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**Financing Micro, Small and Medium Enterprises (MSMEs) in Ghana:
A case study of Techiman Municipality**

By

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DEDICATION

This work is dedicated to my lovely wife Esther Sackey, my mum Christiana, sisters (Sheila, Portia, Linda and Genevieve), and Mother-in-law Cynthia Odei for their love, encouragement, advice, and financial support.

TO GOD BE THE GLORY



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ABSTRACT

The dynamic role of micro, small and medium enterprises in developing countries cannot be disregarded because they have been the main mechanism for economic growth and development. Despite this, the MSMEs still encounter many challenges in sourcing funds to grow their businesses. This is averting their contribution to the achievement of developmental goals in many countries of which Ghana is included. The study sought to explore the various sources of finance and the constraints faced in accessing funds by the MSMEs in the Techiman Municipality of Ghana. It also inquired into the role governmental agencies have played in promoting the sector. The study adopted a descriptive research design. Primary data was collected by administering seventy-one questionnaires to MSMEs in the Techiman Municipality. Data were analysed using statistical package for social sciences (SPSS). The findings of the study revealed that among the various internal source of finance, personal savings and retain earnings remain the chief sources of funds to the enterprises, but returns on businesses were too low to support the growth potential of the sector. Microfinance institutions remain the core external sources of funds to the enterprises but constrained by high interest rate and collateral requirement. Therefore it is recommended that, policy makers are to formulate strategies to remove the bottlenecks of accessing external funds to encourage enterprises to access external funds to aid them realize the appropriate growth in their business.

TABLE OF CONTENT

<u>TITLE</u>	<u>PAGES</u>
DECLARATION .....	.....
i	
DEDICATION .....	.....ii
ACKNOWLEDGEMENT .....	..... iii
ABSTRACT .....	.....
iv	
TABLE OF CONTENT .....	..... v
LIST OF TABLES .....	.....
x	
LIST OF FIGURES .....	.....
xi	
LIST OF APPENDIX .....	.....xii
LIST OF ACRONYMS .....	..... xiii
CHAPTER ONE.....	.....1
1.0 Background to the study.....	.....1
1.1 Statement of the Problem .....	.....4
1.2 Objective of the Study.....	.....5
1.3 Research Questions .....	.....6
1.4 Relevance of the Study.....	.....6
1.5 Scope and Limitation of the Study.....	.....6
1.6 Organisation of the study .....	.....7

CHAPTER TWO	8
LITERATURE REVIEW.....	8
2.0 Introduction	8
2.1 Definition and Characteristics of MSMEs	9
2.2 Relevance of MSMEs in the Economy	13
2.3 Sources of Finance for MSMEs	16
2.4 Internal Sources.....	19
2.4.1 Personal Savings	20
2.4.2 Relatives and Friends	20
2.4.3 Retained Earnings	21
2.4.4 Sales of Un-required Assets	21
2.4.5 Provision for Depreciation	21
2.5 External Sources.....	22
2.5.1 Bank Loans or Microfinance Institutions.....	22
2.5.2 Money Lenders.....	24
2.5.3 Suppliers Credit.....	24
2.5.4 Other Sources	25
2.6 Some Challenges Faces by MSMEs in Accessing Funds	26
2.6.1 Collateral and Guarantor	26
2.6.2 High Interest Rates	26
2.6.3 Insufficient Funding	27
2.6.4 Grace Period and Repayment Duration.....	27
2.6.5 Administrative Cost, Bureaucratic and Time Constraints.....	28

2.6.6 The Risk Nature and Information Asymmetry Constraint	28
2.6.7 Managerial and Other Challenges	29
2.7 Promotional Agencies of MSMEs	30
2.7.1 Non-Governmental Organizations (NGOs)	31
2.7.2 Role of Government and His Agencies.....	32
2.7.2.1 The National Board for Small Scale Industries (NBSSI).....	32
2.7.2.2 Business Advisory Centre (BAC)	33
2.7.2.3 Intermediate Technology Transfer Unit (ITTU)	34
CHAPTER THREE	35
METHODOLOGY	35
3.0 Introduction	35
3.1 Research Design.....	35
3.2 Population of the study.....	36
3.3 Sample Size and Sampling Techniques	36
3.4 Data Collection.....	37
3.5 Data Analysis	39
3.6 Reliability and Validity of Data	39
3.7 Ethical Consideration	40
CHAPTER FOUR	41
PRESENTATION, ANALYSIS AND DISCUSSION OF DATA	41
4.0 Introduction	41
4.1 Characteristics of Respondents and their Businesses.....	41
4.1.1 Gender	42

4.1.2 Ages of Respondents.....	42
4.1.3 Educational Attainment of Respondents.....	43
4.1.4 Nature of business.....	45
4.1.5 Business Years.....	46
4.1.6 Business Registration and Type.....	46
4.1.7 Number of Employees and Operating Place of Businesses.....	47
4.2 Internal Sources of funds.....	48
4.2.1 Uses of Internal Sources of Funds.....	50
4.3 External Sources of funds.....	53
4.4 Constraints in Sourcing Funds.....	55
4.4.1 Grace period and Loan Repayment Duration Constraints.....	56
4.4.2 Collateral and Guarantor Constraints.....	57
4.4.3 Insufficient Funding Constraint.....	58
4.4.4 High Interest Rates and Administrative Cost.....	59
4.4.5 Bureaucratic and Time Constraints.....	61
4.4.6 Managerial and Other Constrains.....	61
4.5 Promotional Agencies.....	63
4.5.1 Awareness of Promotional Agencies.....	63
4.5.2 Forms of Assistance.....	64
4.5.3 Qualification for Promotional Agencies Assistance.....	67
CHAPTER FIVE.....	67
5.0 Introduction.....	68
5.1 Summary of Findings.....	68

5.2 Conclusion.....	70
5.3 Recommendations	72
5.4 Direction for further Research.....	74
REFERENCES	
755	74
APPENDIX	78

LIST OF TABLES

<u>Title</u>	<u>Pages</u>
Table 4.1 Educational Attainment of Respondents	45
Table 4.2 Business Type	47
Table 4.3 Place of operation	48
Table 4.4 Internal Sources of Funds	49
Table 4.5 Constraints Face by Enterprises in Accessing Funds	56
Table 4.6 Interest Rate of Lending Institutions	60
Table 4.7 Awareness of Promotional Agencies	64
Table 4.8 MSMEs Benefited from Promotional Agencies	66

LIST OF FIGURES

<u>Title</u>	<u>Pages</u>
Figure 4.1 Sex of Respondents	43
Figure 4.2 Ages of Respondents	44
Figure 4.3 Business Activities of Respondents	45

Figure 4.4 Age of Business	46
Figure 4.5 Sources for Initial (Start-up) Capital	50
Figure 4.6 Sources of for operational / Business Expansion Capital	52
Figure 4.7 Sources of External Funds	54
Figure 4.8 Agencies Assistance to the MSMEs	65

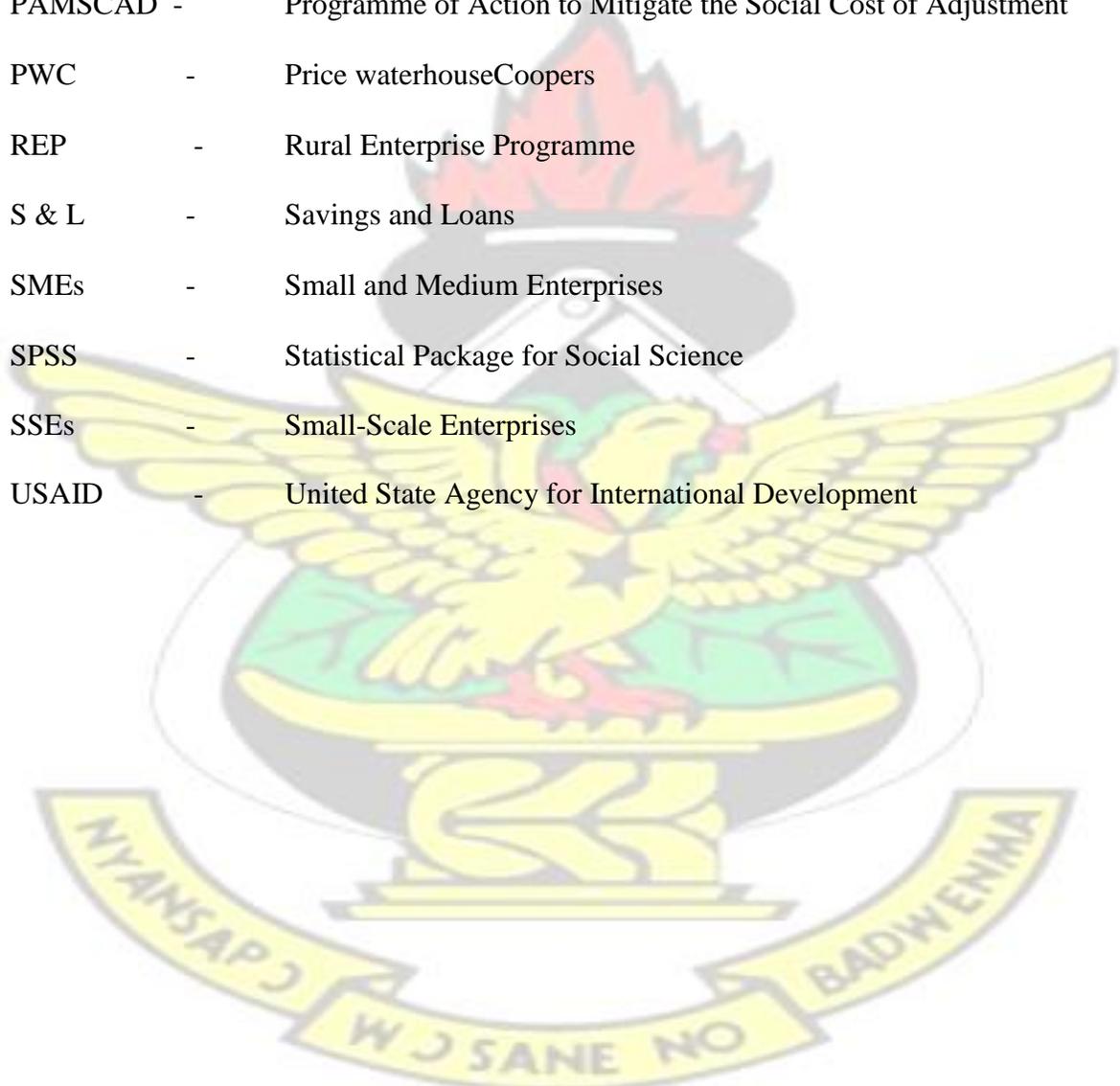
LIST OF APPENDIX

<u>Title</u>	<u>Pages</u>
Appendix A Groupings of Registered Associations with Techiman BAC	79
Appendix B Selected Sample List	80
Appendix C Questionnaires for MSMEs Entrepreneurs	82
Appendix D Interview Schedule for Lending Institutions	86
Appendix E Interview Schedule for Promotional Agency	87

LIST OF ACRONYMS

BAC	-	Business Advisory Centre
GCB	-	Ghana Commercial Bank
GDP	-	Gross Domestic Product
GEDC	-	Ghana Enterprise Development Commission
GRATIS	-	Ghana Regional Appropriate Technology and Industrial Service
GSS	-	Ghana Statistical Service
ILO/JASPA	-	International Labour Organisation
ITTU	-	Intermediate Technology Transfer Unit
MASLOC	-	Micro-finance and Small Loans Centre

MFI	-	Microfinance Institutions
MSEs	-	Micro and Small Enterprises
MSMEs	-	Micro, Small and Medium Enterprises
NBSSI	-	National Board for Small-Scale Industries
NGOs	-	Non-Governmental Organisations
PAMSCAD	-	Programme of Action to Mitigate the Social Cost of Adjustment
PWC	-	Price waterhouseCoopers
REP	-	Rural Enterprise Programme
S & L	-	Savings and Loans
SMEs	-	Small and Medium Enterprises
SPSS	-	Statistical Package for Social Science
SSEs	-	Small-Scale Enterprises
USAID	-	United State Agency for International Development



CHAPTER ONE

INTRODUCTION

1.0 Background to the study

In the past, promotion of large scale Industrial sector of the economy was the most focused, and has attracted the attention of many countries (both developing and developed) in variety of ways for rapid economic growth and development. However, most of these projected growth failed to materialize (McLaughlin, cited in Appenteng *et al.*, 2007). Many developing countries faced with rapid population growth are now considering the promotion of the MSMEs of the economy in their policies for economic growth, development and employment creation for their rapidly growing population.

Globally, MSMEs have become momentous lubricant to national development in both developing economy and developed economy. Studies conducted by Freedman in developed economy like Germany and United Kingdom recognized small businesses as the main engine for growth and development and they account for the highest registered companies with growth and prosperity attributes. In Ghana, SMEs are made up of micro, small, and medium enterprises in both the rural and urban areas. By definition, MSMEs consist of heterogeneous set of activities, many of them in trade and services. It is characterized by small-scale operation, ease of entry, reliance on indigenous resources, family or personal ownership of enterprises, labor-intensive and adapted technology, skills acquired outside the formal school system, and unregulated and competitive markets. MSMEs have been estimated to be providing about 85 per cent of employment in the industrial sector and contributing about 70 per cent of the national GDP. It is also estimated

that about 92 per cent of registered companies are micro, small and medium enterprise (Villars, 2004).

According to National Board for Small-Scale Industries standard, Micro and Small Enterprises are those enterprises employing twenty-nine or fewer workers. Micro enterprises are those businesses that employ between one to five employees with fixed assets not exceeding ten thousand United States dollars excluding land and building. Small enterprises employs between six to twenty-nine or have fixed assets not exceeding one hundred thousand United States dollars, excluding land and building (NBSSI, 2015).

In Ghana sustainable development can be achieved through the promotion of MSMEs because they are increasingly playing a strategic role in economic growth and development through the creation of wealth, employment, and income generation and it is the best fit for the nation's resources. Micro, Small and Medium Enterprises engage in a variety of activities such as transportation, manufacturing, repairs, trade, agriculture, training, financial services, communication, water supply, construction, etc. These attributes have helped to direct the attention of developmental agencies and the government to this sector. In the face of recession in the early 1980, the micro and small enterprises grew tremendously and exhibited unique strength (Grey-Johnson, cited in Appenteng *et al.*, 2007). The sector continued to grow despite the hostile economic, regulatory, and political environment and the entrepreneurs in this sector came to be regarded as highly opportunistic and innovative. The sector emerges instinctively to grab the opportunities

that accompanied the changing business environment. The micro, small and medium enterprises also demonstrated great creativity in starting enterprises with minimum resources. It is said that, most technological innovations and product diversification in Africa came from the MSMEs sector (Juma *et al.*, 1993).

The promotion of MSMEs in Ghana was not encouraging in the 1960's because the president of the First Republic economic policy was to strengthen state participation rather than boosting the domestic indigenous sector. MSMEs were seen as a political threat and economic giants since they were made up of local entrepreneurs. In 1980's the economic turn down which was characterized with rising inflation, deterioration of GDP and falling wages, forced many formal sector employees into secondary self-employment in an attempt to earn extra income. As the economy declined, large scale manufacturing employment stagnated. According to Steel and Webster, (1991), micro and small scale enterprises grew by 2.9% annually, providing employment for many individuals. The National Liberation Council (NLC) in his realization of the potentials of the MSMEs as an accelerator to national economic development in his policy document in 1968 targeted the promotion of this enterprises (i.e. 1968 NLCD 330). The decree package reserved the right for Ghanaians only to undertake certain economic activities. The policy was followed with the Ghana Business Promotion Act in 1970 (Act 334). This also gave rise to the Office of Business Promotion which was the fore-runner of the Ghanaian Enterprise Development Commission which intend gave birth to the present day National Board for Small-scale Industries (NBSSI). Due to some of these policies, many entrepreneurs established MSMEs between 1984 and 1989 in Ghana and increased employment by 71 per cent.

Access to financial resources is considered as the wheels upon which businesses thrive because putting up a new business needs a start-up capital and the successful operation of an existing business also needs regular funds to meet the operational expenses for the survival and growth of the business. Considering the current energy crises in the country, the operational cost of doing business has increased, especially to those who have adopted technology that uses electrical energy. Funds have become very crucial for their businesses sustainability since they now have to adopt other expensive sources of electric energy like use of generators, etc. Contrary, it seems most entrepreneurs face numerous challenges in raising funds to finance their businesses in most African countries especially in developing countries like Ghana. These challenges may be attributed to both internal and external factors like limited sources of capital, poor management practices, low literacy rate, high interest rates on borrowed funds and impeding requirements for funds accessing, etc.

1.1 Statement of the Problem

Financing small-scale enterprises have been one of the main embedded tailbacks to many countries of which Ghana is not exempted. Despite their significant contribution to the development of the economy, MSMEs all over the world complain of difficulties in accessing credit (Dagadu, cited in Appenteng *et al.*, 2007). As stated by Agama, cited in Appenteng, *et al.*, (2007), small enterprises often face problem in acquiring finance from banks because of lack of collateral for their loans and the risk involved in starting up and running small businesses. The inadequate sources to finance micro and small enterprises hinder the expansion of the sector. To be able to take advantage of any perceived business opportunity, prospective entrepreneurs need financial resource for initiating the venture

and for ensuring the operation of the business on a day-to-day basis (Schmitz, 1982). Notwithstanding, the various researches and strategies that have been put forth by institutions and agencies to develop this sector which has been acknowledged and tipped as an engine of sustainable economic growth, it seems much has not been achieved especially in the area of finance to entrepreneurs. It is said that growth realization target envisaged in Ghana's "VISION 2020" and other development plans cannot be achieved without the development of this sector. The mortality of most small businesses may increase if funds are not made accessible to entrepreneurs. In space of this problem, hence the research will help unveil the available sources of finance and provide suggestions on how to minimize some constraints in accessing finance by the MSMEs in the Techiman municipality, to aid MSMEs to sustain their businesses and contribute their quota to the economic growth of the municipality and the nation as a whole.

