KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

THE CHALLENGES OF MICRO AND SMALL SCALE ENTERPRISES FINANCING IN THE HO MUNICIPALITY

BY

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CERTIFICATION

We the undersigned do hereby certify that with the exception of quoted statements and acknowledged ideas, this thesis is the original work of Ransford Kofi Kani carried out under the supervision of Mr Ametefee Korbla Normanyo. I further affirm that this work has never been previously published at any educational institution nor has it been presented elsewhere for the award of a degree or any other certificate.

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To my dear mother, Elizabeth Akua Brany for all her care and support.

ABSTRACT

The importance of MSEs in the development process of a developing country like Ghana cannot be over-emphasised. MSEs have been identified to have various advantages including the promotion of entrepreneurship and the use of labour-intensive technologies which have direct impact on employment generation. They can easily be established and put into operation to produce quicker returns and may well become the countervailing force against the economic power of larger enterprises. In general, MSEs are seen as accelerating the achievement of wider socio-economic objectives including poverty alleviation.

However, the ability of MSEs to grow depends highly on their ability to invest in viable start-up projects, restructuring/expansion and innovation. But these investments need capital and therefore access to institutional or external finance. It is therefore a highly important constraint that endangers the capability of MSEs to the economic growth of the country hence the consistency of the complaint regarding their lack of access to finance. High bank charges and tariffs have rendered banking services in Ho and Ghana in general very expensive. There is need therefore to identify and formulate policy measures that can help keep bank charges down and thereby encourage savings mobilization and financial deepening in the country.

This research work identifies reasons why MSEs still face the challenge of accessing credit, sources available to MSEs and Small Business Sector in general, eligibility and conditions for credit by lending institutions, recovery rate of credit facilities granted, reasons for default and also refusal of credit to MSEs, and assess their performances after they have received credit support. It also tries to identify measures that can be put in place to qualify MSEs access to finance and also policies that can help them grow and expand and can be active partner in the developmental process of the country.

The study found out that banks and MSEs specialized support institutions have given some priority in MSEs financing in the Ho Municipality but inadequate finance continues to be the major most ranked problem facing MSEs development in the Municipality.

In providing support, the concerns raised by the banks and other lending institutions as regards MSEs include fungibility of credit, unplanned expansion necessitating the application of shorter-term credits to fixed assets and high rate of default. It was observed that most of the banks surveyed placed strong emphasis on the inability of the MSEs to provide acceptable collateral and outright refusal to pay back. While banks attribute the rejection of credit application to absence of bankable projects, MSEs indicated that it was because they were not seen as having good collateral in addition to charging high interest rates and lenders insistence on shorter and inflexible loan repayment periods.

The sampled firms in this study had stronger demand for working capital than for investment finance because the banks and other MSE specialized support institutions are only willing to provide shorter term credit. Hence the best use to which the credit can be put is shorter term projects.

From the study it can be concluded that the financial liberalization and the institution of MSE credit programmes by themselves have not been sufficient to generate substantially more lending to the MSEs. With the decline in the return on government paper, reduction in liquidity reserves and increased competition and entry and growth of new banks have induced most banks to expand private sector lending to attract new customers.

There is need therefore for government and other stakeholders in the enterprise development sector to collaborate their efforts at diversifying the credit and business development support services sources for the MSE sector in Ghana.

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ABBREVIATIONS

MSEs	-	Micro and Small Enterprises
MSMEs	-	Micro, Small and Medium Scale Enterprises
NBSSI	-	National Board for Small Scale Industries
SMEs	-	Small and Medium Enterprises
AGI	-	Association of Ghanaian Industries
PAMSCAD	-	Programme of Action to Mitigate the Social Cost of Adjustment
TTC	-	Technology Transfer Centre
STEP	-	Skills Training and Employable Project
CSIR	-	Council for Scientific and Industrial Research
UNDP	-	United Nations Development Programme
IDA	-	International Development Association
MASLOC	-	Micro and Small Loan Scheme
FNGOs	-	Financial Non-governmental Organisation
ROSCAS	-	Rotation and Accumulating Savings
MFIs	-	Microfinance Institutions
NGOs	-	Non-Governmental Organisations
NBFIs	-	Non-Banking Financial Institutions
ADRA	-	Adventist Relief Agency
ARB/Apex	-	Association of Rural Banks Apex Bank
ASCAs	-	Accumulating Savings and Credit Associations
ASSFIN	-	Association of Financial Non-Governmental Organizations
ASSIP	-	Agricultural Services Investment Project
BoG	-	Bank of Ghana
CBRDP	-	Community Based Rural Development Programme
CUA	-	Credit Unions Association
ERP	-	Economic Recovery Programme
ESRP	-	Emergency Social Relief Programme
FINSSP	-	Financial Sector Strategic Plan
FNGO	-	Financial Non-Governmental Organizations
GCSCA -	-	Ghana Cooperative Susu Collectors Association
GDP	-	Gross Domestic Product
GHAMFIN	-	Ghana Microfinance Institutions Network
GHAMP	-	Ghana Microfinance Policy
GOG	-	Government of Ghana
GPRS	-	Growth and Poverty Reduction Strategy
IFAD	-	International Fund for Agricultural Development
MASLOC	-	Microfinance and Small Loans Centre
MDGs	-	Millennium Development Goals
MDA	-	Ministries Departments and Agencies
MFI	-	Microfinance Institutions
MMDA	-	Metropolitan, Municipal and District Assemblies
MOFEP	-	Ministry of Finance and Economic Planning
MOWAC	-	Ministry of Women and Children's Affairs
MSE	-	Micro and Small Enterprises

NGOs	-	Non-Governmental Organizations
NSF	-	National Strategic Framework
PAF	-	Poverty Alleviation Fund
RCBs	-	Rural and Community Banks
REP	-	Rural Enterprise Project
RFSP	-	Rural Financial Services Project
RMFIs	-	Rural Microfinance Institutions
ROSCAs	-	Rotating Savings and Credit Associations
SIF	-	Social Investment Fund
TSPs	-	Technical Service Providers
UNDP	-	United Nations Development Programme
VIP	-	Village Infrastructure Project
NTRB	-	North Tongu Rural Bank Ltd.
UTFS	-	UT Financial Services Ltd.
URB	-	Unity Rural Bank Ltd.
SG-SSB	-	SG-SSB Ltd.
EPDRA	-	Evangelical Presbyterian Development Relief Agency
GFS	-	Ghana Financial Services Ltd.
ASSI	-	Association of Small Scale Industries

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND

Given their locational flexibility, low requirements of capital, training and technology, and labour intensive nature, micro and small enterprises (MSEs) are increasingly recognised as effective instruments not only of poverty alleviation, broad-based development and job creation (hence more equitable income distribution) but also of rapid economic growth and structural transformation.

Micro, small, and medium-size enterprises (MSMEs) are businesses that may be defined by the number of employees. There is no international standard definition of firm size; however, the World Development Indicators Database defined MSMEs using the following size categories: micro enterprises have 0-9 employees, small enterprises have 10-49 employees, and medium-size enterprises have 50-249 employees.

Micro and Small Scale Enterprises (MSEs), according to the National Board for Small Scale Industries (NBSSI), are defined as those enterprises employing about twenty- nine (29) or fewer employees.

Micro Enterprises are those that employ between one to five (1-5) workers or with fixed assets of value not exceeding Two Thousand Five Hundred Ghana Cedis (GH ¢ 2,500) excluding land and buildings.

Small Scale Enterprises thus employ between Six- to-Twenty- Nine (6-29) or have fixed assets of value not exceeding Twenty Five Thousand Ghana Cedis (GH¢ 25,000) excluding land and building (NBSSI, 1998).

Micro and Small Enterprises (MSEs) rely on the informal banking system, non banking financial institutions, government and non governmental agencies, informal financial systems and own sources for the provision of finance for their operations.

Government acknowledges that due to its inherent characteristics, the Micro and Small Enterprises sector can contribute greatly to reducing the high poverty, unemployment and to generate substantially the growth of the economy of Ghana within an enabling policy environment.

Some of the economic and social benefits of micro and small enterprises include:

- Creation of jobs at relatively low capital cost, that is 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 enterprises for divestiture
- Improvement of forward and backward linkages between different sectors of the economy and acting as auxiliaries to large scale enterprise
- Provision of opportunities for developing and adopting appropriate technologies
- Offering breeding ground for entrepreneurial and managerial talents and thereby providing a pool of skilled and semi-skilled labour
- Application of time tested indigenous technologies
- Utilization of local raw materials
- Flexible adaptation to market fluctuations
- Lending themselves to development policies that favour decentralization and rural development
- Increasing savings and investments by local entrepreneurs.

1.2 RESEARCH PROBLEM

In 1998, the government of Ghana embarked on a Financial Sector Reform Programme (FINSAP) with overall goal of an improved deposit mobilization and efficiency of credit allocation. Policy Measures implemented under FINSAP were expected to increase the supply of loanable funds and in essence increase accessibility of credit to the MSEs hitherto marginalized by previous financial regimes. The implementation of FINSAP has seen a drastic reduction in government borrowing from the banking system in the form of treasury bills and notes and an increase in the number of financial institutions with innovations and high level of competition among key players in the financial sector of the economy. However, the gains made by the financial reforms in the area of deposit mobilization and credit allocation have largely eluded the MSEs which were the target of the reforms. Many MSEs therefore continued to rely on Micro Finance Institutions (MFIs), own savings, retained earnings and support from friends and families to develop and grow their businesses.

The major constraints therefore to MSE financing are the high administrative costs of small-scale lending, asymmetric information, the high risk attributed to small firms, and their lack of collateral.

The research problem therefore is to examine why access to finance is still one of the major problems facing MSEs even though the banks currently have reserves of loanable funds. This problem was recently confirmed by the Ghana Association of Industries (AGI) under World Economic Forum (WEF) Executive opinion survey. The report indicated that businesses continue to face difficulties in obtaining credit, where access to financing was the highest ranked problem.

1.3 OBJECTIVES

The main objectives of the study are:

- To identify Sources of funding for MSEs and the levels of financial assistance sought and actually granted in the Ho Municipality
- To identify the general eligibility and conditions set by identified institutions that provide financial services to MSEs
- To identify the reasons for and rates of default, and also reasons for refusal of credit to MSEs.
- To identify challenges MSEs face in accessing institutional credits and those of the financial institutions in providing credit to MSEs.
- To examine why access to credit continue to be a challenge to businesses and make possible recommendations to improve MSEs access to institutional credit in Ghana.

1.4 HYPOTHESIS

Based primarily on the problems and objectives stated above, the study was an attempt to verify the following main hypothesis:

- The extent to which access to finance is still a major constraint to the growth and development of MSEs depends largely on the perceptions the formal financial institutions have about the Micro and Small Enterprises and their mode of operations as being highly risky and incur high transaction cost when servicing them.

- Access to adequate and flexible institutional credits is a key element to the development of the Micro and Small-Scale enterprises sector in developing and transitional economies.

