CHALLENGES OF SMALL AND MEDIUM SCALE ENTERPRISES IN FINANCING – THE MERCHANT BANK CUSTOMERS' PERSPECTIVE

BY

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DECLARATION

I hereby declare that this submission is my own work towards the Master of Business Administration degree and that, to the best of my knowledge, it contains no material previously published by another person or material which has been accepted for the award of any other degree of this and any other university, except where due knowledge has been made in the text.

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Certified by:

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DEDICATION

To God Almighty, my beloved wife Mrs. Yvonne Imbrah and my two sons; Cornelius Henry Paa Kofi Imbrah and Andric Kobina Asempa Imbrah.

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ABSTRACT

The purpose of this study is to explore the various challenges encountered by SMEs in accessing finance and to give recommendations aimed at improving the accessibility of SMEs to financing using Merchant Bank as a test case. The sampling techniques used included quota and purposive sampling techniques. Questionnaires and unstructured interviews were the main research instruments used in this study in collecting primary data. The questionnaire was structured to elicit information about SMEs concerns in accessing finance with respect to Merchant Bank. A total of 100 SMEs were sampled out of which 95 responded representing 95%. This data was analysed using Excel software and the results were exhibited as charts.

It was revealed that the main difficulties in accessing credit from formal sources included rigid repayment terms, number of years in business, high interest rate, high collateral security, ownership structure etc.

It was recommended that an effective way of addressing the SMEs financing, included flexible repayment credit system, and establishment of common fund by government, SMEs banking and removal of collateral security regarded by the financial institutions. Limitations associated with this study were the unwillingness of some SMEs to cooperate with the researcher due to suspicion that their expected profits will be known thus informing taxation policies.

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CHAPTER ONE

INTRODUCTION AND RESEARCH CONTEXT

1.1 BACKGROUND OF THE STUDY

The role and importance of small and medium enterprises (SME's) in the Ghanaian economy has been the subject of increased attention particularly in the 1990's up to date. One of the numerous reasons for this attention has been the belief that the healthy and vigorous SMEs sector is crucial to the performance of the economy and can thus be considered as an engine of growth for the Ghanaian economy. (Abor and Beikpe, 2005). Considering the importance and the benefits to be derived by well developed SMEs in the economy of Ghana, one would have thought that every effort must be made to encourage this sector.

However, numerous problems hinder these small and medium entrepreneurs from increasing their productivity and even prevent others from entering into this area. Access to adequate financing has been identified as a dominant constraint facing SMEs as reported by Lader (1996). And there is still much to be pursued by the banks. The target of this study then is to show the actual trends and approach of some Ghanaian banks to SMEs financing since they play a major role in financing SMEs.

In Ghana, available data from the Registrar General indicates that 90% of companies registered are micro, small and medium enterprises. Small and medium enterprises have thus become an important contributor to the economy of Ghana. Small enterprises are said to be a characteristic feature of the production landscape of Ghana. They provide employment and incomes to a large portion of the urban-labour force and are a significant source of total output (Aryeetey, 2001). This target group has been identified as the catalyst for the economic growth of the country as they are a major source of income and employment (Yaron, 1992). Importance in the role of SMEs in the development process continues to be in the forefront of policy debates not only in developing countries but also in developed countries. The advantages claimed for SMEs are various, including the encouragement of entrepreneurship; the greater likelihood that SMEs will utilize labor-intensive technologies and thus have immediate impact on employment generation. They can usually be established rapidly and out into operation to produce quick returns; and they may well become a countervailing force against the economic power of larger enterprises. More generally, the development of SMEs is seen as accelerating the achievement of wider socio-economic objectives, including poverty alleviation. However, the ability of the SMEs to grow depends highly on their potential to invest in restructuring, innovation and qualification. All of these investments need capital and therefore access to finance (Bataa, 2008).

According to Aryeetey *et al*, (1994) SMEs in Ghana have little access to finance, which thus hampers their emergence and eventual growth. Their main sources of capital are their retained earnings and credit from the informal source basically from family and friends (both internal and sometimes remittances from abroad) and sometimes money lenders which most of the time goes with higher rates, which are unpredictable, not very secure and have little scope for risk sharing because of their sectorial focus. Access to formal finance is poor because of the high risk of default among SMEs coupled with inadequate financial facilities (ibid). Ghana has made considerable progress over the past decade in setting up an extensive policy framework to support the SMEs sector (Bagachwa, 1994). A range of institutions, policy instruments, regional tools and resources exist, all of this assisting Ghanaian SMEs development. Although,non-bank financial intermediaries, such as micro credit and savings and loans institutions, could be a big help in lending money to the smallest SMEs; they do not have the resources to follow up their customers when they expand and sometimes cannot provide the needed capital (Lassort and Clavier, 1989).The banks are seen as one of the major sources of financing among these SMEs and therefore an enhancement of their financing opportunities to positively impact on their processes and growth is welcomed in all terms for SMEs development in the country. The role of the banking system in a national economy is determined by many political, economic and social factors, and by the existing technological solutions.

Regardless of the variables that influence its operation, the banking system, as one of the country's basic economic components, influencing the principles on which the market players operate in a specific way. The very essence of the banking system determines its role in the companies' management procedures, including their finances and liquidity.

However, Small business in Africa can rarely meet the conditions set by financial institutions (banks), which see SMEs as a risk, because of poor guarantees and lack of information about their ability to repay loans (Yaron, 1994). It is in view of the above that the present study seeks to explore the challenges of SMEs in accessing finance from the perspective of the Merchant Bank customers.

1.2 STATEMENT OF THE PROBLEM

Major findings suggest that the SMEs sector is very large and appear to be growing rapidly, accounting for one third to three quarters of total employment in most countries in West Africa. There are many who believe that the single most important factor constraining the growth of the SMEs sector is the lack of finance (Aryeetey et al, 1994). In addition, key constraints such as weak technical skills, inadequate information on credit and credit use, and poorly developed infrastructure are inhibiting the SMEs growth. It is generally held that accessibility to credit is one of the important ingredients of successfully developing SMEs. A few access financial services from donor–supported non–governmental organizations and credit unions, but virtually none interact with the banks because of the rigidities involved. Although, an increase in loan portfolio could increase the profitability of the banks yet they are not able to meet the expectations of SMEs in Ghana. These included the ease with which SMEs are able to access loans from banks; the basic conditions required by the bank from SMEs when they are sourcing for loans; the duration of loans granted to SMEs; default rate of loans granted to SMEs among others. The purpose of this study then is to find out the challenges of SMEs in accessing finance using Merchant Bank Ghana Ltd as a case study.