1.2 Objective of the Study

The main aim of the study is to identify the various sources available for financing MSMEs of the Techiman Municipality.

Specifically, the study seeks to:

1. Examine the internal sources available for financing MSMEs.
2. Examine the external sources available for financing MSMEs.
3. Access the constraints MSMEs face in financing their businesses.
4. Examine the role government, financial institutions and other institutions play in financing MSMEs in the municipality.

1.3 Research Questions

1. What are the various internal sources of finance to the MSMEs?
2. What are the various external sources of finance to the MSMEs?
3. What are the challenges of accessing finance by MSMEs?
4. What role does government agencies and other institutions play in the financing of MSMEs?

1.4 Relevance of the Study

The findings and recommendations of this study will be of immense benefit to the MSMEs in assisting them to know the various sources available to them in financing their businesses and how to make effective use of the various sources. Also, the study will be a valuable tool to assist the various agencies and stakeholders whose aim is to promote MSMEs to redesign strategies to solve the financial problems that micro, small, and medium enterprises faces in financing their businesses. It is further hoped that, it will aid financial institutions to develop strategies of funding MSMEs. It is also envisaged that other researchers will use it as grounds for researching in other regions on the topic or related ones.

1.5 Scope and Limitation of the Study

Geographically, the study was undertaken in the Techiman Municipality of the BrongAhafo Region. A total of 71 entrepreneurs and 5 institutions were selected for the study. The study was structured to cover most of the economic activities of the area like agro and food processing, textiles and garments, handicrafts, detergents production, animals production,

metal fabrication and other service rendering activities like construction, hairdressing, tailoring and dress making, repair services among others.

Generally, some challenges will be encountered in this research work. These challenges may be that the entire MSMEs operating in the municipality cannot be covered. Also the collection of data will not be all that easy since the majority of the target group have little education and do not keep records on their business activities. Notwithstanding that alone, the study also cannot cover the entire financial institutions operating in the area and agencies put in place to support the MSMEs. Above all the findings of the study cannot be used to generalize globally because it uses a case study.

1.6 Organisation of the study

This study is organized in five chapters. The first chapter is an introduction to the study which is informative in the area relating to the background of the study, statement of the problem, objective of the study, relevance of the study. It also includes the scope and limitation of the study and how the research is organized. The second chapter entails the review of relevant and related literature on sources of finance to MSMEs. The third chapter focuses on the methodology employed to the study. This gives the research design, overview of the population, sample size and sampling techniques, data collection procedure, data analysis and how data was tested and ends with some ethical considerations of the study. Chapter four concentrates on the critical analysis of the data collected from the field and interpretation of analysis. Chapter five concludes the research by providing summary of findings and conclusion of the study and ends with some recommendations.

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CHAPTER TWO **LITERATURE REVIEW**

2.0 Introduction

This chapter will delve into a theoretical and empirical review on materials pertaining to the study. Among the areas on which the literature will be reviewed include: theoretical description of micro, small and medium enterprises; relevance of micro, small and medium

enterprises in an economy, internal sources of finance for MSMEs; external sources of finance for MSMEs; some challenges related to the acquisition of finance by small-scale enterprises; and promotional agencies of small-scale enterprises. The intention of consolidating the review in this line is to give a vivid idea on knowledge and existing facts pertaining to the study, and also the gap of knowledge that needs to be filled. Furthermore it will succor in the formulating of the research questions without duplicating what has been done already.

2.1 Definition and Characteristics of MSMEs

The operational or the conceptual definition of small-scale enterprises has always been in the hands of organizations, institutions, governmental agencies, individuals, etc. to conform to their goals or objectives. This has given room to the various definitions in the academia and non-academia fields. As rightly put forth by Storey, (1994), “there is no single or consistently acceptable definition of small firm.” Since enterprises differ in their levels of capitalization, sales, and employment. Definitions which employ measure of size (number of employees, profitability, net worth, etc.) when applied to one sector could lead to all firms being classified as small while the same size definition when applied to different sector could lead to a different result.

According to Malhotra *et al.*, cited in Mabhungu et al., (2012), Small enterprises definition varies from one country to another and it can be considered in terms of turnover, number of employees, assets, and management characteristics. According to them by World Bank definition, a micro enterprise is an enterprise with a turnover of less than US\$100,000, employees of less than 10, a total asset of less than US\$100,000, whilst a small enterprise

is defined as an enterprise with turnover of between US\$100,000 and US\$3million, between 11 and 50 employees, and total asset of between US\$100,000 and US\$3million. Chigumira and Masiyandima, cited in Mabhungu et al., (2012), in their study in Zimbabwe also defined a micro enterprise as an enterprise with less than 10 employees and a small enterprise refers to an enterprise with between 10 and 50 employees.

The European Commission in their definition categorized SMEs into three (3) components. Firms with 0 to 9 employees were termed as “micro” enterprises while those with 10 to 99 employees as “small” enterprises and those with above 99 employees were considered medium. Alternatively, UNIDO’s categorized its definition based on employment as firms with less than 5 employees were termed as “micro” enterprises while those with 5 to 19 employees as “small”. Enterprises with 20 to 99 employees were also termed as medium and those with 100 and above 99 were considered as large enterprises. The critic of these definitions is that they are based solely on employees.

In Ghana, different definition has been given by the various institutions and individuals to suit their function or interest. The Ghana Statistical Service (GSS) for example, in its definition, considered firms with less than 10 employees as micro and small enterprises and their counterparts with more than 10 employees as medium and large sized enterprises. The National Board for Small Scale Industries (NBSSI) in Ghana in their view supported the definition based on number of employees and expanded it to include some assets. They classified businesses as follows: Micro enterprise are those with less than 5 employees, with fixed assets not exceeding US\$ 10,000 excluding land, vehicle and building; Small

enterprise are those with 6 -29 employees, or have fixed assets not exceeding US\$ 100,000 excluding land, vehicle and building; Medium enterprise employs 30 - 99 employees; and Large enterprise comprises of those with 100 and more employee. The Ghana Enterprise Development Commission (GEDC) on the other hand agreed with NBSSI by using a ten thousand US dollars upper limit definition for plant and machinery.

According to Steel *et al*, (1994), Small Scale Enterprises (SSEs) in Ghana can be divided into three categories. These are “micro” employing less than 6 people; “very small” thus those employing 6 to 9 people; and “small” as those with employees between 10 and 29 and those that had employees between 29 to 50 were considered as medium enterprises.

In view of the above definitions, it can be said that there is no unique definition for MSMEs, therefore the operational definition of MSMEs for this study will adopt the definition based on employment used by Steel *et al*,. (1994), where MSMEs are enterprises with employees not exceeding 50 people. The decision on the use of this operational definition is meditative of the situation in Techiman the study area and Ghana as a whole and will permit for a broader inclusion of many enterprises in the study.

Another characteristic that can be used to describe MSMEs is the composition of their major economic activities. In a study carried out by Liedholm and Mead, (1987) in Ghana and some selected African countries indicates that the composition of major activities in the small-scale industries include: soap and detergents production; clothing and tailoring; textiles and leather; blacksmith; tin-smelting; ceramics; food processing; bakeries; wood furniture; electronic and automobile services. According to them an assessment on

available data indicates that clothing production-primarily tailoring and dressmaking dominates most African countries especially Ghana and Nigeria. Wood production-primarily furniture making follows, and metal work, food production (primarily baking), vehicle services, shoe making, electrical and bicycle repairs are all found with some frequency. A survey that supported this was that of Armah cited in Appenteng, *et al.*, (2007) with a conclusion that 48 percent of firms in Swedru comprise of sole proprietorship who engage in apparel production for the domestic market. Ethel cited in Appenteng, *et al.*, (2007), supported this in her study on Small-Scale Enterprise Activities in Techiman. Her findings revealed that the majority of SSEs are involved in the production of “light” consumer goods like clothing, furniture, food, simple tools and also some service rendering activities.

Micro, small and medium enterprises can also be described considering the characteristics of labour employed. The sector is dominated by employees made up of school leavers, redeployed workers, employees seeking to supplement their official income, etc. Cooley and Lutabingwa cited in Mabhungu *et al.*, (2012), reported that the sector depend mainly on family members and apprentices as source of labour. ILO, (1994), findings reveal that, the sector is said to be sub-divided into “organized” and “unorganized.” The “organized ones tend to have paid employees with a registered office, whereas the “unorganized” category is mainly made up of artisans who work in an open spaces, temporal wooden structures or at home and employs little or in some cases no salaried workers. Appenteng *et al.*, (2007) added that the sector has no division of labour, no organizational system and procedures.

In terms of ownership, available evidence indicates that the overwhelming majority of Micro and Small Enterprises (MSEs) are organized as sole proprietorship. Liedholm and Mead, (1998), in a survey in Nigeria, Ghana, and Sierra Leone revealed that over 97 percent of the informal small-scale firms are set up in this fashion. They added that the management and financing of these firms are the aspiration of one man and it is that cleverness, traits and the perseverance of this one-man that affixes the organization and determines its growth prospects.

In conclusion the definition and characteristics of small-scale industries can take different dimensions depending on how one sees it. This prompted Stoner and Fry, (1987) to conclude that, “If one thinks a business is small, then, it probably is.”

2.2 Relevance of MSMEs in the Economy

In more developed economies, the micro and small enterprises are seen as the more suitable enterprises that are more innovative and serves as fertile grounds for the nurturing of new firms. It has been well recognized with evidence that the bulk of goods and services provided by small firms are primarily consumer goods that cater mostly for the need of relatively low-income urban and rural households. In Ghana, the majority of the populace fall within this low-income group, therefore MSMEs tend to be advantageous for the inhabitants of the country since it seeks to provide or produce the basic needs of the populace (ILO, 1998). In a survey on banks conducted by PWC, (2013) in Ghana, it is estimated, that about 90% of companies registered are micro, small and medium enterprises. Some of the MSMEs have evolved to become key suppliers and service providers to large corporations, including multinational and transnational corporations.

Highlighting on employment, Mensah, (2004) aptly said that one of the major challenges facing most developing countries including Ghana is employment generation. He reported that micro and small enterprises generate much more employment in Sub-Saharan Africa since they are more labour intensive as compared to the large scale firms. Therefore a firm that generates more employment per a unit of capital appears to represent activities most appropriate to the country's factor endowment.

International Labour Organisation (Africa employment report) revealed that the sector makes a significant contribution to the GDP in most African countries. PWC, (2013) report estimated that about 49% of Ghana's GDP in 2012 was generated from SMEs and they therefore have an impact on economic growth, income and employment. According to Villars, (2004), SMEs contribute about 70% to Ghana's GDP and account for about 92% of businesses in Ghana. Also, figures from the NBSSI indicate that SMEs constitute about 90% of the private sector's contribution to the GDP of Ghana.

Frimpong of the University of Ghana stated that MSMEs contribute to employment creation, provision of basic goods and services, and generation of export and tax revenues for national socio-economic development. Small scale enterprises contribute greatly to economic diversification, exports, social stability, and also serve as a feeder line for future corporations as it is from among them that most Multi-national companies (MNCs) and large corporations emerge. As such, SMEs capacity development emerges as a key instrument in poverty reduction and sustainable economic development efforts. World

Bank, (1983) reported that the micro and small enterprises provide about 85 percent of manufacturing employment. International Labour Organisation (Africa employment report) shared the same view by reporting that the sector currently employs about 40 to 60 percent of the urban labour force in Africa. Also, in a nationwide survey conducted by Ghana Statistical Service Department (GSS) in 1990, revealed that, Micro and small enterprises form over 90 percent of the industrial establishments and contribute about 46.6 percent of the industrial sector employment (Daily Graphic, June 1990:p7).

Thomi and Yankson, (1985) wrote that in Ghana however, micro and small enterprises do not offer much scope for substantial permanent wage employment but they play crucial role in training entrepreneurs and providing opportunities for employment in almost all the sectors of the economy.

Other writers are of the view that micro and small enterprises perform valuable roles in ensuring income stability and growth. They stimulate equitably distribution of income in urban hubs and rural areas through which they contribute to a more even distribution of economic activities in the region and also aid to slow down the flow of migrants to the large cities.

Juma *et al.*, (1993) share the view that most technological innovation and product diversification in Africa came from this sector. According to them, the small and micro enterprises make use of the indigenous people in the economy; use mainly local resources, promote the creation and use of local technologies and provide skill training at a low cost to society and ILO in a study in 1985 also shares same views. The Bolton Committee (1971)

holds the view that small firms constitute the basis for industrialization because the history of Ghana has completely confirmed that MSMEs have assisted in the country's industrialized process. In effect small-scale enterprises form a potential nurturing ground for indigenous entrepreneurship.

Unpublished report by NBSSI in Ghana summarizes the potential economic and social role of micro, small and medium enterprises as follows:

1. Creates job at relatively low cost.
2. Development of a pool of skilled and semi-skilled workers.
3. Contributes significantly to the economy in terms of output in goods and services.
4. Improve linkages between economic, social and geographical sectors.
5. Acts as ancillaries to large scale enterprises
6. Provides opportunity for developing and adopting appropriate technology.
7. Offers excellent breeding grounds for entrepreneurial and managerial talents, a crucial shortage of which is often a great handicap to economic development.

Owing to these numerous role played by MSMEs, it has been argued that promoting the MSMEs in developing countries will create more employment opportunities, lead to more equitable distribution of income, increase productivity with better technology, and will ensure economic growth and development (Steel and Webster, 1991).

2.3 Sources of Finance for MSMEs

Financing MSMEs have been of great precedence to many governments, policy makers, researchers, economic analyst and especially to business entrepreneurs, to mention but few.

It is said that “without finance no business decision can gain better grounds when implemented,” Just as an automobile cannot work without fuel or energy. Asante (2009) said that, one of the key issues every small business faces is financing. Some questions like where and how the business will secure the funds necessary for its operations are often perplexing. Yet the answer may spell the difference between success and failure.

There have been some propounded theories in funding businesses, According to (Johnsen and McMahon cited in Mabhungu et al., (2012), Alternative Resource (or Bootstrapping) Theory, Pecking Order Theory, Growth Cycle Theory, and Trade-off Theory, are all various theories that explains how enterprises finance their businesses.

According to Auken and Neeley cited in Mabhungu *et al.*, (2012), Bootstrap finance as a method of acquiring the use of resources without resorting to debt or equity financing. They then categorized bootstrap finance into five factor main scopes, namely: ownerfinancing, minimizing accounts receivable, minimizing investment, sharing resources and delaying payments. Bootstrap financing hold the view that businesses will exhaust all possibilities of self-financing before going for external financing sources.

Pecking Order Hypothesis asserts that small firms strive for external sources of finance if only they found internal sources insufficient, (Myers, 1984). This assertion was supported by Wu, Song and Zeng, cited in Mabhungu et al., (2012), that business owners have a scale of preference for funding their businesses and preference is given to the use of internal

sources rather than external sources and also to use debt rather than equity. This is supportive to the bootstrapping theory.

According to Ross ., cited in Mabhungu et al., (2012), using the Static Trade-off Theory, confirms that firms prefer external financing scheme to the extent that the marginal benefit due to tax shield advantage of debt is exactly equal to the marginal cost of financial distress.

According to the trade-off theory, a profitable business is expected to have a higher level of debt in order to offset corporate tax.

Berger and Udell, (1998), commented that small business financial needs follows a growth model as the financial growth model proposes that small businesses have a financial growth cycle in which financial needs and options change as the firm starts-up, grows, gains further experience and becomes more transparent with its information accordingly.

From the above theories or models it can be deduced that sources of finance can be classified under two main categories. Thus 'Internal' and 'External' sources as set forth by Higley and Osborn, (1983).

Sources of finance were enumerated by Ewiwile, Azu, and Owa, (2011), as follows:

- a. The owner-savings and his or her associates like family and friends
- b. Partners and shareholders in the venture
- c. Banks and lending institutions
- d. The small business administration and financial assistance programme.

- e. Members of the trade, including suppliers of materials such as manufacturers and wholesalers, and in some instances, customers who prepay their contracts.
- f. Other businesses, local capitalist sales finance companies, factor and other sources.

2.4 Internal Sources

Internal sources are the available sources of funds within which organization generates funds internally through personal savings, friends and relatives, retained profits, and bootstrapping. It is considered one of the best options because it limits unwanted external interferences and burdens on the enterprise and also serves as a good source of start-up capital. Nevertheless, it is inevitable that, for rapid growth and sustainability, more funds will be needed to keep a balance cash-flow of which relying on internal source sometimes limits the growth of the business.

Deep down history of economic thought, the performance of the entrepreneur in the classical and neoclassical theories is hindered by lack of own or internal capital since borrowing capital requires a reputation (Say, 1979; 1803) or a risk premium (Marshall, 1930; 1890) all cited in Appenteng, *et al.*, In the view of Steel and Webster, (1992), internal source of finance is the cheapest source and it has always been the most widely used source to the micro and small enterprises. Appleby, (1987) supported this idea through his writings on 'the advantages of internal source of finance,' he gave no repayment, no interest payment, and no administrative cost involve in such sources. He further came out with Personal savings, Retained earnings, Sales of un-required assets, and Provision for depreciation as the various sources of internal finance.