1.5 JUSTIFICATION FOR THE STUDY

In Ghana, and other developing and transitional economies lack of access and inadequate finance is believed to be the single most ranked constraint for the development of the MSEs sector. This constraint, it has been argued was exacerbated by the repressive policies, which until 1998 when the financial system liberalization was pursued.

Unfortunately, there has been no indication that financing has improved for the MSEs after the financial sector reforms which was to remove policy induced distortions, promote financial saving mobilization and make the formal financial institutions more receptive to the credit needs of enterprises which were hitherto marginalized by the repressive policies. Many other governmental interventions to improve the competitiveness of MSEs including the establishment of NB,SSI as a government apex body charged with the responsibility of promoting and developing the MSEs sector, institution of GRATIS and its network of ITTUs in all regional capital and some selected districts as focal points for technology transfer to the MSE sector and the institution of financial programmmes to improve MSEs access to credit such as the PAMSCAD credit line, Revolving credit line, Business Assistance fund, MOWAC fund, STEP and MASLOS have been pursued. All these policies and programmes notwithstanding, there is evidence to suggest that MSEs are still being denied credit or where it is given it is wholly inadequate compared to their credit needs.

According to Aryeetey et al (1994) in implementing reforms banks centralized credit analysis, decision making and loan supervision and maintained their insistence on landed property as collateral although the financial sector reforms was to lead to the relaxation of regulations that promote competition in the banking industry to improve the operational efficiency and financial intermediation.

This study tried to investigate the extent to which the MSEs have been able to access credit from banks and MSEs support institutions and reasons for their inability to be granted the required credit they want.

The study was also expected to examine the extent to which finance promotes MSEs development and determine the factors that inhibit their operations.

Again, the study was to identify how policies towards the promotion and development of MSEs are implemented and possibly what the implementation constraints are.

To also serve as a basis for further research into the operations of MSEs activities in the country.

To come out with some recommendations that will guide future financing policies for MSEs and entrepreneurs in their investment decisions.

1.6 SCOPE OF RESEARCH

The study was undertaken in the Ho Municipality due to its suitability for the research objectives and also for the fact that it remains the only district in the Volta region where most of the major financial institutions in the country have operationalised their services.

The data was collected from both primary and secondary sources. The primary data was obtained by administering structured questionnaires to banking and other institutions that provide some financial services to MSEs and some selected micro and small scale enterprises.

Secondary data was obtained from Bank of Ghana Bulletins and Annual Reports, articles, National Board for Small Scale Industries, Private Enterprise Foundation EMPRETEC Ghana, Apex Bank, textbooks, and reviews of some past study on Micro, Small and Medium-Scale Enterprises.

Simple random purposive sampling and cross sectional data were employed .Seventy-five (75) MSEs were drawn from various sectors of the Economy and Eighteen (18) banking and MSEs specialized institutions were sampled. But Fifty-two (52) MSEs and Nine (9) lending institutions responded.

Data Analysis was basically descriptive and qualitative and employed the use of simple statistical techniques like tables, graphs, and charts.

1.7 LIMITATIONS OF THE STUDY

The researcher encountered a number of problems, which include:

The lack of cooperation and willingness on the part of respondents particularly the banks to answer the questionnaires and on time was a major set back on the research. In other words, the general apathy of both MSEs and Financial Institutions in divulging information on their operations for fear of competition is perhaps the greatest constraint. Additionally, logistical and time constraints limited the study from the originally proposed One Hundred MSE operators to Seventy-Five (75) out of which Fifty-two (52) of them responded. Also instead of Eighteen (18) banks and specialized MSE lending and support institutions targeted initially, Fourteen (14) were administered with questionnaires and only nine (9) responded.

1.8 ORGANISATION OF THE STUDY

The study is organized in five chapters.

Chapter one contains the introduction, background of the study, statement of the problem, research objectives, research hypothesis, justification of the study, scope of research, limitations of the study and the organization of the study.

Chapter two covers literature review of secondary data on MSEs financing policies.

Chapter three comprises of the methodology to be used in the study.

Chapter four is made up of results of the study and the interpretations of its findings.

Chapter five is made up of a summary of findings, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

Micro, small and medium enterprises are frequently hailed as the backbone of the economy. There is widespread consensus on their significant contribution to economic growth, employment creation, social cohesion, poverty alleviation and local and regional development. However, a lack of formal credit often hinders small firms from developing their potential. The credit limitation of small enterprises is mainly due to the high administrative costs of small-scale lending, asymmetric information, the high risk attributed to small firms, and their lack of collateral. The fact that small enterprises often receive less finance or face worse conditions than larger firms can put them at a competitive disadvantage and could seriously affect their long-term growth and development through under-investment, a waste of entrepreneurial resources, a reduction of productivity and a lower growth rate.

2.2 DEFINITION OF MSMEs

Micro, small, and medium-size enterprises (MSMEs) are business that may be defined by the number of employees. For the sake of simplicity, the terms "small firms", "small enterprises" and "small businesses" will be used to encompass the categories of micro, small and medium enterprises.

There is no international standard definition of firm size; however, the World Development Indicators Database defined MSMEs using the following size categories: micro enterprises have 0-9 employees; small enterprises have 10-49 employees, and medium-size enterprise s have 50-249 employees.

On 6 May 2003 the European Commission adopted a new Recommendation 2003/361/EC regarding the MSME definition which replaced Recommendation 96/280/EC as from 1 January 2005. This definition of micro, small and medium-sized enterprises was updated to take account of economic developments since 1996 (inflation and productivity growth) and the practical lessons learnt. The new definition thus qualifies small and medium-sized enterprises (SMEs) and the concept of the micro enterprise. It strengthens the efficiency of the Community programmes and policies designed for these businesses.

Micro, small and medium-sized enterprises are defined according to their staff headcount and turnover or annual balance-sheet total. A medium-sized enterprise is defined as an enterprise which employs fewer than 250 persons and whose annual turnover does not exceed EUR 50 million or whose annual balance-sheet total does not exceed EUR 43 million.

A Small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million.

A Micro enterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million.

In Ghana, according to the National Board for Small Scale Industries, Micro Enterprises are those that employ between one to five (1-5) workers or with fixed assets of value not exceeding Two Thousand Five Hundred Ghana Cedis (GH ¢ 2,500) excluding land and buildings.

Small Scale Enterprises thus employ between Six- to-Twenty- Nine (6-29) or have fixed assets of value not exceeding Twenty Five Thousand Ghana Cedis (GH¢ 25,000) excluding land and building (National Board for Small Scale Industries-NBSSI, 1998).

2.3 SMALL ENTERPRISES AND THEIR ACCESS TO FINANCE

Although there is wide debate about the exact role of small enterprises in driving economic change, most experts in the sector agree that due to their flexibility, their innovative capacities and their role in strengthening competition and social cohesion, small firms perform vital productivity- and growth-enhancing functions in the economy. In order to make use of their potential, these firms need to be provided with an enabling environment, which encompasses the access to capital. However, one of the greatest obstacles to the entry, development and growth of small firms in industrialized and emerging economies is access to formal finance. Depending on their size and environment, enterprises see access to formal finance as more or less challenging. Whereas young and small firms are usually deprived of credit in all surroundings, medium enterprises in industrialized countries are likely to suffer from an insufficient volume of credit or unsatisfactory conditions. Their counterparts in developing and emerging economies may, however, be disadvantaged both in access to credit and in the terms of loans. Compared with larger enterprises, small firms are restricted in their access to commercial bank and government funds although the latter play only a marginal role for them. As a consequence of their disadvantaged status, small and, to a lesser degree medium enterprises, seek recourse to short-term informal finance.

The larger the firm, the easier is access to bank credit and the better are the loan conditions it receives. Loans to large customers are encouraged by banks through employee incentive schemes, which are often based on the amount of credit granted. Additionally, the vast array of alternatives to domestic bank loans available to large firms, e.g. recourse to capital or international financial markets, augments their bargaining power at the time of negotiating a loan contract. In contrast to large firms, small enterprises are often unable to cover their financing needs.
The fact that small businesses receive less finance or face worse conditions than larger firms puts them at a competitive disadvantage. Without sufficient long-term finance, small firms are unable to expand their businesses and to introduce productivity enhancing technology. This will have adverse consequences for the competitiveness of the sector and the economy as a whole.

In developing countries, the financing problems of small enterprises are exacerbated. Whereas domestic credit to the private sector exceeded GDP by far in countries such as Germany (118.2%), the United Kingdom (123.4%) and the United States (145.3%), it represented only 26% in India and was as low as 5.9% in Uganda or 2.1% in Sierra Leone (World Bank, 2001). According to Pombo and Herrero (2001) up to 80% of investment demand by SMEs remains unsatisfied in some Latin American and African countries. For micro enterprises, this figure rises to 95%.

The limited access of small enterprises to formal credit in developing and emerging economies is largely due to the relatively underdeveloped nature of the financial system, the lack of liquidity, and inexperience in small-scale lending in many of these countries.

Bank branches outside the capital cities frequently provide only cash and do not have the authority to make loans, leaving small enterprises in rural areas unproportionally disadvantaged. If commercial banks do extend credit to small firms, it may take up to several months to process applications.

2.4 DISINCENTIVES TO MICRO AND SMALL-SCALE LENDING

The formal financial sector (banks) advance four main reasons for their reluctance to extend credit to small enterprises and these are high administrative costs of small-scale lending, Asymmetric information, High risk perception and Lack of collateral. Although the reasons apply to industrial as well as developing and emerging economies, they tend to be more significant in the latter.

2.4.1 High Administrative Costs of Small-Scale Lending

Since most of the administrative costs of lending are fixed, i.e. independent of the size of the administered loan, economies of scale arise: the larger the loan, the lower the per unit costs of extending credit. Furthermore, administrative costs also include information gathering costs, e.g. visiting borrowers, analysing their applications and monitoring their loans. For a number of reasons, these costs tend to be higher for small than for large firms. Small enterprises are often located away from the main urban centres, their accounting skills and standards are usually lower, and banks lack experience in servicing them. In the case of developing and emerging economies, these difficulties, and therefore the costs involved, are multiple. Transaction costs for servicing small firms not yet integrated into the formal financial market rise to a multiple. This implies that the margin over cost of funds (i.e. the interest rate) must be at least as high, even without accounting for loan losses.

2.4.2 Asymmetric Information

A prerequisite for the efficient allocation of resources by market forces is that all participants share the same relevant information. This is not the case in financial markets. Borrowers will always know more about the viability of their projects and their ability and willingness to repay than lenders. The lender is thus faced with uncertainty both with respect to the expected rates of return of the project he is financing and with respect to the integrity of the borrower. This uncertainty increases with the length of the loan.

Borrowers face difficulties in transmitting information about their projects to lenders, as lenders will suspect them of underestimating the risks of failure. The problem of asymmetric information will be more acute for small businesses than for larger ones because of lower information standards and the greater variability of risk: small, privately owned firms face no legal reporting requirements and are more vulnerable than large firms.

