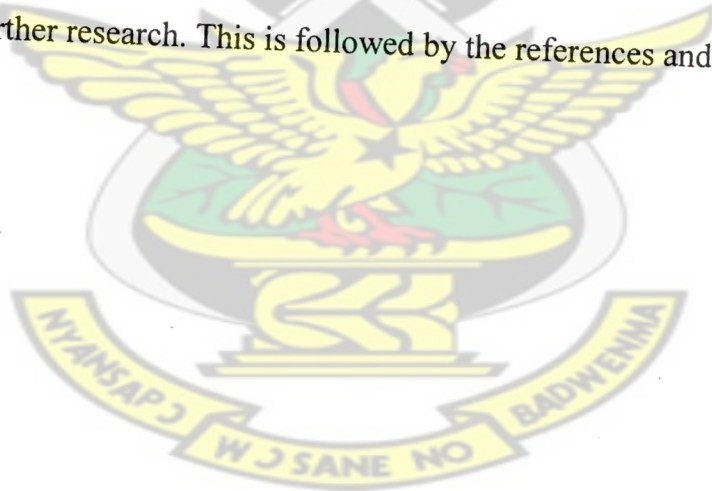
For the sake of this study a critical consideration will be given to the business banking unit (SME Unit) of the Personal and Business Banking Department (P.B.B) of the bank.

(Source: Stanbic Bank, African roots and global reach flier, 2008)

1.8 Organization of the Study

The study is organized into five chapters. The First Chapter which is the Introduction covers the Background to the Study, Problem Statement, Objectives of the study, Research Questions, Justification for the study, Methodology, Limitation and Organization of the Study. This is followed by chapter two which reviewed extensive related empirical literature on the subject matter.

Chapter Three covers the Methodology for the study which comprises the Research Population, Sample and Sampling Technique, Research Design, Sources of Data and Data Collection Instruments, Method of Data Analysis, Scope of the Study and the Organizational Profile of Stanbic Bank Ghana Ltd. The Data Presentation and Analysis is contained in Chapter Four. The last chapter which is Chapter Five writes on the Summary of Major Findings, Conclusion and Recommendation for further research. This is followed by the references and appendices.



CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

It is generally agreed that the SME sector holds the key to rapid socio-economic development, our banks neglect this sector. Financial sector weakness can undermine economic stability and growth and so harm efforts to reduce poverty. A well developed financial system is critical to generating and channeling domestic savings to productive purposes, and thus in supporting private sector-led growth. (The Ghanaian Banker, 2005).

There is growing recognition of the importance of Small and Medium-Sized Enterprises (SMEs) to economic development. In many countries, SMEs make up the majority of businesses and account for the highest proportion of employment. The economic and social contributions of SMEs suggest that it is in the public interest for SMEs to thrive (Fisher and Reuber 2000, cited by Abor and Biekpe, 2007).

2.2 Operational Definitions of Small and Micro Enterprises

Though there are various definitions for small and medium enterprises (SMEs); however, using the number of employees to define SMEs have been a common practice in literature (Adams and Hall, 1993; Freel, 1999; Rothwell and Zegveld, 1982). Other methods include using capital invested and turnover (Wijewardena and Cooray, 1995). But sticking to a single common definition of an SME might not be possible because of the variations in the definition from country to country and from sector to sector (Gunasekaran et al., 2000).

Srinivas, (2000) puts the argument more bluntly; 'micro enterprises defy a definition'. He reasons that, street vendors, carpenters, machine shop operators, seamstresses and peasant

farmers – micro entrepreneurs come in all types and their business in many sizes. However, there is still much controversy over the determination of cut-off points or thresholds for the various criteria. For instance in South Africa, small businesses are classified variously based on the following criteria: number of employee, degree of independence, etc. Examples of small business classification are as follows.

2.2.1 South Africa

The classification of small businesses in South Africa is shown in the table below.

Table 2.0: Classification of small businesses based on employment

Sector	Description	Employment
Survivalist	<ul style="list-style-type: none"> Income generated is below poverty line. 	<ul style="list-style-type: none"> 3% of total employment.
Micro (0)	<ul style="list-style-type: none"> Owner manager (no employees). Turnover is less than VAT registration limit. Not usually formally registered for tax or accounting purposes. 	<ul style="list-style-type: none"> 6% of all employment.
Micro (1-4)	<ul style="list-style-type: none"> Same descriptors as Micro (0) except the number of employees are more than one. 	<ul style="list-style-type: none"> 5% of all employment. Less than 5 employees.
Very Small	<ul style="list-style-type: none"> Operate in formal market. 	<ul style="list-style-type: none"> Less than ten employees. 13% of total employment
Small Enterprises	<ul style="list-style-type: none"> Distinguished by some form of managerial coordination. 	<ul style="list-style-type: none"> Less than 50 employees. 20% of total employees.
Medium Enterprises	<ul style="list-style-type: none"> Further decentralization of decision-making. More complex decision-making. Increased division of labour. 	<ul style="list-style-type: none"> Less than 100 employees (200 in mining). 14% of total employment.

Source: Ntsika [(The state of small business in South Africa, 2001: 40) cited in Hanning J. and Joubert M., (2003) The state of SME Equity Finance in South Africa: A review of the Industry and the Industry and the Techniques used for successful investment].

* Figure in bracket indicates the number of employees.

2.2.2 Bulgaria (Eastern Europe)

According to Tonova, (2000), small businesses in Bulgaria are classified using the number of employees. The categorizations are as follows:

- Micro enterprises: entities with up to 10 employees.
- Small enterprises: entities with between 10 and 50 employees.
- Medium sized enterprises: entities with between 51 and 100 employees as well as companies with 101 to 250 employees.
- Large enterprises: companies with over 250 employees.

Thus SMEs are defined in Bulgaria as enterprises with up to 250 employees. It is interesting to note however, that, the absence of a global definition for SMEs provide opportunities for organizations/institutions to use different definitions that suit particular purposes. In some instances SMEs may be defined in such a way as to guide organizations when drawing up their programs/targets such that they will be able to deal with only firms that are truly SMEs. In other instances, for example when making proposals to receive funding in support of programs involving SMEs, definitions that meet the expectations funding agencies are used.

Two examples of such definitions are as follows:

1. SMEs are businesses that have the following characteristics:

- Not more than 250 employees
- Micro enterprises: less than 10 employees
- Small enterprises: less than 50 (includes micro)
- Medium enterprises: less than 250
- Large enterprise: 250 and over
- * A turnover of not more than £11.2m

2. SMEs are businesses that have the following characteristics:

- * Less than 250 employees
- * Not more than 25% of the business owned by enterprises not meeting the SME criteria

And **one** of the following

- * Less than 40m euro turnover
- * Less than 27m euro balance sheet

Source: (Department of Trade and Industries (DTI) in DeMontfort University/NTI4EM Draft Scoping Report, Appendix F, February 2003).

2.2.3 Zambia

In Zambia small businesses are classified based on the Small Enterprises Development (SED)

Board Act of 1996. The classification is reproduced here:

2.2.3 (i) Micro Enterprise

A Micro Enterprise is defined as “any business enterprise:

- a. Whose amount of total investment excluding land and buildings does not exceed ten million Kwacha (about US \$7,700).
- b. Whose annual turnover does not exceed twenty million Kwacha (about US \$15,400).
- c. Employing up to ten persons”.

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2.2.3 (ii) Small Enterprise

A small enterprise is defined as “any business enterprise:

- a. Whose amount of total investment, excluding land and building does not exceed:
 - i. In terms of manufacturing and processing enterprises fifty million Kwacha in plant and machinery (about US \$ 38,500).
 - ii. In the case of trading and service providing enterprises, ten million Kwacha (about US \$ 7,700).
- b. Whose annual turnover does not exceed eight million Kwacha (about US\$ 62, 00).
- c. Employing up to thirty people”.

Source: (Mauzu D.M., SME Policy in Zambia, 2000).

2.2.4 Ghana

The definition of SMEs in this study is founded on the classification of enterprises by the National Board for Small Scale Industries (NBSSI), The Ghana Enterprise Development Commission (GEDC) and Ghana Statistical Survey (GSS).

Table 2.1: Classification of Small Business in Ghana

Class of SME	No. of Employees	Fixed Assets Value *(USD)
Micro Enterprises	Up to 5	Up to 10,000.00
Small Enterprise	6-29	Up to 100,000.00
Medium-Scale Enterprise	30-99	250,000.00
Large Enterprise	100 or above	More than 250,000

Source: National board for Small Scale industries, 2002

*These values exclude land and buildings.

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In this context, the definition for SMEs is based on the number of employees and Total Turnover on Investments (Kayanula and Quartey, 2000). The definition takes into consideration some inherent weaknesses and arbitrariness in some of the definitions mentioned when they stand alone. By this classification, Micro-Enterprise employs less than 5 people with a total turnover of up to \$10,000 equivalent, Small Enterprises employ 5 – 19 people with a total turnover of between \$10,000 - \$100,000 equivalent and Medium Enterprises employ 20 to 100 people with an annual turnover of above \$100,000.

According to Abor, (2007), SMEs in Ghana are defined as firms which employ not more than 100 persons and whose total asset base, excluding land and building does not exceed the cedi equivalent of \$1 million in value (Venture Capital Trust Fund Act, 2004). SMEs have been identified as important contributors to the growth of Ghana's economy through the generation of employment, productivity and innovation (Aryeetey et al., 1994 cited by Abor 2007).

In Ghana, the 'informal sector' encompasses the sole proprietorships and micro enterprises with very little capitals or fixed assets if any at all. This sub sector of SME sector which is variously called 'trading', 'petty trading', 'self-employed', etc. stands clearly as the largest source of

employment in the sector providing a means of livelihood to nearly two-third of women in cities and other urban communities (Ayiglo, 2004). About 70% of Ghana's population operates in the informal sector (Ghartey, 2006). For the purpose of this study, the classification given by the NBSSI and the GSS will be adopted.

2.3.0 Contributions of SMEs to Economic Growth

The contributions of Small and Micro Enterprises in generating employment and income have become increasingly recognized around the world. Some observers see this as an encouraging sign: markets are working and people are finding opportunities to participate in ways that empower and nourish many particularly including those who are otherwise most disadvantaged. Others however, view this increase in the number of people engaged in small and micro enterprises as a sign of failure; i.e. people are forced to take refuge in activities that provide only minimal subsistence support (Liedholm and Chuta, 1976). For example, the so called "informal sector" composed almost entirely of micro enterprises (the sub sector of the smallest units within the SME sector) have grown in most developing countries. Again according to Levitsky (2002) it is reported that in 1950 informal activities in Latin America occupied 30% of the economically active population and by 1980 this had grown to at least 50%. At the beginning of the 1990s over 50% of the population lived off these "informal sector" activities in countries such as Bolivia, Colombia, Ecuador and Peru.

'There is no wall of separation dividing rich and poor nations. Today we are all linked – not only by investments, travel, and communications, but unfortunately also disease, financial crises, and even terror'. 'One of the root causes of these latter realities is of course poverty. Its solution must including greater job creation and growth in the private sector, especially at the grassroots level. Micro, small and medium enterprises dominate commercial life in low-income countries.

and they must be an integral part of the equation in the world's response to poverty.' (Wolfensohn, 2002)

Moreover, in most of developing countries, small-scale industries play a crucial role in economic development accounting for a large portion of employment in the formal sector, and reaching significant percentages of manufacturing output and exports. Supporting emerging entrepreneurship and start-up enterprises and providing them with an environment conducive to growth has become a concern for many developing countries.

According to UNIDO (2001), small business support national economies, particularly those of developing countries in so many ways which include the following:

1. Helping generate employment by using more labour in relation to capital invested. This is especially important in developing countries where labour is abundant and capital relatively scarce;
2. Acting as "seed-beds" for entrepreneurial talent, another element considered in short supply in third world;
3. Operating in less populated rural areas with limited markets and poor infrastructure -a feature common in developing countries;
4. Being able to start up with limited resources; "ease of entry" as this is called is a significant feature of small business especially in the services;
5. Providing "hands on" training facilities for people of varying levels of education in both management and technical skills;
6. Supplying both low cost items for the poor and in certain circumstances high cost quality products for the rich and for export.

‘The flexibility of small enterprise that enables them to better weather recessions, material shortages and market changes is seen by many as an asset of the sector’ (UNIDO, 2001). ‘Small businesses support the development of competition and free entrepreneurship in a country’. They are considered as one of the pathways towards poverty alleviation in a developing country like Ghana’ (Ayiglo, 2004). Ayiglo further argues that new jobs created by small enterprises make it less painful to restructure large state-owned enterprises, particularly those slated for divestiture. For example, the small business sector has largely been able to cushion the unemployment problems accompanying privatization by absorbing most employees who had lost their jobs in the course of restructuring state owned enterprise for divestiture.

Vil-Nkomo, (2005) holds the view that SMEs are important for the survival of the individual and the creation of opportunities for employment and innovation. According to him, empirical research demonstrated that well conceived SMEs have a chance of making significant contributions to the development of countries. Even though their business operation might be small, they are often the largest employment creators in the economy.

SMEs are vital for the growth and development of the Ghanaian economy because they encourage entrepreneurship, generate employment, and reduce poverty (Kayanula and Quartey, 2000; Tagoe et al., 2005 as cited by Abor, 2007). Citing Villars, (2004), Abor, (2007) indicated that SMEs are said to contribute about 70 percent to Ghana’s gross domestic product and account for about 92 percent of businesses in Ghana (Villars, 2004). This view is supported by Kyermanteng, (2004) who estimates that SMEs constituted 70% of all industrial establishment

in Ghana and that 85% of manufacturing employment and to a large extent overall employment growth come from the SME sector.

Kyeremanteng, (2004) again indicated that, the SME sector creates jobs at relatively low capital cost and it is more resilient to external shocks such as foreign exchange fluctuations and inflation among other things. Vil-Nkomo opines that if SMEs are properly conceived funded and supported, they can make significant contributions to addressing two key challenges facing the African continent namely; job creation and business innovation.