2.4.1 Personal Savings

A major source of internal funds can be personal savings, life insurance, or mortgages on houses or cars or funds from other businesses. It is very important for entrepreneurs to own funds since it represents the stake of the entrepreneur and guarantees personal control. Appenteng, *et al.*, (2007) in their study on the savings behaviour of entrepreneurs, reported that savings out of wage income predominates as source of investment capital to MSMEs. In addition personal savings from other activities represent approximately one-third of initial small-scale investment. Appleby, (1987) supported this by commenting that cash deposits, shareholdings or the properties acquired can be brought into the business to expand it. In a survey by Instiful, (2003), he reported that about 68 percent of the respondents finance their businesses through personal savings. According to Ekpenyong and Nyong, and Garcia-Fontes, cited in Mabhungu et al., (2012), findings from their studies carried out in Nigeria revealed that, the majority of small industries use personal savings as a source of start-up finance.

2.4.2 Relatives and Friends

Friends and family members who are supportive of the business idea sometimes provide money either directly to the entrepreneur or indirectly into the business entity. This source of finance refers to any quasi-loan or outright gift from friends or relatives. Although funds raised through this source may be external to the enterprise and its owners, generally it is considered an internal source since it does not require following any credit scoring procedures and it is obtained solely through close and personal relationships. According to Ofori-Amoah, cited in Appenteng *et al.*, (2007) this source is one of the cheapest since it does not attract interest rate and even if any it may be infinitesimal. Although much

research has not established this, gifts and legacies constitute vital source of funds to the small scale enterprises. For example, it is an estimated fact that a number of women receive non-refundable start-up or operational funds from their husbands.

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2.4.3 Retained Earnings

Another cheap source of finance is retained earnings. This is explained as ‘plough back’ profit into business (Appleby, 1987). In other words retained earnings are the profits accruing to the owner of a business but being re-invested. This enables the entrepreneur to have more capitalisations to run the business to achieve growth. This is a cheap form of finance and it is readily available without stress if the business is making profit.

2.4.4 Sales of Un-required Assets

This has to do with selling of unused equipment either as scrap or ‘second-hand.’ In a survey by Appenteng *et al.*, (2007) in Accra, it was found that only 2 percent of her respondents finance their businesses through the sales of un-required assets.

2.4.5 Provision for Depreciation

This connotes the setting aside of money to cover the wearing out of an asset. Thus deducting it against income will reduce profit to be distributed. And this money set aside can be used for financing purpose. In a research finding by Appenteng, *et al.*, (2007), in Accra, less than 6 percent of her respondents finance their business in this fashion.

2.5 External Sources

Despite the fact that MSMEs can finance themselves internally, it is prudent for the entrepreneurs to appreciate the use of additional external funds of any sort to augment the operations of the firm rather than restricting to internal source alone (Stenidle,1984).

External source of finance are those funds acquired outside the firms activities. The sources include; loans and overdraft from banks and microfinance institutions, money lenders, Trade creditors (suppliers), Venture capitalist, government agencies, etc. To access external funds, enterprises need to prepare their businesses idea or plan well to be able to attract other investors or creditors.

2.5.1 Bank Loans or Microfinance Institutions

Bank loans are referred to the fixed amount of money offered by a bank to a customer for an agreed period at a specific rate of interest (McKenna *et al.*, cited in Appenteng, *et al.*, 2007). Bank loans consist of 'short-term loan' those loans considered by the banks for a period of say three years and the main purpose is for working capital. He mentioned overdraft to be the most commonly used short-term loan. Bank overdrafts are excellent for helping a business handle seasonal fluctuations in cash flow or when the business runs into short-term cash flow problems. For medium-term loan, is mainly granted to enterprises for the acquisition of assets and takes period of repayment up to five years (GCB Bank). Long-term loans are granted for a period of five years and above for developmental purposes. European Commission cited in Mabhungu *et al.*, (2012) in a survey indicated that 79% of small businesses in Europe obtain their financing from banks. The situation depicts a different view in Asia and Africa a survey carried out by World Bank Investment Climate

for China found that only 12% of small businesses in China and 15% in Malaysia got loans from banks, (Garcia-Fontes, cited in Mabhungu et al., (2012). In a 2003 World Bank report, most firms use their own finance for both working capital and investment in Mozambique since only 5% of registered SMEs have access to bank finance.

According to Green *et al.*, (2003), microfinance is increasingly becoming important component in the promotional strategies of MSMEs in developing countries.

Microfinance is defined as small-scale financial institution that provides primarily credit and savings to people operating small and micro businesses (Robinson, 1995). According to Kasekende and Opondo, cited in Mabhungu *et al.*, (2012), MFIs in Uganda creates opportunities for weak MSEs to access financial services from them. According to Aryeetey *et al.*, (2006), MFI's are able to design products to suit MSMEs requirements and tastes. Atieno, cited in Mabhungu et al., (2012), argues that they charge higher interest rates that contrast with the formal lending practices, and often impose procedures on borrowers that substantially increase their transaction costs to commensurate their risk of lending to the MSMEs.

Bank loan was recommended as the best out of the alternative external sources of finance to small-scale enterprises considering the interest rate charged by the banks McLaney (2000). Baako (1990), on his part supported this idea but he was of the view that interest rate charged by the banks are relatively low and best in terms of cost of capital as compared to other financiers.

2.5.2 Money Lenders

Money lenders are individuals who are in business to lend money for interest (McKenna *et al.*, cited in Appenteng, *et al.*, 2007). They are also seen as other source which helps micro and small enterprises in financing their businesses. In Ghana a study by OforiAmoah, cited in Appenteng *et al.*, 2007), revealed that inadequate finance to start or expand micro and small business is a problem to many entrepreneurs. He emphasized that as a result of this most of the small business operator's fall on money lenders for loans despite the high interest rate charged. Other writers are of the view that loans from money lenders are attractive to small-scale enterprises because is available without delay and formalities.

2.5.3 Suppliers Credit

This describes the purchase of goods and services by entrepreneurs for which payment are made in a later date. Suppliers' credit is as vital as bank credits since the amount that should be spent for prompt payment could be used as capital on otherwise productive venture which in effect could yield the business additional income McLaney (2000). He further stated that where suppliers are even willing to offer discount for prompt payment instead of credit, then an enterprise should compare the interest rate and weigh the advantages the firm will derive if he goes for the discount as compared to credit payment before making a decision.

In a research into financing small businesses, McLaney (2000) showed that, small businesses widely use supplier's credit as a source of short-term funds. According to him it enables them to acquire stock, raw materials, spare parts and other items which assist the

smooth running of the business. This assertion was supported by a study on financing small-scale enterprises in Ghana, which concluded that about 17 percent of entrepreneurs of small scale enterprises use this source of finance (Tsekpo, 1999).

2.5.4 Other Sources

Venture Capital (VC) is an additional way of raising funds that has become popular in modern business. Merchant banks and investment specialists may be willing to provide finance for a promising and fast-growing smaller business. This usually involves a package that is a mix of share and loan capital. VC's are mainly interested in providing assistance to enterprises with high-growth potential, such as information technology, etc. Normally, venture capital investors provide funds to an enterprise in exchange for company shares. These investors require a business plan that demonstrates high probability of success. McLaney (2000) stated that external equity in the form of venture capital or the stock exchange is usually not available for SMEs.

Business angels are other source of external funds for enterprises. Business angels are professional investors who typically invest in businesses with high growth prospects. Angels tend to have made their money by setting up and selling their own business – in other words they have proven entrepreneurial expertise. In addition to their money, Angels often make their own skills, experience and contacts available to the business. Getting the backing of an Angel can be a significant advantage to MSMEs, although the entrepreneurs lose control over their business.

2.6 Some Challenges Faced by MSMEs in Accessing Funds

Despite the great socio-economic significance of MSMEs, their growth and competitiveness has been compromised by the acute and chronic constraints that they face in accessing funds to finance their businesses especially from the formal external sources of funds, (Abor and Quartey, 2010:218).

2.6.1 Collateral and Guarantor

Cuevas *et al.*, (1993) indicates that access to bank credit by SMEs has been an issue raised repeatedly by numerous studies as a major constraint to industrial growth. The major cause for their inability to raise funds from the financial institutions is the unavailability of collateral to back these facilities as requested by the financial institutions. In support of this Aryeetey *et al.*, (1992) reported on their study that, from the view point of private sector, problems related to collateral and guarantor dominate all other constraints in accessing funds. They are of the view that the availability of collateral plays a significant role in the readiness of banks to meet their demand for credit. Collateral provides an incentive to repay and offset losses in cases of default.

2.6.2 High Interest Rates

High interest rate on credit is seen as a major setback facing small and medium size businesses ability to access credit and pay back without defaulting in Ghana. Steel and Webster (1992) argued that, the cost of funds to entrepreneurs is too high and this deters most firms from accessing credit to finance their businesses. The financial institutions that are to lend to these enterprises sees them to be too risky that in order to compensate for the risk, they choose to lend to the MSMEs by charging higher interest. A study conducted by

Nyantakyi *et al.*, (2015) reported that 87% of the respondents quoted that, interest rates on loans are extremely high, which makes cost of accessing funds by MSMEs too expensive in Ghana. Appenteng *et al.*, (2007) also quoted that some financial institutions charged as much as 10 percent interest per month accumulating to 120% percent interest per annum.

2.6.3 Insufficient Funding

MSMEs mostly are unable to raise the required capital they need for their business from the external sources of funds because their capacity to repay back is debatable and the collateral they usually provide cannot support the loan size requested. Binks *et al.*, (1996) stated that MSMEs mainly offer collateral which is considered inadequate to support for the funds they request to embark on their projects.

2.6.4 Grace Period and Repayment Duration

Grace period is the period between the issue of the loan and the first loan installment. The longer the grace period the better for the MSMEs because it gives them ample time to invest the funds and make returns on it before starting repayment of the credit facility. If grace periods turns to be short, the enterprises are faced with the challenge of starting repayment while the borrowed funds has not been able to generate any or enough returns on the investment the funds was used for.

On the other hand, shorter repayment duration also makes loan installment amount huge, making it difficult for MSMEs to settle their loans without default. Shorter repayment duration means that the loan repayment is spread over a shorter period. In a study by

Ricupero (2002), it was realized that 82% of the respondents were given a repayment period of less than one year. Abereijo and Fayomi (2005) also made a comparable observation when they discovered that the majority of financial institutions loans offered to MSMEs are often restricted to duration far too short to pay off any substantial investment.

2.6.5 Administrative Cost, Bureaucratic and Time Constraints

High cost of borrowing in terms of time spent on accessing loan, higher processing fees to cater for administrative cost and cumbersome bureaucratic procedures is also another challenge faced by the MSMEs in accessing funds (Appenteng, *et al*, 2007). Like any other business, financial institutions spend time in assessing MSMEs which sometimes delay the loan process. Also the administrative cost incurred by the financial intuitions in assessing the MSMEs are pass on to the enterprises in a form of processing fee which adds up to the cost of accessing fund. In a study conducted by RDRS programme. It revealed that while loans from banks may actually cost 16% of interest rate, it may be much higher for the micro and small business since the real cost due to the extensive time needed to make follow-ups on the bank, delays in procedures, higher processing fees, etc. increases the cost of accessing the funds.

2.6.6 The Risk Nature and Information Asymmetry Constraint

MSMEs operations are characterised by non-transparency to outsiders and this creates information asymmetry between them and the financial institutions. Lack of records keeping makes it difficult to assess the nature of risk they face in their operation and this deters the financial intuitions to extend credit to them without fully securing themselves by demanding collateral and guarantor. According to Stiglitz and Weiss, (1981) , and Tucker

and Lean, (2003) micro and small firms have traditionally encountered difficulties when accessing funds to support fixed capital investment and to provide working capital for their operations due to information asymmetry between the lenders and the borrowers (adverse selection and moral hazards). With adverse selection, hypothetical models often assume that, an entrepreneur has some private knowledge about the success and profitability of a project that are not communicated to the financier. The lender cannot differentiate between a high-quality business and a low-quality business and can result in information asymmetry. With moral hazard is the risk that the entrepreneur will redirect funds provided by the lender into a more risky venture than approved since the financier has limited control over funds provided to the entrepreneur because of behavior under conditions of incomplete markets and imperfect information. In a study in Malawi by Daniels and Ngwira, (1993), 17.5% of the total sample attests to the fact that MSMEs have limited access to capital markets, locally and internationally, because of the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms. As a result, MSMEs often cannot obtain long-term finance in the form of debt and equity. According to Levitsky *et al.*, (1993) lending to micro and small enterprises is perceived as taking risk. The uncertainty of fluctuations in their economic activities, mortality rate, etc., makes the lending institutions unwilling to deal with them.

2.6.7 Managerial and Other Challenges

Lack of competent and qualified personnel to manage most MSMEs serves as a constraint in accessing finance. The inability of management to prepare an attractive business plan with feasible projections and also their inability to keep track record of the business transactions makes it difficult for them to access funds. As a result of this type of

uncertainty, financial institutions may deny credit, sometimes to businesses that are credit worthy but unable to report their results (Coleman, 2000). In a study conducted in the Wa Municipality on MSMEs, findings revealed that, managerial competence, were some of the reasons for which most enterprises in the Wa Municipality could not access bank credits for their businesses (Nkuah *et al.*, 2013). Bolton and Bruton (1971) braced this by saying that most enterprises are not able to demonstrate their chances of success in order to persuade potential lenders and financial institutions.

In a nutshell, there are various bottlenecks that hinder the micro, small and medium enterprises ability to access external source of finance in the formal sector. This calls for a strategic research to unearth solutions to eliminate or minimize these bottlenecks.

2.7 Promotional Agencies of MSMEs

Over the years, government and non-governmental agencies had laid great emphasis on development of the small-scale industries in their quest for rapid economic growth and development due to their economic significance. For example the previous government stated that for the country to reach the per capita income of US \$1,000 by 2012, the SMEs need to be supported to grow due to the role it plays in stimulating growth and advocated for the slogan “Golden Age of Business.” Kayanula and Quartey, (2000), stated that strategic institutions were established to aid MSMEs grow and prominent among them are the Business Promotion Office and the present Ghana Enterprise Development Commission (GEDC). The main aim of GEDC was to assist Ghanaian businessmen to enter

into fields where foreigners mainly operated by strengthening small scale industry both technically and financially.

2.7.1 Non-Governmental Organizations (NGOs)

Due to a successful business and investment policies by the government combined with relative political stability in Ghana, it has attracted many developmental agencies and NGOs to the country to assist in the promotion of micro, small and medium enterprises. These NGOs provide technical and financial services to SSEs which is in contradiction to the traditional banks practices (i.e. eschewing hard collateral). For example, they replace it with strong incentive for repayment such as peer pressure and the promise of large loan after repayment, but have achieved high level of loan repayment and savings mobilization. Among the NGOs in Ghana are the Canadian International Development Agency (CIDA), United State Agency for International Development (USAID), Gesellschaft für Internationale Zusammenarbeit (GIZ) or German and international development cooperation, etc. It is said that two NGOs namely Women World Banking and Freedom for Hunger, an international benevolent organization designed partnership dubbed “Credit with Education,” under which they assisted small-scale woman entrepreneurs with financial assistance. As at October, 1996, they disburse an amount of 560.6 million cedis to 2,079 women while savings mobilization by the women rose to 52.1 million cedis.

2.7.2 Role of Government and its Agencies

Government also has demonstrated its support through tax reforms and the establishment of institutions to provide financial and technical assistance to SSEs. For example in the 2005 budget, the Minister of Finance and Economic Planning, Kwadwo Baah-Wiredu, announced a reduction of corporate tax from 32.5 percent to 28 percent and a reduction in withholding tax rate from 7.5 percent to 5 percent all with the aim of strengthening the private sector in economic development. Among some of these institutions also set to provide assistance are NBSSI, BAC, ITTU, etc.

2.7.2.1 The National Board for Small Scale Industries (NBSSI)

This board was established within the Ministry of Industry Science and Technology to address the needs of small industries.

Abako (1994) stated some of the functions of the board as:

- a. Assist the Ministry responsible for Industries in the development and support for SSEs.
- b. Implement policies in relation to SSEs duly approved by government.
- c. Encourage the formation of associations, co-operatives or groups and build industrial estate or any other organization deemed beneficial to SSEs development.
- d. Design, develop, and implement specific plans of action to meet the needs and expectations of organized groups.
- e. Establish the infrastructure required to accelerate the implementation of policies or the execution of programmes.

- f. Organize a field extension network that will identify projects, collect relevant data, disseminate information and provide feedback.

The main activities of the NBSSI for the small-scale enterprises are mainly the provision of financial and non-financial assistance such as technical, managerial and education (NBSSI Magazine, 1994). In terms of financial support a review shows that, the board disbursed about 1.075 billion cedis after 18 years of its establishment to a total of 26,953 enterprises over a period of 7 years. They also receive an amount of 80 million cedis from the government to be used as revolving fund for the procurement of scarce but essential raw materials for the small-scale sector (NBSSI Magazine, 1994).

2.7.2.2 Business Advisory Centre (BAC)

To enable NBSSI to extend their services to many enterprises across the country, the NBSSI set up Business Advisory Centers (BACs) in most districts all over Ghana. There are one hundred and sixty (160) Business Advisory Centres (BACs) across the country, (NBSSI portal, 2015). They provide assistance to strengthen the Small Scale Industries; through advice, financial support and skills and management training. The centre also help people who want to start a new business, those who want to form trade linkages and those whose business are experiencing all form of difficulties (Brown, 1994). To assist in the mitigation of the financial constraints facing the Small Scale enterprises, the Board operates three (3) Small financial Schemes under the following headings. Programme of action to mitigate the social cost of adjustment (PAMSCAD), NBSSI Revolving Fund Scheme and Micro and Small Loans Scheme (MASLOC), etc. All these are attempts to help mitigate the challenges faced by MSMEs.