Due to asymmetric information, it is impossible to accurately distinguish between "good" and "bad" borrowers. The two main problems associated with asymmetric information are adverse selection and moral hazard, both of which may affect the quality of the loan. Adverse selection refers to the fact that the probability of default is increasing with the interest rate: the quality of the borrower pool worsens as the cost of borrowing rises. A higher interest rate will attract risky borrowers and drive out good borrowers for two reasons. Firstly, worse risks are willing to borrow at higher interest rates, because they know that their repayment probability is low. Secondly, if riskier projects are associated with higher returns, a rise in the interest rate will drive out low-risk projects as borrowers try to compensate for the higher cost of the loan by earning a higher return with a risky project. An optimal interest rate may therefore exist, beyond which additional loans are not made available despite excess demand. Consequently, a backward-bending credit supply curve and equilibrium credit rationing will exist because raising the interest rate above the optimal level would lower banks' profits as the amount of risky projects in their portfolio rises (Stiglitz & Weiss, 1981). Small firms are more likely to be rationed because they are seen as particularly risky. Although they might be willing to pay more to compensate for this additional risk, the banks will refuse to raise the interest rate sufficiently to equate supply and demand.

2.4.3 High Risk Perception

Commercial banks tend to impute a high risk to small enterprises and are therefore reluctant to extend credit to them. Due to their small size and inherent vulnerability to market fluctuations, the mortality rates of small enterprises are relatively high. These firms are, by their very nature, often relatively young and consequently lack a financial history and a track-record of profitable projects. In addition, organizational and administrative deficiencies, lower quality management and a lack of appropriate accounting systems may compromise the accessibility and reliability of information from small firms on their repayment capacity. Also, small loans to industry are often classified as personal loans. Banks therefore may lack concrete figures of how profitable loans to small enterprises are and what costs they entail. Finally, the relative labour-intensity of small firms implies a high debt-to-asset ratio if loans are made. The associated vulnerability and lack of sufficient and adequate collateral further limits the amount of finance that banks are willing to grant them.

In developing and emerging economies, the disadvantage of small firms with regard to risk-perception is aggravated by a number of factors. Many small enterprises have evolved in the informal economy, making it difficult for them to document their business history and demonstrate their economic potential. Additionally, small entrepreneurs in emerging economies are typically less skilled in book-keeping, marketing and management than their counterparts in industrial countries, adding to the risk perception with regard to their projects. This is exacerbated by inadequate legal frameworks which make the enforcement of contracts difficult for lenders.

2.4.4 Lack of Collateral

Under first-best conditions, the net present value of a firm's profit stream should determine the amount of credit it receives. However, due to the existence of asymmetric information, banks base their lending decisions on the amount of collateral available. Collateral acts as a screening device and reduces the risk of lending for commercial banks. Accordingly, Banks demand collateral for two major reasons. First, they want to limit their losses in the case of default. Second, by demanding collateral they solve problems of asymmetric information between them and the debtor.

Three problems of asymmetric information exist: adverse selection, ex ante moral hazard and strategic default (or ex post moral hazard).

Adverse selection is caused by superior information which the debtor has about its own creditworthiness, or more technically its risk type, as compared to the bank. The bank can offer a separating contract in order to solve the adverse selection problem: one contract stipulates a high interest rate but a low degree of collateralization, the other contract a low interest rate but a high degree of collateralization. Low risk firms opt for a high degree of collateralization because the probability that they cannot repay and lose their collateral is low.

In contrast, the high risk type prefers to pay higher interest rates. Thereby, the firms reveal their type (Bester, 1985; Chan and Kanatas, 1987; Boot and Thakor, 1987a, b).

Ex ante moral hazard arises because the bank cannot observe the effort level exerted by the debtor after the loan is repaid or the way he spends the loan. By demanding collateral, the debtor has a lower payoff if he cannot repay. Thus, the difference between the payoffs in the case of success and failure (also called the difference in state-contingent payoffs) increases and provides a better incentive to exert effort or to invest the loan as proposed by the credit contract (Bester, 1987; Chan and Thakor, 1987; Boot and Thakor, 1994; Holmström, 1996).

Strategic default happens after the payoff of the investment realizes if the debtor decides not to repay although the project generated a sufficiently high return. When the debtor gets only a much lower payoff in the case of default, its incentive to strategically default is reduced (Bester, 1994).

But collateralization is not the only means to solve problems of asymmetric information.

Screening and monitoring are alternative means to solve problems of adverse selection and moral hazard, respectively. Collateralization of loans is more likely than screening if banking is competitive, either because firms chose collateralization to minimize their costs of funding (Manove, Pagano, and Padilla, 2001) or banks demand collateral more often in order to make profits (Hainz, 2006), cure existing inefficiencies (Inderst and Müller, 2006), or overcome barriers to entry that are caused by asymmetric information between banks (Sengupta, 2006).

Competition also influences the amount of collateral demanded. In the case of moral hazard, banks use collateralization to extract rents from the firms if banking is not perfectly competitive (Hainz, 2003). Thus, the lack of competition would increase the incentive to collateralize.

In the case of collateralization, what counts is that the debtor is punished by losing its assets if he does not repay. This means that he should get a payoff as low as possible if he defaults.

The lower his payoff in the case of default, the better is his incentive to exert effort in the case of ex ante moral hazard and the lower his incentive for strategic default.

Suppose first that the debtor is a limited-liability firm and the bank has recourse only to the asset of the firm. The firm will lose all its assets if it does not repay. Therefore the firm's assets are also called inside collateral. If the difference between the payoffs in the case of success and failure is not high enough, it is not possible to solve the incentive problem.

Suppose second that the firm is owned by the manager. Then the bank does not only get the liquidation value of the firm's (inside) assets. The manager privately owns assets as well.

These assets could also be pledged as collateral when collateral is determined. The manager's assets pledged as collateral are called outside collateral because they do not belong to the firm. In the case of default, the bank has recourse to the outside assets as well. When outside collateral is pledged the owner-manager loses more, i.e. gets an even lower payoff, if he cannot repay (Klapper 2001).

When considering the economic effects of collateralization, it is important to clarify the role of default and its consequences. If a debtor does not repay, the bank as creditor has access to the firm's assets (by getting a title – in German vollstreckbarer Titel) or filing a petition to have a defaulting firm declared bankruptcy. This right extends to all assets of the firm. What matters for the bank when it wants to limit its losses is the liquidation value of the assets and the share it gets from the liquidation value.

2.5 FINANCIAL SECTOR LIBERALIZATION

Financial liberalization is expected to result in the reallocation of domestic credit towards smaller enterprises, and the substitution of more expensive forms of credit for cheaper ones. Moreover, while nominal and real interest rises are anticipated, real returns are expected to outweigh this burden. It is also argued that the process of transferring from an administrative process of credit allocation to a market based mechanism will not only improve the access to credit for smaller local enterprises, but will also lower the transactions costs associated with borrowing. Further, in cases where highly subsidized export credit schemes exist for larger enterprises, financial liberalization can be expected to remove this bias.

Questions have been raised in the developing country context over these predictions. Taylor (1988) argues that financial liberalization will not result in more funds for borrowing being available. As interest rates rise funds available will be diverted out of the informal sector to the formal sector. An increased share of borrowing will take place in the formal financial sector but the total available funds between the two sectors will remain unchanged. The net result in a macro sense means there will be no new borrowing and this contradicts the McKinnon-Shaw hypothesis that argues that financial liberalization, by increasing interest rates, leads to higher savings, investment and growth. Unfortunately, the desired effects have not always materialized in the way that policy prescriptions envisaged. As Steel (1994) highlights, high transactions costs and risks associated with small loans, a lack of collateral and an historical orientation towards larger enterprises, continue to restrict small scale enterprise access to formal credit.

The case of Ghana shows that despite financial sector reform, the strengthening of banking capabilities and the introduction of numerous financial instruments, such as the stock exchange, a venture capital company and business assistance funds, access to institutional credit for working capital and equipment continued to be a major constraint to small enterprise development (Steel and Webster, 1992). Even where demand for small scale enterprise products appeared strong, a lack of credit meant that many small enterprises did not have the capacity to respond and expand production. Interest rates of 30 per cent or more, high transactions costs and an administration and culture unfriendly to small scale enterprises contributed to the problem (Boeh-Ocansey, 1995). The Ghana study by Osei *et al* (1993) cites similar evidence; 95 per cent of the respondents depended solely on personal resources and loans from relatives and friends.

Dawson's (1993) work in Ghana and Tanzania also confirms these findings; of the 672 small scale enterprises in the Ghana study only two had received a bank loan and in Tanzania the formal banking system was seen to be out of reach for almost all small enterprises. The World Bank reported that around 90 per cent of small enterprises surveyed indicated that access to credit was a major constraint to new investment (World Bank, 1994).

Kariuki's (1995) study of bank credit access in Kenya illustrates this point further. A survey of 89 small and medium-scale firms in manufacturing and service industries, combined with secondary information from commercial banks, found that from 1985 to 1990 the average real volume of credit for the sample firms fell, except for the year 1986 which showed a marginal increase of 1.5 per cent. Several deterrents to utilizing formal credit were identified. Small scale borrowers were found to be faced with higher nominal interest rates at higher inflation rates in the latter half of the 1980s. Moreover, the explicit transactions costs of borrowing were found to be high in relation to interest costs. The cases of Bangladesh, Nepal and the Philippines appear to support these claims (Meier and Pilgrim, 1994). Despite specific programmes aimed at small scale enterprises, only between 12 per cent and 33 per cent of those surveyed were found to have access to formal credit and, of those, the majority were from the larger end of the sector. Again, factors such as the relatively high cost of processing small loans, the need for high collateral and bureaucratic procedures were seen to restrict lending to small scale enterprises. The taxation policies which were also examined were found to have little impact on small scale enterprises, particularly as many of those surveyed were found not to be paying taxes.

Similar evidence regarding the lack of importance given by small scale enterprises to tax policies is also found in Southern Africa, including Niger, Botswana, Swaziland, Lesotho, Malawi, and Zimbabwe (Mead, 1994). Studies for these locations found little concern for government regulations, except from those enterprises concentrated in targeted locations and specific sectors such as food processing. Instead the greatest concern for the majority of those surveyed was the lack of access to working capital, credit and finance.

2.6 MICRO AND SMALL SCALE FINANCING INSTITUTIONS IN GHANA

Indeed, the concept of microfinance is not new in Ghana. There has always been the tradition of people saving and/or taking small loans from individuals and groups within the context of self-help to start businesses or farming ventures.

For example, available evidence suggests that the first credit union in Africa was established in Northern Ghana in 1955 by Canadian Catholic missionaries.

However, Susu, which is one of the microfinance schemes in Ghana, is thought to have originated from Nigeria and spread to Ghana in the early twentieth century.

Over the years, the microfinance sector has thrived and evolved into its current state thanks to various financial sector policies and programmes undertaken by different governments since independence. Among these are:

- Provision of subsidized credits in the 1950s;

- Establishment of the Agricultural Development Bank in 1965 specifically to address the financial needs of the fisheries and agricultural sector;
- Establishment of Rural and Community Banks (RCBs), and the introduction of regulations such as commercial banks being required to set aside 20% of total portfolio, to promote lending to agriculture and small scale industries in the 1970s and early 1980s;
- Shifting from a restrictive financial sector regime to a liberalized regime in 1986;
- Promulgation of PNDC Law 328 in 1991 to allow the establishment of different categories of non-bank financial institutions, including savings and loans companies, and credit unions.