1.3 OBJECTIVES OF THE STUDY

The problem statement has necessitated the following objectives:

1. To identify the problems encountered by SMEs in accessing credit (accomplished in pages 46-57).
2. To identify the various security options considered by banks in the granting of credit to SMEs (accomplished in pages 55-56).
3. To identify how access to finance for SMEs can be improved with the requirements underlying credit delivery among SMEs in the commercial banking institutions.(accomplished in pages 57-58)
4. To come out with major recommendations for future policy implications that will improve access to credit offered to SMEs.(accomplished in pages59-62)

1.4 RESEARCH QUESTIONS

In evaluating the constraints to financing of SMEs Kumasi, the following research questions have been developed to find out answers to the research objectives:

1. What are the difficulties faced by SMEs in accessing credit from banks?
2. What are the difficulties faced by banks in providing finance to SMEs?
3. What are the conditions required from SMEs by banking institutions before one can qualify for a loan?

1.5 SIGNIFICANCE OF THE STUDY

Access to credit has been one of the main bottlenecks to SMEs development. It is interesting that while the financial sector reforms sought to remove all forms of non-market allocations of credit, there have been a number of interventions in the last decade that have sought to ensure that distinct groups of businesses have obtained credit. The only difference between these and earlier versions of directed credit has been that they have attempted to ensure that interest rates are not too different from market rates. For small to medium-sized enterprises (SME's), the banks represent an important and indispensable business partner, since they facilitate several functions necessary for SME's survival. However, Financing SME's is not a legal obligation to the banks or any other source, but rather a necessity imposed by market laws, by competition and by the need to be the best to survive.

1. The research work will be very resourceful to other researchers interested in the area which could be used as a 'springboard' for further research.
2. The study is intended to add new information to the already existing knowledge on SMEs financing in the commercial banking sector since less research paper on financing SMEs among the commercial banks has been done in Ghana.

3. To gain a thorough insight into how credit delivery for SMEs works in the commercial banks.

4. In addition, the study will enable the researcher appreciate an understanding of the drivers of credit financing to SMEs, and in particular how such financing impacts on the operation of the SMEs and to identify the main impacts or consequences of SMEs financing, and their relative effects on the Ghanaian economy.

1.6 SCOPE OF THE STUDY

The study was set to cover a cross-section of SMEs customers of Merchant Bank in Kumasi. The selected businesses were contacted and data solicited from them. It focused on financial access situations of the businesses and also the products offered by the bank to SMEs.

1.7 JUSTIFICATION FOR CHOOSING THE STUDY AREA

The Merchant bank Ghana Limited Kumasi, was chosen as the study area. This was because commercial banks were being noted as one of the financial institutions that are committed in improving, sustaining and enhancing the performance of SMEs. Though, financial institutions such as Agricultural Development Bank, the Standard Chartered Bank Limited and Barclays Bank Limited among others were identified in the same environs, Merchant Bank Ghana Limited, Kumasi branch was chosen for the study .This decision was based on the fact that Merchant Bank was the first to embark on a well defined SMEs financing scheme for SMEs and through their eyes it would be possible to ascertain how the various products they have introduced over the years impacted on SMEs concerned. Moreover, it has a sizeable number of SMEs hence, a wider SMEs base .Additionally, easy access to data as well as nearness to the study area were all considered before choosing the study area.

1.8 LIMITATIONS OF THE STUDY

The problems that were encountered during the data collection exercise were that most of the respondents (SMEs) were not willing to co-operate as some of them were illiterates and considered the information needed as a means of identifying their expected profit upon which tax could be levied. Some of the respondents also demanded an answer of the relevance of the study in their lives. This was because they had no idea about the whole exercise. However, after a brief explanation about the intended purpose of the study, they began to value the study and co-operated fully in the exercise. In addition, vital information needed for the research was not readily provided with the reason that it may be released to a competitor. However, after a formal introduction from management they began to appreciate the exercise.

1.9 ORGANIZATION OF THE STUDY

The study is organized into five chapters which are outlined below:

The first chapter which is the present chapter includes; an introduction to the study, the background of the study, the problem statement, the objectives, the research questions, justification of the objectives, the scope of the study and limitations of the study. The second chapter looks at the literature review. This encompasses the review of other related works and then attempt to link it with the current study. The third chapter which is the methodology looks at the data collection techniques employed in the whole exercise. The chapter four involves the data presentation, its analysis and discussions based on the stated methods in the chapter three. The final chapter is chapter five; it presents conclusions of the study and recommendations for policy implications and then suggests area for further studies.

1.10 CHAPTER SUMMARY

In summary, this chapter set out to outline the primary steps involved in executing the project. It provided a background introduction to the study to establish the basis or justification for the study including the objectives which will guide the process of the research. It outlined the scope of the study while recognising the challenges or limitations which will adversely affect the conduct or results of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Access to Finance-Related General Issues

The access to finance is a subject of significant research interest to academics and an issue of great importance to policy makers for both developed and developing economies for many years. There are a number of factors that have contributed to this. First, there is some empirical evidence that the expansion of access may reduce prevailing poverty in developing countries (Aryeetey et al 1996). Second, the interest in access also comes from the fact that arguments about the channels through which financial development may lead to growth often include access related stories. A third reason is the widespread lack of access to financial services in emerging economies, particularly when compared to the extent of access in developed countries. Fourth, recent Investment Climate Survey conducted by the World Bank shows that one of the major impediment of fostering firms is lack of access to financial services which would expand economic growth and employment generation as well as reducing poverty in many developing countries.

2.1.1 What does access to finance mean?

Generally speaking, financial inclusion, or broad access to financial services, is defined as an absence of price and non-price barriers in the use of financial services (Aryeetey et al 2001). Improving access, then, means improving the degree to which financial services are available to all at a fair price. It is easier to measure the use of financial services since data of use can be observed, but use is not always the same as access. Access essentially refers to the supply of services, whereas use is determined by demand as well as supply (Gandbold, 2008).

Users of financial services can be distinguished from non-users, and there are important distinctions among nonusers. On the one hand are those who do not use financial services for cultural or religious reasons or because they do not see any need.