2.7.2.3 Intermediate Technology Transfer Unit (ITTU)

This unit was established under the Ghana Regional Appropriate Technology and Industrial Service (GRATIS) which was set up by the Ministry of Industries, Science and Technology in 1987 to promote small-scale industries in Ghana. It was intended to develop the engineering ability of small-scale manufacturing and service industries who are in vehicle repairs and other related trade. They perform their functions through the provision of technology information; advice on technical, economic and commercial matters; and on-the-job training technical and administrative skills. So far ITTU have six branches in the country (Techiman, Ho, Kumasi, Sunyani, Tamale and Tema). In 1993 the first batch of 6 blacksmiths drawn from the rural communities in the Central Region passed out while the Textile section also trained 19 entrepreneurs including four males, in batik and tie/dye making (GRATIS, 1993). As at the end of 1995, the unit has trained 74 people in batik and tie/dye making.

According to Berry *et al.*, (2002), there are a number of reasons for the failure of Government support to small businesses. Some of the reasons identified include: lack of awareness (outreach); uneven distribution (concentration in metropolitan areas); the high cost of searching for support services which has not been mitigated by effective information on how and where to access support; and cumbersome administrative requirements of Government programmes resulting in user fatigue and high levels of disappointment.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

In this chapter, much attention would be focused on the research procedure employed in the study. It will discuss the research design, population of the study, sample size and sampling technique, data collection and analysis of the study. The reliability and validity of the data will also be discussed together with the ethical considerations.

3.1 Research Design

A research design is a plan that directs the researcher in the process of collecting, analyzing and interpreting observations (Taole, 2008). The study makes use of descriptive research design to describe the state of affairs pertaining to the Municipality presently. It combines case study and survey in its research design, and uses qualitative and quantitative approach to provide better representation to answer the research questions. The purpose of choosing this combination is that, the study seeks to investigate and describe the sources of finance of the numerous micro and small enterprises in the Municipality. Also, because the targeted population is scattered all over the municipality, the researcher adopts the survey design to survey the enterprises who are members of a registered association with the Municipality or BAC unit of Techiman because he cannot cover the entire Municipality. Fowler, (1988) defines survey design as that which provides a quantitative or numerical description of some fraction of a population through data collection process of asking questions of the people.

3.2 Population of the study

Population is the totality of cases or variables under consideration (Saunders *et al.*, 2007). The Population of the study consists of 713 MSMEs within an association that have registered with the BAC unit of the Techiman Municipality and all the financial institutions that provide the MSMEs with credit facilities. Micro, small and medium enterprises activities predominates the Techiman Municipality forming the major source of income and employment to the inhabitants. The main MSMEs activities are largely of small-scale in nature in areas like vehicle repair, woodwork, dressmaking, food processing (gari, baking, etc), weaving, etc.

3.3 Sample Size and Sampling Techniques

A sample frame of 713 enterprises was attained from BAC because they have already stratified small-scale industries into associations (see Appendix A). A sampling frame consists of all members or elements of a given population under study (Higson-Smith, 1995). A sample size of 71 MSMEs was randomly selected by putting together the various members under each stratum or association. This method would help to increase representativeness of the various micro and small enterprises in the Municipality. As said by Sarantakos (1993), a large sample size does not always guarantee a higher precision, validity or success in a research, but the quality of the results depends on several factors of which size is one of them. Other researchers suggested a 5% sample if the population is in thousands and 10% if the population is in hundreds. In this study, the researcher chose 10% for the sample (i.e. 71 enterprises) because the population is in hundreds. For a proportionate representative of the various stratum, the same 10% of the respective totals

of the sample frame was considered and values were rounded up to the nearest whole number.

The various samples from each stratum were obtained through a simple random sampling. A simple random sample gives each member of the population an equal chance of being chosen (Saunders *et al.*, 2007). This was done by representing each enterprise by a number in a bowl according to the respective numbers assigned to each enterprise in their association register. The numbers were then picked one after the other without replacement till the required proportion was reached. After, an additional two draws were made for each stratum to serve as a “back-up.” This was done to make way for any absence of the selected enterprise.

Five additional institutions were purposively selected. These were Christian Community Microfinance Limited (CCML), Opportunity International Savings and Loans Limited, GCB Bank Ltd, Baba (Money lender), NBSSI and BAC. The banks and the money lender were selected because they have been rendering credit facilities to the MSMEs enterprises for more than 5 years in the municipality. NBSSI and BAC were also selected because they were established to assist the small-scale enterprises in the municipality. In all, the total sample size adds up to seventy-six (76) respondents.

3.4 Data Collection

The main source of data collected in this research is the primary data. The data was collected from the business owners or managers (entrepreneurs) of the micro, small and

medium scale enterprises and the institutions that offers credit and assistance to the enterprises operating in the Municipality. Primary data is the first-hand information collected specifically for the study being undertaking.

The main data collection instrument used in the collection of the primary data was the questionnaire. According to Bell J. (1999), a standardized questionnaire is a reasonable tool that could be employed for quantitative method projects. The research employed the combination of 'self-administered questionnaire' and 'a personal interview questionnaire.' A 'self-administered questionnaire' is a series of questions that are answered by the respondent unaided or with a minimum guidance from the researcher. A 'personal interview questionnaire' seeks to ask questions and record response in a face-to-face interview.

The self-administered questionnaires were administered to the various enterprises to elicit primary information from them. This was made up of 34 questions with 30 closed-ended questions and 4 open-ended questions to solicit respondents' opinion. It also comprised of six sections. Section A inquired a general information about respondents background, Section B seeks information on the enterprise, Section C tried to elicit information on internal sources of finance, Section D tried to elicit information on external sources of finance, Section E sought information on constraints in sourcing funds, and Section F ended it with enterprises awareness on promotional agencies. The Personal Interview Questionnaire was made up of 7 questions for the lending institutions. That of the promotional agencies was made up of 9 questions. The questionnaires were developed in

this form to be able to collect the required information needed to answer the objectives of the study.

3.5 Data Analysis

Data analysis encompasses a process of thorough examination and interpretation in which data is resolved into its integral components, to reveal its distinctive elements and structure. After the data collection stage, the instruments were edited to ensure that all obvious mistakes and omissions have been corrected and accuracy is ensured. The data was then coded and numbers were assigned to attributes. Responses were then entered into a computer using the Statistical Package for Social Sciences (SPSS). For analyzing and interpreting the data, descriptive statistics in the form of frequency and percentage distribution tables, bar graphs and pie charts were computed to make quantitative sense of the characteristics of the data collected from the field. Qualitative analysis was also made on the open-ended responses to provide additional information on the micro, small and medium enterprises in the Municipality.

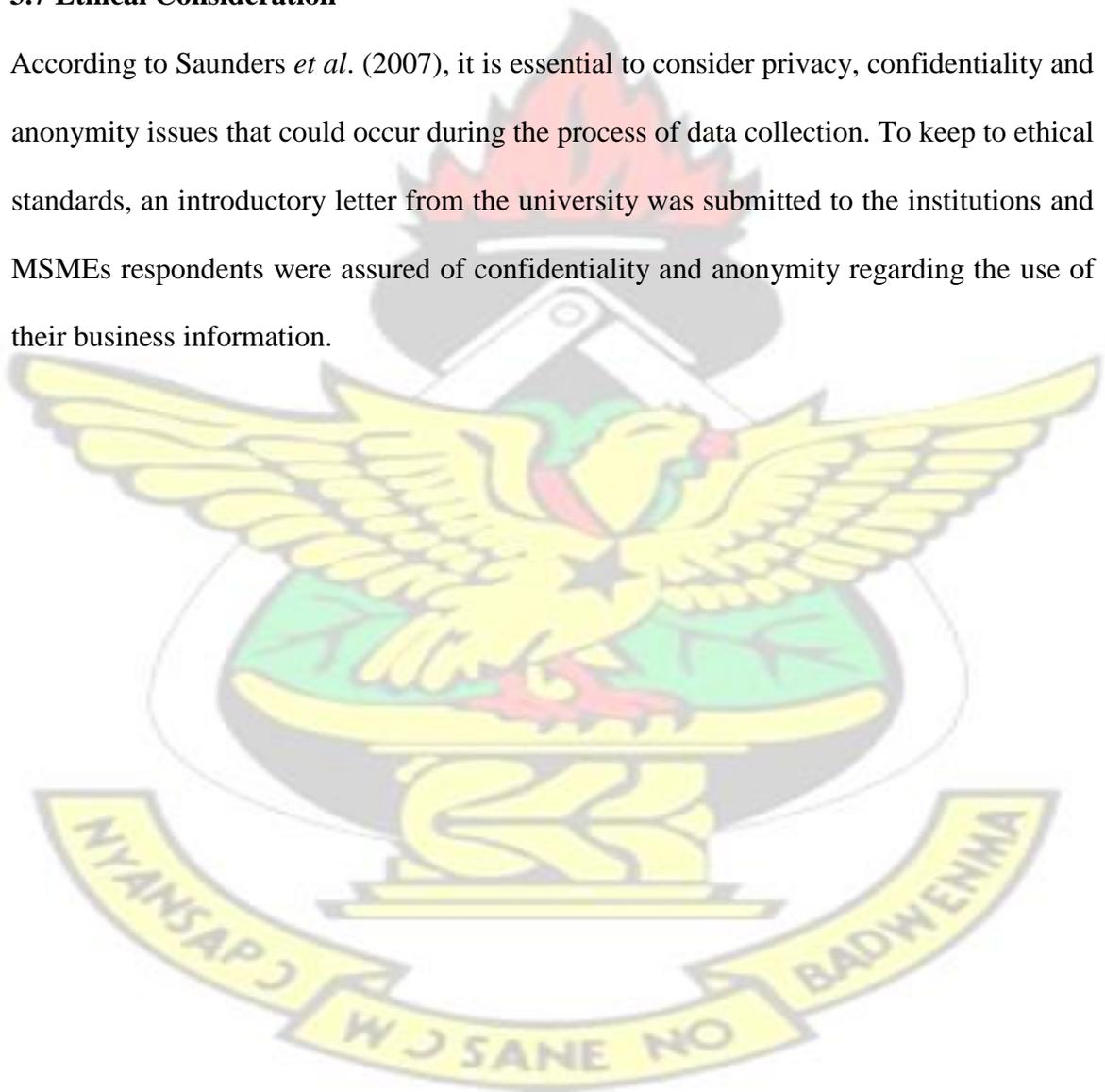
3.6 Reliability and Validity of Data

An instrument exhibits validity if it measures what it was intended to measure and covers all research issues both in terms of content and detail (Taole, 2008). Validity is associated with the accurateness and truthfulness of the findings, while reliability is concerned with the consistency of the tool for measuring (Bell J. 1999). In order to ascertain the validity of the research, the interview guide and the questionnaires were piloted on some selected small and micro enterprises in the Kumasi Metropolis and omission, repetitions and other challenges were rectified. Samples of the questionnaires were also submitted to the

supervisor for comments and the necessary rectifications. To maintain reliability in the study, the same questionnaires were administered to all the respondents in a constructive language to ensure understanding by all respondents. A test and re-test were also conducted to test for reliability and access for consistency.

3.7 Ethical Consideration

According to Saunders *et al.* (2007), it is essential to consider privacy, confidentiality and anonymity issues that could occur during the process of data collection. To keep to ethical standards, an introductory letter from the university was submitted to the institutions and MSMEs respondents were assured of confidentiality and anonymity regarding the use of their business information.



CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF DATA

4.0 Introduction

In the preceding chapter, the methodology of the study was discussed. This chapter analyses and discusses the data collected from the field. The discussion would be divided into five parts. Firstly, it would analyze and discuss primary data on the respondents and their business. Secondly, it would make analysis of the responses obtained from the data collected from the field on the internal sources of financing MSMEs. Section three will follow by analyzing the primary data collected on the external sources of financing MSMEs. The analysis on the fourth section will highlight on some constraints faced by enterprises, lending institutions and promotional agencies in making funds available for MSMEs. Finally, analysis would be made on the promotional agencies.

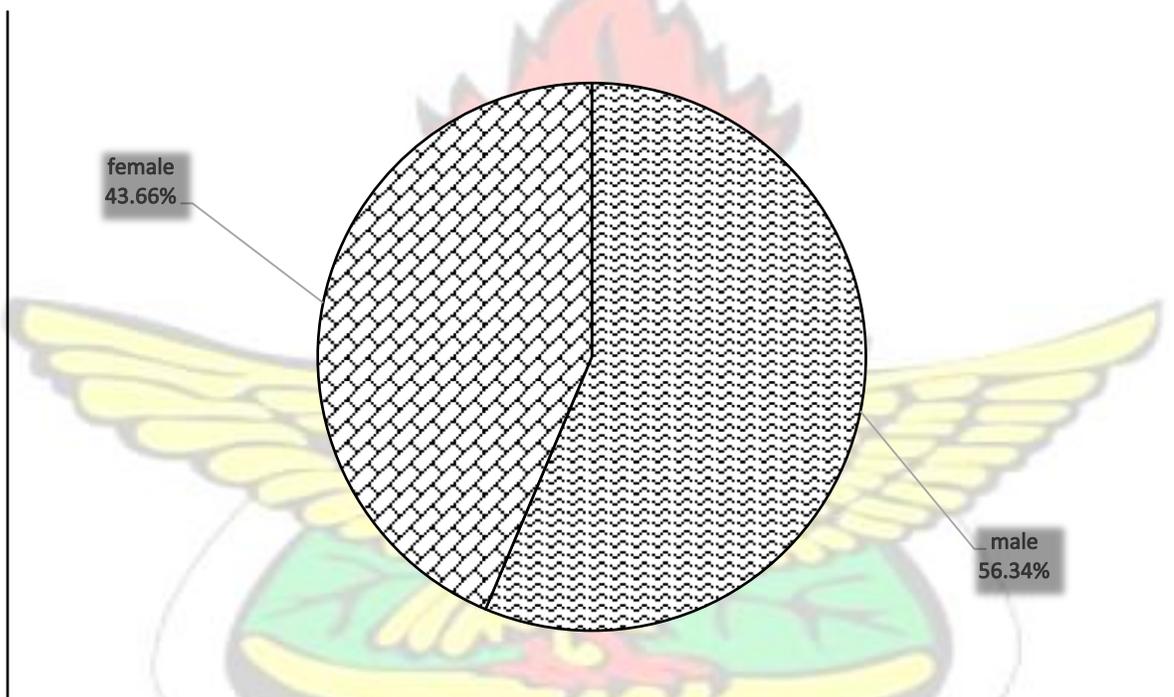
4.1 Characteristics of Respondents and their Businesses

Presentation and analysis on the variables under study, will give the understanding of the nature of respondents and their businesses that were understudied. In all, seventy-one (71) questionnaires were retrieved with the additional five from the institutions making a total of seventy-six (76). The MSMEs questionnaires that were not able to be retrieved were replaced with the “back-up” that were made available during the methodology stage.

4.1.1 Gender

The analysis of the respondents' sex composition in Figure 4.1 below indicates that males accounted for 56.3% (40) while females accounted for 43.7% (31) of the total respondents. Even though this did not depict a fair distribution, it signified that the MSMEs employment creation was without much disparity in terms of gender.

Figure 4.1: Sex of Respondents



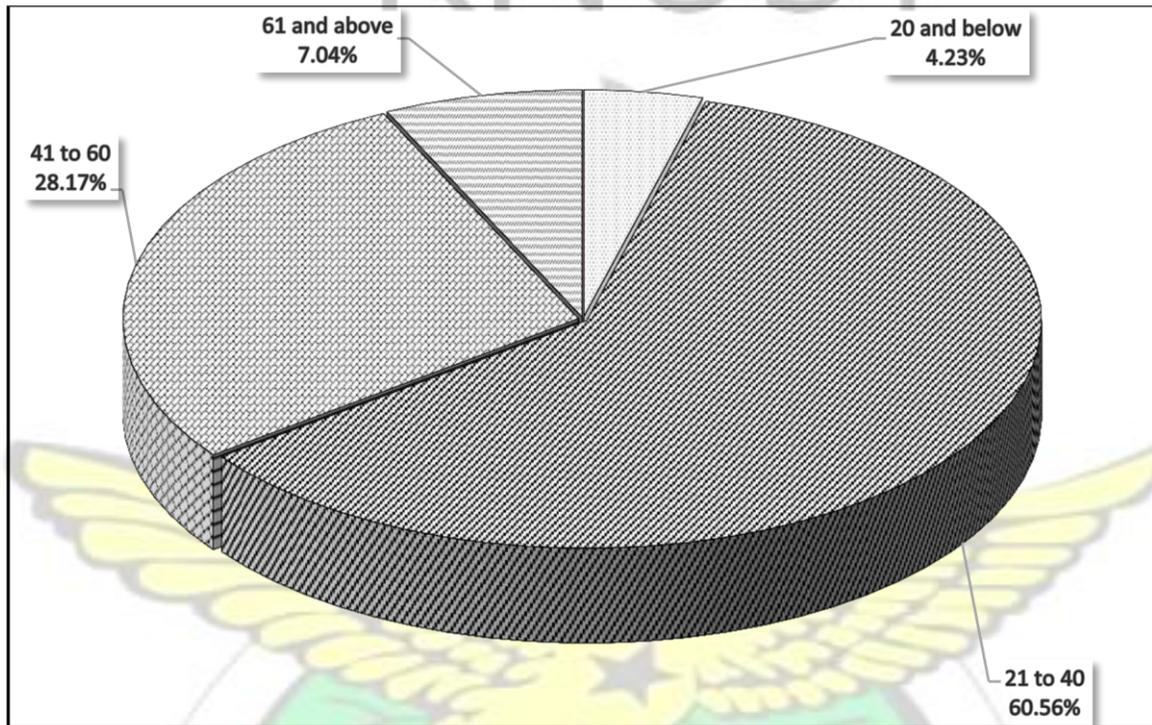
Source: Field survey, 2015

4.1.2 Ages of Respondents

The Findings in Figure 4.2 below revealed that, 88.73% of the respondents were found to be between the ages of 21 years and 60 years. 4.23% were below 18 years and 7.04% of the total respondents were also found to be in the age group of 61 years and above.