The policies have led to the emergence of three broad categories of microfinance institutions. These are:

- Formal suppliers such as savings and loans companies, rural and community banks, as well as some development and commercial banks;
- Semi-formal suppliers such as credit unions, financial non-governmental organizations (FNGOs), and cooperatives;
- Informal suppliers such as susu collectors and clubs, rotating and accumulating savings and credit associations (ASCAs), traders, moneylenders and other individuals.

In terms of the regulatory framework, rural and community banks are regulated under the Banking Act 2004 (Act 673), while the Savings and Loans Companies are currently regulated under the Non-Bank Financial Institutions (NBFI) Law 1993 (PNDCL 328).

On the other hand, the regulatory framework for credit unions is now being prepared, and this would recognize their dual nature as cooperatives and financial institutions. The rest of the players such as FNGOs, ROSCAS, and ASCAs do not have legal and regulatory frameworks.

Programmes currently addressing the sub-sector in Ghana include the Financial Sector Improvement Project, Financial Sector Strategic Plan (FINSSP), the Rural Financial Services Project (RFSP), the United Nations Development Programme (UNDP) Microfinance Project, the Social Investment Fund (SIF), the Community Based Rural Development Programme (CBRDP), Rural Enterprise Project (REP), and Agricultural Services Investment Project (ASSIP).

2.6.1 Microfinance and Microenterprises Development

Microfinance encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients (International Year of Microcredit, United Nations, 2005). It includes loans, savings, insurance, transfer services and other financial products and services. Microfinance is thus one of the critical dimensions of the broad range of financial tools for the poor, and its increasing role in development has emanated from a number of key factors that include (New York, United Nations, 2000):

- The fact that the poor need access to productive resources, with financial services being a key resource, if they are to be able to improve their conditions of life;

- The realization that the poor have the capacity to use loans effectively for income-generation, to save and re-pay loans;
- The observation that the formal financial sector has provided very little or no services to low-income people, creating a high demand for credit and savings services amongst the poor;
- The view that microfinance is viable and can become sustainable and achieve full cost recovery;

Studies have shown that micro-finance plays three broad roles in development:

- It helps very poor households meet basic needs and protects against risks,
- It is associated with improvements in household economic welfare,
- It helps to empower women by supporting women's economic participation and so promotes gender equity.

The literature suggests that micro- finance creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organization building, enables people to move out of poverty. By providing material capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society (Otero, 1999).

According to Simanowitz and Brody (2004, p.1), micro-credit is a key strategy in reaching the MDGs and in building global financial systems that meet the needs of the most poor people." Littlefield, Murduch and Hashemi (2003) state "micro-credit is a critical contextual factor with strong impact on the achievements of the MDGs. Microcredit is unique among development interventions: it can deliver social benefits on an ongoing, permanent basis and on a large scale".

2.7 CREDIT GUARANTEE SCHEMES FOR SMALL ENTERPRISES

In order to address this problem, various government and donor-initiatives have emerged in industrial as well as developing and emerging economies, notably credit guarantee schemes. Dating back to the 19th and early 20th century in European countries, credit guarantees were implemented in developing and emerging economies throughout the late 20th century as a measure to promote private sector-led growth. Today, over 2250 schemes exist in various forms in almost 100 countries. The major types of guarantee systems which can be identified are mutual guarantee associations, publicly operated national schemes, corporate associations, schemes arising from bilateral or multilateral cooperation, and schemes operated by NGOs.

Credit guarantee schemes were considered the most efficient and effective instruments to overcome the MSEs financing constraints and to promote private sector-led growth. Credit guarantee schemes therefore aimed at diminishing the risk incurred by lenders and are mainly a reaction to small firms' lack of collateral. However, they also have the potential to reduce the costs of small-scale lending and to improve the information available on borrowers. They thus not only enable small firms to access formal credit, but can also improve the terms of a loan. Credit guarantee schemes therefore assist small enterprises to obtain finance for working capital, investment and/or leasing purposes at reasonable conditions. This enables MSEs to improve their competitiveness and to extend their economic activity. Guarantee schemes' potential to promote small enterprises and economic growth, however, is not restricted to their role in enabling investments in physical capital alone. By providing additional services such consulting and training to entrepreneurs, guarantee schemes also contribute to the accumulation of human capital. Targeting enterprises in rural areas can assist regional development and help decrease rural-urban migration. In developing and emerging economies in particular, schemes may support the formalization of micro enterprises and improve the opportunities of marginalized groups, thus assisting in poverty alleviation and the reduction of social and political tensions.

With the reduction in government borrowing from the banking system in the form of treasury bills and notes, coupled with the lowering of interest and inflation rates, government financial instruments will be less attractive and the support for MSEs by the formal financial sector would increase.

CHAPTER THREE

METHODOLOGY

3.1 INTRODUCTION

The study utilized both primary and secondary data on banking and other institutions that provide some financial services, and some selected micro and small scale enterprises. The research methodology was selective as a result of the limited time frame and comprised two components namely:

- Field Study
- Data Analysis

3.2 FIELD STUDY

The field study consisted of the following:

- Target Population
- Sampling Framework
- Data Collection

3.2.1 Target Population

The respondents were basically operators of Micro and Small-Scale Enterprises, Banks, Micro- Finance Institutions, Non-Governmental Orrganisations and Business Development Service providers who are the identifiable institutions that provide financial and non- financial services to the sector under study. The MSEs were randomly selected from across the various sectors of the economy namely manufacturing, services, trading/commerce among others.

The Lending institutions and small enterprises selected were based in Ho. Ho Municipality was chosen for the study because it is the only district in the Volta region where most of the major financial institutions in the country have operationalised their services. Also it was convenient for the researcher in terms of proximity and the time constraint.

3.2.2 Sampling Frame

An estimated sample size of about Two Hundred (200) was to be used by this researcher. The categories of the sample size included operators in the Micro and Small-Enterprises sector, Banks, Micro Finance Institutions and Non-Governmental Orrganisations and Business Development Service providers.

The sampling technique used was simple random sampling for the MSEs and the business development support institutions using the various sectors within which they operate. However, the financial institutions including the Rural and Community Banks had all their credit departments surveyed.

Seventy-Five (75) MSEs were selected and administered with the questionnaire however only Fifty-two (52) representing 69% responded to the questionnaire. A total of fourteen (14) banks and other institutions that provide some financial services to MSEs were sampled with the questionnaire.

Nine (9) financial institutions were sampled but only four representing 44% returned the completed questionnaire.

Five (5) Business Development Support institutions were sampled with only one institution unable to respond.

Focus group discussion involving thirty-seven (37) MSEs at Media/Small Scale Entrepreneurs' Dialogue on the theme Promoting the Micro and Small Scale Enterprise sector- The Role of the Ghana Export Promotion Council (GEPC) and the Volta Regional Coordinating Council with the Executive Secretary of GEPC and the Regional minister in attendance (Kekeli Hotel-Ho,May 2009)

Respondents are basically credit officers and managers of the banks, the heads of these MSEs specialized institutions and the promoters of the sampled MSEs.

The researcher also used telephone to sample views of six important players in the Enterprise Development Sector made up of four immediate past Regional Managers and two Heads of the Business Advisory Centre(BAC) all of the National Board for Small Scale Industries (NBSSI) who have played important role in the sector but are currently outside the Ho Municipality.

Another five personalities of tremendous experience in the sector including two immediate past Regional Chairmen and current Chairman of the Association of Small Scale Industries (ASSI), the current Regional Manager and BAC Head respectively of the National Board for Small Scale Industries (NBSSI) were given the opportunity to express their views on the study after examining the designed questionnaires by way of direct interview. This was done in an anticipation of obtaining the quickest and reliable responses for this research within the limited timeframe.

3.2.3 Data Collection

The data collection technique for the study was a structured questionnaire designed for both Micro and Small Enterprises Practitioners and Institutions that provide financial services to MSEs within the Ho Municipality which was used to solicit useful information regarding their operations in relations to the research objectives.

On the part of the MSEs Lending Institutions, kinds of product being offered by them, requirements for the provision of credit facility, problems encountered in providing credit to MSEs, recovery and default rates, and what they think can be done to help MSEs gain access to more credit facilities, among others were some of the relevant information the questionnaire sought to solicit from the selected respondents.

On the part of the MSEs the questionnaire was designed to solicit information such as whether they have access to financial services in the area they operate, whether they have accessed any credit facility from these Lenders, reasons for the credit facility, kinds of collateral sought from them, duration of the credit delivery process, interest rate charged and whether they defaulted in payment amongst others.

3.3 DATA ANALYSIS

Simple statistical techniques such as descriptive statistics including tables, graphical presentations such as pie chart, bars and line graphs were used in analyzing and summarizing the data.

Data was analyzed qualitatively against the background of the research hypothesis as well as objectives of the study.

CHAPTER FOUR

INTERPRETATION AND ANALYSIS OF RESULTS

4.1 INTRODUCTION

The findings of the study were intended to address the objectives set in chapter one of this research work. Primary data was collected through questionnaire administered to management of financial and MSEs specialized support institutions in Ghana operating in the Ho municipality and some MSEs based in Ho. For the purpose for this research institutions that employ three or more workers were chosen.

4.2 SCOPE AND ANALYSIS OF RESULT

At the time of the research there were eighteen (18) financial and MSEs specialized support institutions. Questionnaires were sent to the offices of the fourteen (14) of these institutions but only nine (9) responded by returning completed questionnaires representing 64.3% rate of return. Seventy-five (75) MSEs were also selected and administered with questionnaires but only 52 responded representing a return rate of 69.3 %. Additionally, the study adopted focus group discussion involving 37 MSE operators at a media/small scale entrepreneurs dialogue on the theme "Promoting the Micro and Small Scale Sector – the Role of Ghana Export Promotion Council and the Regional Coordinating Council" organized by KAB Governance Consult in collaboration with the Ghana Journalists Association in Ho in May, 2009.

The questionnaire was designed to elicit information on the kinds of products/services provided by these MSEs lender organizations, requirements for granting credit facilities to MSEs, problems encountered in the process, reasons for rejection of credit demands of MSEs and recommendations for MSEs to qualify for their credit requests. Views were also sought from some institutions like Private Enterprise Foundation and Association of Ghana Industries, six present and past Regional Managers and Heads of Business Advisory Centres of the National Board for Small Scale Industries and the present and immediate past Regional Chairmen of the Association of Small Scale Industries (ASSI) to elicit their perception on MSEs, their financial needs and programmmes that can be put in place to help in credit packaging. The major findings of the study are stated and outlined in the tables and charts that follow.

4.2.1 Analysis of Operations of Financial and Other Lending Institutions

The kinds of financial and other specialized lending institutions that provide financial services support to MSEs in the Ho Municipality as indicated in Table 4.1 below, categorizes them into Commercial/Universal Banks, Rural/Community Banks, Microfinance institutions, NGO/Church and Governmental Institutions targeting the small business sector.