These nonusers include enterprises without any promising investment projects. These nonusers have access, but they choose not to use financial services. From a policy maker's viewpoint, nonusers do not really constitute a problem because their lack of demand drives their non-use of financial services. On the other hand are the involuntarily excluded who, despite demanding financial services, do not have access to them. There are several different groups among the involuntarily excluded. First, there is a group of firms that are considered "unbankable by commercial financial institutions and markets because they do not have enough income/collateral or present too high a lending risk. Second, there might be discrimination against certain groups based on social, religious, or ethnic grounds. Third, the contractual and informational framework might prevent financial institutions from reaching out to certain groups of firms because the outreach is too costly to be commercially viable. Finally, the price of financial services may be too high or the product features might not be appropriate for certain firms. While the first group of involuntarily excluded cannot be a target of financial sector policy, the other three groups demand different responses from policy makers (Gandbold, 2008).

Theoretically a problem of access to credit for firms exists when a project that would be internally financed if resources were available, does not get external financing. This happens because there is a wedge between the expected internal rate of return of the project and the rate of return that external investors require to finance it. This wedge is mainly introduced by two well-known constraints that hamper the ability to write and enforce financial contracts, namely, principal-agent problems and transaction costs (Stiglitz et al 1981).

1. Principal-Agent Problem: The classic principal-agent problems are adverse selection and moral hazard. The adverse selection problem arises because high- risk borrowers (not just those that may be unable to repay their debt, but also those that might be unwilling to do so) are the ones that are more willing to look for external finance. A financer may be willing to provide financing to some projects/debtors by increasing the risk premium charged, but this approach can backfire at some point due to the adverse selection problem. This is because as the risk premium required by lenders rises, so does the riskiness of the pool of interested borrowers. High-risk borrowers are "adversely selected by higher risk premiums. In effect, the higher the interest rate, the lower its usefulness and reliability for creditors as a device for sorting out the good projects/borrowers from the bad ones. The situation is one where the debtor may know ex-ante whether her project is good or bad, and may have incentives to window-dress the bad ones, but the creditor cannot screen all the projects adequately because she cannot extract or verify all this information. Faced with the risk of adverse selection, lenders will try to use non-price criteria to screen debtors/projects and ration and apportion credit, rather than further increasing the risk premium. The moral hazard problem, by contrast, concerns the situation after the agent (e.g., the debtor) has received the resources (e.g., the loan) from the principal (e.g., the lender). The problem here is that an agent may have informational advantages and associated incentives to use the resources in ways that are inconsistent with the principal's interests. Acting on such incentives, the agent may divert resources to riskier activities, strip and loot assets, or simply run away with the money, and the creditor may not have an effective way to monitor and prevent such behaviour. However, the moral hazard problem can arise even when the agent does not have informational advantages over the principal-i.e., when information is symmetrically shared-if the principal faces high costs of enforcing the contract subscribed with the agent. Faced with the moral hazard risk, a principal (e.g., a financer) would try to find ways to arrange in a line the incentives of the agent with its own. If unable to do so, principals may just not provide funding-i.e., curtail access (De la Torre et al, 2007).

2. Transaction Costs Problem: Even assuming that there are no principal-agent problems, a problem of access to finance may still exist where the transaction costs involved in the provision of finance exceed the expected risk-adjusted returns. Such a scenario may arise due to the inability of financial intermediaries to reduce costs by capturing economies of scale and scope. The result would affect disproportionately such outsiders as small enterprises, as providing finance to them could be rendered unprofitable by high costs per transaction. Cost barriers could also stem from deficiencies in institutions and market infrastructure that make it expensive to gather information on debtors/projects, value assets appropriately, and monitor and enforce contracts (Gandbold, 2008).

2.2 How to Measure Accessibility to Finance

According to Ganbold, before we can improve access, or decide whether and how to do it, we need to measure it. Access is not easy to measure, and empirical evidence linking access to development outcomes has been quite scarce due to lack of data. Financial depth (total loan outstanding/GDP), more generally, can be seen as an approximate indicator with direct and indirect effects on financing firms. Greater depth is likely to be associated with greater access for firms (Ganbold, 2008).

Beck, Demirgüc-Kunt, and Martinez Peria (2007) presented, first time, indicators of banking sector penetration across 99 countries, based on a survey of bank regulatory authorities. They put together the following indicators of banking sector outreach:

1. Geographic branch penetration: number of bank branches per 1,000 km 2

2. Demographic branch penetration: number of bank branches per 100,000 people

3. Geographic ATM penetration: number of bank ATMs per 1,000 km 2

4. Demographic ATM penetration: number of bank ATMs per 100,000 people

5. Loan accounts per capita: number of loans per 1,000 people

6. Loan-income ratio: average size of loans to GDP per capita

7. Deposit accounts per capita: number of deposits per 1,000 people

8. Deposit-income ratio: average size of deposits to GDP per capita

Indicators (1) through (4) measure the outreach of the financial sector in terms of access to banks' physical outlets while indicators (5) through (8) measure the use of banking services. Although those indicators cannot be precise measurement of access to finance, those can be good proxy indicators of measuring accessibility of financial services.

2.3 SME's Constraints to Access to Finance

The studies and empirical evidences on finance consistently address those inadequacies in access to finance are key obstacles to SMEs growth. Beck, Demirguc-Kunt, and Maksimovic (2004, 2006, 2007), and others show that SMEs find accessing financing more difficult than larger firms. Theoretical argument on lack of access to finance in general is that suppliers of finance may choose (due to problems of dealing with uncertainties such as agency and principal problem, asymmetric information, adverse credit selection, and institutional problems) to offer higher interest rate and credit rationing that would leave significant numbers of potential borrowers without access to credit. The argument was not specifically aimed at SMEs, but the specific characteristics of SMEs are such that these problems are more severe to SMEs than larger firms. Malhotra, Chen and others (Maholtra et al, 2006) demonstrate that SMEs are usually more credit constrained than other segments of the economy because of the following reasons:

1. Financial sector policy distortions;
2. Lack of know-how on the part of banks;
3. Information asymmetries, for example, lack of audited financial statements; and
4. High risks inherent in lending to SMEs. Detailed discussions on each of these reasons are as follows:

2.3.1 Financial Sector Policy Distortions:

Firms' ability to access finance is directly related to the presence of well-functioning financial markets that connect firms to lenders and investors willing to fund their ventures. In their efforts to respond to market failures, governments have often intervened heavily in financial markets in the following ways, with overall poor results.

i. **Interest Rate Ceilings:** Government-mandated, below-market interest rates caps usually cause more problems than they solve and discourage banks from lending to higher-risk borrowers such as SMEs.