However this demonstrated that the sector absorbed a higher fraction of the active labour force, and also created employment for the adult population, thereby reducing the number of unemployment in the municipality.

Figure 4.2: Age of Respondents



Source: Field survey, 2015

4.1.3 Educational Attainment of Respondents

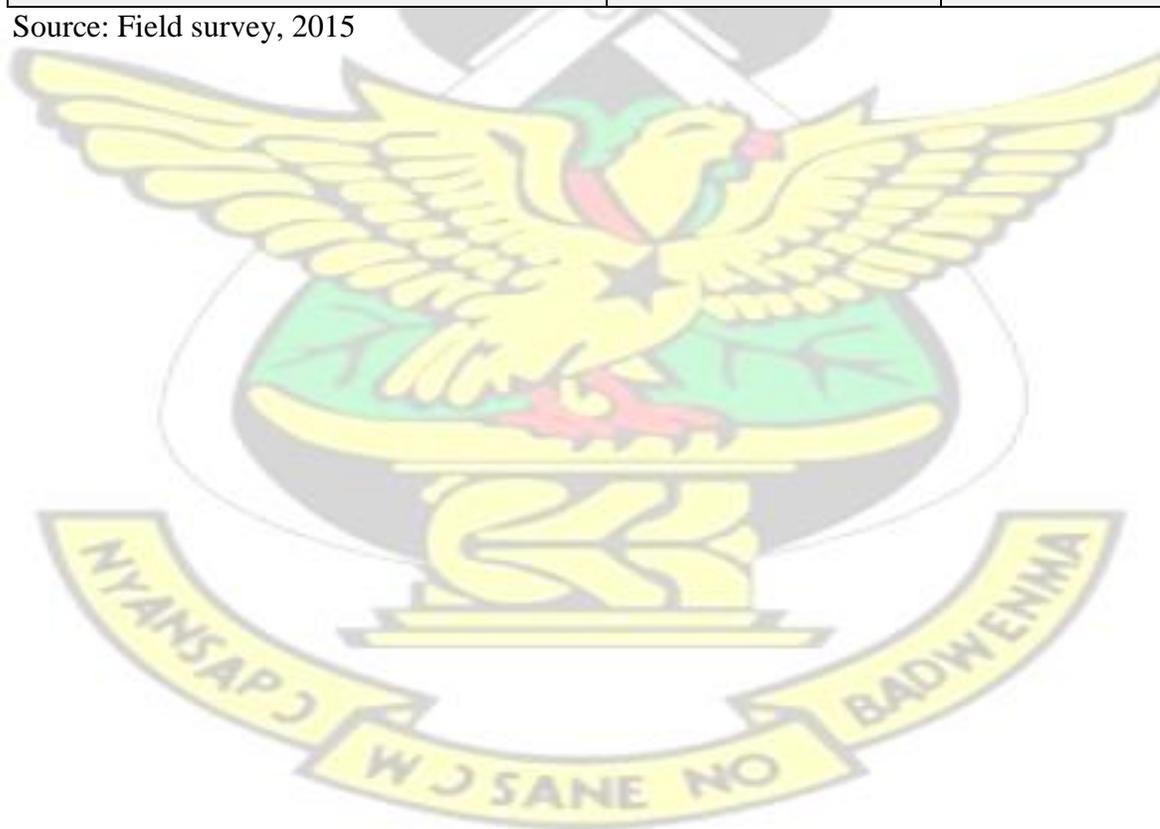
Analysis on Table 4.1 clearly shows that, the majority of the total respondents 28 (39.4%) had attained up to secondary, technical or commercial level of education and 20 (28.2%) had achieved up to middle/JSS level of education, 14 (19.7%) had tertiary education, with 4 (5.6%) attaining up to primary level and 5 respondents representing 7% had no formal education. This had a negative impact on their ability to demonstrate professionalism in

their business management especially, keeping of proper and accurate records. It also implied that the sector was made up of semi-literates.

Table 4.1: Educational Attainment of Respondents

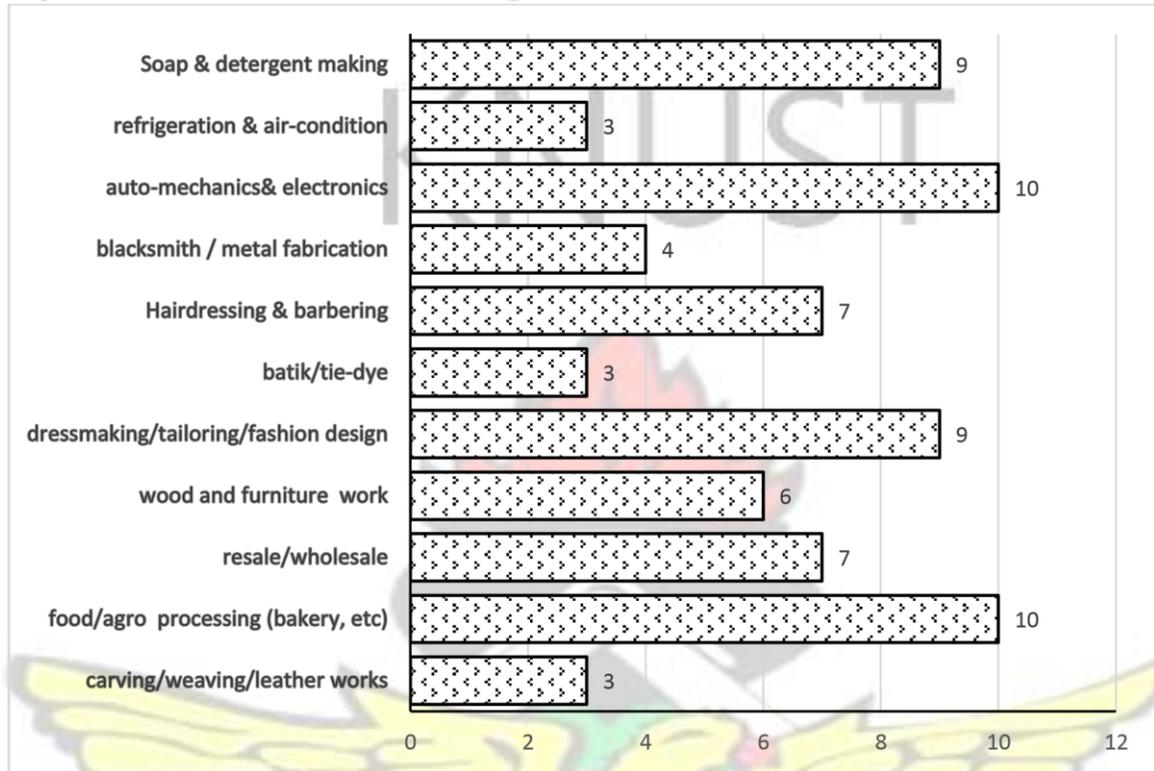
Educational Level	Frequency	Percent (%)
tertiary	14	19.7
secondary/Tech./Com.	28	39.4
middle/Jss/shs	20	28.2
primary	4	5.6
no formal education	5	7
Total	71	100

Source: Field survey, 2015



4.1.4 Nature of business

Figure 4.3: Business Activities of Respondents

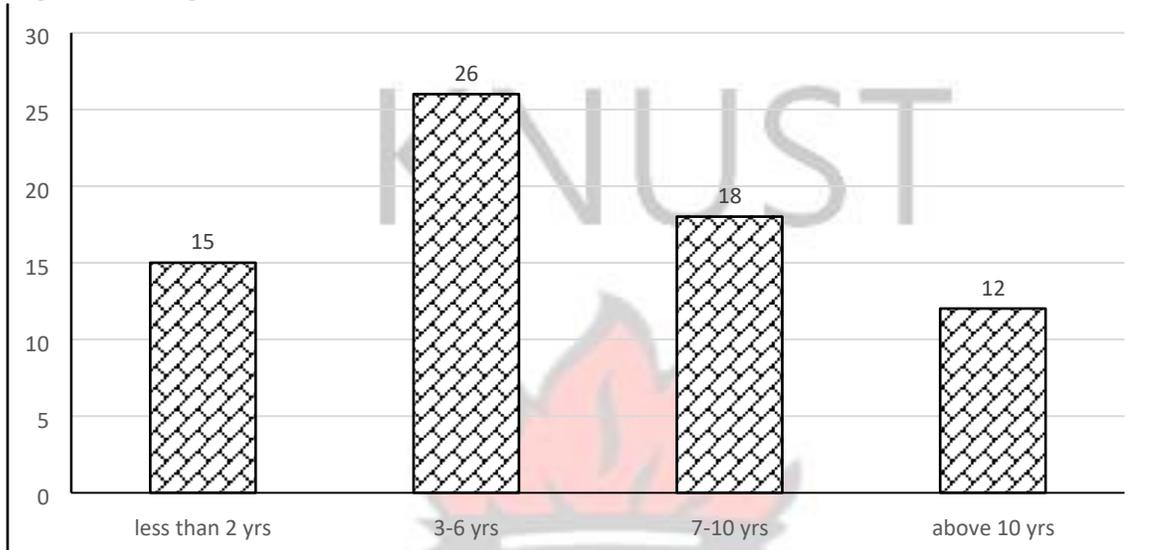


Source: Field survey, 2015

The findings in Figure 4.3 above show that there was a representative of all the major MSMEs activities in the study. The information further revealed that auto-mechanic and food processing had 10 representative in the study each, dress making and detergents making was represented by 9 respondents each, hairdressing/barbering and retail/wholesalers were represented by 7 respondents each, woodworks and metal works were represented by 6 and 4 respondents respectively and refrigeration/air-condition services, weaving/carving/leather works and batik/tie-dye makers were represented by 3 respondents each.. Therefore this will serve as a good basis for making inferences on the whole MSMEs operating in the Techiman Municipality.

4.1.5 Business Years

Figure 4.4: Age of Business



Source: Field survey, 2015

It was realized from the study that 78.9% (56) of the businesses had been in operation for more than three years, and 21.1% (15) of the businesses had been operating for less than two years. This result as shown above depicts that the entrepreneurs had experience in their profession, and were expected to have discovered various sources of financing their business activities. But this was not so, because, linking it to their educational level, they were limited in managerial skills.

4.1.6 Business Registration and Type

Figures from the field also shown that 80.3% (57) of the respondents had not registered their businesses and only 19.7% (14) had their businesses registered. This might have hindered their ability to access loans from banks and won contracts from well-organized institutions and government agencies since their businesses would not have been recognized by such agencies.

Table 4.2: Business Type

Business Type	Frequency	Percent (%)
sole proprietorship	55	77.5
Partnership	16	22.5
limited liability	0	0
Total	71	100

Source: Field survey, 2015

Data from the field also revealed that 77.5% (55) of the respondents operated as a sole proprietorship, 22.5% (16) operated as partnership and none operated as a limited liability company. This finding is in agreement with the findings of Villars, (2004) who estimated that the majority of MSMEs are unregistered and are mainly run as a sole proprietorship. It also confirms the characteristics of MSMEs in Ghana which makes financial decisions a burden of the sole proprietor.

4.1.7 Number of Employees and Operating Place of Businesses

The data collected from the field indicated that 63.4% (45) of the respondents had employees between 1 to 5, 22.5% (16) had employees between 6 and 10, 11.3% (8) of respondents had employees between 11 to 20, with only 2.8% (2) having employees of above 20 workers. There was also a clear indication from the data gathered that most of the employees of the MSMEs were made-up of family members and apprentices with only few paid workers. This shows that the sector served as a source of family employment and a breeding place for new entrepreneurs as reported by Mensah (2004).

Table 4.3: Place of operation

Place of Operation	Frequency	Percent (%)
Garage	13	18.3
Home	17	23.9
permanent structure	15	21.1
wooden / metal structure	21	29.6
open space	5	7
Total	71	100

Source: Field survey, 2015

From Table 4.3, 29.6% of the total respondents operated in wooden structures or containers. Those who operated in garages constituted 18.3% of total respondents, 21.1% of the entrepreneurs operated in permanent structures for which they paid rent. Also, 23.9% operated in their homes and the remaining 7% operated in an open space. This revealed that, the majority of MSMEs in the municipality operated in wooden structures or containers and only few operated in an open place. Also from responses gathered from the survey, the researcher found out that, entrepreneurs paid rents for all the operating places. This means that, rent constituted part of their operating cost.

4.2 Internal Sources of funds

The aim of this section is to elicit Information on the main objective of the study, the researcher surveyed to know the various internal sources of funds available to the MSMEs in financing their businesses. The study revealed that all the 71 (100%) respondents agreed to have used internal source of funds in financing their businesses.

The table below shows the various sources from which funds were raised.

Table 4.4: Internal Sources of Funds

Sources	Frequency	Percent (%)
personal savings	33	46.48
Friends	6	8.45
Relatives	9	12.68
Retain earnings	15	21.13
Selling of assets	8	11.27
Total	71	100.00

Source: Field survey, 2015

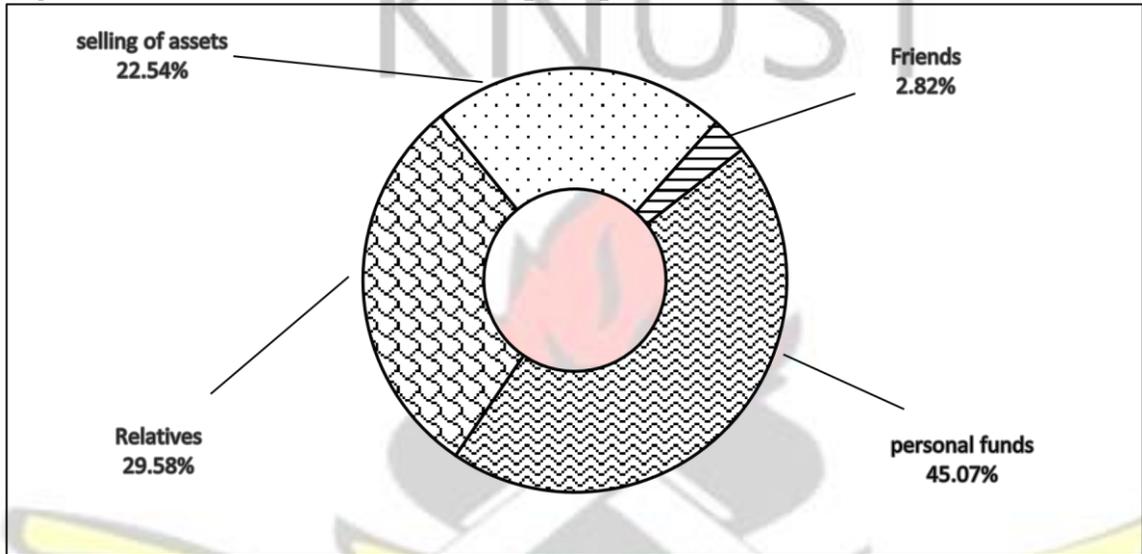
Table 4.4 above indicated that 46.48% (33) of respondents uses personal savings as source of internal funds, 8.45% (6) made used of friends as internal source of fund, 12.68% (9) of the total respondents used funds from relatives as sources of internal funds, 21.13% (15) made used of funds from retained earnings (profit) as their internal source of funds, and the remaining 11.27% representing 8 of the total respondents made use of funds from selling of assets as their internal source of funds.

This implies that personal savings and retained earnings remains the chief source of internal sources of fund. These sources are mainly used because it is easily raised directly by the entrepreneur without relying on someone else. This findings is a reflective of the findings by Instiful, (2003), that about 68 percent of MSMEs finance their businesses through personal savings

4.2.1 Uses of Internal Sources of Funds

Internal sources of funds are mainly used as start-up capital or for business expansion.

Figure 4.5: Sources for Initial (Start-up) Capital



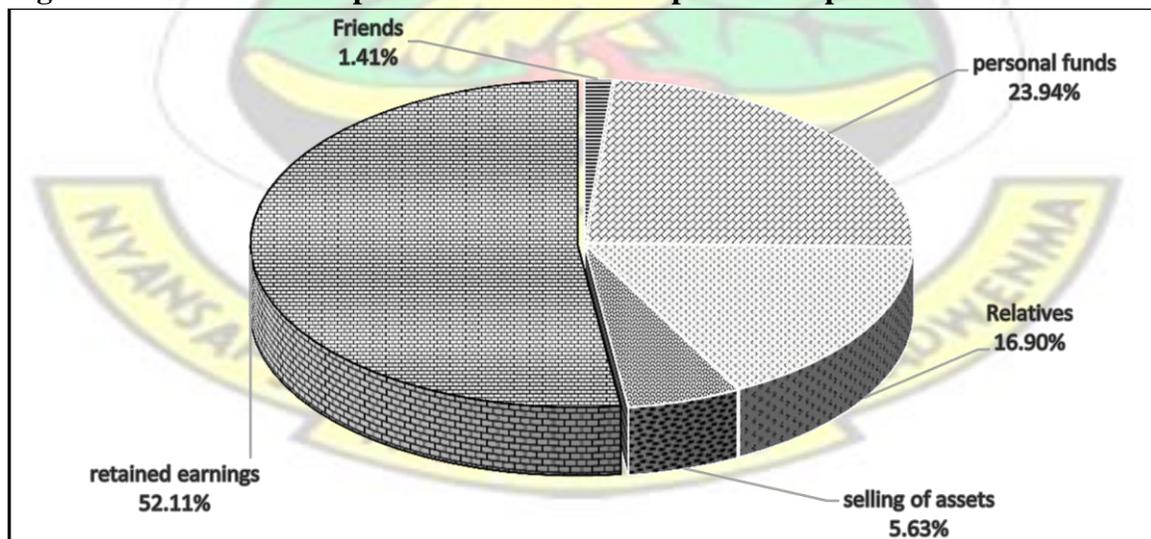
Source: Field survey, 2015

The study disclosed that all the 71 respondents raised their start-up capital from internal source of funds. Figure 4.5 below gives the various internal sources used for start-up capital. From Figure 4.5 above, 45.07% (32) of the entrepreneurs established their businesses with personal savings from previous employment, 29.58% (21) established their businesses with finance from their relatives, 22.54% (16) obtained their initial capital from selling their assets and only 2.82% (2) raised their start-up funds from friends. This result is akin to that of Appenteng. (2007) findings that personal savings predominates the use of internal funds as start-up capital for MSMEs. This is because most businesses do not have any financial records or business plan in raising external fund at the initial stage of their business, so they turn to rely on their personal savings.