Small businesses have played a considerable role in expanding the export volumes of most countries. Even in economies where, this role has not been very significant, small businesses have helped to economize on foreign currency reserves by acting as producers of some goods and services that may otherwise have had to be imported. Small businesses also help to curb the scourge of some social vices like armed robbery, drug abuse and prostitution by providing jobs for 'idle hands', especially in the densely populated and poor urban communities (Ayiglo, 2004).

However, some have argued that SMEs in Africa are reported to have high failure rates (World Bank, 1994). It has been estimated that over 60% of SMEs in Ghana fail within five years (Boachie et al., 2005). Given the needed financial support, do SMEs ensure income stability, growth and employment in Ghana?

2.4.0 Role of Banks

The importance of the financial system in facilitating economic development has long been accepted. The financial sector and the banks in particular have a key role to play in the efficient allocation of resources and the analysis of credit risk that make the growth possible (The Ghanaian Banker, 2005).

A bank is financial intermediary whose core activity is to provide loans to borrowers and collect deposit from savers. In doing so, they channel surplus funds from savers to those with deficit of funds (borrowers) in promoting better allocation of resources.

The Intermediation function

Savers / Depositors <—————> Banks <—————> Borrowers

As financial sectors in many countries comprise a wide range of different types of banking firms, these are commercial banks, mutual banks, investment banks and private banks as well as different forms of banking activity such as universal versus specialist banking and also 'interest free' Islamic banking. (Casu, Girardone & Molyneux 2006)

In most jurisdictions, commercial banks are the main source of external finance for SMEs. Therefore, it is essential that the banking system be prepared to extend credit to the SME sector. However, there are number of rigidities of a macroeconomic, institutional and regulatory nature that may bias the entire banking system against lending to SMEs. (OECD, 2006)

The OECD (2006) further report that SMEs in many emerging markets do not have access to credit financing and it is worrisome, because SMEs typically employ a large share of the labour force and account for a large part of national income. By way of contrast, banks in the most advanced countries are adopting strategies to reduce the risk of lending to SMEs. They are investing considerable resources in seeking to overcome information asymmetry problems by using credit scoring models and other sophisticated techniques to discriminate between high and low-risk borrowers. These lending mechanisms enable banks to identify businesses likely to survive and expand, and with which it is worthwhile to develop a long-term relationship. Banks are also altering the nature of their products.

In Sub-Saharan Africa, banks constitute the primary financial intermediary, and as such are the largest repository of public's savings, the main source of external credit to firms and key actors in the payment system. Banks have a critical role through increasing access to the banking and financial services especially to low income, designing innovative products and reaching out to Small and Medium Enterprises (SMEs), the growth poles of African economies (The Ghanaian Banker, 2005 Report).

2.4.1 Bank Retail Lending

An accurate credit decision, given by a bank's credit standards, is one that maximizes the value of the loan for the bank and minimizes the risk of default. Consequently, gathering, processing and analyzing information on potential borrowers are key steps in credit risk management. Prior to making lending decision, banks need to assess the risk-return trade-off of a loan; this process involves both an assessment of the risk of applicant and applicant's business; an analysis of external environment; the purpose of the loan and particular loan structure requested by the applicant.

In borrowing and lending processes, lenders look for safety and liquidity. Borrowers may find it difficult to promise either.

Lenders' requirement:

- The *minimization of risk*. This includes the minimization of the risk of default (the borrower not meeting its repayment obligations) and the risk of the assets dropping in value.
- The *minimization of cost*. Lenders aim to minimize their costs.
- *Liquidity*. Lenders value the ease of converting a financial claim into cash without loss of capital value; therefore they prefer holding assets that are more easily converted into cash. One reason for this is lack of knowledge of future events, which results in lenders preferring short-term lending to long-term lending.

Borrowers' requirement:

- Funds at a particular *specified date*.
- Funds for specific period of time; preferably *long-term*.
- Funds at *lowest possible cost*.

The majority of lenders want to lend their assets for short periods of time and for highest possible return. In contrast the majority of borrowers demand liabilities that are cheap and for long time. (Casu, Girardone & Molyneux 2006)

2.4.2 Credit analysis

According to Watson and Head (2007), the credit worthiness of existing customers is reviewed on regular daily basis. New customers can be asked to provide bank references to confirm their

financial standing, trade references to indicate satisfactory conduct of business affairs, published information such as audited annual reports, a business own experience of similar business and at a fee a report may be obtained from credit reference agency which will include business profile, recent accounts, financial ratios, and industry comparisons, analysis of trading history, payment trends, types of borrowing, previous financial problems and credit limit.

2.4.3 Credit controls system

Loan availability in retails markets may also be linked to several factors in order to minimize the credit risk. The key steps in this process are:

- a) Loan pricing- this is the estimation of the value of the fund lent. The key components of loan pricing are interest rate, fees, credit risk premium, collateral backing and other non-price terms such as clauses and conditions on the use of the loan.
- b) Credit rationing- this is where loans availability is restricted to selected category of borrowers. Although it is illegal to discriminate credit against borrowers for reasons such as race, gender, religion and others, there is no automatic 'right' to credit and people can be refused credit for a number of different reasons.
- c) Credit checking- this is where lenders will check the applicant's entry on credit register from example credit reference agencies.
- d) Credit scoring- this is also where banks initially adopt a qualitative approach, which involves asking the applicant a number of questions and allocate points (weights) to the answers. Question may include applicant's business history, length of time as a customer of the bank and others with which personal judgment of loan officers are made. (Casu, Girardone & Molyneux 2006)

2.4.4 Tenor of Credit Facility

According to Watson and Head (2007) short-term finance includes overdrafts, short-term loans and trade credit. An overdraft is an agreement by a bank to allow a business entity to borrow up to certain limit without the need for further discussion. The business entity will borrow as much or as little it needs up to the overdraft limit and the bank will charge daily interest at variable rate on the debt outstanding. A short-term loan is affixed amount of debt finance borrowed by a company from a bank, with repayment to be made in the near future for example after one year. According to Casu, Girardone & Molyneux (2006) long term finance is usually over a year in order to fund long-term investment and is given to large companies.

2.5.0 SME Financing

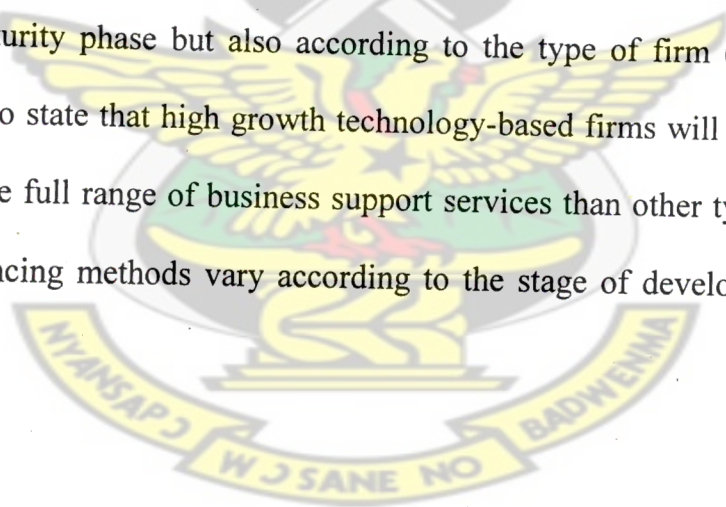
Given the extremely vital role that the SME sector plays in economic development, particularly in developing countries, the need to allocate resources for the development of the sector is never in any doubt. Of the myriad of problems that plague the private sector, access to finance particularly external financing stands out as one of the most critical which hinders the growth of the sector (Ayiglo, 2004). Empirical evidence establishes that less than 15 percent of the population in developing countries, including Ghana, has access to the mainstream financial services Aryeetey (1995). It is therefore, not surprising that government of most developing countries have encouraged and supported programs designed to develop the sector. In most cases such governments have tried to develop SMEs through financial assistance programs. 'The small enterprises development projects supported by the World Bank channelled during the 15years (1973-88) more than US\$3 billion in 70 projects to help small and medium enterprises in 36 developing countries' (Levitsky, 2002).

It is reported that probably less than 10% of this sum reached the very smallest of SMEs, that is those with less than 10 workers and assets of less than US\$10,000 and whose lending needs are in the order of US\$1,000-US\$2,000 or at least less than US\$5,000 (Levitsky, 2002). The average loan size was US\$24,287 in Latin America, US\$1,811 in Asia and a staggering US\$83,408 in Africa, which indicates that these projects reached mainly, firms that are high up on the SME classification ladder whilst only few of the very smallest firms or micro enterprises were reached (Levitsky, 2002).

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2.5.1 Financing Needs of SMEs

According to 'Guide to Venture Financing in Regional Policy' (2002) published by the Centre for Strategy and Evaluation Services (CSES) of the European Commission (EC) the support needs of SMEs vary not only according to the stage of development viz; the start-up phase, growth phase, and maturity phase but also according to the type of firm (CSES, 2002). The Guide goes on further to state that high growth technology-based firms will have very different support needs across the full range of business support services than other types of SMEs. The CSES asserts that financing methods vary according to the stage of development of an SME (CSES, 2002).



In South Africa, the financing needs of small, micro and medium enterprises have also been determined by looking at the equity investments made by financiers. A 15% - 40% range is applied to the investor's asset values of small business in line with the average investment range of equity investors to determine the financing needs of these businesses (Hanning and Joubert, 2003). Hanning and Joubert conclude however, that this method of assessing the financing needs of SMEs is limited by the fact that asset value of SMEs is not a good basis for evaluation. And that a valuation based on discounted future cash expected is more accurate. They argue that

high-growth SMEs could have significantly larger values. SME financing needs include the availability of stable credit facilities (Medium and long term), in order to carry out investment projects (UNIDO, 2001).

The tables depict the support needs of SME at different stages of development and stages in a company's development vis a vis the financing needs at each stage respectively.

Table 2.3: SME Financing Needs according to stage of development

Stage of development	Financing needs of SMEs
Seed stage	Financing provided to research, assess and develop an initial concept before a business has reached the start-up phase.
Start-up stage	Financing for product development and initial marketing. Companies may be in the process of being set up or may have been in business for a short time, but have not sold their products commercially and will not yet be generating a profit.
Expansion stage	Financing for growth and expansion of a company which is breaking even or trading profitably. Capital may be used to finance increased production capacity, market or product development, and/or provide additional working capital. This stage includes bridge financing and rescue or turnaround investments.
Replacement capital	Purchase of share from another investor or to reduce gearing via the refinancing of debt.

Source: Centre for Strategy & Evaluation Services, 2002.

2.5.2 Sources of SME Financing

According to Abor and Biekpe, (2007) the differences in institutional arrangements and financial markets between developed and developing countries actually merit the need to look at the issue from the perspective of developing economies, especially within the context of sub-Saharan Africa such as Ghana. SMEs in Ghana may exhibit a different capital structure with limited access to external finance due to the under developed nature of the financial market. Prior Ghanaian studies have mainly dwelt on the problems SMEs face in accessing various sources of finance (debt and equity) (Steel and Webster, 1991; Osei et al., 1993; Aryeetey et al., 1994 cited by Abor and Biekpe, 2007).

Sources of SME financing may be classified in several ways including the following:

- Equity financiers;
- Angel financiers;
- Government programmes;
- Financial institution;
- Family and friends; and
- Own funds.

[Global Entrepreneurship Monitor (GEM) Report, 2003]

Other sources of SME financing as indicated by Sylvia Tonova, (2000) include the following:

- Commercial Banks,
- SME credit line programs, including micro credit programs,
- Guarantee Funds and

■ Investment Funds.

In Bulgaria for example, 53% of SMEs have their start up capital from personal savings of the entrepreneurs and their families (Tonova, 2000). For all developing countries, savings and personal income were the most expected sources of funds (Tonova, 2000). The CSES also indicates that, most researchers suggest that financing sources vary according to the stage of developing of the enterprise. Typical sources of finance will include the following, which in practice will vary greatly from enterprise to enterprise.

Table 2.4: Sources of Finance for SMEs based on stage of development

Development stage	Financing sources
Seed stage	Informal equity from founder and associates. Bank loan if available and needed.
Start up stage	Informal equity from founder and associates. Bank loan if available and needed. Leasing for equipment.
Expansion stage	Equity from original sources, plus trade investments or venture capital. Loans from bank. Other sources of finance including leasing and factoring.
Replacement capital	Trade investment, venture capital or IPO

Source: Centre for Strategy & Evaluation Services, 2002.

In Ghana, some of the sources of finance available to SMEs include the following:

1. The National Board for Small Scale Industries (NBSSI)
2. The poverty Alleviation Fund (PAF) financed from the District Assemblies Common Fund (DAFC).
3. The Business Assistance Fund (BAF).
4. Export Development and Investment Fund (EDIF)
5. The Social Security and National Insurance Trust (SSNIT)
6. Fund for Small and Medium Enterprises Development (FUSMED)
7. Rural Financial Services Project (RFSP)

Other schemes established and operated mainly by foreign governments and or their agencies include

- The Business Sector Advocacy Challenge Fund (BUSAC) by DANIDA.
- The Millennium Challenge Account (MCA) by US government
- The Ghana Private Sector Development Fund (GPSDF) jointly set up by the governments of Ghana and Italy.

2.5.3 Problems / Challenges Confronting SME Financing

Any potential provider of external debt or equity finance will want to monitor the company to determine whether it is acting in accord with the initial contract, to follow the progression of the firm and to have the means to oblige the user of funds to respect the interests of the provider of funds. There are numerous reasons why doing this effectively is more problematic for SMEs than for larger firms. Hence, banks are more likely to engage in credit rationing (i.e. not

extending the full amount of credit demanded, even when the borrower is willing to pay higher rates) to SMEs than to larger companies (Stiglitz and Weiss, 1981; Hoff and Stiglitz,).