ii. **State-Owned Enterprises:** In many countries, large state-owned enterprises and government infrastructure projects enjoy preferential access to bank credit, crowding out non-state enterprises, especially SMEs.

iii. **Public Sector Borrowing:** Public sector borrowing likewise crowds out credit from financial institutions to the private sector: investing in government securities is a safer bet than investing in unknown SMEs.

iv. **Legal and Regulatory Frameworks:** Although various promising forms of financing such as leasing, factoring, and venture capital have been introduced in most financial markets, the lack of supportive legislation, regulations, and tax treatment has often restrained their growth.

v. **Weak Judicial and Legal Frameworks and Lack of Property Rights:** Governments can increase financial institutions' willingness to provide finance to SMEs by ensuring that both lenders and borrowers have clearly defined property rights. Stronger creditor rights-stemming, for example, from laws guaranteeing secured creditors' priority in the case of default-allow lenders to reduce the risk of future losses. Securing borrowers' property rights to assets they can pledge as collateral can help borrowers both in accessing finance and in obtaining cheaper and longer-term loans. However, having legal provisions that ensure debtors' and creditors' rights are not sufficient. Their effectiveness depends on strong enforcement of the law. The lack of an effective legal system to enforce laws impedes the development of a deeper credit market. Some laws exclude movable assets, such as machinery, vehicles, and livestock. As movable assets often account for a greater share of the assets of smaller firms than of larger ones, the impact on access to credit is relatively negative for SMEs. Laws and registries permitting the collateral of movable assets can offer greater benefits to small firms. Title to land and real estate is often crucial for providing access to finance for business development.

The lack of enforceable property rights limits the ability of physical assets to generate capital. If property cannot be bought and sold with the confidence that the authorities will uphold the transaction, financial institutions will be reluctant to take on the risk of lending against physical collateral. Poorly defined property rights not only reduce firms' ability to access finance, but also lead to the overall failure of markets to generate dynamic growth.

2.3.2 Lack of Suppliers' Know-How

i. **Small Loan Size Relative to Transaction Costs:** SMEs typically require relatively small loans compared with large firms. The transaction costs associated with processing and administering loans are, however, fixed, and banks often find that processing small SMEs loans is inefficient. They lack the techniques, such as credit scoring, to increase volume and lower costs.

ii. **Difficulty in Adopting New Lending Technologies:** Experience from the microfinance industry shows that one way to successfully bridge the gap between the demand for and supply of credit is through innovative lending methodologies. Such methodologies include the following: (a) undertaking loan analysis that focuses on prospective clients' ability to pay (cash flow), with less emphasis on collateral; (b) giving loan officers incentives for maintaining high-quality portfolios; (c) introducing appropriate decision-making and control mechanisms supported by management information systems and information technology to help manage and administer the loan portfolio; and (d) providing larger loan amounts and longer terms for well-performing borrowers.

2.3.3 Information Asymmetries

The main information asymmetries that constrain SMEs access to finance are as follows:

i. **High Cost of Obtaining Credit Information on SMEs:** For markets to allocate resources efficiently, all market participants must have the same relevant information. This is seldom the case, however, in developing countries, and the resulting market failures can create biases against small firms. Under these circumstances, for banks to obtain information on the creditworthiness of potential SMEs clients is difficult or costly. If, as a result, lenders perceive the risks of lending to SMEs to be greater than they actually are, they will charge higher interest rates or refrain from lending to them altogether. If lenders do charge high interest rates, this increases the risk they are exposed to by discouraging low-risk, low-return borrowers from seeking loans, ultimately discouraging lenders from lending to SMEs altogether. At the same time, higher interest rates are associated with mainly high-risk projects, a circumstance referred to as adverse selection.

ii. **Inconsistent SMEs Financial Statements and Audits:** As SMEs are often not required to adopt international accounting standards when preparing their financial statements, large discrepancies arise in the ways firms report their financial positions. For example, many firms in developing countries may have two or three sets of books for different audiences. Auditing such statements can be labour- and time-intensive, which raises the cost of loan processing for SMEs. In addition, even audited financial statements can be unreliable.

iii. **Lack of Access to Third Party Information by Providers in the Marketplace:** Lenders' lack of knowledge of their clients and of information on clients' credit profiles and histories reinforce their perception of the high risk involved in lending to SMEs. One way to overcome the high cost to lenders of directly screening and monitoring clients is through the establishment and use of credit bureaus as third party information providers.

2.3.4 High Risks of SMEs Operations

SMEs operations are subject to two major risks:

i. Vulnerability and Turnover: SMEs are riskier borrowers than large firms. This is because SMEs are more vulnerable to market changes and often have inadequate management capabilities because of their smaller size. Lack of demand and shortages of working capital were the two most frequently mentioned underlying causes of these business failures. SMEs activities are extreme volatile with a large number of them starting up while many others are closing down.

ii. Management Weaknesses: Despite evidence that lack of access to finance constraints many SMEs, actual effective (or bankable) demand may itself be constrained by weaknesses in firm management and the dossiers their management can present when applying for credit. Programs to increase financing for SMEs often begin with training and business development services to strengthen firms' management and productivity? However, sole proprietorships, such as many SMEs, have few incentives to obtain external audits of their financial statements to improve management and productivity, and such audits are also expensive relative to the size of loans that SMEs may be seeking. Thus banks often complain that loan applications from SME do not meet their standards.

In addition to above mentioned constraints of SMEs, many literatures reveal other characteristic that SMEs in developing or emerging countries are more disadvantaged in obtaining external finance than SMEs in developed countries. Developing countries are more likely to have macroeconomic imbalances that lead to excess demand for available domestic savings as well as institutional weakness that encourage large number of individuals to engage in low productivity informal activity. Furthermore, financial systems in developing countries are often characterized by less deregulation, openness and reform of ownership, governance and supervision. There are persuasive reasons to believe that when the institutional and financial framework in developing countries is weak, the SMEs will be adversely affected to a much large degree than large firms. Finally, capital markets do not compensate for deficiencies in the banking sector as they do not have a comparative advantage to deal with opaque and small firms. In effect, capital market financing rests on comparatively high accounting and disclosure requirements which, by definition, opaque SMEs lack. Thus capital markets are typically not a source of direct funding for SMEs, given that these firms are unable to issue debt or equity in amounts sufficiently large to attract investors (who prefer liquid issues and are not willing to take too large a share of a single asset) and amortize issuance-related transaction costs (including compliance with complex legal, regulatory, accounting, and disclosure requirements). These factors normally render unfeasible the direct access to capital market financing for SMEs.