The responses also revealed that 47.9% of the entrepreneurs began their businesses with an internal funds of less than one thousand Ghana cedis (Ghs1,000). With regards to whether that capital was enough for initiating the business, the responses were negative as 66.3% of the respondents responded negatively. This implies that, most of the entrepreneurs set up their businesses without acquiring the necessary tools, equipment, and logistics needed for initiating a business because they are not able to raise enough funds using internal sources. This contributed to the slow growth rate of the MSMEs.

The findings also disclosed that it took only 36.6% of the respondents less than two years to raise internal funds for starting-up a business, the remaining 63.4% had to wait for more than three years to raise internal funds before setting-up their perceived dream businesses. This might have had effects on their estimated prices or projected expenditure since prices would have been changed within the three years waiting gap.

Figure 4.6: Sources for Operational /Business Expansion Capital



Source: Field survey, 2015

From Figure 4.6 above, the data from the field indicated that 52.11% (37) of the enterprises had reinvested into their businesses using retained earnings (profit) from their businesses, 23.94% (17) had reinvested personal fund as operational capital and 16.9% (12) were able to attract funds from relatives, while only 1.41% (1) raised working capital from friends. The data further indicated that 5.6% (4) of the respondents sold their assets for working capital or expansion of their businesses. It was realized that selling of assets and accessing funds from friends did not constitute a reliable internal source for business expansion. Retained earnings formed the chief internal source for operational capital and business expansion in the Municipality as also reported in a study by Appleby, (1987) that 'plough back' profit is the main source of business working capital as far as internal sources of funds is concerned because it is easy to raise.

It was also revealed that it took 74.6% of the respondents an average of four months and above to be able to raise additional funds internally for expansion or as working capital. This implies that liquidity can become a challenge to many of these MSMEs. Despite the time constraint in raising internal fund, 97.2% of the respondents agreed that it was an important source of funds and was very beneficial to their businesses, since they did not need to pay any interest, go through any bureaucratic procedures or even open up their business to any external interference as reported by Steel and Webster, (1992) in their study.

In sum, it can be said that, self-finance through personal savings and retained earnings constituted the major source and uses of finance to the MSMEs in the Techiman municipality. However this was not an efficient source because the returns on business

were very low. Therefore savings out of the returns were also very low and it takes a lot of time to raise the needed funds internally.

4.3 External Sources of funds

As part of the study, some financial institutions like GCB Bank, Opportunity International Savings and Loans Ltd (OISL), Christian Community Microfinance Ltd (CCML) and a money lender were interviewed. All the institutions affirmed that they offered credit facilities to the MSMEs. The money lender and CCML attested that, they even extend their credit facilities to non-customers. GCB said they do not extend their credit to non-customers because they cannot assess the reliability and trustworthiness of non-customers.

The majority of the respondents were able to access external funds to augment their business operations. The figure below represents the various sources from which external funds were raised in the Techiman municipality.

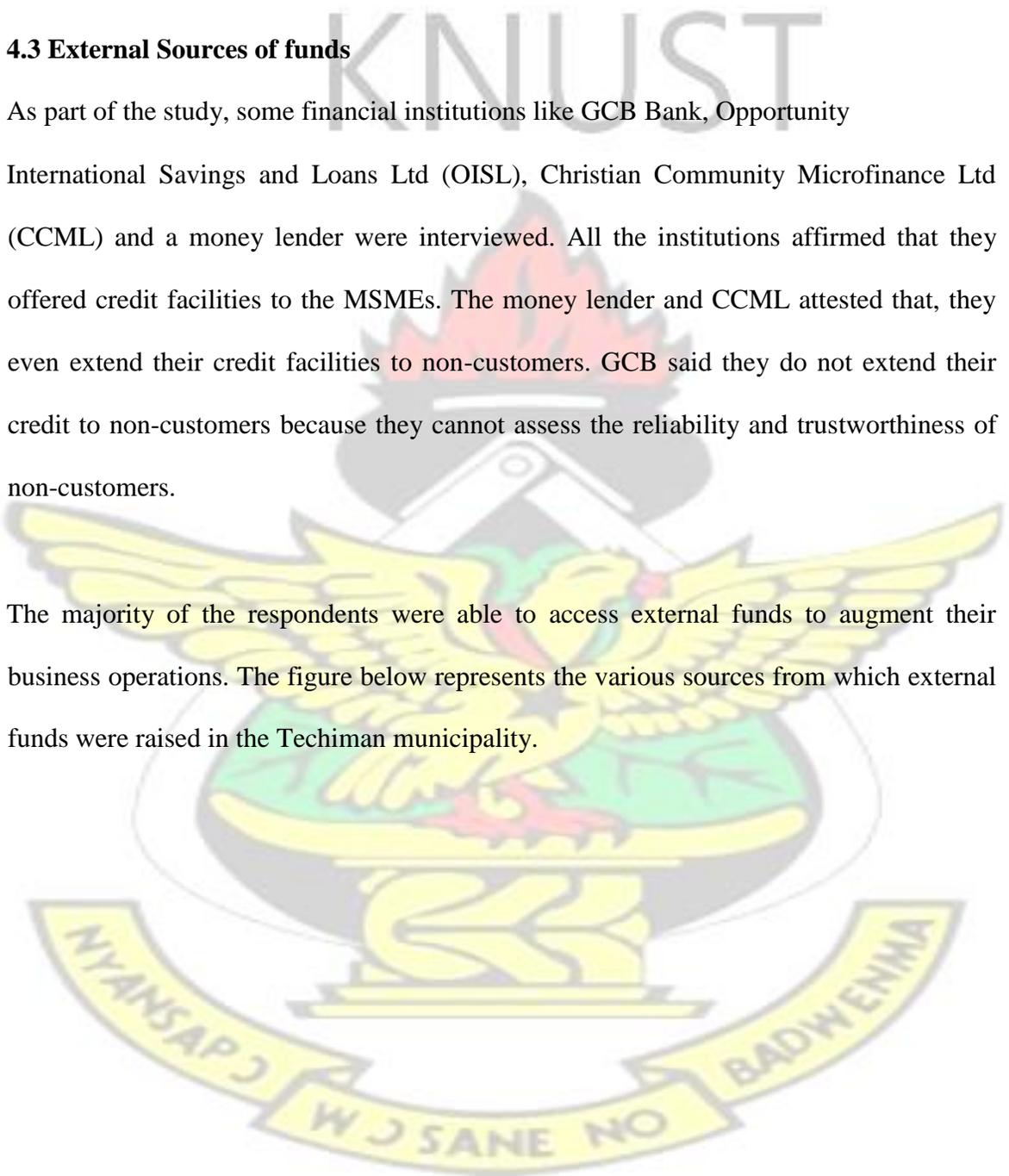
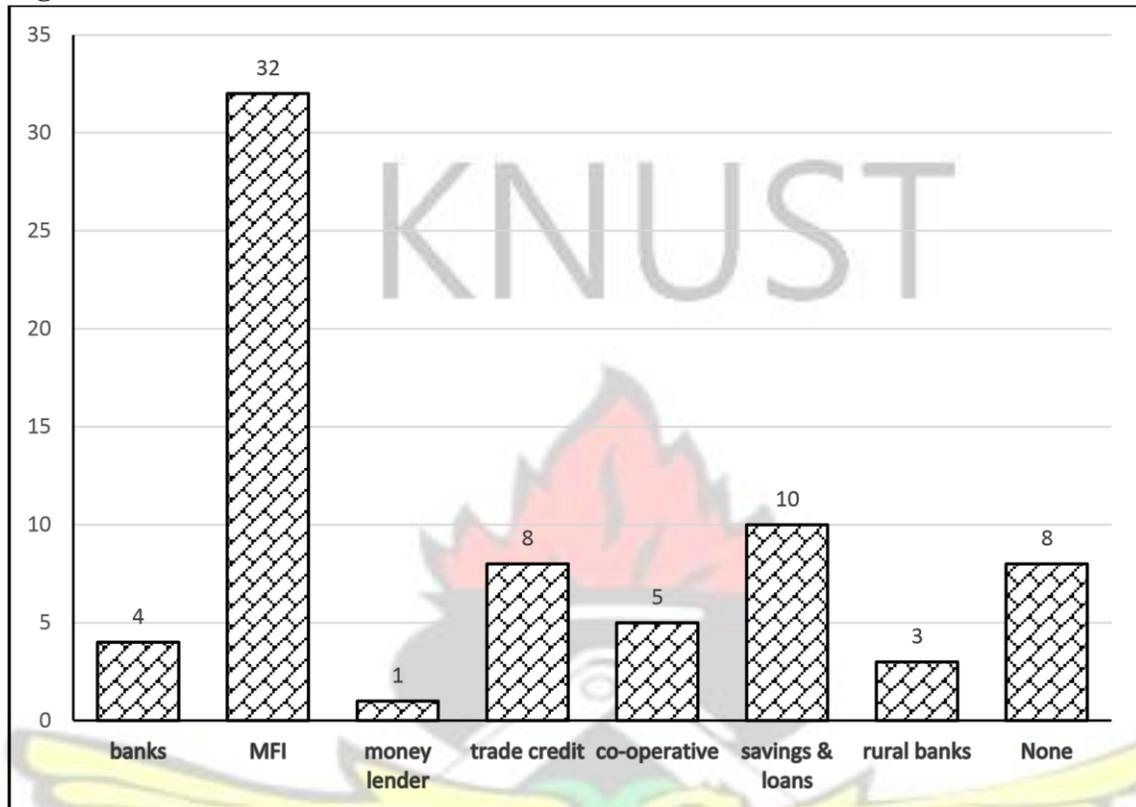


Figure 4.7: Sources of External Funds



Source: Field survey, 2015

From Figure 4.7, 45.1% (32) of the enterprises raised MFI fund to expand their businesses or used it as working capital, 14.1% (10) of the respondents raised their funds from savings and loans financial institution, 11.3% (8) used trade credit as external source of funds since it was easy to access and was at a lower or no cost. Co-operative and unions served as the fourth source of external funds used by MSMEs in the Municipality as they represented 7% (5) of the respondents. Banks also represented sources of external funds used by MSMEs in the municipality as they formed 5.6% (4) of the respondents' source of funds, but was mainly used by the well organized and registered MSMEs. Rural Banks and money lenders were the minor source of external source of funds used in the Municipality as they represented 4.2% and 1.4% respectively. Though interest rate were not that high with the

rural banks, they hardly administered big loans as per respondents commented and with the Money lender they were not well patronized because of the exorbitant interest they charged on their credit.

It was also noted that 33 of the respondents used the accessed funds for working capital; while 29 used it to expand their businesses. Again, data from the study revealed that 73.3% of the respondents raised funds externally within a period of less than one month, 15.5% (11) raised external funds in less than three months, and 7% (5) of the enterprises raised external funds in less than six months with only 4.2% using above six months in raising funds. This implies that it takes a shorter time to access funds externally if requirements are met.

4.4 Constraints in Sourcing Funds

The purpose of this section is to assess some constraints MSMEs face in financing their businesses thereby impeding their growth potentials. Also, what hinders financial institutions and promotional agencies from advancing credit to micro, small and medium enterprises in the Techiman Municipality will be assessed. Sixty three of the responses were collected from the field as only 63 of the respondents had accessed external funds. Respondents were entreated to rate some constraints they faced using five (5) points Likert scale of (1= strongly disagree, 2 = disagree, 3 = neutral, 4= agree, 5 = strongly agree) and the frequency of their responses were provided in Table 4.5.

Table 4.5: Constraints Face by Enterprises in Accessing Funds

Response(s)	strongly disagree	disagree	neutral	agree	strongly agree	Total
shorter grace period	1	11	4	21	26	63
insufficient approved funds	2	8	7	35	11	63
high interest rate	9	12	1	17	24	63
high administrative cost	16	23	5	14	5	63
time constraint	8	38	3	8	6	63
shorter repayment period	10	27	1	15	10	63
complex bureaucratic procedure	14	20	4	17	8	63
no collateral and guarantor	6	11	9	12	25	63
unavailable business record	14	9	24	7	9	63
Total	80	159	58	146	124	567

Source: Field survey, 2015

4.4.1 Grace period and Loan Repayment Duration Constraints

Findings from Table 4.5 below depicted that 26 of the respondents, equivalent to 41.27% of the respondents, strongly agreed that grace period provided by financial institutions after disbursement to start loan repayment was insufficient or too short. 21(33.33%) also agreed to the contention that grace period was too short. Respondents who were neutral on the assertion that financial institutions provided shorter grace period accounted for 4 (6.35%) of the respondents. 11 (17.46%) and 1 (1.59%) of the respondents disagreed and strongly

disagreed respectively that grace period given by financial institutions were shorter. This implied that the majority of the enterprises regarded grace period to be shorter and did not allow them to turn-around borrowed funds to enable them make returns to pay back the loan. This might have accounted for their high default rate.

Findings from the field as shown in Table 4.5 revealed that 10 of the respondents, equivalent to 15.87% of the total respondents, strongly agreed that loan repayment duration given by financial institutions was short. 15 (23.81%) also agreed to the assertion that loans repayment duration given by financial institutions was short. Respondents who was neutral on the assertion accounts for 1 (1.59%) of the total respondents. 27 (42.86%) and 10 (15.87%) of the respondents disagreed and strongly disagreed respectively that loans repayment duration given by financial institutions was short. This findings is in contrast with the findings of Ricupero (2002) where 82% of his respondents cited shorter loan repayment as major constraint. The majority of the respondents were of the view that longer repayment periods made cost of funds expensive since interest amount increased by duration

4.4.2 Collateral and Guarantor Constraints

The responses from Table 4.5 further illustrated that 25 of the respondents, corresponding to 39.68% of the respondents, strongly agreed that collateral and provision of guarantor in accessing funds were major constraints to the MSMEs. 12 (19.05%) also agreed to the assertion that collateral and provision of guarantor were the major constraints to the MSMEs. 9 (14.29%) of respondents were neutral on the fact that collateral and provision of guarantor were the major constraints to the MSMEs. Respondents who disagreed and

strongly disagreed that collateral and provision of guarantor accounts to the major constraints in accessing funds by MSMEs were 11 (17.46%) and 6 (9.52%) respectively. This finding complement that of Agama, cited in Appenteng *et al* , (2007) and the findings of Aryeetey *et al.*, (1992) who reported that, from the view point of private sector, problems related to collateral and guarantor dominate all other constraints in accessing funds. This can also be attributed to the fact why NGOs and agencies try to eschew hard collateral when providing financial assistance to the MSMEs to enable them access funds. The majority of the enterprises found it difficult in raising external funds from financial institutions because they are not able to provide collateral and guarantor as security in sourcing for external funds.

4.4.3 Insufficient Funding Constraint

From Table 4.5 above, findings also showed that 11 of the respondents, equivalent to 17.46% of the total respondents, strongly agreed that funds approved by financial institutions were insufficient as compared to what they applied for. Thirty-five (35) of the respondents, representing 55.56% of the responses also agreed to the assertion that funds approved by financial institutions were insufficient as compared to what they applied for. Respondents who were neutral on the assertion were 7 (11.11%) out of the total respondents. Eight (12.70%) and 2 (3.17%) of the respondents disagreed and strongly disagreed respectively that funds approved by financial institutions were insufficient as compared to what they applied for. The findings suggested that the majority of the enterprises could not raise enough funds as per their projected budget and this created a gap in fully financing their projected projects. This transforms negatively on their estimated returns which made it difficult for them to grow as expected or make enough fund to pay

back the loan as it supports that of Binks *et al.*, (1996). It may also be the reason why they sometimes diverted funds for other projects rather than the intended purpose since they could not fund fully their intended project.

4.4.4 High Interest Rates and Administrative Cost

The responses from Table 4.5 above revealed that 24 of the respondents, equivalent to 38.10% of the respondents, strongly agreed that high interest rate on loans was a major constraint in accessing external funds by enterprises. 17 (26.98%) also agreed to the assertion that high interest rates hindered enterprises ability to access external funds. Respondent who was neutral on the assertion that high interest rate hindered the ability of enterprises to access external funds accounted for 1 (1.59%) of the total respondents. 12 (19.05%) and 9 (14.29%) of the respondents disagreed and strongly disagreed respectively that high interest rate hindered the ability of enterprises to access external funds. This confirms the study conducted by Nyantakyi *et al.*, (2015) who reported that 87% of the respondents cited interest rates on loans as extremely high, which makes cost of accessing funds by MSMEs too expensive in Ghana. This implied that the majority of the enterprises regarded high interest rate as a challenge in accessing external funds. Aryeetey *et al.*, (2006), also reported that high interest rate deterred most of the MSMEs from borrowing but further argued that interest rate charged by the banks are relatively low and best in terms of cost of capital as compared to other financiers like Money lenders and MFIs. The table 4.5 below confirms the assertion above.