In the first place, the SME sector is characterised by wider variance of profitability and growth than larger enterprises. SMEs also exhibit greater year-to-year volatility in earnings. The survival rate of SMEs is considerably lower than that of larger firms. Thus, one analyst found that manufacturing firms with fewer than 20 employees were five times more likely to fail in a given year than larger firms (Storey, 1995).

The difficulties that SMEs experience can stem from several sources. The domestic financial market may contain an incomplete range of financial products and services. The lack of appropriate financing mechanisms could stem from a variety of reasons, such as regulatory rigidities or gaps in the legal framework. Moreover, development economists increasingly accept the proposition that, due to monitoring difficulties such as principal/agent problems (e.g. related to the shareholder-manager relationship) and asymmetric information, suppliers of finance may rationally choose to offer an array of financial services that leaves significant numbers of potential borrowers without access to credit. Such credit rationing is said to occur if:

- i) among loan applicants who appear to be identical, some receive credit while others do not; or
- ii) there are identifiable groups in the population that are unable to obtain credit at any price.

In the case of SMEs, it is very difficult to distinguish the financial situation of the firm from that of its owners. The use of company cars and home accommodations for both private and business

purposes are clear cases in point. Furthermore, estate tax and intergenerational succession are important issues in SMEs but usually unimportant for larger companies.

Relations between the firm and its stakeholders are likely to reflect personal relationships to a much higher degree than in larger firms where such relationships are formalised. Whereas large firms are expected to observe recognised standards of corporate governance in which actors such as executives, auditors, and boards of directors are expected to conform to transparent norms, SMEs tend to reflect much more closely the personalities of their owners.

According to Mahama (2007) banks operating in Ghana should not shun micro and small-scale enterprises but rather help to nurture them through innovative credit schemes and counseling. He said micro and small-scale enterprise had the potential for accelerated growth and development and that relying solely on collateral security, which such firms do not have, would not help such enterprises and society. He added that banks had extended credit to big and viable corporations and companies to the neglect of micro and small-scale enterprises.

Most SMEs particularly in developing economics face several difficulties in accessing credit facilities for their activities. Finance is a major constraint in Africa partly because of the lack of financial depth, the monopolistic and/or oligopolistic nature of the banking sector that encourages rent seeking activities, an inadequate regulatory framework sharing institutions such as rating agencies and credit bureaux' (Commonwealth Business Council (CBS) and the World Bank (WB), Report of the Workshop on Investment Climate in Africa, 2004).

At a workshop in Dar-es-Salaam, Tanzania organized by the commonwealth Business Council to present and discuss the results of diagnostic studies of the investment climate conditions of five African countries namely; Kenya, Mozambique, Tanzania, Uganda and Zambia, Gilbert De Barros of the World Bank identified four key aspects of the financing of firms in the five countries under review. These were access to credit, high interest rates, high collateral requirement and lack of long-term financing.

Access to Credit: According to findings from the above study in the five selected African countries, firms are overwhelmingly self-financed which indicates a dearth of viable outside financing options. For instance, the study showed that, internal funds finance 87% of all new investments in Mozambique, 71% in Uganda and 67.5% in Tanzania (Commonwealth Business Council (CBS) and the World Bank (WB), Report of the Workshop on investment climate in Africa, 2004)

High Interest Rates: Most SMEs are unable to access bank credit due to the high interest rates charged by these banks. Findings from the study referred to above show that, real interest rates range from about 16% in Kenya to 23% in Mozambique. The situation is no different from what prevails in Ghana now. The banks could afford to demand such high interest rates partly because they have access to alternative investment avenues in government securities which tend to bear high interest rates. So in effect, firms are being crowded out of the credit market partly inappropriate monetary policies, (CBC & WB, 2004).

High Collateral Requirement: 'The high collateral requirements are a reflection of the banks' perception of the risk involved in SME financing which is often characterized by relative high default rates and difficulty in enforcing contract obligation due to the virtual lack of strong property rights protection. In addition, assets are not properly registered and are easily transferable, making it difficult to enforce foreclosure clauses in contracts'' (CBC & WB, 2004).

Lack of Long- Term Financing: SMEs generally tend to lack the funds to finance long- term projects. According to the survey on the five African countries, the average loan maturity ranged from 2.75 years in Zambia to 3.75 years in Uganda (CBS & WB, 2004). Ayiglo (2004) also identifies five (5) reasons as contributing to the lack of interest by banks and other non-banks financial institutions in providing financial services to small businesses in Ghana. These are; high delivery cost, asymmetric information (non availability of information about micro enterprises), constricted rationality (restricting benchmarks of success to only financial analysis), high default risk and extreme opportunism.

Levtisky, (2002) identifies the following reasons as contributing to difficulties faced by small-scale enterprise in accessing credit facilities:

1. Lending to small enterprises is perceived as being risky. The uncertainties that face a small industry; the high insolvency rate, the susceptibility to market change and to economic fluctuations, make banks reluctant to deal with these clients. Non- payment, or even delayed payment, by a few major clients can cause the collapse of a small business. The insolvency rate of small businesses is indeed high. In the developed countries the figures are even higher: somewhere between 20% and 50% of new small enterprises in the United States fail within the first one or two years of operation. Various studies have shown that small businesses are less creditworthy than the larger enterprises, but even though small-scale businessmen may take great pains to repay their loans in order to maintain their credit worthiness, in expectation of increased borrowing, because these enterprises usually depend on a single- owner manager, they are more vulnerable to what might happen to the manager, which would obviously not be the case in a larger industry.

- 2. Paralleled to the reluctance of banks to lend to small enterprises is the reluctance of these enterprises to borrow from banks.** The administrative and costly formalities of obtaining banks finance, particularly the time and paper work involved, are a formidable deterrent to smaller businesses. Some of them lack the formal education to cope with the bureaucracy and others, and others, compounded by problems of locations and time pressures have difficulty in complying with what the institutions require before they grant a credit.
- 3. There is a distinct institutional bias on the part of banks towards lending to the larger corporate sector.** In many case there are links in directorships, joint ownerships and various other common financial dealings between banks and the large enterprises and automatically this induces preference for directing finance to these borrowers.
- 4. The administrative cost of lending to small enterprises is high, which cuts deep into the profitability of such transactions for lending institutions.** A World Bank study in the Philippines in 1978 showed that whereas the administrative cost of handling large loans was in the order of 0.3% to 0.5% of the cost of the loan, such costs rose to a range of 2.6% to 2.7% when lending to small enterprises.
- 5. Small enterprises are unable, or unwilling, to present full accounting records and other documentation called for by banks.** In most cases such records just do not exist, making appraisal of loan applications difficult.
- 6. Usually such small borrowers are unable to provide the collateral and security demanded by lending institutions before approving loans.**

CHAPTER THREE

3.0 METHODOLOGY

3.1 Introduction

A research methodology defines what the activity of research is, how to proceed, how to measure progress, and what constitutes success.

This chapter discusses the methodology adopted by the researcher in the conduct of the research. The following headings have been covered under the chapter. These are research design, population, sampling and sampling technique, sources of data, data collection instrument, pilot study, field work, problem encountered, method of data analysis and organizational profile.

3.2 Research Design

A Research Design guides the researcher in planning and implementing the study in a way that is most likely to achieve the intended goal (Burns and Grove, 1997). Basically, the researcher adopted a case study design which limited the financing provided by commercial banks to Stanbic Bank Ghana Ltd. (SBGL). Daymond (2002) rightly points out that, the case may be an organization, a set of people such as social workers, group or a community, an event process, an issue or campaign; Obeng and Loria (2003) contend that, the advantages of applying case study is the fact that it enables an entire company to be subjected to an in-depth investigation.

The empirical sources of data for the study involved the gathering and analysis of primary and secondary data from which findings were made and conclusions drawn through one on one

discussion and/or small group discussions by visiting offices, SMEs customers of Stanbic bank Ghana Ltd.(SBGL), and its officials involved in the SME account management.

The study also used a descriptive survey by employing both quantitative and qualitative methods in assessing the role of banks in the financing of small and medium enterprises using Stanbic bank Ghana Ltd. SBGL, as a case study. Descriptive Research is largely concerned with: Who? What? When? and Where? questions and it involves the collection of original data for analysis with the main purpose of establishing a factual picture of the object of study (Zikmund,2000). Qualitative method was also used to analyze variables of, especially, perception of SMEs. Qualitative Research is an in depth analysis of the problem in order to understand the “what” and “why” of human behaviour. Cresswell (1994) states that qualitative research explains how people make meaning (sense) of their experiences and their views of the world. Perception was measured on the basis of customer expectations against what the firm is able to provide. In qualitative research, it is important for researchers to describe what they observe, during the fieldwork. This study was aimed at presenting a thorough and accurate description of how bank finance their SME clients.

3.3 Population

This section looked at the target population, sampling and the sampling techniques used in selecting the sampling. The population therefore comprises Management, Staff, and clients Stanbic Bank Ghana, (SBGL), Kumasi branch. Due to budget constraints, the researcher could not cover the entire population. The sampling method was adopted, because it could, as well, be used to generalize the findings to show a clear representation of the population.

Since the study was restricted to financing of SMEs, only management engaged in the provision of business banking services, as so called in Stanbic bank Ghana Ltd. (SBGL), and clients were selected. The sample criteria in the bank were based on rank, portfolio size of accounts and experience with the company. On the part of the clients, the branch of concentration was the Kumasi branch in the Ashanti region has a total of SME population of about 4,000 active customers. Since all the 4,000 clients of this branch could not be surveyed, a sample size of 200 SME clients which is approximately 5% was used.

3.4 Sample and Sampling Techniques

The researcher agrees with most researchers that it is easier and quicker in terms of gaining access to data that do not require the entire population. Since the study involves various interest groups, such as SMEs clients, quota sampling which is non-probability sampling was used in the selection of the sample size and in seeking the right information from respondents. Quota sampling divides the population under scrutiny into relevant strata, and samples are selected in such a way that, they are representative of the population.

However, in selecting the quota as sampling techniques, the study took into account the major challenges in that sample. Typically, the study took into account the categories for which quotas are to be used and the quotas to be allocated are determined based on the issue to be addressed.

The bank has 21 branches throughout Ghana with one located in Ashanti region.

The researcher used a non-probability sampling technique which purposively chose the Kumasi branch which represented the whole of Ashanti region. The branch was chosen because of its size of SME clients in terms of the banks over all SME cliental base. Another justification for the choice of this branch is the researcher's relationship with the branch which is an impetus to source of data and cooperation from staff and clients in terms of divulging information to the

researcher. Common criteria used are age, ownership, type of business, number of employees, and experience among others especially with SMEs clients of the bank.

The various strata involved in the study were Staff and Clients/Customers of SBG. In all, two hundred (200) SME clients with which 70% were active borrowers and 30% non-borrowers and seven (7) staff members in the SME department were purposefully selected for the study. The reason for the high proportion of active borrowers is to aid the study with sufficient information on the processes and procedures involved in credit facility in the bank. The non-borrowers were also taken into consideration in finding out their opinion about finance of SMEs as whole. This enabled the researcher to ensure that, the sampling units were representative with high response rate so as to gain insight into the problem and answer the research questions.

3.5 Sources of data

The study made use of both primary and secondary data as sources of data. The primary sources of data refer to data collected expressly for specific purpose. The primary data were obtained from the field. The benefits of obtaining a primary data are that, exact information wanted is obtained. The secondary data apply to that already collected and compiled for other purposes. However, it should be related to the topic under study.

The primary source of data for the study was gathered from the following sources:

- Staff of Stanbic Bank Ghana Ltd.
- Selected Small and Micro Enterprises, especially, beneficiaries of Stanbic Bank Ghana. Ltd credit facilities.

The secondary data employed in the study were obtained from journals, magazines, newspapers, textbooks. These were mostly gathered from recognised institutions, notably, Kwame Nkrumah University of Science and Technology, Chartered Institute of Banking, Ghana, Stanbic Bank Ghana Ltd. and others. Extensive use was also made of the internet to review further studies by other researchers.

3.6 Data Collection Instruments

The following data collection tools were employed:

- Structured questionnaire
- Interviews
- Review of official records (secondary data)
- Participatory observation

Questionnaires were the main instrument used to gain in depth understanding from the agents, Management support, and clients (see Appendix). Questionnaires were deemed appropriate because literate respondents were purposefully selected. The questionnaire was carefully designed and administered on two hundred (200) SME clients of Stanbic Bank Ghana Ltd, Kumasi branch to find out their impression of the support being provided by the bank in terms of financing. Also, most of the questions were largely close-ended, which made coding easier. Bank officials including Relationship Managers of various portfolios were also interviewed to find out how they were providing support for SME clients and how they were managing their books to reduce possible default in the repayment of the facilities. The interviews were the structured type.

3.9 Problems Encountered

The research, like other researches, was not without problems. The main problem encountered in the field was the unwillingness of clients and staff to take part in the interview, due to their tight schedules and unpreparedness in giving sensitive information. They, however, gave in after I explained to them that, the research was for academic purpose.

3.10 Data Analysis

Data gathered from the survey was analyzed by using Statistical Package for the Social Scientists Software (Windows SPSS) and Microsoft Office Excel 2007. The results have been thoroughly discussed and they form the bases on which conclusion and recommendations were drawn. The following tools were used in the quantitative analysis:

- Percentages / ratios
- Tables
- Graphical Analysis (frequency distribution) including Line graphs, Pie and bar charts

CHAPTER FOUR

4.0 DATA PRESENTATION AND ANALYSIS

4.1 Introduction

After collecting the research data, an analysis is necessary to facilitate the interpretation of the results and the drawing of conclusions. Without proper analysis, the data collected would be a meaningless heap of information. In analyzing the data, five (5) main stages were involved: editing, categorization, coding, tabulation, and statistical inferences, which were descriptive in nature. SPSS and Microsoft Office Excel software were used in processing data and drawing diagrams respectively. Although, all the stages were distinct, it must be noted that, the process of data analysis is a continuous one and that, all the stages were intertwined.