2.4 International Good Experiences for Improving Access to Finance for SMEs

This section focuses on how financial institutions and governments have resolved of or worked on the problems faced by SMEs in accessing to finance. Broadly international experiences could be divided into two levels: firm (financial intermediaries) and government.

2.5 Some Specific Financing Technologies Relevant to SMEs Finance

2.5.1 Factoring: In many countries, small businesses find it difficult to finance their production cycle, since they lack access to bank credit and most buyers usually take between 30 and 90 days to pay. After delivery, sellers issue an invoice, recorded as an account receivable by the seller and an account payable by the buyer. Factoring is a type of financing in which firms sell their accounts receivable at a discount (equal to interest plus service fees) to a financial firm (called the factor) and receive immediate cash. Factoring is an asset sale, not a loan. There is no debt repayment and no additional liabilities on the supplier's balance sheet. An alternative to ordinary factoring is reverse factoring. In this case, the factor only purchases accounts receivable issued by certain buyers. Reverse factoring reduces information problems, as the factor only needs to assess the credit worthiness of a specific group of large firms. A significant advantage of factoring, especially in developing countries, is that it does not require good collateral laws, just the legal ability to sell, or assign, accounts receivables.

In Mexico, there have been innovative ways of trade finance using reverse factoring. The program developed by NAFIN, a government development bank, allows many small suppliers to use their receivables from large credit-worthy buyers, including foreign MNCs, to receive working capital financing, effectively transferring their creditworthiness to allow small firms to access more and cheaper financing. What makes NAFIN special is that it operates an internet-based platform, providing on-line services, reducing costs, increasing transparency and improving security. In the short-run, there is a subsidization of overhead costs, but by lowering costs for SMEs working capital, it expects to generate more business and become sustainable (see Klapper, 2006).

2.5.2 Leasing: Leasing is a medium-term financial instrument aimed at covering the investment needs of companies for machinery, equipment, vehicles, and real estate. Leasing institutions (lessors) purchase the equipment, usually as selected by the lessee, and provide the use of equipment to the lessee for a set period. For the duration of the lease, the lessee makes periodic payments to the lessor, with an underlying interest cost. At the end of the lease period, the equipment can be transferred to the ownership of the lessee (typically in financial leasing), returned to the lessor (typically in operational leasing), discarded, or sold to a third party (depending on the characteristics of the contract and the underlying asset). The benefits of leasing for SMEs are manifold. First, leasing is a tailored instrument to finance investments without making a large initial cash outlay, enabling companies to match expected income and expenditure flows. Accordingly, leasing can increase the productive capacity of the company without affecting significantly its liquidity or leverage levels. Second, leasing contracts can benefit from favourable tax treatment, enabling companies to deduct the leasing monthly expenses from the companies' taxable income. Third, the cost of lease finance is competitive with traditional credit because of the increased security held by lessors.

For financial intermediaries, leasing can be a good instrument to provide financing while assuming lower risks. First, while the risk of default of clients is commensurate to that in bank loans, the loss in case of default can be significantly lower. The repossession and liquidation of the underlying asset is much more rapid, because the ownership of the asset is maintained by the leasing company. Second, the leasing company has reasonable certainty about the value of the asset in a secondary market (in case of repossession) and can price leasing contracts accordingly. Third, leasing by independent operators is subject to lower regulatory oversight than bank loans, hence they face lower regulatory costs and can have leaner processes for credit approval. But, as in the case of factoring, independent leasing companies have a higher cost of funding than banks since they must tap securities markets or borrow from banks.

Until now, leasing has been only a small source of financing in many developing countries. There are several reasons for the leasing industry's limited development in developing countries. First, in the absence of specialized leasing laws, judges tend to misunderstand the leasing product, slowing down the recovery of leased assets after default, even though banking laws usually clarify that leasing is distinct from rental and should be governed by the civil code. Second, high informality in the corporate sector can render companies insensitive to the fiscal advantages of (operational) leasing. Third, the registry system for assets needs to be improved and enlarged, allowing for a broader variety of assets to be eligible-and for registration to be reliable, efficient, and cost effective. Finally, the high cost of funding is sometimes presented as an obstacle, since leasing tends to be provided by specialized companies that can fund themselves only on the capital markets or through bank credit lines-that is, they are at a disadvantage against commercial banks' cheap funding for collateralized credits.

A full-fledged leasing law is required to address the various obstacles in developing countries. First, this law should make it easier to recover the leased asset in case of lessee default, allowing for extrajudicial processing. Second, the law should clarify the priority of the lessor in case of corporate restructuring or liquidation of the lessee. Third, the law should provide clear accounting and taxation rules, preferably in line with international accounting standards.

Other important regulatory and institutional requirements include an efficient and reliable registry system to establish clearly the property right on assets, a wide definition of assets that can be leased and the possibility of transferring ownership of leasing future flows in securitizations.

2.5.3 Securitization or Structured Finance: Securitization has become a popular source of financing and risk transfer for many financial institutions and corporations in most developed countries and also in some developing countries that capital market has developed at moderate level.

Securitization is the mechanism by which individually illiquid financial assets such as loans are converted into tradable capital market instruments. More specifically, selected receivables (assets) of the originator are packaged together in an underlying pool and sold by the originator to a Special Purpose Vehicle (SPV). The SPV refinances the pool by issuing debt instruments (Asset Backed Securities or ABS) on the capital markets. Among benefits of securitization, ABS transactions help issuers to get funding, transfer risk and extend maturity of financing. These benefits can be achieved under two main structures; a cash structure where the primary benefit for the originator is to get funding and a synthetic structure with no funding elements allowing a pure risk transfer through credit protection contracts. An ABS structure allocates collections from underlying collateral of receivables (asset claims) to the securities in the form of so called tranches. This allocation of collections also extends (inversely) to the distribution of losses among the different tranches in accordance with the priority of payment of the SPV. Individual security mechanisms such as liquidity or credit support offer protection against bad debt loss.

External rating is a key to the structuring of transactions in order to allow investors to assess risks of portfolios and structures.

Public sectors bodies have implemented proposals geared at maximizing the impact, efficiency and catalytic effect of public sector intervention in SMEs securitization. The principal advantage in SMEs securitization being developed further is without doubt that it can help support greater lending volumes to SMEs. Securitization helps to ease the capital and funding constraints of their primary lenders. Thus, banks and other financial institutions will potentially have enhanced capital and funding resources by using SMEs securitization techniques that attract new investors with previously limited exposure to SMEs risks and transfer risks from banks to broader risk taking population.