Table 4.1: Characteristics of Financial and MSEs Specialized Lending Institutions surveyed in the Ho Municipality

NAME OF INSTITUTION	TIME STARTED OPERATION IN HO	TYPE OF INSTITUTION	NUMBER OF BRANCHES IN HO
Stanbic Bank Ltd.	May, 2008	Commercial Bank	1
EPDRA	2005	Church/NGO	1
SINAPI ABA Trust	August, 1999	Micro Finance	1
UT Financial Services (UTFS) Ltd.	February, 2009	Micro Finance	1
Ghanafin Ltd.	2005	Micro Finance	1
North Tongu Rural Bank (NTRB) Ltd.	2004	Rural Bank	1
Unity Rural Bank (URB) Ltd.	2003	Rural Bank	2
SG-SSB Ltd.	1981	Commercial Bank	1
NBSSI	1985	Government Agency	2

Source: Survey Questionnaire, 2009

From the table, it can be seen that the banks perform merchant, commercial, microfinance and developmental banking businesses. Thus the banks become a one-stop shop offering all types of financial services and which are characterized by the combination of deposit taking and credit making and the business of trading in securities. This new emergent banking practice has made for easy access to banking services and reduced cost for new customers and has facilitated the creation of an efficient system of financial intermediation. However, due to competition in the banking industry and increasing employee cost, the banks profit motive which is on the fore front of their activities can hinder credit to the MSEs which are considered as more risky in terms of granting credit facilities. This will in no doubt lead to stringent measures being put in place in granting of credit to the MSEs and their eventual marginalization. Products offered by the banks/MSE support institutions differ as shown in Table 4.2 below:

Table 4.2: Ranking Products/Services offered by these Institutions

Type of Prod.	NBSSI	SG-SSB	UTFS	EPDRA	NTRB	SINAPI ABA	URB	GSF	STA NBIC
Start Up							7		
Overdraft & Working Capital		1	2		2	2	2	2	1
Line of Credit		4					4		4
Micro Finance	3	8	8	1	4	1	6		8
Venture Capital			4						
General Loans		3	3		3		3		2
Project Loans	4	5	1	2			5		
Small Buz. Guat. Loans		6				3	8		
Insurance						5			
Workers Loans		2	5		1		1	1	3
Agric. Loans		7					9		5
Cash Mgt.	2	9	7	4					6
Biz. Counseling	1		6	3	5	4			7

Source: Survey Questionnaire, 2009

All factors sought for have been ranked in order of importance with the highest assuming the mark of one (1), then two (2)…, in that order.

As shown in Table 4.2, all the banks and MSE support institutions surveyed provide facilities including credit, cash management and business advisory services for the MSEs in the manufacturing, trading, industry, and commerce and services sectors. It is also observed that the most preferred financial product by these institutions are Overdraft and Working Capital, Workers' Loan, General Loan and Project Loans. A bank each offers Start-Up, Insurance and Venture Capital to clients. They exercise some caution when it comes to the agricultural sector because of the riskiness of the sector. Some banks like the SG-SSB Ltd, Unity Rural Bank Ltd and Stanbic Bank Ltd are the sampled lending institutions that are servicing the small farm holding operations in the municipality. However, all the banks, microfinance institutions in exception of Ghana Financial Services Ltd. (GHANFIN) and the NGOs have made quite significant commitment to cater for the needs of MSEs in the area of Microfinance.

In terms of institutional mandate for the growth and development of MSEs in the municipality, the National Board for Small Scale Industries (NBSSI) in the only governmental apex body with the mandate for the promotion and development of the MSE sector backed by Act 434 (1981) of the Parliament of the Republic of Ghana.

Table 4.3: Lenders preferred Clientele (Major borrowers)

Type of Sector	NBSSI	SG-SSB	UTFS	EPDRA	NTRB	SINAPI ABA	URB	GSF	STANBIC	SCORE	RANK
Large Company		1	1							1	1st
Govt. Workers		2		4	1		1	1	3	2	2nd
Micro & Small Enterprises (MSEs)	1	5	3	1	2	1	4		1	2.25	3rd
Small & Medium Ent.(SMEs	2	3	2	3		2	2		2	2.28	4th
Household		4		2			3			3	5th
State Owned Institution					3		5			4	6th
Small Farm Holders (Agric.)							5		4	4.5	7th

Source: Survey Questionnaire, 2009

It can be observed from Table 4.3 that the banks and MSE support institutions surveyed ranked large companies as the clientele they preferred most in granting credit then followed by government workers (personal loans), MSEs, SMEs, households, state-owned institutions, and small farm holders in that order.

Table 4.4: Factors Institutions consider when granting credit facility

Factors for Granting Credit	NBSSI	SG-SSB	UTFS	EPD RA	NTRB	SINAPI ABA	URB	GSF	STA NBIC	SCORE	RANK
Borrower's Credit Worthiness	4	1	1	4	3	3	1	1	1	2.11	1st
Borrower's Credit Record	3	3	4	1	1	7	3		3	3.12	2nd
Borrower's Credit Needs	2	5	5	6	5	9	4		2	4.75	3rd
Borrower's Savings Deposit		6		3	6	5	2		7	4.83	4th
Borrower Total Income		2	6	7		4	5		6	5	5th
Borrower's Line of Business	1	7	7	5		10	6			6	6th
Borrower's Character	7	9		2	2	8	8		4	6	6th
Availability of Collateral		4	2	8	4	11	7			6	6th
Cash Flow Statement		11	3	10		2			5	6.2	9th
Feasibility/ Business Plans	5	10	8	9		1				6.6	10th
Realistic Repayment Plan	6	8		11		6	9	2		7	11th

Source: Survey Questionnaire, 2009

According to most MSEs, the main factor inhibiting their growth potential is lack of adequate finance. An analysis of the credit request of the MSEs requires a critical review of their debt capacity, which determines the amount of credit to be granted, and the payment schedules and the risks inherent in granting such a facility. This analysis can effectively bring out projects that meet the credit demand analysis. In addition the request should meet the requirements of the bank which differs from one bank to the other. These include in all cases the credit worthiness of the borrower, previous credit records, borrower's saving deposits in the form of an account, purpose/needs for the credit, line of business and character of the borrower among other things. All these go a long way in helping the banks and other lending institutions make informed decisions as to whether to grant credit or not and the interest rate charged.

From the questionnaire it became evident that all the banks have refused loan application for MSEs. All sampled lending institutions including the Ghana Financial Services (GHANFIN) which services only public sector workers whose salaries are processed through the Controller and Accountant General Department admitted ever refusing MSEs loans. The research result showed that the problem Banks in particular encounter in granting credit access to MSEs are high default risks, high transactions costs of loans, lack of collateral and fungibility of credit practices by MSEs. Of the eight(8) out of the nine (9) surveyed institutions, six ranked default risk as very high while two (2) said it is high, two (2) believed high transactions costs of loans is very high while two (2) said it is high, three (3) each of those institutions indicated lack of collateral as very high and high respectively while five(5) confirmed that the fungibility of credit practices by MSEs is a very high problem in granting credit to the sector with one (1) ranking it as high.

Table 4.5: Reasons for rejection of credit/loans by selected institutions

Reasons for Loan rejection	NBSSI	SG-SSB	UTFS	EPDRA	NTRB	SINA PI ABA	URB	GSF	STAN BIC
Lack of Acceptable Collateral		√	√	√	√	√	√		√
Poor project report/plan	√	√	√	√		√	√		
Poor MSEs performance		√	√	√		√	√		√
Poor track Record	√	√	√	√	√	√	√		√
Lack of clear repayment plan		√		√		√	√	√	
Lack of Managerial Competence		√	√	√		√	√		√
Small size but high cost of transaction		√	√	√	√	√	√	√	√
Lack of enough information on borrower	√	√	√	√	√	√	√	√	√
Unwillingness to Enforce Compliance	√	√	√	√	√	√	√	√	√
Lender Prejudices Against small businesses		√	√		√	√			

Source: Survey Questionnaire, 2009

As indicated in the above table, the reasons for the rejection are varied ranging from poor project report or project plans, applicant not showing managerial competence, lack of clear payment plan, lack of proper book-keeping /record keeping among others. Most of the banks cited spurious demand and lack of bankable projects as the major reasons. There were ten variable from which the banks were to rank in order of importance. Out of the nine respondent lending institutions, four ranked the top four reasons as lack of acceptable collateral, lack of a clear repayment plan, lack of poor project reports or lack of comprehensive project plans, applicant not showing managerial competence and poor performance of the relevant sector as the main reasons underlying their rejection of most loans applications.

Although, the banks have different rankings for the varied reasons cited for refusal of credit requests, four of the banks and others surveyed considered lender's prejudices against small businesses and small size of transaction with high cost of transactions as important in their decision- making. With the exception of two of these organizations, the rest considered acceptable collateral as number two in decision regarding granting of credit facilities, all the lenders surveyed considered poor track record, lack of enough information on borrower and unwillingness to enforce to compliance as the overriding factor in their credit decisions to MSEs while lack of a clear repayment plan or poor projects reports or lack of comprehensive project plans followed in the order of ranking. However, some of the banks tend to compromise on some of the factors considered in granting credit when customers seem to have a bankable project backed with managerial competencies and make suggestions and recommendations as to what needs to be done to meet credit requests. Business advisory services of the banks and in particular NBSSI are being used to help the management of the MSEs meet or comply with the requirements for granting of credits.

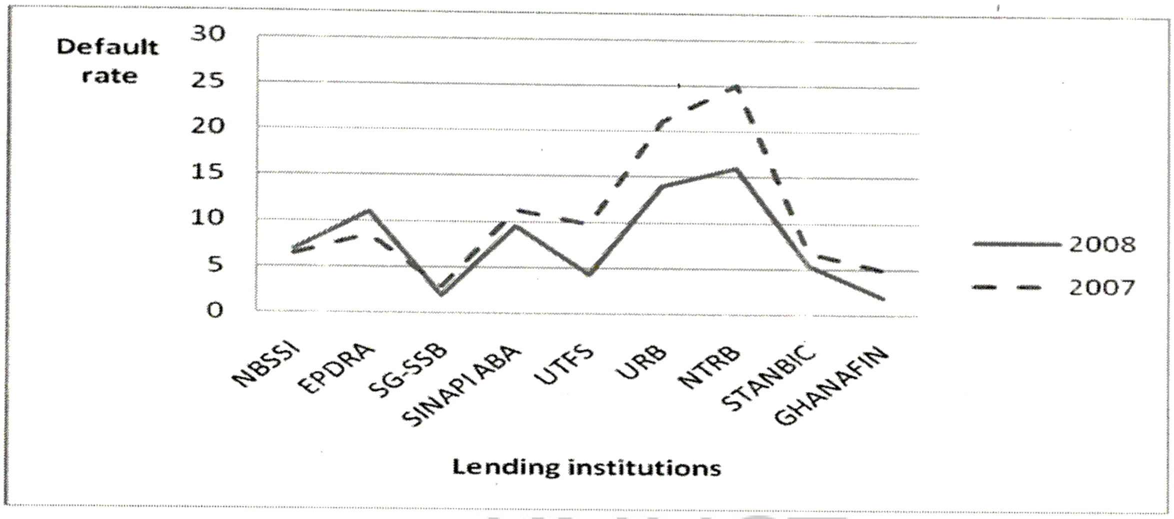
Table 4.6: Ranking of reason for loans default by MSEs