Additionally, every stage of the process was executed with due reference to the problem and purpose of the study. It was realized that, though, a sample size of two hundred (200) SME clients was used to the selected branch, Kumasi. In the case of staff, seven (7) personnel were selected from the SME unit and their response rate was appreciated; however, two percent (2%) of the questionnaires administered to customers were rejected, due to illegible handwriting, and wrong choice of options provided. The chapter is in two (2) sections: Analysis of responses from staff and that of the customers. Among the variables to be considered were SME credit management; customers' perception about the bank financing SMEs, challenges in accessing credit on the part of customers and assessing SMEs credit request on the part of the bank personnel.

4.2.0 Evaluation of Bank Finance to SMEs

This was to find out the views of the bank personnel since they are in charge of SME financing.

4.2.1 Gender of Personnel in SBG SME Unit, Kumasi

This was carried out to find out the number of males and females in the SME department.

Table 4.1.0: Gender distribution in SME Unit

Gender	No. Respondents	Percentage (%)
Male (s)	6	86
Female (s)	1	14
Total	7	100

Source: Author's field work, 2009

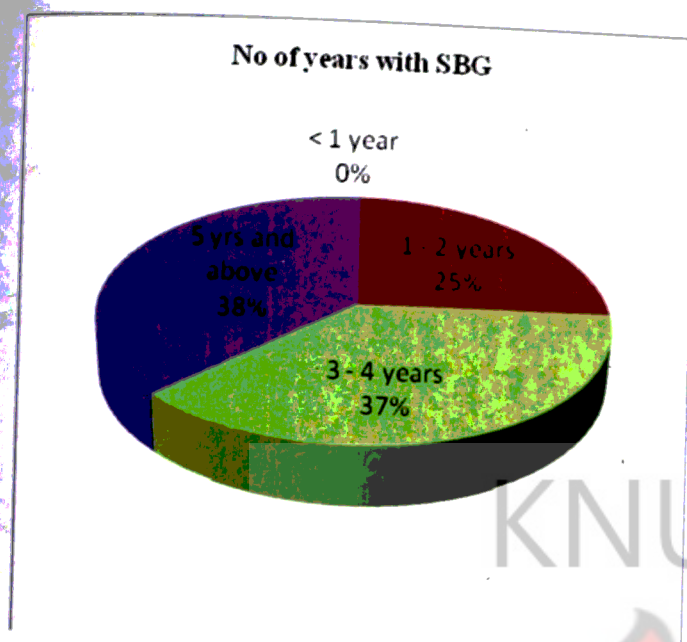
From the table above the proportion of males in the Business Banking (SME) unit in the bank exceeds that of females. The number of male personnel is 6 (86%) and female is only 1 (14%).

This supports the fact that the proportion of females in formal sectors in Ghana is low.

4.2.2 Experience Level of Personnel in SBGL, Kumasi.

Working experience level of bank personnel was considered to be very vital in the study, since it could determine the ability of the personnel in attending to customers.

Figure 4.1.1 The experience level of bank staff.



Source: Author's field work, 2009

From the above there is no bank staff who has worked for less than one year in the SME unit. Even between 1-2years working experience with the bank contains very few respondents 2 (25%) as compared to 3years and above. It points out that bank staffs are well experienced.

4.2.3 SME Segmentation in SBGL

The criteria the bank use in selecting their SME clients and naming each group are based on Turnover, Number of employees, Portfolio and Contribution by segment. These segmentations are presented in the table below.

Table 4.1.2: Segmentation of SMEs in SBGL

Segment (s)	Criteria-Turnover	No. of employees	Portfolio size	Contribution by segment
<i>Pre-optima</i>	0-R1,000,000	1-5 some may be Permanent	+ -1000 + Personal traders	>R1,200
<i>Optima</i>	R1,000,000- R2,500,000	1-5 (permanent) 6-10 & 11-50 (Non-permanent)	+ -1000	R1000,000 - 2,500,000
<i>Focus</i>	R2,500,000- R7,500,000	6-10 (permanent)	+ -300	R14,000<R50,000
<i>Expert</i>	R7,500,000(New customers)- R100,000,000	25 and above	+ -75	>R50,000

Source: SBGL, Business Banking Unit, Kumasi

*Exchange rate 1Rand=GH¢0.1852, 01-Sept. 2009

The four segments are Pre-optima, Optima, Focus and Expert. The pre-optima is the lowest segment among the four with turnover of 0-1,000,000rands, expected contribution to bank revenue of less than 1,200rands, port folio size of 1000 plus personal traders (those trading in their personal names) with employee level of 1-5 with some being permanent. This segment is at the verge of informal sector, little separation of personal and business assets. It has high level of personal and business interplay, no mention is of formalised business plans and structured financial plans, balanced mix of male and female owner and also need extensive education in the use of banking products. Financial literacy of 1 to 2 on a 5 point scale is considered 'street smart' in terms of general business acumen.

The second segment is Optima which has three distinct groupings of employees. The majority of employers with 1 to 5 permanent employees, but some with 6 to 10 employees and few with 11 to 50 typically non-permanent employees. These customers sell directly to end-users. Financial literacy rated between 2 and 3 on 5 point scale, which is considered as street smart in terms of general business acumen. Still a level of personal and business interplay.

From the table, the third segment has medium turn over selection criteria which qualify customers in medium group of SME base in the bank. Majority of these businesses employ 6 to 10 permanent employees and have total staff of up to 50, typically non-permanent employees. Here, there is first indication of 'formalisation' that is, beginning to develop management levels and owners are interested in the 'external environment'. The majority of these customers show interest in penetrating new markets and company expansion.

The final segment has a large turnover requirement as shown on the table above. Owner manages business with developed management structures and work force usually in excess of 25 people. (Source: Stanbic Bank Ghana, Business Banking unit, 2009).

4.2.4 Type of Credit Facilities Mostly Offered by Stanbic Bank Ghana

The type of credit facilities offered by the bank includes loans, overdraft and other which also comprises of guarantees, asset finance.

Table 4.1.3: Type of credit facilities mostly offered by the bank to SMEs

Type of credit facilities	No. Respondents	Percentage (%)
Loans	7	41
Overdraft	6	35
Other	4	24
Total	17	100

Source: Author's field work, 2009

From the table it shows that the bank offers Loans facility than any other credit facility since it constituted about 7 (41%) responses. This is followed by Overdraft 6 (35%) and the least among them is Other which attracted 4 (24%) responses from bank personnel.

4.2.5 Registration status of businesses

According to the bank all customers in their SME department (Business Banking unit) are registered with the Registrar General Department, Ghana.

4.2.6 Factors considered in granting credit facilities to SMEs

These factors were considered important in this study because it will aid the SME clients to know some of the things the SBGL needs most before granting credit facilities.

Table 4.1.4: The factors considered in credit assessment and their weights

Factors	80 - 100%	60 - 79%	40 - 59%	20 - 39%	10 - 19%	Total
Business registration document	5	0	0	1	0	6
Age of account	2	3	0	0	0	5
Audited Financials	0	3	2	1	0	6
Collateral	4	1	1	0	0	6
Business Plan	1	1		3	1	6
Credit History	6	0	0	0	0	6
Management Experience	0	3	2	1	0	6
Years in existence	0	3	2	1	0	6
Source of repayment /cash flow	4	0	0	2	0	6
Purpose of facility	4	2	0	0	0	6
Other	0	0	1	0	0	1
Total	26	16	8	9	1	60

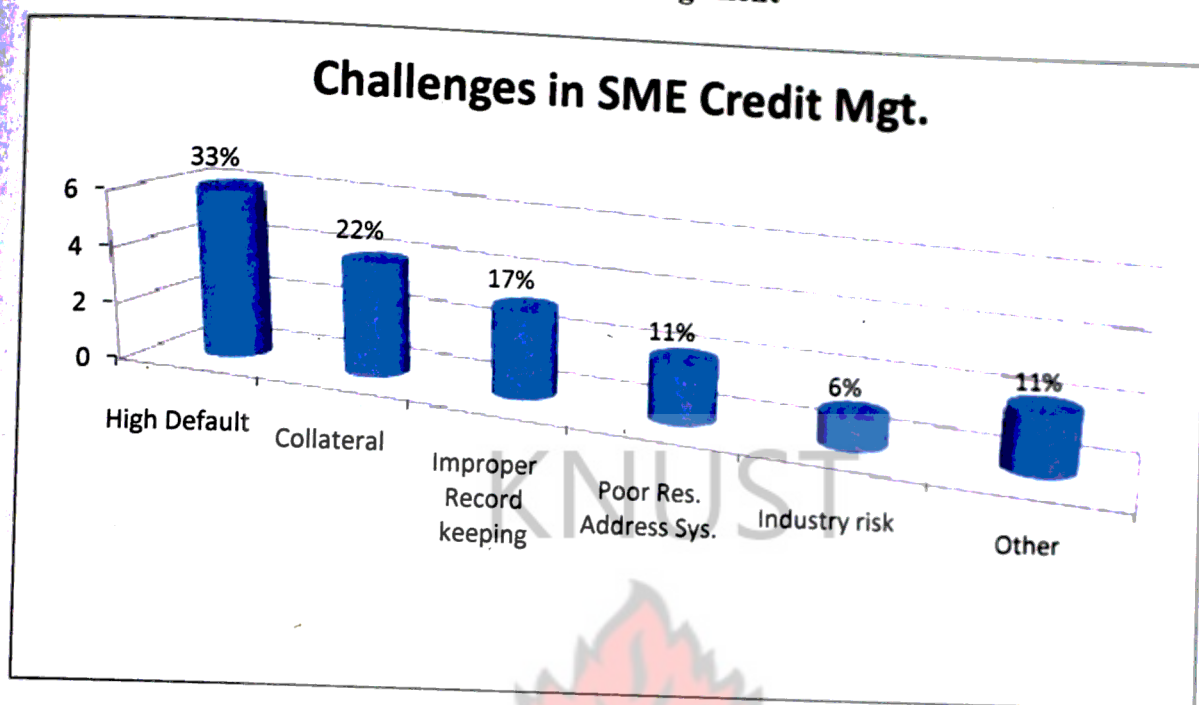
Source: Author's field work, 2009

From the table above, the factor that attracted the highest response from personnel in credit appraisal is Credit History of the customer (applicant). 6 out the 7 respondent accepted that credit history should be given highest weight of 80%-100%. Again, 5 out of the 7 respondents also rated Business Registration Document as an important factor in credit assessment with a weight of 80%-100% whilst only one person rated it with a weight of 20%-39%. Also 4 respondents accepted that Collateral, Source of Repayment and the Purpose of the facility are important factors with weight of 80%-100%.

4.2.7 Challenges facing SBGL in Financing of SMEs

These challenges were considered in this study because SMEs clients need to know what to do so that they can get access to credit facilities from the SBGL.

Figure 4.1.5: Challenges in SME Credit Management



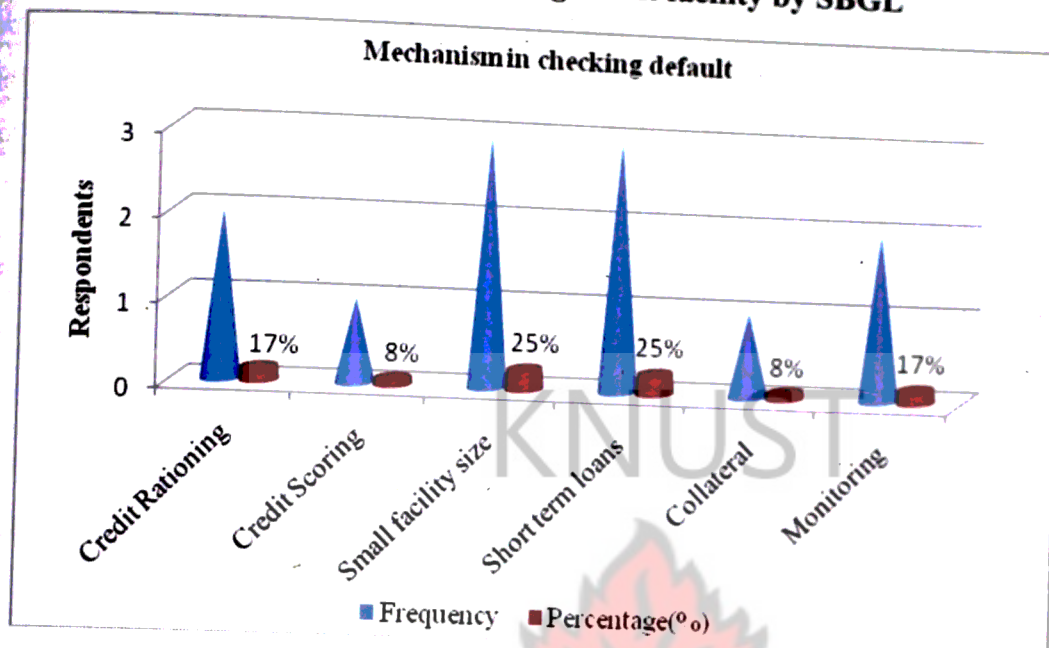
Source: Author's field work, 2009

The above chart depicts the challenges the bank personnel face in financing the SME clients. The prominent challenge among them is high default rate forming a proportion of 33% from 6 out of the 7 respondents. Secondly, collateral was also attained 22% from 4 out of the 7 respondents. Again, improper record keeping was considered with a proportion of 17% from 3 out of the 7 respondents. Poor Residential Address and Other challenges (eg. Diversion of funds) received 11% each from 2 out of the 7 respondents.