In the last few years, SMEs loan portfolios were securitized in a number of European countries and USA. Supports as deal facilitators by a number of public sector bodies (e.g. EIF, KfW and the Spanish FTPYME program) have in this context helped to develop the market (Lassort and Clavier, 1989).

Public sectors could play an active role in supporting SMEs securitization. A mature securitization market is a precondition for the extension of the range of enterprises which are suitable for securitization - i.e. smaller firms and SMEs with non-investment grade ratings. The benefit of more mature and specialized markets can nowadays be observed in those countries in which SMEs securitization has already gained a certain momentum and where more sophisticated transactions take place. Looking at the role of public sector support in more detail, the following starting points can be identified to overcome the current difficulties accompanying SMEs securitization:

Due to its complex nature, securitization generates transaction costs. Especially for smaller banks, costs of securitization can be prohibitively high. Public sector support via the standard platforms can reduce these costs considerably: Standardization and repeated transactions allow service providers like rating agencies, legal advisors and investment banks to work more efficiently as they become familiar with the details of the platform. Public platforms can thus exploit economies of scale, and securitization can become economically more attractive to a wider range of potential market participants. The cost saving argument is of special importance for originators who conduct their first transaction and for originators with smaller portfolios.

When standardized platforms require a high level of quality, with respect to reporting standards, this sends a positive signal to investors and contributes to liquidity. Successful examples in this context are KfW's PROMISE platform and the Spanish FTPYME-Program, which both contributed decisively to the securitization of SMEs loans(Lassort and Clavier 1989)

A further starting point for public support is to act as risk takers. Precisely, public entities invest in subordinated tranches. This support is particularly necessary in transactions which are difficult to securitize, e.g. transactions with new asset classes and/ or portfolios with low granularity. Public investment enhances the attractiveness of the whole transaction, as investors feel more comfortable with participation of key investors. The public support thus contributes as a catalyst to the creation of a liquid secondary market. Furthermore, public investment yields high leverage, as the volume of the transaction is large compared to the money invested by the public risk taker. In overall, the rising support of the literature documents that securitization is an effective means to promote access to finance for SMEs (Ganbold, 2008).

2.6. Issues of Access to Finance for SMEs in Ghana

In a paper delivered by Mensah, 2004 he stated that a major barrier to rapid development of the SMEs sector is a shortage of both debt and equity financing. Specifically, the paper covers the following:

1. A review of the various schemes, initiatives and funding mechanisms for facilitating access of SMEs to loan and equity finance

2. An analysis of their effectiveness

Finally, he establishes some reasons for the ineffectiveness of some of the financing schemes and provided some suggestions for improving the overall effectiveness of SMEs financing.

2.6.1. A General Overview of the SMEs Sector

According to Mensah, 2004 available data from the Registrar General indicates that 90% of companies registered are micro, small and medium enterprises. This target group has been identified as the catalyst for the economic growth of the country as they are a major source of income and employment. Data on this group is however not readily available. The Ministry of Trade and Industry (MOTI), in 1998 estimated that the Ghanaian private sector consists of approximately 80,000 registered limited companies and 220,000 registered partnerships. Generally, this target group in Ghana is defined as:

1. Micro enterprises: Those employing up to 5 employees with fixed assets (excluding realty) not exceeding the value of $10,000
2. Small enterprises: Employ between 6 and 29 employees with fixed assets of $100,000
3. Medium enterprises: Employ between 30 and 99 employees with fixed assets of up to $1 million.

Data from the Social Security & National Insurance Trust (SSNIT) reflects that, by size classifications, the Ghanaian private sector is highly skewed, with 90% of companies employing less than 20 persons, and a small number of large-scale enterprises.

A typical profile of this target group is as follows,

1. They are, dominated by one person, with the owner/manager taking all major decisions. The entrepreneur possesses limited formal education, access to and use of new technologies, market information, and access to credit from the banking sector is severely limited,

2. Management skills are weak, thus inhibiting the development of a strategic plan for sustainable growth.

3. This target group experiences extreme working capital volatility.

4. The lack of technical know-how and inability to acquire skills and modern technology impede growth opportunities.

Many non-financial constraints inhibit the success of such enterprises. SMEs owners are reluctant to be transparent or open up involvement of their businesses to outsiders. They seem to be unaware of or oblivious to the obligations and responsibilities they have toward capital providers, and the need to acquire or seek support for technical services like accounting, management, marketing, strategy development and establishment of business linkages.

Management and support services are perceived to be cost prohibitive and non-value adding.

SMEs have not taken full advantage of Government-sponsored business support services such as the National Board for Small Scale Industries (NBSSI), which operates in the 10 regional capitals under the Ministry of Trade and Industries and the Ghana Regional Appropriate Technology and Industrial Service (GRATIS), a foundation that provides skill training and basic working capital tools for start-ups.

Policy interventions for the promotion of SMEs have generally had the following broad themes:

1. Adequate support structure, transfer of appropriate technology

2. Entrepreneurial training and labour skills development

3. Access to sources of funds including reducing collateral requirements, and providing safeguards for the credit delivery system

4. Promoting linkages between large and small industries

Based on the above, we start with the cautionary note that access to financing should be seen as only one component of a national SMEs policy. Without a holistic approach covering the key developmental constraints of SMEs, SMEs financing schemes implemented in isolation are unlikely to be effective.

2.6.2. CURRENT STATUS OF SMEs FINANCING

There are many who believe that the single most important factor constraining the growth of the SMEs sector is the lack of finance. There are many factors that can be adduced for this lack of finance:

1. A relatively undeveloped financial sector with low levels of intermediation
2. Lack of institutional and legal structures that facilitate the management of SMEs lending risk
3. High cost of borrowing and rigidities interest rates.