Reasons for default	NBSSI	SG-SSB	UTFS	EPD RA	NTR B	SINAPI ABA	URB	GSF	STAN BIC	SCOR E	RANK
Outright refusal to pay back	1	1	1	3	3	3	4		3	2.38	2nd
Poor performance of Enterprise	3	3	1	4	2	2	2		1	2.25	1st
Poor management of facility	5	6	7	7	5	5	1		2	4.75	6th
Political clout o interference	4	2	5	6	6	1			4	4	4th
Excessive interc Charges	4	4	6	2	3	4	5	1	6	3.88	3rd
Poor appraisal techniques	4	5	3	5	4	6	3		5	4.37	5th
Unwillingness of Banks to enforce compliance	2	7	4	3	7	7	6			5.14	7th

Source: Survey Questionnaire, 2009

The reasons why MSEs default in the payment of credit were the outright refusal to pay back, poor performance of the company, lack of judgment in loan approval, among others. Excessive interest rates were ranked 5th while unwillingness of the banks to enforce compliance was ranked the eighth and the last. MSEs default as a result of unexpectedly poor returns on investment and willful default. Banks have taken steps to reduce the risk of default through improved project appraisal techniques and increased monitoring, diversification of their credit portfolio thereby reducing concentration on certain sectors that are viewed as being risky. To ensure repayment of the credit the banks have put in place stringent loan approval process, monitoring in the form of periodic visits, shorter-term loans, lending for purposes that will strengthen ability to repay loan, smaller loans and lending to certain sector economic activities.

Chart 4.1: Rate of default in surveyed institutions for the years 2007-2008



Source: Survey Questionnaire, 2009

From the survey the processing of the loan application for approval on the average takes less than six (6) months. However, this may be longer depending on how early or quickly borrower provides required information in additional information. The amount requested for is normally approved. However, there are some instances where depending on the project plan the borrower may need higher or lower amount as a result of the MSEs not employing qualified and competent people to prepare business plans and feasibility reports for them. Also, the repayment plan may not be feasible.

In the views of MSEs, the banks and business support agencies are only willing to provide short-term credit facilities in the form of overdraft/working capital to MSEs citing high default risk, lack of acceptable collateral, fungibility of credit, high transactions and monitoring costs and poor record keeping as the main reasons. This makes it difficult for them to obtain funds for the expansion of their businesses.

The requirement of collateral in servicing MSEs credit needs was collaborated by the study with all the respondent lending institutions indicating they demand collateral when lending to MSEs. The kinds of collateral demanded include in the order of rank as very important requirement are Real Estate, Land, Bank Deposit, Saving balances, use of guarantors and treasury bills while life insurance and jewellery are considered as not of very important consideration but a secondary requirement.

This is evidenced in the actions taken by these lenders to mitigate the high defaulting rate as recorded in the table below.

Table 4.7 Measures to mitigate risk of default by sampled institutions

Measures	NBSSI	SG-SSB	UTFS	EPDRA	NTRB	SINAPI ABA	URB	STANBIC	SCORE	RANK
Collateral to strengthen repayment incentive	7	1	1	6	5	5	1	5	3.87	3rd
Credit rationing	8	7	3	5	7	8	3	4	5.62	7th
Granting of small loans	4	6	4	4	4	1	4	3	3.75	2nd
Shorter term loans	6	2	2	3	3	2	5	1	3	1st
Targeting Certain sector /economic activities	2	5	5	1	6	3	7	2	3.87	3rd
Gender lending	5	8	8	2	2	4	8	8	5.62	7th
Guarantors	1	3	7	8	8	7	2	7	5.37	6th
Monitoring	3	4	6	7	1	6	6	6	4.87	5th

Source: Survey Questionnaire, 2009

Again, 68% of the respondent banks grant unsecured credit to companies with favorable track records and tend to monitor the performance of such companies more closely, especially in the commerce and catering services sectors. Sale proceeds are normally paid into an account specifically opened for that purpose to ensure that the credit facilities are paid on time with sometimes strong guarantee from supplier organizations so as to reduce the rate of default.

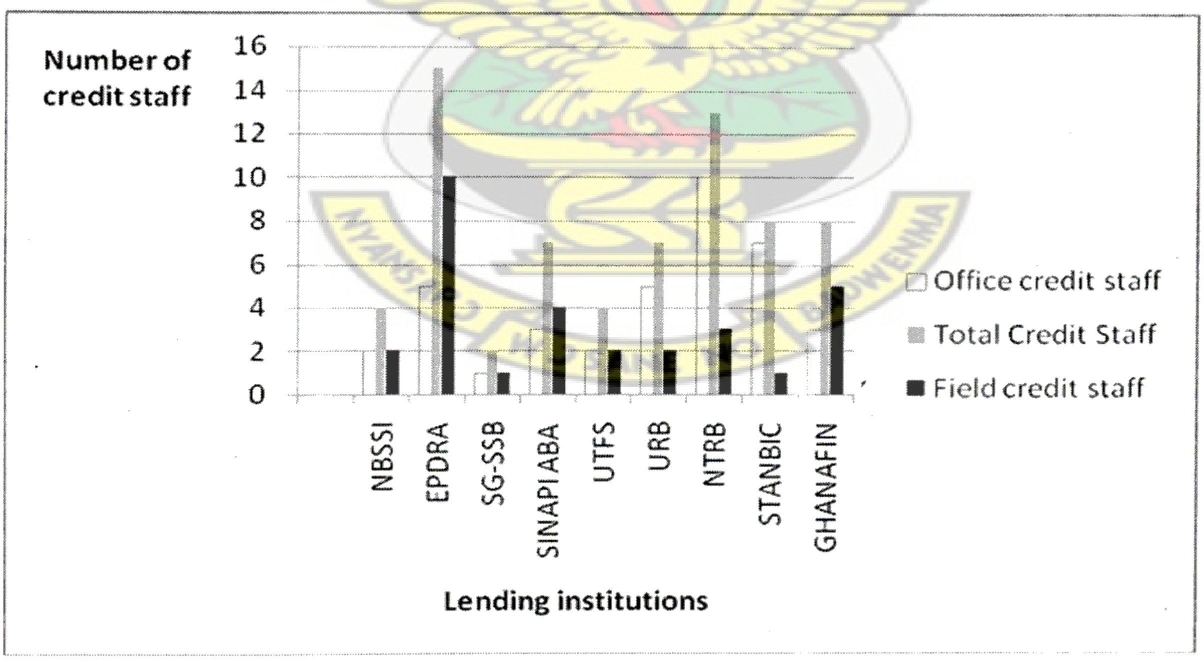
Credit monitoring

Monitoring after disbursement is necessary as all the banks do that to ensure that repayment is on course, identify problems before they occur, avoid fungibility of credit, unplanned expansion necessitating the application of short term funds to fixed assets, misapplication of funds, for first hand information on how customer will fulfill repayment plan and also to reduce the risk of default in loan repayment.

MSEs operators argue that credit officers of lending institutions hardly visit them after disbursement and in the process, fail to be part of the business they operate and fail to develop the sound customer relationship needed to break the barrier of negative perceptions of the lending institutions and the small business sector towards each other.

On the question of credit monitoring after disbursement, six (6) of the nine (9) sampled lenders said they monitor all loans after disbursement while three(3) indicated they monitor only some selected loans.

Chart 4.2: Credit Staff Strength of Lending Institutions in Ho Municipality



Source: Survey Questionnaire, 2009

With regards to what MSEs should do in order to qualify for institutional credit to finance their business, the recommendations or advises made by respondent institutions include, 83% said MSEs should have liquid and adequate collateral, keep proper records, open and operate bank accounts, 79% believed that MSEs undertake training on best practices in modern business management, cultivate habit of paying back loans contracted and also using the facility for the purpose for which it was granted.; 77% said MSEs must improve upon their creditworthiness in order to qualify for credits and must register their business properly with RGD while 68% recommended preparation of cash flow statements in their business operations.

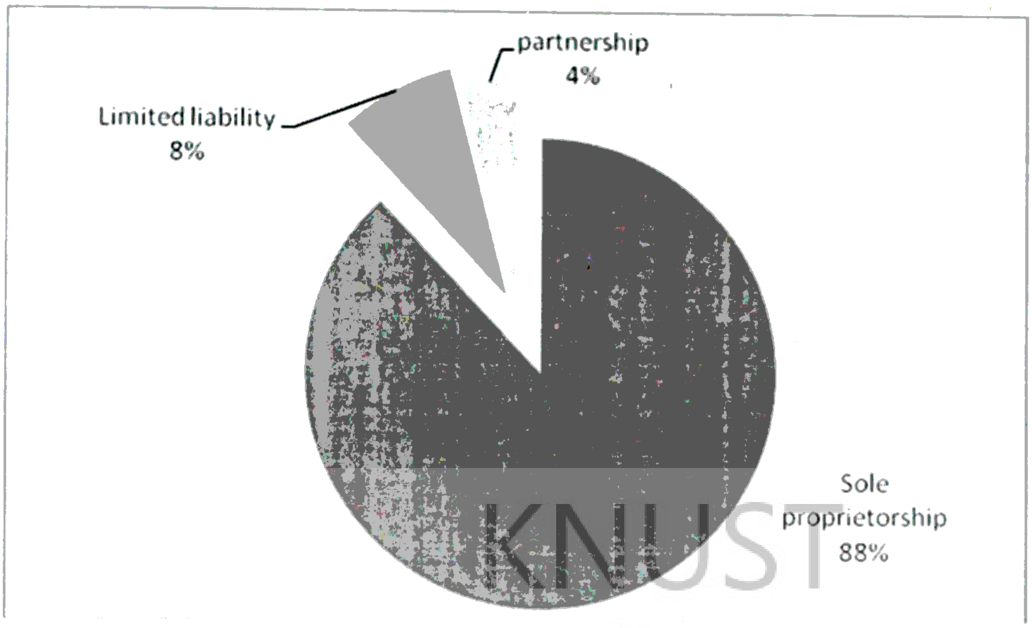
4.2 .2 Analysis of Operations of MSEs

Economic activities of MSEs in the municipality cover all sectors of the economy i.e. manufacturing which is made up of Kente Weaving, Textile, Batik Tie & Dye, Carpentry and Joinery, Tailoring and Carving; the service sector is composed of hotel and catering services, hairdressing, ICT, education and training, transport businesses; trading/commerce, building and Construction, metal works.

Micro and Small Enterprises' activities sampled showed that MSEs sector has been well grounded in the municipality since 1951. For instance out of the fifty-two (52), thirty-three (33) respondents (63%), have started the operationalization of their businesses in the then Ho District between 1951-1999 while 19 of them, i.e., 37% operationalized their enterprises between 2000-2008.

Type of business ownership in the Municipality revealed the following structure: 46 are sole proprietorship representing 88%, 4 are limited liability representing 8% and two (2) partnerships representing 4%. This is depicted on the chart below.