4.2.8 Effective Mechanisms by SBGL in granting credit facilities to SMEs

Considering the mechanisms in granting credit to SMEs in order to check possible default, the following were found out from Bank personnel as shown in the bar graph below.

Figure 4.1.6: Mechanisms in granting credit facility by SBGL



Source: Author's field work, 2009

The above table shows that Short Term Loans and Small Facility Size are one of the most effective mechanisms in granting credit facilities with the idea of checking possible default. Each attracted a proportion of 25% in the response given. Also Credit Rationing and Monitoring could be considered as the second most important factor since each attained a proportion of 17%. Finally, collateral and credit scoring were considered the least, 8% each, in credit assessment.

4.2.9 Default Rate in SME Credit Management

Rate of default was considered in the study to find out the frequency at which SME customers of the bank pay or not pay credit facilities they have been granted. This will also give indication to how risky financing of SMEs will be.

Table 4.1.7: Rate of Default of Credit Facilities

Rate of Default	Respondent	Percentage (%)
Very Often	2	29%
Often	5	71%
Rare	0	0%
Not at all	0	0%
Total	7	100%

Source: Author's field work, 2009

From the table above response received from a proportion of 29% (2) shows Very Often Rate of Default of credit facilities. The one that received the highest response is Often rate of default and formed a proportion of 71% (5). This makes it clear that SME customers often default. This means that it is frequent but as compared to the response for Very Often rate of default, default rate is not of high degree. There was no response for Rare or Not at all rate of default.

4.2.10 Reasons for SMEs' Credit Default

- Diversion of funds
- Clients have debt obligations with other banks
- Overtrading
- Clients give long credit period to debtors
- Leakages in their business as a result of improper monitoring.

4.2.11 Effective methods in monitoring credit facilities

This was considered in the study so as to assist SMEs to understand some of the process of the banks in credit management. This will enable the bank to identify customers who are defaulting and those about to or not.

Table 4.1.8: Method in monitoring Credit Facilities

Respondents	Frequency	Percentage (%)
Regular Visits	7	50%
Banker's Opinion	2	14%
A/C conduct	5	36%
Opinion from suppliers	0	0%
Strategic document	0	0%
Other	0	0%
Total	14	100%

Source: Author's field work, 2009

The most effective method considered by the bank personnel is regular visits which attained a proportion of 50%. The second notable factor is account conduct which also attained a proportion of 36% from 5 out of the 7 respondents. Opinion from Suppliers, Strategic Document and Other received no response. This means that, comparatively, those ones are not considered most effective when it comes to mechanisms to monitor credit but are also important.

4.3.0 SMEs Respondents

This section of the study gives the responses made by the SME clients of SBGL in connection with their experiences with the bank. This was considered important because customers are the

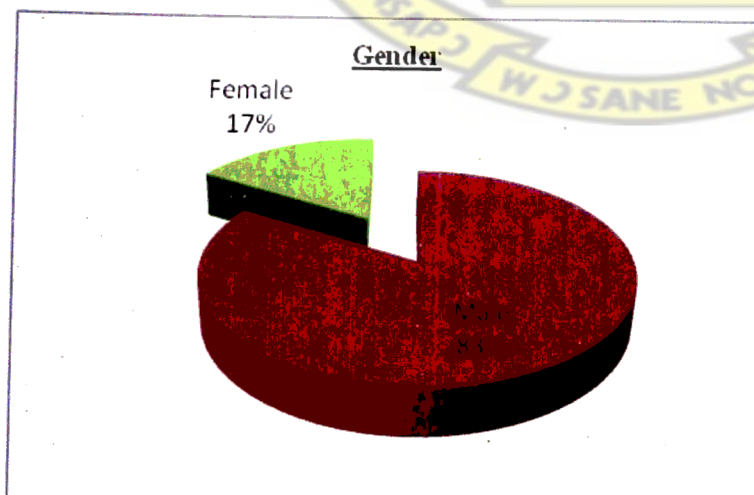
right people who can testify whether SBGL is doing well in terms of bridging the financing gaps.

4.3.1 Gender Distribution of SBGL SME Clients

Gender distribution was considered very important in determining gender balance in the SME customer base of the bank. The study presents the gender composition of total SME customers sampled.

The pie chart, Figure 4.2.1 below shows the gender distribution. In finding out the gender distribution of clients, about 167 (83%) of them are males and 33 (17%) are females. This suggests that there is a high disparity in terms of gender. This could suggest that very few SME female owners do business with SBGL.

Figure 4.2.1 : Gender Composition of SME Respondents



Source: Author's field work, 2009

4.3.2 Age Group of SME clients.

Age group was identified an important factor in this study since it will reveal the age of the work force being active or dependants as in Ghana the active labour force is between 18-59. Also it will tell whether the bank is doing business with the aged whose life expectancy is low or not.

Table 4.2.2: Age Distribution-SME Clients

Age group	No. Resp.	Percentage (%)
18-29	33	17
30-39	82	41
40-49	67	33
50-59	16	8
60 and above	2	1
Total	200	100

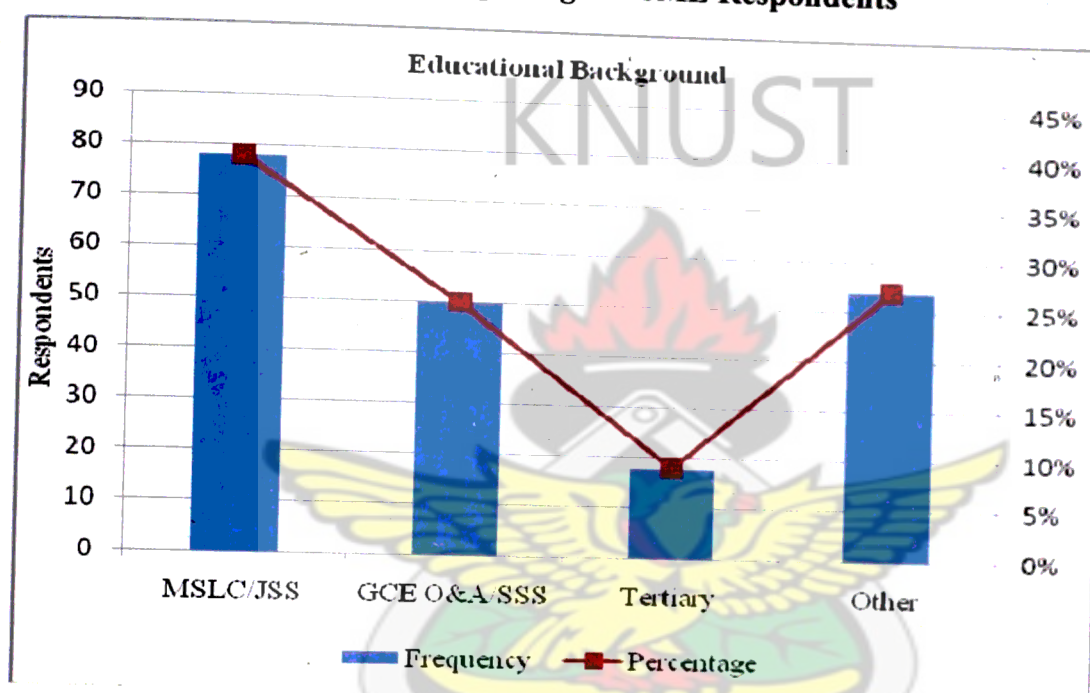
Source: Author's field work,2009

The table above shows the age group of respondents. From the study majority of the respondents, 83 (41%) are within the ages of 30-39, followed by 40-49 which had 67 (33%) of the respondents. This shows that majority of the SME clients are within middle brackets of the active labour force. About 33 respondents are in the 18-29% age group with very few in the age groups of 50-59 as well as 60 and above.

4.3.3 Educational level of respondents

The educational level of SMEs will identify how respondents will be able to carry out the day-to-day administration of their businesses. Banker-customer relation is legally binding contract and therefore must be understood by these clients. It has been stated earlier that literates were selected.

Figure 4.2.3: Educational Background of SME Respondents



Source: Author's field work, 2009

The bar graph above fig. 4.2.3 shows the educational background of the SME clients in the bank. From the graph above, about 78 (39%) of the respondents are Middle School Leaving and Junior Secondary School certificate holders. About 50 (25%) responded that they are Ghana Certificate of Examination Ordinary or Advanced Level (GCE O/A) and Senior Secondary School (SSS) leavers. Tertiary education holders constituted 18 (19%) respondents and Other educational background formed about 54 (27%) of respondents. From above, basic level of education forms the largest proportion, followed by other educational levels and GCE O&A/

SSS being the third group and finally tertiary. On average the educational level of respondents is appreciable.

4.3.4 Type of Ownership SME businesses

Type of ownership was considered very important because it give indication to the overall management and decision making process of the business. When management is in the hands of only the sole owner it is very difficult to distinguish the financial situation of the firm from that of its owners. This will give the proportion of SME clients who are in joint venture and those in sole businesses.

Table 4.2.4: Type (s) of Ownership of SMEs

Type of ownership	Frequency (Responses)	Percentage (%)
Sole proprietorship	148	74
Limited Liability	24	12
Partnership	22	11
Others	6	3
Total	200	100

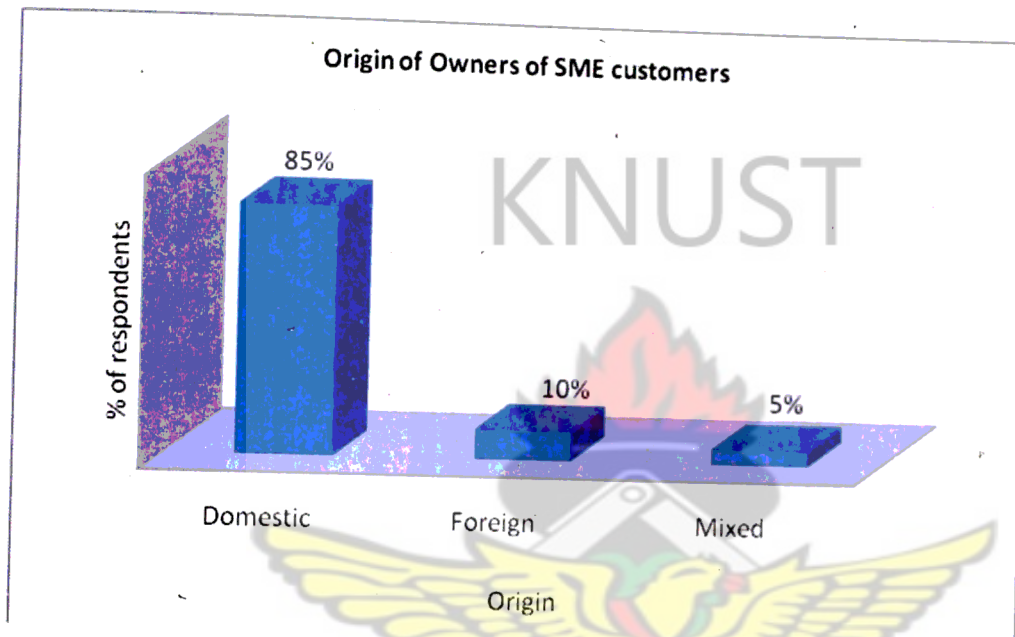
Source: Author's field work, 2009

The table fig. 4.2.4 above shows the type of ownership of the SME clients. Sole proprietorship business forms the highest proportion of respondents constituting 148 (74%). The second dominant type of ownership is Limited Liability forming 24 (12%) followed by Partnership with 22 (11%) and finally the least among them being Others which constitute 6 (3%). Considering joint venture ship which can promote large capital outlay, division of labour, sharing of risk and others as propagated by most management consultants, is less.

4.3.5 Origin of Ownership of SMEs

Consideration was given to origin of ownership of SMEs to find out the proportion of natives who have SME businesses and also have account with SBGL.

Figure 4.2.5: Origin of owners of SME businesses



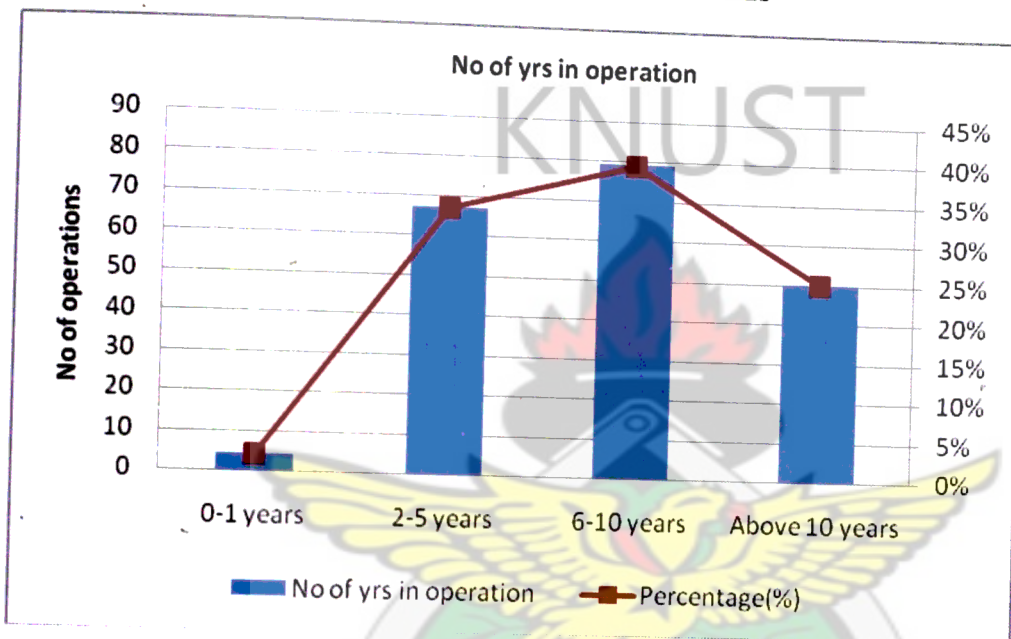
Source: Author's field work, 2009

From the bar graph 4.2.5, above there is about 170 (85%) of respondents being natives of the Ghana operating SME businesses. This forms the largest proportion among the group. Foreign ownership forms about 20 (10%) of respondents. Foreigners interviewed constitute Africans and non-Africans. The disparity between domestic and foreign ownership is very wide to about 75%. Mixed ownership of domestic and foreign had the lowest proportion of about 10 (5%). The data shows that domestic-foreign partnership which could bring about transfer of expertise and others is not encouraging at all.