Because of the persistent financing gap, many interventions have been launched by governments and development partners to stimulate the flow of financing to SMEs over and above what is available from exiting private sector financial institutions. Existing SMEs financing interventions can be classified under:

1. Official Schemes
2. Financing provided by financial institution

Official SMEs Credit Schemes

Official schemes are schemes introduced by government, either alone, or with the support of donor agencies to increase the flow of financing to SMEs. Government has in the past attempted to implement a number of such direct lending schemes to SMEs either out of government funds or with funds contracted from donor agencies. These funds were usually managed by the Aid and Debt Management Unit of the Ministry of Finance and Economic Planning. Most of the on-lent facilities were obtained under specific programs with bilateral organizations in support of the Government of Ghana's Economic Recovery Program and Structural Adjustment Program. Examples of such schemes are:

1. Austrian Import Program (1990)

2. Japanese Non-Project Grants (1987-2000)

3. Canadian Structural Adjustment Fund and Support for Public Expenditure Reforms (SPER)

In all cases, the funds were designed to assist importers. For example, under the Austrian Import Support Program (AIP), the beneficiaries were to use the facility to procure equipment, machinery, raw materials and related services from Austria. The Export Finance Company, a quasi-public institution was made the sole administrator of the facility. The Japanese and Canadian facilities were similarly designed to support imports from the respective countries. While these schemes were not specifically targeted to SMEs, there were no restrictions with respect to minimum company size and many companies that would fit the SMEs definitions were beneficiaries.

The results of the direct lending schemes operated by government have been mixed. For example, under AIP, 20 companies of varying sizes benefited from the scheme. Beneficiaries were given six years made up of a one-year moratorium and a five-year repayment period.

Since the loans were disbursed in 1990, the borrowers should have completely liquidated their loans by the end of 1996. However as at December 2001, only 1 out of 20 beneficiaries had fully paid. The results for the Japanese and CIDA schemes were much more encouraging from a recovery perspective because repayments were guaranteed by various financial institutions, although the Government has had to hire 18 debt collectors to recover outstanding indebtedness under both schemes.

In addition to donor-supported schemes for direct lending, government has attempted at various times to operate lending schemes for SMEs. The schemes have included the following:

1. **Business Assistance Fund**: The Business Assistance Fund was operated in the 1990s to provide direct government lending to the SMEs sector. The program was widely seen to have been abused politically, with most of the loans going to perceived government supporters.

2. **Ghana Investment Fund**: In 2002, the Ghana investment Fund Act (Act 616) was passed to establish a fund to provide for the grant of credit facilities by designated financial institutions to companies. However, the scheme was never implemented.

3. **Export Development and Investment Fund (EDIF)**: Under this scheme, companies with export programs can borrow up to $500,000over a five-year period at a subsidized cedi interest rate of 15%. While the scheme is administered through banks, the EDI board maintains tight control, approving all the credit recommendations of the participating banks.

2.7 CHAPTER SUMMARY

Chapter two reviewed existing literature on related works executed by previous workers, its relevance being that it served as a building block of academic knowledge upon which this researcher taps significant information. It looked at the various academic and policy definitions of Small and Medium Scale Enterprises (SMEs) across some selected countries and in Ghana. It also reviewed the importance of SMEs in the socio-economic development of various countries. The access of SMEs to finance and other related issues were reviewed in the literature as well as other international experiences for improving the access of SMEs to finance. A critical factor which was reviewed in chapter two was the role of financial intermediaries in providing finance to SMEs. Issues related specifically to SMEs and finance in Ghana was reviewed in the literature to provide relevant information about challenges encountered by SMEs operating in the Ghanaian economy. This chapter provided a global picture of the challenges of SMEs in accessing finance as well as a Ghana-specific view.

CHAPTER THREE

RESEARCH METHODOLOGY AND PROFILE OF MERCHANT BANK

3.1 Introduction

This chapter discusses the methodology employed to achieve the objectives of the study. A research methodology defines what the activity of research is, how to proceed, how to measure progress, and what constitutes success. This research is exploratory in nature design to find the factors hampering credit taking and strategies of accessing credits from the Commercial banks by the SMEs. It is also to determine the use and awareness of the various financing sources available to SMEs from the Commercial banks. Exploratory, according to Bell, (2005) is a process that promises to develop an accurate picture of qualitative research and according to some theorists, can offer assistance not only in formulating hypotheses and theories but also modifying and testing hypotheses and theories. The Methodology considered the study area chosen for the study, population, sampling, sources and types of data, research instruments used and how data will be analysed, presented and discussed.

3.2 Population and Sample

The long essay is a case study of Merchant Bank Ghana Ltd hence, the population for the survey consisted of customers of the bank. The population was made up of individual business clients in the SMEs unit. A purposive sampling of bank customers was done. Out of a total of 100 customers who accepted the questionnaire, 95 of the responses were actually used for the analysis. The remaining 5 were discarded as respondents either answered the demographic questions only or did not answer at all whereas; others had either travelled or could not be reached at all. The study was limited to Kumasi due to time and resource constraints.

3.3 Population, Sampling and Sampling Techniques

The population of the study comprises staff in-charge of SMEs in Merchant bank Kumasi area offices due to time and resource constraints and their various clients who are the operators of small and medium scale enterprises who constitute a complete group of bodies with common characteristics as a relevant population for SMEs financing. The population chosen was in line with the proposition of Yin (1994) who rightly pointed out that a case study with many units of analysis is an embedded case and it is good for developing theories. Due to budgetary constraint and time the study could not cover the entire population. In this case, sampling serves the practical purpose of the study which was the methodology adopted in this study due to the reasons adduced earlier. A complete coverage of the population may not offer substantial advantage over a sample survey.

On the contrary, it is argued that sampling provides a better analysis of a population in a relatively short period of time and produces comparable and equally valid results compared to a census. The sampling techniques used in this study were purposive and quota sampling. According to Amedahe (2002) one way of determining a quota is focusing on a strict procedure of choosing respondent according to their proportion in the entire population. He further suggested that in most qualitative studies, 5% to 20% of the population size is sufficient for generalization.

Based on this criterion, 5% of the heterogeneous sample was selected so as to reflect the population of SMEs. The various strata involved in the study were SMEs that are associated with Merchant bank Ghana Ltd. Based on this criterion, 5% of the heterogeneous sample was selected so as to reflect the population of SMEs from all spheres of economic ventures such as manufacturing, dressmaking, trading etc., hence the various strata involved in the study:

manufacturing, services, trading and others were given quotas. However, all the staff of Merchant bank who were handling issues pertaining to SMEs were interviewed. The selection of the respondents for the study was guided by sampling procedure; the process involving relevant sample size. In arriving at the sample size, the basic criterion adopted was that the SMEs operator (client) should have been active client of Merchant bank for a minimum period of two (2) years.

This minimum period was thought to be acceptable for members to have experienced some form of impact on their business as far as credit from Merchant bank is concerned. In all (100) hundred SMEs were purposefully selected for the study although only 95 people responded. This ensured that the sampling units were representative with high response rate so as to gain insight into the problem and answer the research questions. The purposive sampling was adopted because the intention was to gain an insight into the operations of both Commercial banking systems and SMEs in Ghana. Among the questions posed included: Problems hampering credit taking among SMEs in the Commercial Banking industry? Are the monies adequate enough to meet their needs? Are the conditions pertaining to credit taking flexible enough to enable other entrants' access such facilities? What are some suggestions to improve SMEs financing?