Chart 4.3: Business Ownership Types in the Ho Municipality



Source: Survey Questionnaire, 2009

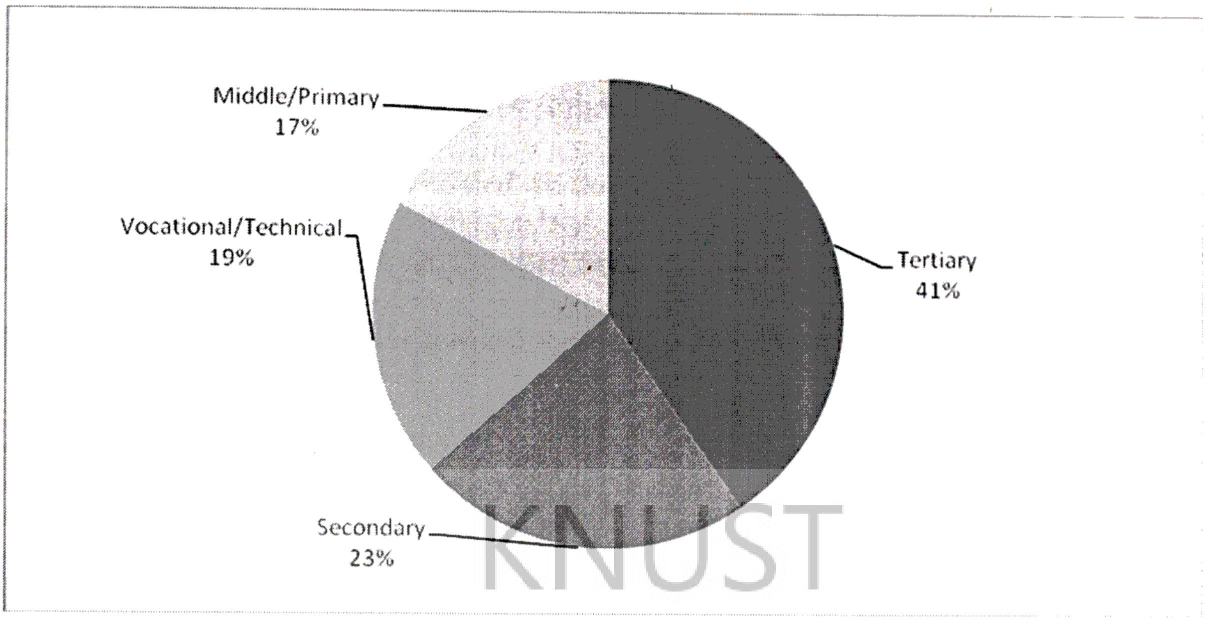
Business Registration/Licensing

With regards to business formalization in the Ho Municipality, 41 out of the 52 businesses surveyed have registered their businesses with the Registrar General's Department (RGD) while the remaining 11, though not registered with the RGD, have had their activities licensed by the Ho Municipal Assembly.

Educational Level of MSE Operators

Contrary to the general belief that majority of operators in the Microenterprise (Informal) sector of the economy are made up of uneducated school dropouts, the picture revealed by this study showed otherwise. For instance, 21 out of 52 i.e., 41% were educated to the tertiary level, 12 representing 23 % had secondary education, 10 representing 19 % were certified in Vocational/Technical education and 9 of them representing 17% made it at the primary and middle school level.

Chart 4.4 Educational status of micro and small scale Entrepreneurs in Ho



Source: Survey Questionnaire, 2009

Banking Culture of MSEs

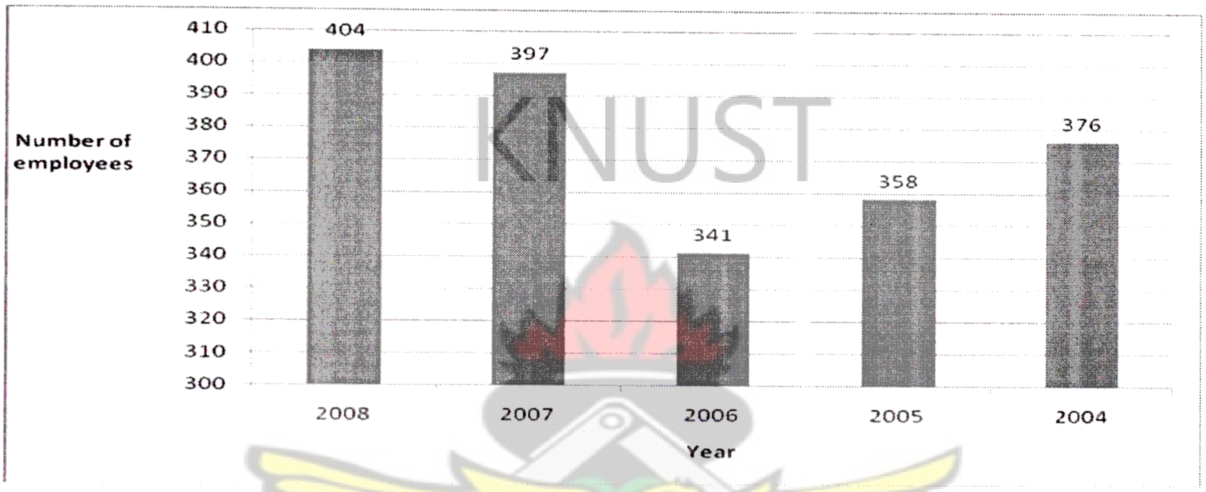
MSEs in the municipality have embraced significantly, the concept of operating enterprises account. As this study had shown, 39 out of the 52 MSE operators have enterprise accounts. The remaining 13 however, operate personal accounts.

MSEs have various reasons for their choice of banks they operate with. In prioritizing these reasons, the survey reveals that easy access to loans was their top priority whilst nearness to business, low minimum deposit, efficient banking services, and peer recommendation were of equal priority. Majority of these MSEs have operated these accounts for more than 5 years followed by above two years but less than 5 years, with the rest operating between 1 and two years. About half of the sampled MSEs have banked with other banks apart from their original banks and this has enabled 10 of them to obtain loan easily as a result of their new savings.

Employment generation by MSEs

MSEs are believed to be a significant source of employment generation in both developing and transition economies. From the questionnaire administered, this view has been confirmed by the sampled micro-enterprise operators for the last five years (from 2004 – 2008) as shown in the chart below:

Chart: 4.5: Employment Generated by sampled MSEs in the Ho Municipality



Source: Survey Questionnaire, 2009

The choices made by the MSEs with regard to financing source depend largely on the amount and availability of quality information. When the information available to the MSEs is inadequate their perception of the market and also the financial products may not be clear and the use of one or other sources may be based on considerations other than the true product and price differentiation.

In assessing the reasons for the rejection of credit request it became evident that the belief that lack of access to finance as the major constraint in the development of the MSEs appears not to be the case but rather poor track record, lack of enough information on borrower, unwillingness to enforce to compliance and fungibility of credit. Also some of the reasons cited for the inability of the MSEs to meet credit request criteria are lack of awareness of the credit requirements of the credit agencies, poor record keeping, and poor repayment plan.

The role of government in the MSE sector in the development of transitional and developing economies cannot be under estimated. Government's role in making this development attainable was emphasized by the result of the research. Amongst the recommendations the respondent lending institutions made as regard government policy interventions to enable them adequately meet the credit needs of MSEs include: creation of a credit pool for MSEs specialized lending institutions, management of interest rates, enacting of commercial laws and enforcement of compliance to improve upon MSEs repayment commitment, government support for such institutions to establish and operate business advisory/support units that will offer business services support to MSEs on regular basis and granting of tax relief incentives to institutions that target the MSEs sector of the economy.

To raise effective demand, MSEs would generally have to improve their level of capitalisation, management and technical capabilities, regular and effective business record keeping, and to provide solid documentation for property offered as collateral.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY AND CONCLUSION

The importance of MSEs in the development process of both developing and developed countries cannot be over-emphasised. MSEs have been identified to have various advantages including the promotion of entrepreneurship and the use of labour-intensive technologies which have direct impact on employment generation. They can easily be established and put into operation to produce quicker returns and may well become the countervailing force against the economic power of larger enterprises. In general, MSEs are seen as accelerating the achievement of wider socio-economic objectives including poverty alleviation. The banking system continues to remain stable, sound and profitable, as banks have shown resilience to the emerging low inflation and low interest rate environment. Portfolio substitution is now evident, as banks have shifted resources to credit instead of government securities in line with declining attractiveness of those instruments.

However, the ability of MSEs to grow depends highly on their ability to invest in viable start-up projects, restructuring/expansion and innovation. But these investments need capital and therefore access to institutional or external finance. It is therefore a highly important constraint that endangers the capability of MSEs to the economic growth of the country hence the consistency of the complaint regarding their lack of access to finance. High bank charges and tariffs have rendered banking services in Ghana expensive. The problem has attracted complaints from the monetary authorities, politicians and both individual and corporate customers and in particular the small business sector operators. Bank charges and tariffs are largely determined by the nature of the service offered, the type of accounts operated by the customer, the number of accounts held and the manner in which the accounts are run. Bank charges vary from customer to customer depending on their turnover and number of transactions per month. Non-account holding customers are charged higher than account holders for services rendered. There is need therefore to identify and formulate policy measures that can help keep bank charges down and thereby encourage savings mobilization and financial deepening in the country.

The findings of the study showed that the lending agencies selected for the research provide some credit to MSMEs sector. In addition to the credit, they provide other services such as business counseling, training in best cash management practices and small business guarantee facilities. This is an indication of the important role that banks play in the promotion and growth of the MSEs. However, the banks are not able to provide all the financial support needed by the MSEs because of their nature of operation and orientation.

In providing support, the concerns raised by the banks as regards MSEs include fungibility of credit, unplanned expansion necessitating the application of shorter-term credits to fixed assets and high rate of default. It was observed that most of the banks surveyed placed strong emphasis on the inability of the MSEs to provide acceptable collateral and outright refusal to pay back. While banks attribute the rejection of credit economy. Also, the MSEs need to tackle the problems inhibiting their growth, which among others are lack of desire to share ownership, incompetent management and technical skills, lack of business purpose, and lack of competent staff to man the business and poor operational controls and discipline

There is the need for the deepening of the Financial Sector Adjustment Programme (FINSAP) by introducing competition into the financial market and ensure that deposit rates rise to competitive levels to ensure efficient credit mobilization. It will also ensure that lending rates fall to level commensurate with returns to private businesses or with interest rates prevailing in Ghana's trading partners.

The various literature reviewed suggest that the overall performance of the bank/MSEs lending bodies is determined by the expected return on the borrower's investment, comparative advantage that the sector enjoy in loan portfolio, level of risk associated with both the borrowers and the sector and innovation. In addition the political environment, the strength of the economy to overcome external shocks and unfavorable competitions and the overall performance of the economy has significant effect on the performance of the lenders and MSEs.