4.3.6 Number of years in operation of SMEs

Number of years in operation of SMEs was looked at since it tells the experience level of management and eradicates the risk of the business being collapsed. It could also give indication to whether the business has good succession and continuity plan.

Figure 4.2.6: Number of years in Operation of SMEs



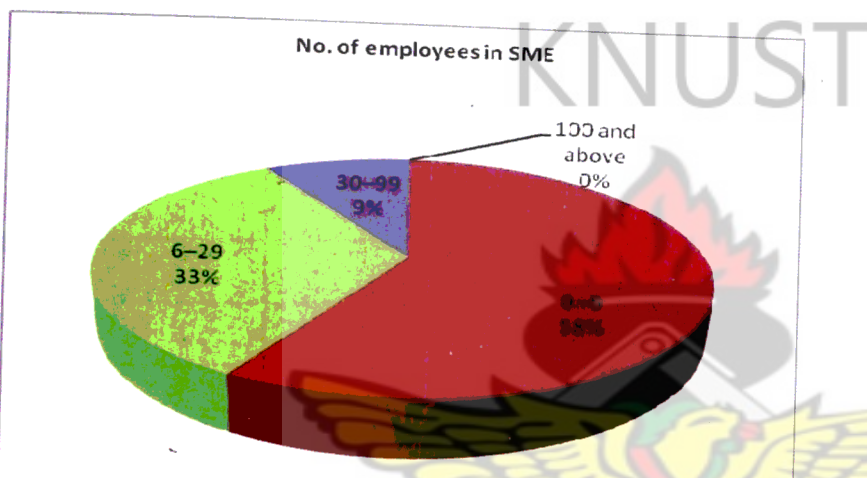
Source: Author's field work, 2009

From bar graph fig.4.2.6 above, about 4 (2%) of respondents are with 0-1 years, 67 (34%) are with 2-5 years, 79 (40%) are with 6-10 years and 50 (25%) are with above 10 years experiences. This shows that the number of respondents who have low level of experience is found to be the lowest among all the groups.

4.6.7 Number of employees in SMEs

The number of employees in a business could suggest how large or small a business is. Employees in business could also give indication to division of labour and specialization. ‘Two heads are better than one’ strategy assists decision making process and supervision of the business.

Figure 4.2.7: Number of Employees of SMEs



Source: Author's field work, 2009

The pie chart below, fig. 4.2.7, shows the various levels of employees groups. From above, about 116 (58%) forming a the largest proportion of respondents have employees level of 0-5 which shows that most of the business have small number of employees which further indicates that they are micro enterprises as per NBSSI classification of SMEs. This also supports the fact that most of the respondents doing business with SBGL are mostly sole proprietors. The second largest proportion 66 (33%) have employees of about 6-29 which gives indication to small size enterprises. The third group constituting with proportion of 18 (9%) is having employees of 30-39 indicates medium-sized enterprises. There is no respondent with employee level of 100 above. This means that large SME customers are very few or absent in SBGL. From the above

pie chart only 18 respondents employ the largest employees and confirming a large size of the business.

4.3.8 Nature of businesses of the SME clients

The nature of business was considered in the study to find out the type of SME business SBGL is targeting and it also will enable SMEs to identify the bank's target market.

Table 4.2.8: The type of SME businesses with SBGL

Type of business	Frequency (Responses)	Percentage (%)
Trading	136	68
Agric.	7	3
Build & construction	3	2
Manufacturing	8	4
Services	32	16
Others	14	7
Total	200	100

Source: Author's field work, 2009

From above table 4.2.8, Trading, which includes Gasoline dealers, Agro-chemicals, Cement, Mobile phone, Supermarkets and Pharmaceuticals and other trading activities formed the majority of the nature of businesses 36 (68%) the clients operate. Services which also includes Educational centres, Health centres, Hotels, Travel & tour, Event organizers, decorations, Hair salon formed 32 (16%). Agriculture also includes poultry farming and sale of poultry products, piggery and other few formed 7 (3%). Building and construction works include drilling and dredging, road and building contractors, and others formed 3 (2%). Manufacturing includes soap making, fruit juice production, aluminium works, furniture and others formed 8 (4%).

4.3.9 SMEs' Main Source of Finance

Source of funding for these SMEs was considered very important as a quota to the study since it will assist in finding out whether SMEs have had enough support from the bank. It will also reveal the financing structure of these SMEs whether owners' equity forms larger proportion or debts.

Table 4.2.9: The main source of finance for SME Clients

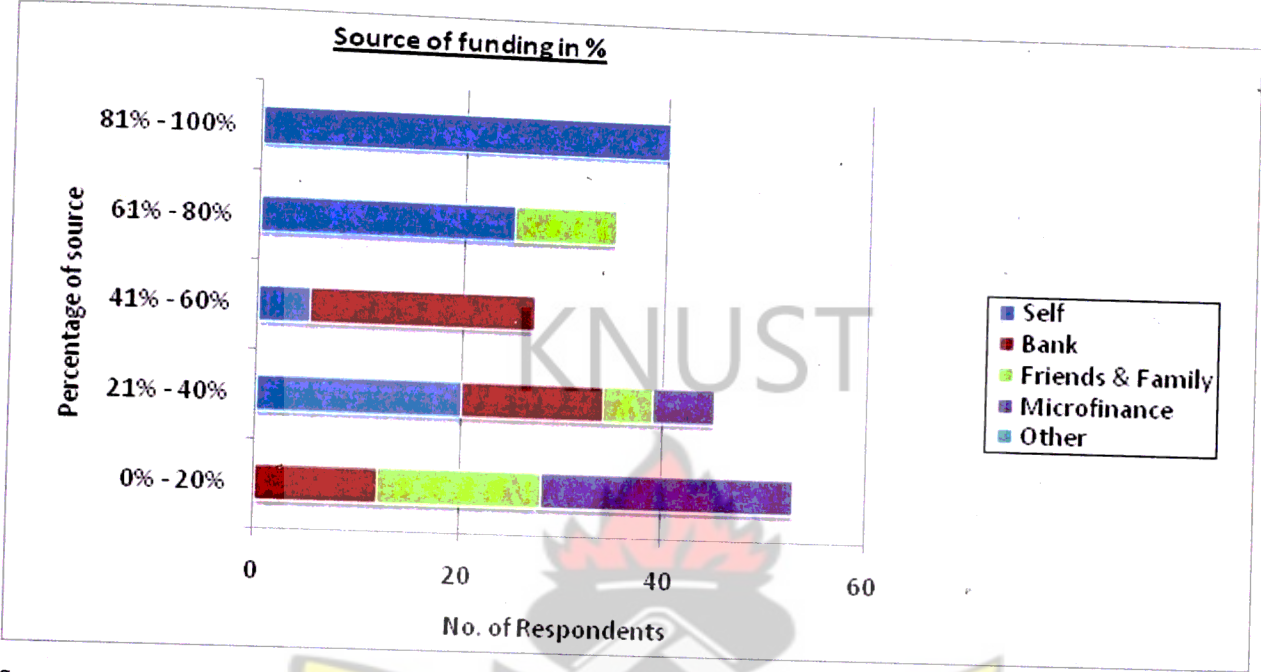
Percentage/Source	Self	Bank	ends & Fam	Microfinan	Other	Total
0% - 20%		12	16	25		53
21% - 40%	20	14	5	6		45
41% - 60%	5	22				27
61% - 80%	25		10			35
81% - 100%	40					40
TOTAL	90	48	31	31	0	200

Source: Author's field work, 2009

The above table 4.2.8 clearly shows that on the whole personal or self financing has the dominant proportion of 90 (45%) respondents, the bank's finance attracted 48 (24%) respondents, microfinance attracted 31 (14.5%) and family and friends attracted 31 (14.5%). About 40 (20%) of the respondents finance their businesses with 80-100% from their personal sources without any outside assistance. This means that owners' equity is higher than outside source of finance since outside finance may form about 0%-19%. None of them has enjoyed about 80-100% finance from the bank. The highest proportion of finance from SBGL, which forms 21-40%, is enjoyed by 15 respondents and 0-20% to about 10 respondents. About 15 respondents also have about 61-80% of their source of finance from friends and family members.

Some of these clients use various sources of finance in their businesses being equity, debt or both. The various components and their proportions are well shown in the bar chart below.

Figure 4.2.10: Source of Fund for SMEs

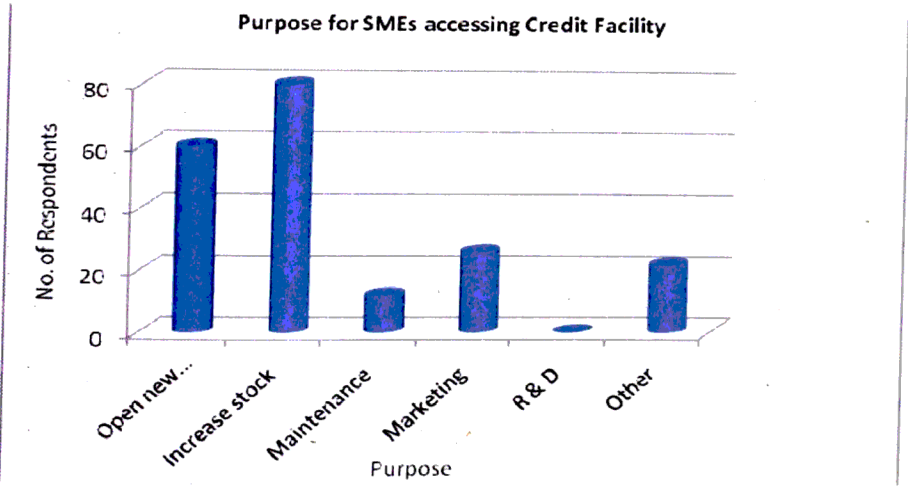


Source: Author’s field work, 2009

4.3.10 Purpose of SMEs accessing Credit Facility

This was selected to find out the main reasons why they apply for credit facilities from the bank.

Figure 4.2.11: The purpose of accessing credit by SMEs



Author’sfieldwork,2009

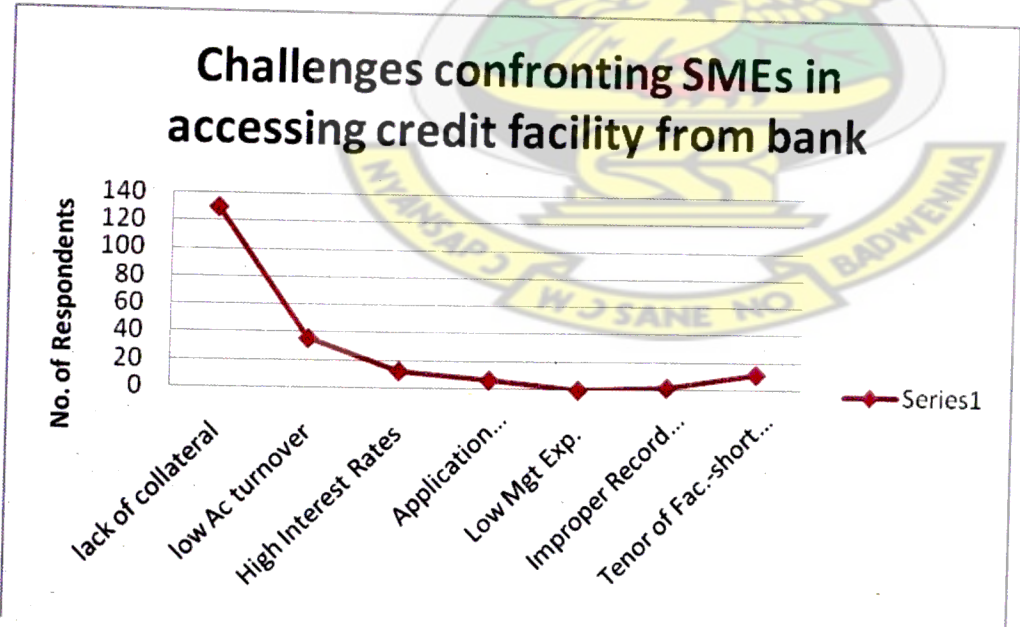
From above bar chart 4.2.10, about 80 (40%) of the SMEs main aim of taking credit facility is to increase stock level. This confirms idea that most of these SME customers are traders. The second prominent response is to Open Up New Branches with a proportion of 60 (30%). The next items considered are Marketing, Other and Maintenance with proportions 26 (13%), 22 (11%),12 (6%) in descending order respectively. The least proportion was given to Research and Development 0 (0%).

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4.3.11 Challenges in accessing Credit Facility by SMEs

This was considered to identify the concerns of the clients concerning the challenges confronting them in accessing credit from the bank as shown in the line graph 4.2.12 below.

Figure 4.2.12: The challenges confronting SMEs



Source: Author’s field work, 2009

From the above line graph 4.2.12, most of the customers, 130 (65%), attributed to Lack of collateral, which was said to be landed property (Buildings), as the main challenge in accessing

From the above line graph 4.2.12, most of the customers, 130 (65%), attributed to Lack of collateral, which was said to be landed property (Buildings), as the main challenge in accessing credit from the bank. This challenge was also attributed to the high cost and delays in getting leasehold on property in Ashanti region since land title registration has been vested in the hands of traditional rulers. It is a major challenge since the proportion is more than even 50%. From above, it is clear that the other challenges have low response.