Table 4.6: Interest Rate of Lending Institutions

Lending Institution	2014	2015
GCB	28.5%	31%
OISL	32%	36%
CCML	34 - 52%	44.4 - 60%
Money Lender	130%	130%

Source: Field survey, 2015

Observation from table 4.6 shows that, GCB charged an annual interest rate of 28.5% for the year 2014, and about 31% currently (2015). CCML on their part charged an annual interest rate in a range of 34 to 52 % for the year 2014, and a range of 44.4 to 60% for the year 2015 up to the time of the study. For the money lender, an average interest rate of 10.00% is charged monthly. This constituted about 120% annual interest rate making it very difficult for enterprises to access external funds.

Furthermore, Table 4.5 above revealed that 5 of the respondents, equivalent to 7.94% of the total respondents, strongly agreed that high administrative cost deterred enterprises from accessing funds from financial institutions because it added up to the cost of funds. Again 14 (22.22%) also agreed to the assertion that high administrative cost deterred enterprises from accessing funds from financial institutions. 5 (7.94%) of the total respondents were neutral on the assertion that high administrative cost deters enterprises from accessing funds from financial institutions. Also, 23 (36.51%) and 16 (25.40%) of the respondents disagreed and strongly disagreed respectively that high administrative cost deters enterprises from accessing funds from financial institutions because it adds up to the cost of funds. This implied that the majority of the enterprises did not consider high

administrative cost as deterrence for accessing fund though it adds up to the cost of funds as reported by Appenteng *et al.*, (2007).

4.4.5 Bureaucratic and Time Constraints

Evidence from Table 4.5 above showed that, 14 of the respondents, equivalent to 22.22% of the total respondents, strongly agreed and agreed that a lot of time was spent in accessing funds from financial institutions. 3 (4.76%) of the respondents had a neutral view that a lot of time was spent in accessing funds from financial institutions. The remaining 46 (73.02%) held to the opinion that accessing fund from financial institutions did not take much time when requirements are met. This is in agreement with the assertion made previously that 73.3% of the respondents were able to raise external funds in less than a month.

The findings in Table 4.5 showed that 25 of the respondents, equivalent to 39.68% of the total respondents, strongly agreed that they go through a lot of complex and bureaucratic procedures in accessing funds from financial institutions. 4 (6.35%) of the respondents had a neutral view that they go through a lot of complex and bureaucratic procedures in accessing funds from financial institutions. The remaining 34 representing 53.97% of the total respondents held to the opinion that complex and bureaucratic procedures in accessing funds from financial institutions were not much of a constraint and is in contrast with the findings of Appenteng *et al.*, and (2007).

4.4.6 Managerial and Other Constrains

Evidence from Table 4.5 above showed that 16 of the respondents, corresponding to 25.40% of the respondents, strongly agreed and agreed that they did not have records on

their businesses. 24 (38.10%) of the respondents had a neutral view that they did not have records on their businesses. The remaining 23 representing 36.51% disagreed and strongly disagreed that they did not have records on their businesses. The above implied that most of the enterprises kept records but the higher neutral responses indicated that they were not certain if the records they kept were in agreement with what the financial institutions were expecting from them in accessing funds. This can also be linked to the educational levels of the managers which makes it difficult for them to follow standardize business practices.

Data collected from the lending institutions again revealed that the portfolio mix of the banks were not favorable to the MSMEs as on the average less than 25% of the banks funds were channeled to the MSMEs though these enterprises constituted the highest numbers of businesses in the Municipality.

According to the lending institutions, the major challenges that hindered their ability to increase their lending activities to the MSMEs were as follows; Disloyalty on behalf of the enterprises, this was sometimes due to external shocks (natural disasters), and sometimes because of misappropriation of the funds they secured; Collateral of which most of the entrepreneurs did not have the basic requirements of the lending institutions; Interest rate of which entrepreneurs normally complained about the high interest rate, but according to the lending institutions this could not be ignored or reduced because of the level of the prime rate, the cost and risk involved in dealing with the MSMSEs; and Poor management practices by most of the enterprises which made monitoring and assessment very difficult.

4.5 Promotional Agencies

In examining the role promotional agencies and other institutions play in financing MSMEs in the Techiman Municipality, it was realized from the study that NBSSI, BAC and the Rural Enterprise Programmed were the main agencies that assisted MSMEs in the Techiman Municipality. These agencies formed the government acme body responsible for the development of the sector. According to these agencies, a micro, small medium enterprise is any business entity with less than 50 employees and has a fixed asset of less than one hundred thousand dollars (US\$100,000.00).” This definition is in consonance with that of Steel *et al.*, (1994). It also shows that all the research respondents’ fall within the agencies definition.

4.5.1 Awareness of Promotional Agencies

It was realized that the majority of the MSMEs were aware of the existence of one or more of the promotional agencies in the municipality. 36.6% were aware of NBSSI, 25.5 were aware of BAC, 11.3% were aware of ITTU - Rural Enterprise programme and 26.8% of the respondents had not heard of the existence of any of the promotional agencies in the Municipality as Table 4.7 below reveals.

Table 4.7: Awareness of Promotional Agencies

Institutions	Frequency	Percent (%)
NBSSI	26	36.6
BAC	18	25.4
ITTU (Rural Enterprise)	8	11.3

None	19	26.8
Total	71	100

Source: Field survey, 2015

KNUST

4.5.2 Forms of Assistance

Evidence revealed that, NBBSI coordinate the activities of BAC. BAC on the other hand offers assistance in the form of managerial and technical aid through organizing of training and workshops for the entrepreneurs. The managerial assistance include; assisting entrepreneurs to prepare business plans, enlightening them on how to keep proper and accurate records in accounting and other business activities, and also educate them on financial management and how to access loans from financial institutions. In the case of technical assistance, the agencies offer training on better utilization and maintenance of machinery and equipment which they do with the assistance of the ITTU. For financial assistance, the agencies grant loans and credits to its customers especially start-up capital for newly trained entrepreneurs.

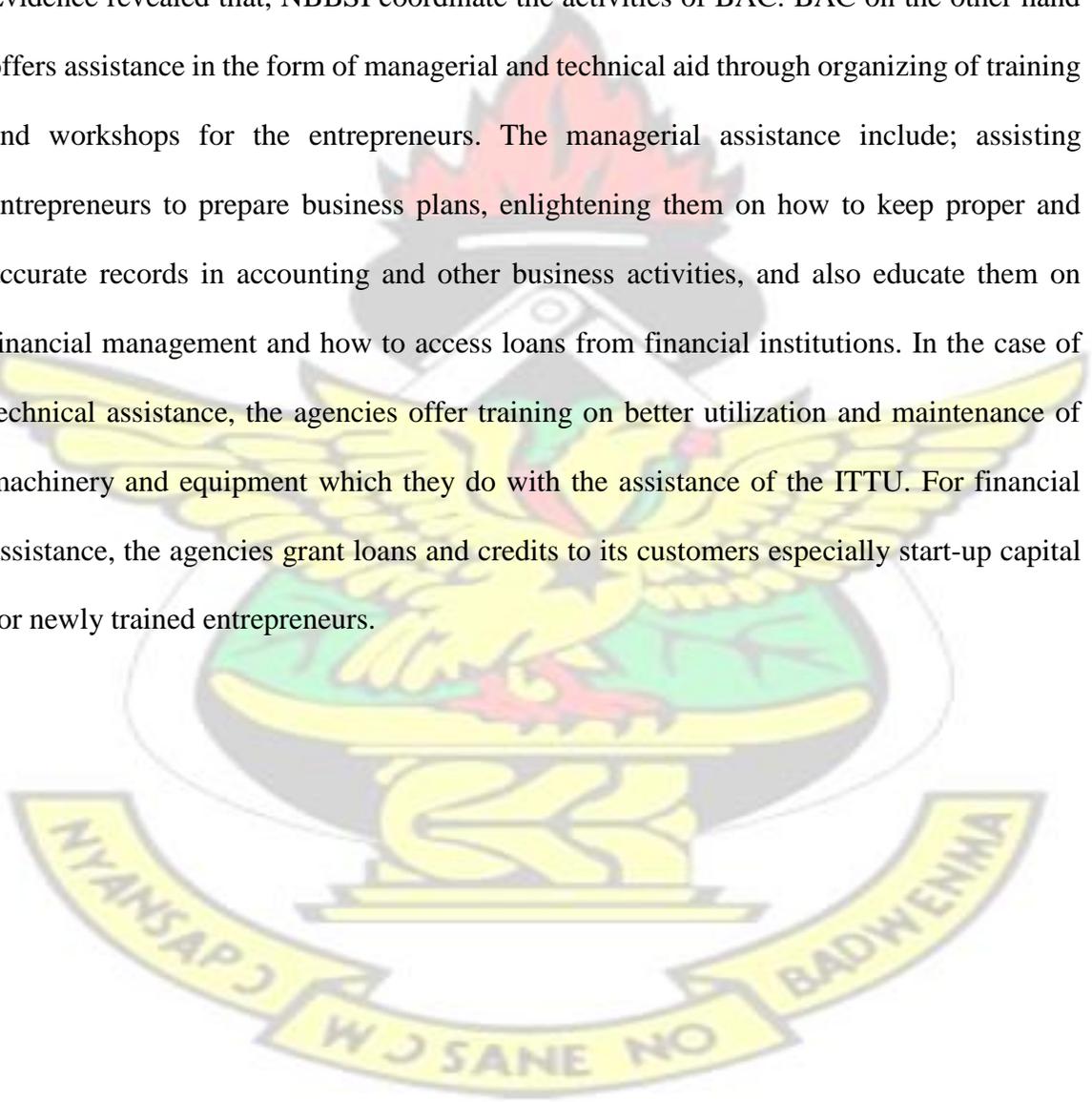
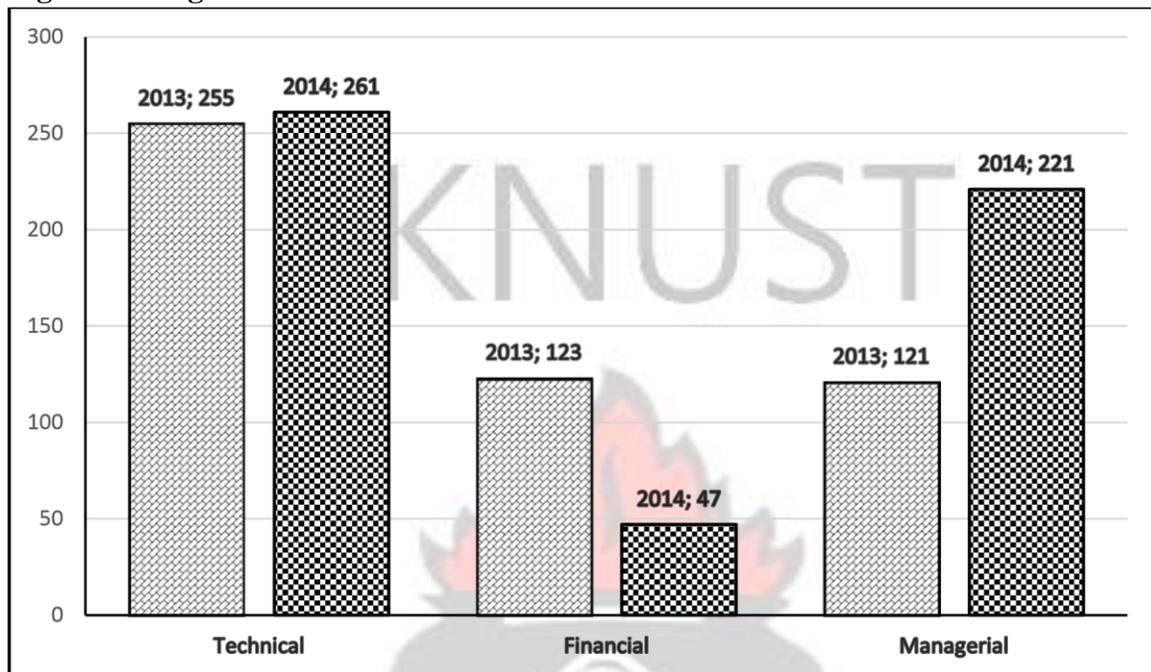


Figure 4.8: Agencies Assistance to the MSMEs



Source: Field survey, 2015

Facts based on the Figure 4.8 above, shows that in terms of technical assistance, the agencies offered 225 assistance to entrepreneurs in the year 2013 and assisted 261 entrepreneurs in the year 2014 which shown a little growth. Managerial assistance was extended from 121 to 221 entrepreneurs in 2013 and 2014 respectively. Though there was an increase in technical and managerial assistance, that of financial assistance dropped from 123 to 47 entrepreneurs in 2013 and 2014 respectively representing a reduction of 161.7%, the decline was not encouraging considering the number of entrepreneurs in the MSMEs. This can be linked to the reason why majority of the entrepreneurs (respondents) suggested financial assistance to be one of the ways the agencies could improve upon their services.

It was further discovered, that 73.24% (52) of the respondents reported that they had not received any assistance from the promotional agencies as compared to only 26.76% (19)

of the respondents who had benefited from the promotional agencies. Table 4.8 gives a vivid representation of respondents who had benefited from the promotional agencies.

Table 4.8: MSMEs Benefited from Promotional Agencies

Response(s)	Frequency	Percent (%)
yes	19	26.76
no	52	73.24
Total	71	100

Source: Field survey, 2015

The above representation can be linked to the reason why 60.6% of the respondent's asserted that the agencies are of no or little importance in the Municipality. This is an account of the communication gap between the agencies and the entrepreneurs.

Regarding the types of loans the lending institutions offer to the MSMEs, the study discovered that GCB offered MSMEs short and medium term loans which had a repayment period of 1 to 3 years and 3 to 5 years respectively. This was considered good for the MSMEs because of longer time to settle the debt. For CCML and OISL they mentioned Micro Loans (ML) and other Special short term loan products as their types of loan to MSMEs. According to them, these types of loans are for individuals and groups (associations or unions), and they consider this group loans because it is less risky and less costly in terms of administrative cost. The money lender on his part offers loan to both individual entrepreneurs and group of entrepreneurs (associations).

The study further revealed that, apart from direct financial assistance, the lending institutions offer other assistance to the enterprises which take the form of assisting some of the associations with tools and equipment occasionally, and also offering financial advice to the entrepreneurs who visit their office.

4.5.3 Qualification for Promotional Agencies Assistance

The study revealed that, for an enterprise to qualify for any technical or managerial assistance; the entrepreneur must be above the age of 18 years, the business must fall under the agencies definition for MSMEs, For an enterprise to qualify for financial assistance, the agencies required that the enterprise should register his/her business with the agency, have a simple business plan and operate an active bank account. Finally, the business should be operating for not less than 6 months. According to findings, the promotional agencies require no collateral or any other form of securities for MSMEs to benefit from their programmes as required by most of the financial institutions. In this view, the agencies offer flexible requirements to enable the entrepreneurs to have access to their assistance.

In conclusion, it can be said that this chapter has dealt with the in-depth analysis of the objective of the study. The next chapter would consider the summary, conclusion, and policy implications of the study.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

5.0 Introduction

This chapter gives a summary of the research findings and draw conclusions from the various analyses made from the data collected. It ends with some recommendations by the researcher to address the objectives of the study.

5.1 Summary of Findings

The study unveiled the following findings:

The study discovered that MSMEs generates employment mainly for the active labour force. Its employees are made up of apprentices and family members. Moreover the sector is made up of entrepreneurs with lower level of educational attainment (JSS / Middle School Leavers). The MSMEs are mainly made-up of sole-proprietorship with unregistered businesses. The sector also serves as nurturing grounds for breeding big businesses and entrepreneurs.

The various sources of financing MSMEs are internal sources which are made up of personal funds, funds from relative, friends, sale of assets or the use of retained earnings (profit). Personal funds and retained earnings remain the chief sources for internal financing. Internal source forms the main source used by the majority of the enterprises for raising start-up capital.

The external sources comprise of funds from banks, savings and loans, MFI, money lenders, promotional agencies, supplier's credit, co-operatives and credit unions. Microfinance, Savings and loans and trade credit are the utmost utilized sources used by

the majority of the enterprises. The external sources of funds are mainly used by the enterprises for expanding their business and not for start-up capital.

Though internal source of funding is the cheapest and avoids any external interference in the business operation, it is constraint with minimum savings which prolongs the duration for raising funds. External source of funds which appears very beneficial by injecting external funds into the business and takes shorter duration in raising is also limited with; insufficient funds approved by the financial institutions, shorter grace period which does not allow enterprises to turn borrowed fund around before starting repayment. Higher interest rate and collateral requirements also create major encumbrance to the sourcing of external funds by the MSMEs. The above constraints had been the main cancer eating the filament that will trigger the growth and sustainability of the MSMEs. Administrative cost and bureaucratic formalities of obtaining loan, shorter loan duration, and time constraint though formed part of the constraints, they were only considered as minor constraints in accessing funds from financial institutions. The study further revealed that, the type of records kept by MSMEs do not commensurate what is required by most of the financial institution.

It was established that, there are governmental agencies that assist the enterprises in the area of technical and managerial training, and financial support. The study indicated that technical and managerial trainings through the organization of workshop were the commonest form of assistance that these agencies offer the MSMEs. Financial assistance is a bottleneck due to inadequate sponsorship and revolving funds.

5.2 Conclusion

The overall objective of the study was to identify the various sources available for financing MSMEs of the Techiman Municipality. Specifically, the study seeks to examine the various internal and external sources available for financing MSMEs, assess the constraints MSMEs face in financing their businesses and examine the role government, financial institutions and other institutions play in financing MSMEs in the Techiman Municipality.