With regards to what MSEs should do in order to qualify for institutional credit to finance their business, the recommendations or advises made by respondent lending institutions include the MSEs having liquid and adequate collateral, keeping proper records, opening and operating bank accounts, undertaking training on best practices in modern business management, cultivating habit of paying back loans contracted and also using the facility for the purpose for which it was granted. Other recommendations include improving upon their creditworthiness in order to qualify for credits and registering their business properly with RGD and preparing cash flow statements in their business operations.

In the opinion of MSE operators, they argued that the credit officers of bank/lending institutions hardly visit or monitor them after disbursement and in the process fail to be part of the businesses they operate and develop the sound customer relationship needed to break the barrier of negative perception of lending institutions and small business operators towards each other.

Encouraging consolidation to generate effective competition and enhance performance and encouraging banks to develop compatible IT platforms by way of creating a central credit bureau system which is a novelty in effective credit monitoring with its resultant reduction in loan default.

There should be conscious efforts by financial institutions to increase their loan portfolio for the MSE sector as that sector has become the best and reliable market niche for the provision of financial services. The not too high default rates recorded by this study are an indication that lending institutions with innovative and efficient products, can realize their profitability target through the small business sector of the economy.

Last but not the least; the financial institutions have to find an effective means of educating the public about their financial products and dialogue more with the small business sector players who provide a better financial market niche than their larger counterparts.

To sum up, there is the need for a combined effort at improving the business climate, strengthening MSE capacity to help them cope with the stringent credit requirements of lending institutions. The development of the financial sector should be aimed at diversifying the sources of financing the small business sector. In this regard, a restructuring and repositioning of vital state institutions mandated to support and promote the development of the MSE sector such as the NBSSI would be a morale booster for the MSEs. All stakeholders also need to make concerted efforts to address the fundamental problems of MSEs to help improve their credit-worthiness and support credit delivery to them, if they are to make a significant contribution to economic growth as they are touted as the "engine for growth."

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APPENDICES

APPENDIX 1

QUESTIONNAIRE FOR MSEs LENDING INSTITUTIONS

1. Name of Lending Institution:

2. Type of Lending Institution: (a) Bank (b) MFI (c) BDS (d) NGO (e) Church

3. Where are you located? Region……………… and District………………………

4. How many branches is your institution operating in the district? .... …………

5. When did you start your operations in the district? ………………………………

6. **What credit facilities do you provide?**

Credit facilities	**Rank in order of priority(Eg 1,2,3,4 etc)**
Start up capital	
Overdraft facilities	
Line of Credit	
Venture Capital	
Insurance	
General Loans	
Project Loans	
Workers Loans	
Small Business Guarantee Loans	
Agricultural Loans	
Cash Management	
Business Counseling	

7. **Who are your major borrowers?**

Type of Borrowers	**Rank in order of priority**
Large Company	
Government Workers	
State Owned institutions	
Medium Scale Enterprises	
Households	
Micro and Small Enterprises(MSEs)	
Small Farm Holders	

8. Which sector(s) mostly apply for your credit?

Sectors of the Economy	Rank in order of priority
Trading	
Manufacturing	
Agriculture	
Commerce	
Service	
Industry	

9. Do you provide credit facilities to Micro and Small Enterprises (MSEs)? YES: NO:

10. What factors do you consider when granting credit facility to MSEs?

Factors Considered	Rank in order of priority
Borrower's Character	
Borrower's previous credit record	
Borrower's Savings Deposit	
Borrower's total income	
Borrower's Credit worthiness	
Borrower's Credit Needs	
Borrower's line of business	
Availability of acceptable Collateral	
Feasibility Study/Business Plans	
Cash flow statement	
Clear and realistic repayment plan	

11. Have you ever refused an MSEs loan request? YES: NO:

12. If YES, what is the reason(s) for the rejection?

Reasons for Rejection	Rank in order of priority
Lack of book-keeping/record	
Lack of managerial competence	
Poor credit track record	
Lack of acceptable collateral	
Poor project/business plans	
Lack of clear repayment plan	
Small size of transaction with high cost of transaction	
Lack of enough information on potential borrower	
The risky nature of MSEs	
Unfavorable sector of operation	

13. What type of credit facility do MSEs normally apply for?

Types of credit applied for by MSEs	Frequently	Not frequent
Start ups/ Project loans		
Working Capital		
Overdraft		
Machinery and Equipment		
Business Guaranteed loans		
Insurance		
Line credit		
Agriculture loans		
Others (specify)		

14. What are the problems in granting credit to MSEs?

Problems of MSEs credit	Very high	High
High default risks		
High transaction cost of loan		
Lack of collateral		
Fungibility of credit practices by MSEs		
Others(specify)		

15. Do you normally require collateral when lending to MSEs? YES: NO:

16. If YES, what type(s) of collateral do you require?

Types of collateral required	Very important	Not very important but required
Land		
Real Estate		
Life Insurance		
Jewellery		
Treasury Bills		
Saving Balance		
Bank Deposit		
Others (specify)		

17. Are MSEs able to meet your credit criteria? YES: NO:

18. If NO, what are some of the reasons for their inability?

....

....

19. Do you grant unsecured credits to MSEs? YES: NO:

20. If YES, which sectors are the beneficiaries?

Sectors of the Economy	Rank in order of priority
Trading	
Manufacturing	
Agriculture	
Commerce	
Service	
Industry	

21. Is amount requested for by MSEs normally granted? YES: NO:

22. If NO, and that what is normally granted is less than amount requested for, what are the reasons? …………………………………………………………………………………
………………………………………………………………………………………………

23. Please provide the following information as related to Micro and Small Enterprises(MSEs).

Year	Largest amount of loan made	Smallest amount of loan made	Average size of loan made	No. of loan applications received	No. of successful loan application
2008					
2007					
2006					
2005					
2004					

24. How long does it take you to process a loan? (a) Less than 1 month (b) 1 month (c) Between 1 and 2 months (d) Between 3 and 6 months (e) Above 6months but less than 1year (f) 1 year and above.

25. Do you monitor credit after disbursement? Some: All: No monitoring:

26. If NO monitoring is done, what are some of the reasons?
………………………………………………………………………………………………
………………………………………………………………………………………………

27. What is your credit staff strength? ………employees of which ……….. are field officers.

28. Do MSEs default in loan repayment? YES: NO:

29. If YES, what are the reasons for default?

Reasons for loan default	Rank in order of priority
Outright refusal to pay	
Poor performance of enterprise	
Political interference	
Poor loan appraisal techniques	
Unwillingness to enforce compliance	
Excessive interest rate	
Others(specify)	

30. Provide the default rates for the last five years in your institution.

Year	2008	2007	2006	2005	2004
Total loan Disbursed					
Total loan Recovered					
Total loan Defaulted					
Default Rate					

31. What measures have you put in place to reduce the risk of default by MSEs?

Measures to mitigate default risk	Rank in order of priority
Collateral to strengthen repayment incentives	
Credit rationing	
Granting of small loans	
Shorter term loans	
Targeting certain economic/sector activities	
Gender lending	
Others(specify)	

32. If NO to question 28 above, what measures do you have in place that ensures full loan repayment?

……………………………………………………………………………………………

33. What do you think MSEs must do in order to qualify for your credits?

……………………………………………………………………………………………

……………………………………………………………………………………………

34. What should the Government do to help institutions that lend to MSEs to be able to adequately meet MSEs credit needs?

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

APPENDIX 2

QUESTIONNAIRE FOR MICRO AND SMALL SCALE ENTERPRISES (MSEs)

1. Name of Enterprise..

2. Location of Enterprise.. Town..............

3. Date of Establishment..

4. Level of Education: (a) Primary/Middle (b) Secondary (c) Vocational/Technical (d) Tertiary

5. Type of ownership of Business: (a) Sole Proprietor (b) Partnership (c) Cooperative (d) Limited Liability

6. Is your Enterprise registered with the Registrar General Department? YES: NO:

7. Enterprise's main activity...

8. **Sources of financing enterprise**

Type of Capital	At Start up	For Expansion	For Working Capital
Own Savings			
From family and friends			
Suppliers Credit			
From Banks			
From NGO			
MFIs			
Credit Union			
BDS			
Rotating Credit			

9. Does your enterprise keep record? YES: NO:

10. Does your enterprise employ the services of an Accountant? YES: NO:

11. **Number of Employees of your enterprise for the last five (5) years**

Year/Type of Employees	Management	Workers	Part-time	Total
2008				
2007				
2006				
2005				
2004				

12. Do you have access to Institutions that **offer Credit to MSEs** in the area you operate? YES: NO:

13. Does your enterprise have bank accounts? YES: NO:

14. Why do you keep an account with the bank? **Select as they apply:** (a) Nearness to business (b) Easy access to loans (c) Low minimum deposit (d) Peer recommendation (e) Attractive Deposit rate (f) Low interest rate on loans (g) Efficient banking services (h) Others specify

15. How long have you operated that account? (a) Less than 1 year (b) Between 1and 2 years (c) Above 2 but less than 5 years (d) Above 5 years

16. Have you ever banked with any other bank apart from the one above? YES: NO:

18. Has your new savings enabled you to obtain loan easily? YES: NO:

19. Have you ever applied for a loan from a lending institution for your business? YES: NO:

20. If **YES** was your request granted? YES: NO:

21. If **NO** to question **19 above,** what was the reason? **Select as they apply:** (a) Lack of collateral (b) High interest rate (c) No need for loan (d) Lack of information about financial service (e) Others specify

22. If **NO** to question **20 above** why was the request rejected? Select as apply.

Reasons	Tick
Lack of collateral	
Inability to pay back	
Poor track record	
Lack of business records	
Lack of enough information on borrower	
Poor project plan(Unrealistic)	
Lender perception about MSEs	

23. If **Yes** to question **20 above** what use was the money put to in the business? (a) Start-up (b) Working capital (c) Expansion of business (d) Others specify

24. How long did it take for the loan to be granted? (a) Less than 1 month (b) 1 month (c) Between 1 and 2 months (d) Between 3 and 6 months (e) Above 6months but less than 1year (f) 1 year and above.

25. What was the rate of interest charged on the loan? ....

26. What type of collateral was demanded? (a) Land (b) Real Estate (c) Life insurance (d) Bank Deposit (e) Jewellery (f) Share Certificate (g) Others specify

27. Was the amount requested for granted? YES: NO:

28 If **NO**, why? ....

29. Did you default in the payment of the loan? YES: NO:

30. If **YES,** why? ....

31. If **NO** to question **29 above** how long did it take for the loan to be repaid? ....

32. Has your business improved after the loan? YES: NO:

33. Indicate areas of improvement in your business after the loan.

Performance Indicators	Tick
Increased products	
Increased in the number of employees	
Increased profits	
Diversification	
Increased assets	
Others specify	

34. What are the problems you encounter in accessing loans from lending institutions?
....
....

35. What are the major constraints on the growth of your business?(a) Lack of credit (b) High interest rate (c) High taxes (d) Competitions from foreign goods (e) Lack of market for enterprise's product

36. Are the MSEs being given the necessary attention by the Lending Institutions and Government? YES: NO:

37. What do you think the Government should do to help improve MSEs access to credit in Ghana?
....
....

THANK YOU