4.3.12 SMEs' level satisfaction of SBGL's Services/Products

This will give feed back to the bank concerning their services or product delivery to SMEs. This will enable the bank to identify the patronage of the SMEs to its products and services. These concerns raised are presented in the table 4.2.13 below.

Table 4.2.13: Customer Perception of SBG's Services

STATEMENT	SA	A	U	D	SD	Total
a) The bank provides sufficient amount requested	5	35	50	110		200
b) The bank is able to provide products to meet all my financial needs	10	82	67	34	7	200
c) The bank usually organizes workshops for its SME clients	0	1	23	58	118	200
d) The bank's SME department is well set up	40	28	117	0	15	200
e) The bank personnel keep regular visits to my place of business	12	84	34	52	18	200
f) The bank values my business	32	53	100	0	15	200
g) My relationship with this bank has transformed my business immensely	30	85	17	54	14	200
h) I am willing to continue doing business with this bank	49	84	50	0	17	200

Source: Author's field work, 2009

SA=Strongly Agree, A=Agree, U=Undecided, D= Disagree, SD=Strongly Disagree

From the above table, on the statement that the bank provides sufficient amount requested, number of respondents are 110 disagree, 50 undecided, 35 agree and 5 strongly agree. Another

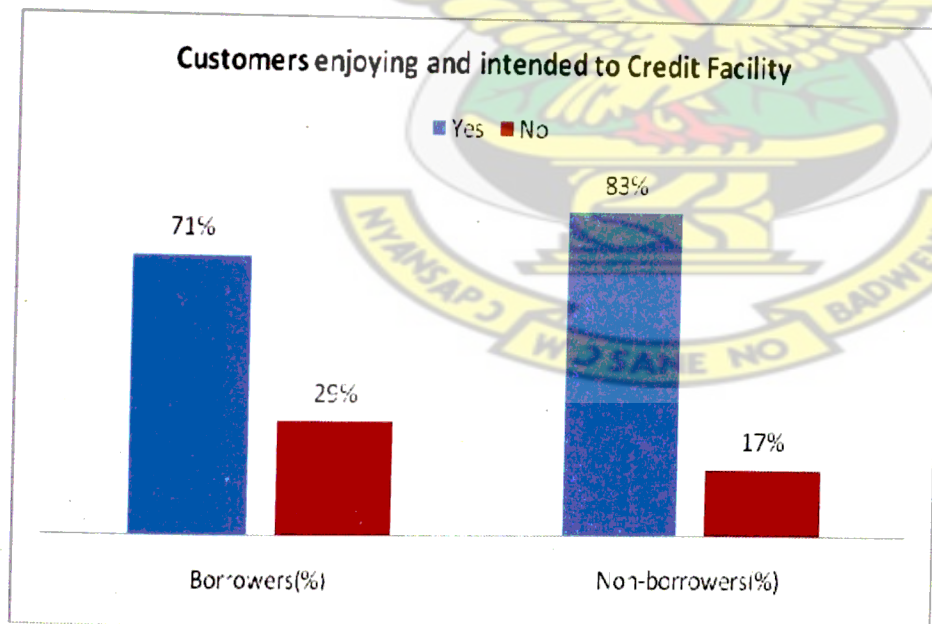
58 Disagree, 23 Undecided and only 1 Agrees. This is an area the bank should take good note of. On the whole, with the statement that customers are willing to continue to do business with the bank, 49 of the respondents Strongly Agree, 84 Agree, 50 Undecided and 17 Strongly Disagree but no one Disagree. With all the challenges facing SMEs in accessing credit from SBGL, they are still willing to continue doing business with the Stanbic Bank since in assessing the overall satisfaction of SME clients, those who agree to that intention far exceed that of those who do not.

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4.3.13 Intention of borrowers and Non-borrowers to credit facility

From the study, about 70% (140) borrowers and 30% (60) Non-borrowers were selected for the study.

Figure 4.2.14: Customers intention to enjoy credit facilities



Source: Author's field work, 2009

From the above bar graph about 71% (99) of borrowers still have the intention to enjoy credit with only 29% (41) of borrowers do not want to borrow any more. On the side of Non-

From the above bar graph about 71% (99) of borrowers still have the intention to enjoy credit with only 29% (41) of borrowers do not want to borrow any more. On the side of Non-borrowers, 83% (50) have intention and 17% (10) donot want to enjoy credit facility from the bank. Comparing both intentions of Borrowers and Non-borrowers to enjoy futher credit from the bank, it cleary shows that the SMEs really need finance because intentions of SME clients to borrow from the bank far exceed that of the no intention.

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CHAPTER FIVE

5.0 SUMMARY OF MAJOR FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The importance of the financial system in facilitating economic growth has long been accepted. The banks in particular have a key role to play in the efficient allocation of resources and analysis of credit risk that make rapid growth possible. Small and Micro Enterprise are said to be the 'engine of growth' of developing countries especially Ghana and therefore should be supported by the banks financially.

This chapter discusses the findings of the study with the aim of refusing or accepting some of the relevant literature reviewed in chapter two. The purpose of the discussion is to make meaning out of the data collected vis-à-vis the research problem at hand.

5.1.0 Summary of Major Findings

5.1.1 Profile of SBGL Personnel in SME Unit

- It was observed from the analysis of data of the study that, the majority of the staffs sampled were males. This shows that, there is gender inequality in terms of job placement in the banking especially at the credit departments, as more males are involved in the sales and monitoring of credit facilities extended to customers.
- Bank personnel were well experienced since none of them had less than one year working experience.

5.1.2 SBGL Financing Schemes for SMEs

- Segmentation of SME customers by the bank was based on turnover, number of permanent and non-permanent employees as well as the contribution of the SME business to the bank. This confirms the definition by Kayanula and Quartey, 2000, that SMEs are selected based on the number of employees and Total Turnover on Investments but levels of turnover as used are not the same.
- Major type of credit facilities provided by the bank to its SME clients are Loan, Overdraft and Other (example being guarantee and asset finance) in descending order. These are traditional products that have existed since inception of banks in Ghana. This is not in line with the Ghanaian Banker (2005) report that banks have been designing innovative products and reaching out to Small and Medium Enterprises.
- Factors considered by bank personnel with a weight of 80-100% in granting credit facility were basically Credit History (6), Business Registration (5), Collateral (4), Purpose of the Facility (4), Source of Repayment (4) and Business plan (1) in descending order of response.

5.1.3 Challenges of SBGL in financing SMEs

Challenges confronting the bank in financing SMEs were found to be the following:

- **High Default Rate** (33%), this in line with the notion of Levitsky, (2002) who identifies that Lending to small enterprises is perceived as being risky. The uncertainties that face a small industry; the high insolvency rate, the susceptibility to market change and to

economic fluctuations, make banks reluctant to deal with these clients. Non- payment, or even delayed payment, by a few major clients can cause the collapse of a small business.

- **Lack of Collateral** (22%). Lack of collateral has been a problem for SMEs. This finding supports the speech delivered by Mahama (2007) that micro and small-scale enterprise had the potential for accelerated growth and development and that relying solely on collateral security, which such firms do not have, would not help such enterprises and society.
- **Improper Record Keeping** (17%),
- **Poor Residential Address System** (11%),
- **Other** (11%) and
- **Industry Risk** (6%).

5.1.4 SBGL's credit monitoring tools

- In analysing the methods used in monitoring credit facilities extended to SME, it was found out that Regular Visits received much response with frequency of 7. Followed by account conduct which received a frequency of 5. In this, personnel made it clear that the most effective way to check their activities is to pay regular visits to them.
- In finding out the mechanisms used to grant credit with idea of eradicating possible default, it was found out that small facility size and short term facilities are effective (25% each) than other methods which are credit rationing and monitoring 17% each, collateral and credit scoring 8% each. Taking collateral for credit facility was not much considered in checking possible default. This means that even if there is collateral, customers can still fail to pay the loans. This confirms the report by OECD, 2006, that banks in most advanced countries are adopting strategies to reduce the risk of lending to SMEs. These

lending mechanisms enable banks to identify businesses likely to survive and expand, and with which it is worthwhile to develop a long-term relationship.

- In the analysis, rate of default was found to be Often which attracted 71% than Very Often which was 29%. There was no response for rare or not at all. This means that there is some amount of default but not at higher degree. These were attributed to reasons such as diversion of funds, improper monitoring of the business, client's debt obligation to other banks and other few.

5.2.0 SBGL Clients' profile

- ❖ Majority (83%) of SBGL's SME clients are males with economically active labour force of age group 30-39 (41%).
- ❖ SME customers have at least more than one year working experience. Majority (40%) of them had operated their businesses for 6-10 years. This conflicts with the notion put forward by Boachie et al., 2005 that, it has been estimated that over 60% of SMEs in Ghana fail within five years since majority of respondents have operated their business for 6-10 years.
- ❖ About 39% of these selected literate customers hold basic education being Middle School Leaving Certificate and Junior Secondary School (J.S.S) and few (19%) had Tertiary Education.
- ❖ Sole proprietorship type of business dominated with 74% with few being Limited Liability (12%) and Partnership (11%). This is in line with what Ayiglo, 2004 put forward that in Ghana, the 'informal sector' encompasses the sole proprietorships and micro enterprises with very little capitals or fixed assets if any at all.

- ❖ 85% of these SMEs are owned by indigenous people with 10% being foreigners.
- ❖ Most of these SME customers have Micro business since most of them (58%) have number of employees of up to 5. About 33% are Small (6-29), about 9% are Medium and none has a large business as per the classification of SMEs by National Board for Small Scale Industries (NBSSI) Ghana, 2002.

5.2.1 SBGL SME Financing Needs

Source of finance for these SMEs analysis will give evidence to the extent to which they have enjoyed credit facilities from the bank. On the whole self and bank finance featured most but it was noticed that self finance attracted the majority of respondents 90 (45%). With respondents using self finance, 40 (20%) finance about 81-100% without any outside source or even if any about 0-19%. The findings from this study is close to the findings from the study in the five selected African countries by Commonwealth Business Council (CBS) and the World Bank (WB), Report of the Workshop on investment climate in Africa, 2004 that firms are overwhelmingly self-financed which indicates a dearth of viable outside financing options. For instance, the study showed that, internal funds finance 87% of all new investments in Mozambique, 71% in Uganda and 67.5% in Tanzania. Tonova (2000) said that for all developing countries, savings and personal income were the most expected sources of funds. The above contributions support that there is wide financing gap for SMEs.

Again, with a total of 48 (24%) respondents receiving bank finance, none of them have enjoyed about 80-100% of bank finance. About 20 (10%) of the 200 (100%) SME respondents get about 41-60% finance from bank which is the majority contribution made by bank. The proportion is quite good but it is enjoyed by few customers. The deduction from above proportion confirms that the bank apply credit rationing method in their credit analysis. This position is supported by

Aryeetey (1995) that empirical evidence establishes that less than 15 percent of the population in developing countries, including Ghana, has access to the mainstream financial services.

5.2.2 SME's access to Credit from SBGL

- ❖ In analysing the purpose with which these SMEs take credit facility from the bank, majority of them 80 (40%) take facility to increase their stock and others 60 (30%) also use it to open up new branches.
- ❖ In analysing the challenges confronting SMEs in accessing credit facilities from the bank, majority of them 130 (60%) gave concern to lack of or inadequate collateral. The response forms more than 50%.
- ❖ Finding out the overall perception of these clients towards the activities of the bank. On the basis of analysing the various issues outlined, majority of respondents 118 (59%) said they strongly disagree with the idea that the bank organises workshops for them; about 110 (55%) respondents said the bank do not provide sufficient funds; 117 (59%) respondents cannot decide whether the banks' SME department is well set up or not. Finally, on a more positive note, finding out the decision of SME clients in continuing doing business with the bank, 84 (42%) respondents, which forms majority said they are willing to continue doing business with the bank.

5.3 Conclusion

The idea of improving upon the financing of SMEs by SBGL is not an end in itself but a means to address the challenges in financing these SMEs. Thus financing SMEs is a means for economic growth and development.

It is generally agreed that SME sector holds the key to rapid socio-economic development; our banks neglect this sector (Ghanaian Banker 2005). The idea of SBGL extending finance to its SMEs clients have been realised from the study that SMEs are still using their own funds and has resulted to small size of SME businesses which has then led to small number of people being employed and therefore affecting the economic growth and development of the nation.

From the study, the main source of finance for these SMEs is self finance and access to external funds, especially from the bank, is very low and even to a selected few. This is in line with the position of Aryeetey (1995) that Empirical evidence establishes that less than 15 percent of the population in developing countries, including Ghana, has access to the mainstream financial services.

The difficulty of these SMEs in getting finance from Stanbic bank has been found out mostly from the study to be lack of bankable collateral and credit risk associated with these SMEs.

With SBGL being currently ranked as the 1ST most profitable Company by Ghana Club 100 (2009 Report), the study clearly shows that its contributions to the society especially SMEs which have been considered as the engine of growth of the economy is less and they need to do more. Therefore, the recommendations below when considered in financing SMEs would ensure effective extension and management of credit facilities to SMEs in SBGL.

5.4 Recommendations

The following recommendations are put forward by the researcher based on the major findings and conclusion drawn from SBGL in financing SMEs:

5.4.1 Capacity Development for SMEs: The SME sector needs to be supported not only with credit support but through the provision of training. Banks, especially SBGL, and other institutions such as Non-Governmental (NGOs), can organise courses at a fee to the customers which will enable them to understand basic principles of business management in areas such as:

- ❖ Implication of default of credit facilities
- ❖ Proper record keeping
- ❖ Basic accounting principles
- ❖ Market Research

5.4.2 Government intervention: Government should create the enabling macroeconomic environment for both banks and the SMEs to thrive in their businesses which will in effect boost up the economy. This could be assisted by Bank of Ghana in exercising its legitimate role in bringing down high interest rate, inflation, fraud and others.