It can be concluded from the findings that:

Overwhelming source of internal funds is the personal funds and retained earnings either from same or different business. It also serves as the main source of start-up capital for establishing MSMEs in the Techiman Municipality. Retained earnings remain the most widely used internal source of funds for working capital or expansion of MSMEs as it forms the cheapest source as this is in agreement with statements made by Steel and Webster, (1992) and Appleby, (1987). It is a fact that one of the contributions of the sector is generating new savings but the amount of savings mobilization is too low and does not match the demand for funds for the growth and sustainability of the MSMEs.

It is an evident that most of the MSMEs in the Techiman Municipality used funds from MFI and Savings and Loans companies as their external sources of funds not for starting up businesses but for working capital or business expansion. These sources which make funds available to the enterprises charge a higher interest rate to compensate for the risk of given out funds to the MSMEs in the Municipality. This in turn makes cost of capital too expensive and almost all returns on the loanable funds are used to pay for the cost of funds

bringing the MSMEs back to the same level before accessing funds. This affirmation was made in a findings made by Steel and Webster, (1992).

It is a fact that micro, small and medium enterprises in the Municipality are not making use of other non-bank financial institutions like the Ghana Venture Capital Trust Funds, Business Angels, Partnership, and the Microfinance and Small Loans Centre (MASLOC), etc as their alternative sources of funds.

High Interest rate, shorter grace period, insufficient loan amount and collateral remain the main obstacles in assessing external loans. Unless there is a complete adaptation or replacement of the above conditions external sources of funds will remain costly and difficult to access by most MSMEs.

The MSMEs create employment for the active labour force in the municipality and generates a lot of tax revenue for the developmental projects of the area. The MSMEs activities form the main quota of the municipality contribution to the nations GDP. The sector also serves as a breeding ground for a new class of entrepreneurs and bigger firms.

The main assistance offered by the promotional agencies is in the area of organizing managerial and technical training through workshops for the entrepreneurs. This has to be supported with funds. The promotional agencies need to create awareness of their existence and increase their assistance programmes instead of diminishing it

Finally, the study revealed that, the main hitch to the sector's growth is inadequate access to finance. Other obstacles were; high transportation cost, lack of managerial skills, high taxes, rent and utilities bills, expensive and inadequate access to equipment and raw materials, and low market for their products.

5.3 Recommendations

Based on the summary of the findings and conclusions deduced from the study, the following measures are recommended to be undertaken by all concerned stakeholders.

Individual entrepreneurs should merge to form partnership. This would enable them pull scarce resources together and make proper decisions concerning financial matters.

The various associations should establish savings and credit schemes for their members. This would serve as a better and efficient alternative source of external funds by neutralizing the indispensable problem of securities and high interest rates dilemma.

Promotional agencies should bridge the gap of communication and information dissemination between them and their clients, and also they should offer intensive managerial training in technical fields like proper keeping of records, better methods of saving, and how to access and manage credits.

Promotional agencies should solicit for funds and link up with other local and foreign developmental agencies to enable them raise funds to augment their revolving funds and improve upon their financial assistance to the sector

To facilitate access to credit for MSMEs, lending institutions need to allocate a certain higher portion of their loanable funds for MSMEs. This has to be supported by special lending and repayment arrangements. In this case, the use of traditional securities as collateral and other sophisticated requirements should be reinstated with new requirements such as guarantors, savings records, and a simplified business plan. This will enable the entrepreneurs to access credit facilities. They should also foster the training of MSMEs in their policies as part of their corporate responsibilities and to improve their outreach to MSMEs.

Government should establish a special bank for MSMEs, and train special personnel to run the administration of the bank with the main aim of developing the sector and not profit making. This will mobilize the small savings of the enterprises and associations and offer loans at a moderate interest rate with softer security requirements.

Government should revise the laws and regulations that hinder the smooth running of the sector, especially in the area of taxation. In addition, there is a need to encourage and create incentives like access to start-up capital for graduates and other highly educated people to enter into the sector. This will bring a vibrant change in terms of good management and growth in the sector. In other words, government must facilitate in providing appropriate environment for which the sector will thrive rather than being a regulator.

The researcher perceives that efficient and vibrant MSMEs would be realized if the above policies are implemented.

5.4 Direction for further Research

Considering the extremely significant role MSMEs paly in the economy of many countries and the challenges they face in accessing funds, I recommend that future study can be carried out on ; the effects of financial constraint on the development of MSMEs.

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APPENDIX 'A'

GROUPINGS OF REGISTERED ASSOCIATIONS WITH TECHIMAN

Activities/Strata	Population of Entrepreneurs	Sample Selected
carving, weaving and leather works	29	3
wood and furniture work	57	6
dressmaking/tailoring/fashion design	92	9
batik/tie-dye	33	3
hairdressing/barbering	74	7
blacksmith/metal fabrication	36	4
auto-mechanics and electronics	97	10
refrigeration and air-condition	29	3

soap and other detergents	93	9
resale/wholesale	69	7
food & agro processing (bakery, water, etc)	104	10
Total	713	71

Source: BAC and Associations Executives, 2015

Sample size = 10 % × Total Study Population (BAC registered associations membership)

Sample size = 10% × 713 = 71

Sample Size for Each Stratum = $\frac{\text{Population of Enterprises in association}}{\text{Total Study Population}} \times \text{Sample Size}$

APPENDIX 'B' SELECTED SAMPLE LIST

No	Name of Business/Enterprises	Type of Business	Location
1	Eye Awurade Leather Work	Footwear unisex	Opp Magazine
2	Yamako Masbout	Footwear unisex	Opp King Saudu
3	Sakinatu Enterprise	Kente	Kenten
4	Achiangbon Enterprise	Furniture	James Town
5	Francisco Enterprise	Carpentry	Kenten Market
6	Yaw Frimpong wood works	Carpentry	Kenten
7	Bambion furniture Works	Furniture	Twimia
8	Akoro Enterprise	Furniture	New Krobo
9	Agyapong furniture works	Maison/Carpenter	Wiaso
10	Good Name Tailoring Shop	Dress making	Abanmu
11	Theresa Oduro Fashion	Dress making	Ahansua
12	Great Is Thy Faithfulness	Fashion designer	Tamale Station
13	Sua Mpeabo Tailoring Shop	Dress making	Amadiaya road
14	Monica's Fashion	Dress making	VRA
15	Maggies Fashion Centre	Dress making	Tako

16	Gyamfua Fashion	Fashion designer	Adantase G32
17	Augustine fashion	Dress making (unisex)	Kenten old market
18	Mama Vic Fashion	Dress making (unisex)	Kenten L/A Park
19	Ginaden Enterprise	Batik, Tie and Dye	VRA Juniors' Qtrs
20	God's gift tie and die	Batik, Tie and Dye	New Krobo
21	Mama rose Enterprise	Batik, Tie and Dye	Twimia
22	Rejoice beauty Saloon	Hairdressing	Abanmu
23	Master Issah Unisex Hair cut	Barbering	James Town
24	A. K. Mawu barbering Shop	Barbering	Wangara line
25	Agnes Hair dressing Saloon	Hairdressing	Zongo
26	First lady Saloon	Hairdressing	VRA
27	God is Love Saloon	Hairdressing	Wiaso
28	Matilda Beauty Saloon	Hairdressing	New Krobo
29	Wonderful Jesus Metal Works	Blacksmith/metal fabrication	Abanmu
30	Asibey Welding and Fabrication	Blacksmith/metal fabrication	Opp. Sikkens
31	K. Suurebaare Enterprise	Blacksmith/metal fabrication	Magazine
32	Dennis Enterprise	Blacksmith/metal fabrication	Magazine
33	Dennis Enterprise	Refrigeration & Air-condition	Magazine
34	K Nuoahawa Refrigeration	Refrigeration & Air-condition	Tunsuoase
No	Name of Business/Enterprises	Type of Business	Location
35	Master Zac Ref. and Aircondition	Refrigeration & Air-condition	Tamale Station
36	Abusua Electricals	Electrical	NDC Party Office
37	Franzimsco Engineering Ent	Fitting	Ewreka Gurage
38	Supreme Radios	Electrical mechanic	Dwomor
39	Big T Motors	Speaker repair	Market road
40	A. N. Ebenezer Enterprise	Fitting	Magazine
41	Haruna Seidu Ent	Fitting	Magazine
42	Ibrahim More	Fitting	Magazine
43	Benz Specialist	Fitting	Magazine
44	Gyamfi Enterprise	Fitting	Timber Market
45	Kaasim Enterprise	Vulcanizing works	RTSC
46	Visac Enterprise	Soap and detergents	Pomaakrom
47	Ideal Womanhood Centre	Soap and detergents	Site
48	Kasaf	Soap and detergents	Tunsuoase
49	Ruth Amponsah Soap Making	Soap and detergents	Kenten Mkt C4

50	Dora's Morrigha soap and Pomade	Soap and detergents	Fiaso
51	Faah R. Enterprise	Soap and detergents	Site
52	Ali Dauda Enterprise	Soap Making	Mamprusi line
53	Gyamah Mary Enterprise	Soap Making	Offuman
54	Papa Suaba	Soap Making	Hansua
55	Agyenkwa Co-op. Agro processing	Gari and other flour	Aworowa
56	Asiko Agro Processing and Farm	Gari and other flour	Tanoboase
57	High and Mighty Enterprise	Corn and Cassava dough	Techiman Market
58	Alhassan Groundnut Production	Groundnut and dawadawa	Tanoboase
59	Odo rice Catering Services	Catering and Pastry	Dwomor
60	Adom Soya Kebab	Soya Kebab	New Sansaman
61	Adu's Enterprise	Gari and other flour	Brigade
62	Nipa Hia mmoa Gari Proc.	Gari Processing	Nkwaeso Market
63	Lydy Enterprise	Baking	Hansua
64	Odregina	Water	Techiman
65	John Osei Enterprise	Resale/wholesale	Aworowa
66	Tiwaa Gari Processing	Resale/wholesale	Techiman Market
67	Estee Business Ventures	Resale/wholesale	Magazine
68	Anane Enterprise	Resale/wholesale	Techiman Market
69	K. Isaac Enterprise	Resale/wholesale	Site
70	Bemcom Youth Ent	Resale/wholesale	Nkwaeso
71	A. Stephen Enterprise	Resale/wholesale	Hansua

APPENDIX 'C' KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS

Topic: Financing Micro, Small and Medium Enterprises (MSMEs) in Ghana:
A case study of Techiman Municipality

Questionnaire for MSMEs Entrepreneurs

Introduction: This question forms part of an academic research on the above topic. All information produced will be treated as **confidential**, therefore names are not needed but **objectivity** is essential.

Guide to Questions: Please mark [] the correct answer(s) and provide appropriate information where answers are not given.

Date: / /2015

A. Bio - Data

1. Occupation: _____
2. Sex: Male [] Female []
3. Age (in years): 20 and below [] 21-40 [] 41-60 [] 61 and above []
4. Educational Attainment: Tertiary [] Secondary/Tech./Com.[] Middle/J.S.S.
[] Primary [] No formal education []

B. Business Information

5. How long has the business been in operation?
Less than 2years [] 3-6years [] 7-10years [] Above 10years []
6. Have you registered your business? Yes [] No []
7. What category is your business operating?
Sole proprietorship [] Partnership [] Limited liability companies []
8. How many employees do you have (including you)
1 - 5 [] 6 - 10 [] 11-15 [] 16 - 20 [] Above 20[]
9. Where do you operate? Garage [] Home [] Permanent structure []
Wooden/Metal structure [] Open space [] Others(specify) _____

C. Internal sources of Finance

10. Which sources do you raise internal funds? Personal Funds [] Relatives []
Selling of Assets [] Friends [] Retained Earnings []
11. From which internal source did you raise your start-up capital ?
Personal Funds [] Relatives [] Selling of Assets [] Friends []
12. What was your initial capital from internal source of funds (in Ghana cedi)? Below
1,000 [] 1,000-5,000 [] 6,000-10,000 [] Above 10,000[]

13. Was your capital enough for setting up your business? Yes [] No []
14. How long did it take you to raise your initial capital?
 Less than 1yr [] 1-2yrs [] 3-5yrs [] Above 5yrs []
15. Have you raised additional funds internally for working capital or expansion?
 Yes [] No []
16. If Yes, from which source (s)? Personal Funds [] Relatives [] Selling of Assets [] Friends [] Retained Earnings []
17. How long did it take you to raise additional funds to expand or run your business?
 Less than a month [] 2 – 3 month [] 4-6 months [] Above 6 months []
18. Was it beneficial to your business? Very beneficial [] Beneficial []
 No opinion [] Not too Beneficial [] Not beneficial []
19. In your opinion how do you think the problem of internal finance can be improved?
 a. _____
 b. _____

D. External Sources of Finance

20. Have you ever accessed external source of funds before? Yes [] No []
21. If Yes, from which source (s)? Banks [] Savings & loans [] MFI []
 Rural Banks [] Money Lenders [] Trade credit [] Co-operative/Unions []
 Others (specify) _____
22. What was the purpose of funds? Start-up [] Working capital [] Expansion []
23. How long did it take you to raise additional funds to expand or run your business?
 Less than a month [] 2 – 3 month [] 4-6 months [] Above 6 months []
24. What are some of the challenges you encountered in accessing the external funds?
 (tick as many as you agree) Guarantor [] Collateral [] High interest [] Time constraint [] Bureaucracy [] High Fee []
25. Was it beneficial to your business? Very beneficial [] Beneficial []
 No opinion [] Not too Beneficial [] Not beneficial []
26. In your opinion how do you think the problem of external finance can be solved?
 a. _____

b. _____

E. Constraints in Sourcing Funds

27. How much (in Ghc) do you save in a month?

Less than 100.00 [] Less than 500.00 [] Less than 1,000.00 []
] Less than 5,000.00 [] Above 5,000,000 []

28. The following statements are used to capture the constraints faced in accessing external sources of funds. Rate each Likert Scale according to your preferences. (1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, and 5 = strongly agree).

Factors	1	2	3	4	5
No grace period or the grace period is very short	1	2	3	4	5
The amount provided by lending institutions are sufficient	1	2	3	4	5
Interest rates limits the accessibility of finance	1	2	3	4	5
High Administrative cost	1	2	3	4	5
Time constraint	1	2	3	4	5
Repayment time is usually short	1	2	3	4	5
Complex and bureaucratic procedures	1	2	3	4	5
No collateral or guarantor hinders access	1	2	3	4	5
Have no records on my business	1	2	3	4	5

29. Apart from financial constraint what other problem is your business facing?

a. _____

b. _____

c. _____

d. _____

F. Promotional Agencies

30. Are you aware of the existence of the following agencies? (tick all you know)
 NBSSI [] BAC [] ITTU/REP [] None [] Others _____

31. In your opinion, rate the assistance you think the above agencies offer to MSMEs in the Likert Scale according to your preferences. (1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, and 5 = strongly agree).

Factors	1	2	3	4	5
Organising managerial workshops or trainings to business	1	2	3	4	5
Offering technical assistance to entrepreneurs	1	2	3	4	5
Providing financial assistance to enterprises	1	2	3	4	5
Field visitations and coaching of entrepreneurs	1	2	3	4	5

32. Have you received any assistance/benefit from the agencies above? Yes [] No []

33. Do you think these agencies are important? Very important [] Important []
 Moderately Important [] Little importance [] Unimportant []

34. In your opinion, how can these agencies improve upon their assistance?

- a. _____
- b. _____
- c. _____

Thank You

APPENDIX 'D'

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS

Topic: Financing Micro, Small and Medium Enterprises (MSMEs) in Ghana: A case study of Techiman Municipality

Interview Schedule for Lending Institutions

Introduction: This question forms part of an academic research on the above topic. All information produced will be treated as **confidential**, personal names are not needed but **objectivity** is essential.

1. Name of lender/institution _____
2. Which financial services do you offer to MSMEs? Overdraft [] Trade credit []
SME banking [] Cash management [] Business advice [] Others(specify) _____
3. What conditions do you consider when extending credit to MSMEs customers?
Years in existence [] Line of business [] Credit history [] Collateral []
Past and projected cash flows [] Business location [] Others (specify) _____
4. What percentage of your loan portfolio constitutes MSMEs?
Less than [] 10% 10-25% [] 26-50% [] Above 50% []
5. What were your interest rates for the following years?
2013 [%] 2014 [%] 2015 [%]
6. What has been the major challenge in dealing with the MSMEs?
Management [] High default rate [] Monitoring [] Others(specify) _____
7. In your opinion what can be done to strengthen the lending activities to MSMEs?
 - a. _____
 - b. _____
 - c. _____

COMMENTS

Thank You

APPENDIX 'E'

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS

TOPIC: Financing Micro, Small and Medium Enterprises (MSMEs) in Ghana:
A case study of Techiman Municipality

Interview Schedule for Promotional Agencies

Introduction: This question forms part of an academic research on the above topic. All information produced will be treated as **confidential**, therefore personal names are not needed but **objectivity** is essential.

1. How do you define MSMEs in your operation? _____

2. Do you offer any financial assistance to these MSMEs? Yes [] No []
3. If Yes, what is the minimum amount _____ and maximum amount _____
4. How many MSMEs has benefited from you for the past two (2) years in the Techiman Municipality in the various fields? (state the numbers in the space)

FIELDS	2013			2014		
	Technical	Financial	Managerial	Technical	Financial	Managerial
carving/weaving/leather works						
wood and furniture work						
dressmaking/tailoring						
batik/tie-dye						
hairdressing & barbering						
Blacksmith/metal fabrication						
auto-mechanics/electronics						
refrigeration & air-condition						
Soap & detergent making						
Retail/wholesale						
Food/agro processing						

5. What qualifies an entrepreneur for a financial assistance? _____

6. In your opinion what hinders access to finance for MSMEs? _____

7. What programmes have you put in place to curtail this problem?

a. _____

b. _____

c. _____

8. In your opinion what can be done to improve MSMEs access to finance? _____

COMMENTS

Thank You