Government should also come out with policies that will capture all the various types of SMEs under one umbrella, that is, SME associations. For instance, all second-hand clothing sellers should register with an identity card. A typical example of such association is GPRTU. This should be enforceable so that it will enable monitoring and access to information about SMEs.

This will go a long way to assist banks to part funds to these SMEs, which according to Levitsky (2002) have been perceived to be very risky business.

Besides government should set up women empowerment fund just like GETFUND, since the study revealed that majority of the SME clients are males and females clients.

Finally, government should review the administration of Leasehold on property which has been vested in the hands of the traditional rulers especially in Ashanti region. This has been a big challenge to most property owners in having title to their property. A proper government department should be set up to see to the administration of lands and land title registration.

5.4.3 Product Development: These institutions are of small sizes and therefore there is the need for Stanbic bank and other banks to take advantage and design innovative products to meet the needs of these SMEs. They should develop and offer micro credit products based on local responsiveness, taken into consideration, the characteristics of the markets and the type of sector they belong; for instance, a package for traders should not be the same as for agriculturists. As part of the product development, the bank should take into consideration the facility size and tenor.

5.4.4 Credit assessment and analysis method: There is the need for the bank to come out with different credit assessment methods for each type of business. Mode of assessment should not be one for all the types since it will become monotonous and therefore create problem in the sense that one requirement cannot be met by the other. When considering the factors for granting

credit facilities to SMEs, it should be tailored along their operation. For instance, it was identified in the study that credit history of customers was considered most in credit assessment which will not be applicable to another who is a first time borrower. The bank staff mostly responded that the major criterion for assessment of credit for SME is credit history which in one way or the other could be a challenge to especially those who have not taken a facility before. Potential growth of SMEs should be the basis for credit facilities as suggested by some of the SME respondents. This could be done by using Business Plan and other market prospects.

5.4.5 Credit risk management: As part of providing innovative products to its client and also addressing the issue of high default rate, the bank can come out with group loan policy where some SME customers who it would have been difficult for them to get access to credit if they came individually due to their high risk profile could be made to form group or association. The bank will then grant credit facility to the members in the name of the association in the sense that when one fails to pay the other members in the group will be made to pay. This will enable members to monitor each other and will eradicate the high default rate which was has been challenge to the bank in its credit management.

5.4.6 Collateral requirement: Since collateral is a problem for these SME clients, the bank in securing the credit could introduce group collateral policy which will remove the need for bankable collateral. With group collateral policy, the bank will require that SMEs form associations or groups where members will serve as guarantors. Meaning they are all liable to each person's loan. 'We want to bank to stop taking part of our money as cash collateral since it reduces the amount of money extended to us' as suggested by some customers.

Again, the bank should introduce non-asset based lending in the sense that 'the bank should grant credit facilities without collateral'. With this, the bank could factor the risk level in the pricing of the credit by increasing the margin or risk of the credit.

Also there is the need for the bank to begin to accept personal guarantors in securing loans. Here, they can use prominent people in society to guarantee loans on behalf of SME customers who do not have bankable collateral with their assets.

5.4.7 Size of Credit Facility: Adequate loan facilities should be given to clients to prevent them from seeking for additional source of finance with its concomitants effects for example they become obliged to different creditors which also leads to 'the robbing Peter to pay Paul syndrome'.

5.4.8 Long-term Finance: SBGL should introduce medium to long term credit facilities to assist clients to have enough time to use the funds and also reduce the monthly repayments. When a large facility size is granted which will be repaid within short term for instance six months or one year, the monthly repayments become high for the clients to pay and therefore can result in high default rate.

5.4.9 Decentralise credit Administration: The Company should decentralise its system of administration and approval of credit facilities, where processing of even such small size of loans and overdrafts, need to be done in the very office where the transaction was effected rather than centralising approval of all credit facilities in the head office. Decentralizing credit facilities of especially small amounts at the branches will aid turn-around time and customers in emergency situations.

5.4.10 Suggestions to SMEs

- ✓ SMEs must keep good account
- ✓ Keep proper records of all their business activities
- ✓ Open bank account and consolidate all transactions through one account
- ✓ Seek the assistance of professionals (eg. Accountants) in designing regulatory reports.
- ✓ Learn more about their business
- ✓ Should not divert funds granted for different purposes
- ✓ Pay back credit facilities granted
- ✓ Make effort to separate themselves from their business affairs with regards to revenue and cost
- ✓ Make effort to register their property

5.5 Suggestions for further studies

Further studies should be conducted into areas such as:

- Corporate social responsibility of banks in communities they operate
- Introduction of micro financing in banks
- The impact of bank products on SME sector.
- Management of credit risk of SMEs by banks.

5.6 Chapter Conclusion

Literature continues to give credence to the notion that, in developing countries, like Ghana, SMEs sector is a primary engine of job creation. This continues to enjoy popularity among organizations, academicians and policy makers. It is in this direction that financial institutions in Ghana, like banks, should come out with a tailor made products to ensure the growth of this SME sector which will then lead to economic growth and development of these nations.

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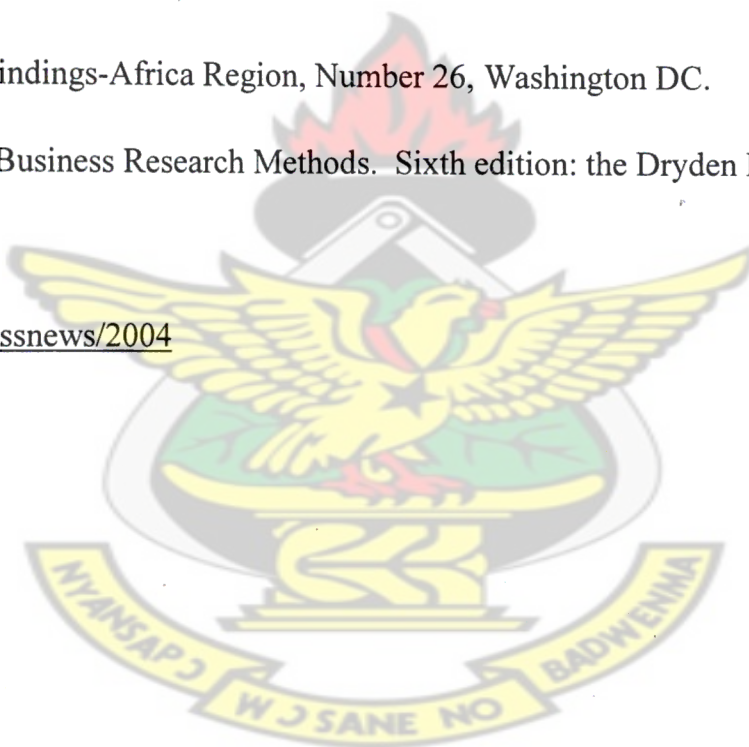
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Appendix 1

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

(KNUST SCHOOL OF BUSINESS)

This is a research being conducted in partial fulfilment of the requirement for the award of Master of Business Administration (MBA) on “**Assessment of Commercial Banks in Financing of SME’s in Ghana: A Case Study of Stanbic Bank Gh. Ltd**”. Respondents are assured of confidentiality and anonymity of the information provided since it is purely for academic purposes.

INSTRUCTION: *Please tick; insert 1, 2, 3... in order of importance where applicable and supply details where required.*

QUESTIONNAIRE FOR BANK STAFF

1. **Gender** a) Male ☐ b) Female ☐
2. **Status/Position**
3. **How long have you worked with this bank?** a) Less than 1yr ☐ b) 1-2 ☐
c) 3-4 yrs ☐ d) 5 yrs and above ☐
4. **How long has the bank been offering SME banking service?** a) 1yr ☐ b) 2yrs ☐
c) 3yrs ☐ d) since inception (specify yrs)..... ☐
4. **What criteria do you use in segmenting SME customers? Give qualification to one selected.** a) Type of business ☐ b) No. of employees ☐ c) Turnover ☐ d) Type of ownership ☐
e) Years in existence ☐ f) Credit history, ☐ g) Other..... ☐

Please offer explanation to your choice of answer with reference to question 4.

5. Which of these SMEs do you target most? a) General Trading ☐ b) Brewing and Bottling ☐ c) Educational Centres ☐ f) Building and Construction ☐
g) Other (Specify) ☐

- 6. Which of these credit facilities do you provide most to your SME customers?**

- a) Loans ☐ b) Overdraft ☐ c) Other (Specify) ☐

7. What is the registration status of your SME clients? a) Registered ☐ b) Not registered ☐

8. Assign the appropriate weight to the following as factors you consider when granting facilities to SMEs. Tick appropriately.

FACTOR	80-100%	60-79%	40-59%	20-39%	0-19%
a) Business registration document					
b) Cash flow					
c) Audited financials					
d) Collateral					
e) Business plan					
f) Credit history(character)					
g) Management experience					
h) Years in existence					
i) Source of Repayment					
j) Purpose of the facility					
k) Other(Specify)					

f) What are some of the challenges that confront the financing of SMEs in your bank? a) High default rate ☐ b) Lack of Adequate Collateral ☐ c) Industry Risk ☐ d) Poor record keeping ☐ e) Bad Credit History ☐ (f) Inexperienced Management ☐ g) Other (Specify) ☐

9. What mechanisms do you use effectively in granting credit facilities to check default?

a) Credit Rationing ☐ b) Credit scoring ☐ c) Small facility size ☐
d) Short-term loans ☐ e) Collateral ☐ f) Monitoring of client's business ☐

f) Other (Specify)

10. How often do you experience default on the part of SMEs?

- a) Very Often ☐ b) Often ☐ c) Rare ☐ d) Not at all ☐

11. What type of collateral do you accept most in securing the credit facilities?

- a) Land ☐ b) Insurance ☐ c) Receivables ☐ e) Landed property ☐
f) Stock of goods ☐ g) Guarantors ☐ h) Commercial paper ☐
i) Other (specify)..... ☐

12. What method do you use effectively in monitoring credit facilities?

- a) Regular visits ☐ b) Banker's Opinion ☐ c) Account Conduct ☐
d) Opinion from suppliers ☐ e) Stringent documentation ☐
e) Others (Specify) ☐

13. Do you think SMEs in Ghana are doing well in terms of banking operation?

- a) Yes ☐ b) No ☐

14. Are there any suggestions on what SMEs should do to enjoy credit facilities from banks?

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THANK YOU VERY MUCH FOR YOUR TIME AND COOPERATION

Appendix 2

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

(KNUST SCHOOL OF BUSINESS)

This is a research being conducted in partial fulfilment of the requirement for the award of Master of Business Administration (MBA) on “Assessment of Commercial Banks in Financing SMEs in Ghana: A Case Study of Stanbic Bank Gh. Ltd”. Respondents are assured of confidentiality and anonymity of the information they provide. You are further assured that any information you provide is purely for academic purposes.

INSTRUCTION: *Please tick; insert 1, 2, 3... in order of importance where applicable and supply details where required.*

QUESTIONNAIRE FOR SME CUSTOMERS

- 1. Gender** a) Male ☐ b) Female ☐
- 2. Age group** a) 18-29 yrs ☐ b) 30-39 yrs ☐ c) 40-49 yrs ☐
d) 50-59 yrs ☐ e) 60 and above ☐
- 3. Which category of SME business do you find yourself?**
- a) General Trading ☐ b) Agricultural ☐ c) Services ☐
d) Building and Construction ☐ e) Manufacturing ☐
e) Other (Specify) ☐
- 4. (i) What is the origin of ownership of your business?**
- a) Domestic ☐ b) Foreign ☐ c) Mixed origin ☐
- (ii) What is the type of ownership of your business?**
- a) Sole Proprietorship ☐ b) Joint Venture ☐ c) Partnership ☐
d) Other (Specify) ☐
- 5. For how long have you operated your business?**
- a) 0-1yr ☐ b) 2-5yrs ☐ c) 6-10yrs ☐ Above 10 yrs ☐

6. How many employees do you have in your business? a) 0-5 ☐ b) 6-29 ☐
c) 30- 99 ☐ d) 100 and above ☐

7. How long have you operated your account with this bank as an SME?

a) Less than 1yr ☐ b) 1-2 ☐ c) 3-4yrs ☐ d) 5 & above ☐

8. Have you ever applied and enjoyed credit facility from this bank?

a) Yes ☐ b) No ☐

9. Which of the following do consider as a challenge in accessing for a credit facility?

- a) Lack of collateral ☐ b) Low account turnover ☐ c) High interest rate ☐
d) Lengthy/Stringent application process ☐ e) Low Management Experience ☐
d) Lack of succession plan ☐ g) Improper book keeping ☐ h) Tenor of facility (Short / Long) ☐ i) Other (Specify) ☐

10. Show the extent to which you agree or disagree with the following statements. Use this key. Strongly Agree (SA), Agree (A), Undecided (U), Disagree (D), Strongly Disagree (SD). Tick in each space the most appropriate response.

STATEMENT	SA	A	U	D	SD
a) The bank provides sufficient amount requested					
b) The bank is able to provide products to meet all my financial needs					
c) The bank usually organize workshops for its SME clients					
d) The banks SME department is well set up					
e) The bank personnel keep regular visits to my place of business					
f) The bank values my business					
g) My relationship with this bank has transformed my business immensely					
h) I am willing to continue doing business with this bank					

11. What is your purpose using a credit facility?

- a) Open up new branch ☐ b) Increase stock / production levels ☐ c) Maintenance ☐ d) Marketing ☐ e) Research & Development ☐ f) Other, (specify) ☐

12. Do intend to go for a credit facility, even if you have facility now or not?

- a) Yes ☐ b) No ☐

13. Do you have any suggestions or recommendations on what the banks especially your bank can do to help in meeting the financing needs of SMEs in Ghana?

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THANK YOU VERY MUCH FOR YOUR TIME AND COOPERATION