3.4 Research Instrument

Explanatory research explains causal relationships. It aims at explaining causal relationships between variables (Marshall and Rossman, 1999). Since the purpose of this study is to gain better understanding on how SMEs could be financed, the research can be considered exploratory. In this way, the study sought new insight on financing SMEs by the banking sector. At the same time, it can be seen as descriptive since it may get more information as possible and describe more on the phenomenon within this specific area. The questionnaire was the main tool used in data collection. Questionnaires were constructed taking into consideration the views of (Bell 2005) who argued that questionnaires should collect precise data required to answer research questions and meet the objective of the research.

Questionnaires (refer to appendix in page 71) were given out to SMEs clients who belong to Merchant bank Kumasi Office. The questionnaires covered 95% of the data collected. It was more objective since the respondents were directly involved and were given free hand to express their opinions without any personal influence and they had enough time to do that and at their own pace. The questionnaires were one hundred (100) in number and were administered to all the hundred (100) SMEs selected from the various sectors. In other words, it was administered fairly to the target areas. The questionnaire was structured to elicit feedback from respondents as to what their experiences are with the bank in terms of facilities, services, products etc. Questions were structured around specific criteria. These were personal information, SMEs finance, opinions on ways of improving SMEs financing, etc. These were the main areas around which the data would be analysed. The questionnaire contained ten (10) items. The items included pre-coded and open – ended forms. Answers were provided for the pre-coded form so as to provide specific answers. They were mostly based on the background information.

With regard to open – ended items, there were no answers given as such the questions required respondents to provide their views. All the questions were framed and written for the respondents to provide answers to. After completion of the forms, the investigator went round to collect these questionnaires as the case may be for those who could not answer it instantly.

A few interviews (not structured) were done. This was used coupled with the questionnaire. Few respondents were occasionally interviewed to know what they think about how the bank is helping to sustain and improve the growth of SMEs. It gave them the opportunity to really express themselves and it enabled the study had few other questions. Most of their feedbacks were very helpful. Again, interviews were used because some of the respondents were illiterate and had to translate the questions into their local dialect. This made it easier to assess the mood of the respondents and appreciate the validity and reliability of the answers given. Observations were also made. In order to come out with the right response, the observation was made based on the suggestions of Amedahe (2002) who contended that observers should recognized their biases and strive to eliminate their influence on what they report and should also note what is relevant and irrelevant to observe. This gave the researcher the opportunity to elicit feedbacks that were not verbally communicated nor written. These observations were however personal but objective interpretations of what was observed. Respondents expressed latently or indirectly their experiences with the bank. It helped in understanding some of the responses from the respondents. In general the response was fairly good considering the circumstances under which it was elicited – short response time, lack of adequate opportunity to explain to respondents even why they should respond to the questionnaires.

3.5 Pilot Survey/Pre-Survey

It was necessary for the study to conduct a pre-test survey in order to know an appropriate methodology to be taken on. This enabled the study set a partial view of the study area, the target group and the characteristics of the population to be studied. The information served as a guide in preparing a suitable questionnaire for the study. After this it was pilot tested on some SMEs in different vicinity specifically from other Commercial Banks, and it was clear from the response rate that the respondents understood all the questions.

3.6 Types and Sources of Data

The type of data that were gathered included information on gender, education, employment and income, sources of credit, problems hampering credit taking and impact of credit on the beneficiaries. Quantitative and qualitative data were used. The quantitative data was applied on economic indicators such as employment and income levels, whilst qualitative data was used in social phenomena such as sex composition and impact of loan on the growth and sustenance of SMEs.

3.6.1 Primary Data

The study made an extensive use of primary data. According to William (2001) data may be collected as either primary or secondary. In this study, primary data was used. The primary sources of data included information gathered from the questionnaire that was administered to SMEs clients in Merchant Bank. The advantage of using the primary sources of data is that, they are more reliable since they come from original sources and are collected for the purpose of the study. In addition, it is tailored and, designed to suit the objectives of the study.

3.7 Data Analysis and Presentation

Data Analysis consists of analysing categories, tabulating, testing or otherwise combining both quantitative and qualitative evidence (Amadahe, 2002). According to William (2001) raw data obtained for any research is useless unless it is transformed into information for the purpose of decision making. Marshall and Rossman (1999) explain that qualitative data analysis focuses on data in the form of words. They stated that qualitative data analysis concerns three (3) flows of activity: data reduction, data display and conclusion drawing /verification. Data analysis usually involves reducing the raw data into a manageable size, developing summaries and applying statistical inferences. Consequently, the following steps were taken to analyze the data for the study. First the data was edited to detect and correct, where possible errors and omissions to ensure consistency across respondents. Next the data was coded; this enabled the respondents to be grouped into limited number of categories. Descriptive statistics was used to summarize and present the information in a form of frequency distribution and percentages. Yin (1994) noted that interpreting data when mixed methods are used involve looking for: explanations, contradictions and their resolutions identify and rank findings and organize them and finally present the findings simply through charts, graphs, tables that illustrate the point.

3.8 Definition of SMEs

The term SMEs covers a wide range of definitions and measures, varying from country to country and between the sources reporting SMEs statistics. Although there is no universally agreed definition of SMEs some of the commonly used criteria are the number of employees, value of assets, value of sales and size of capital. Among them the most common definitional basis used is employees because of the comparatively ease of collecting this information, and here again there is variation in defining the upper and lower size limit of an SMEs. Despite this variance, a large number of sources define an SMEs to have a cut-off range of 0-250 employees (Ayyagari *et al*, 2003).

In the United States and Canada, SMEs generally include firms with less than 500 employees (Ayagari et at,2003). The EU defines a medium-sized enterprise as one with 250 employees, a small enterprises as one with less than 50 and a microenterprise as one with a maximum of 10 employees. At the same time, to qualify as an SMEs in the EU, a firm must have an annual turnover of Euro 40 million or less and/or a balance sheet valuation not exceeding Euro 27 million 3 . In case of Japan SMEs is defined as a firm with employees of 300 or less and capital size of 300 million yen or less in manufacturing, a firm with employees of 100 or less and capital size of 100 million yen or less in wholesale, and a firm with employees of 50-100 or less and capital size of 50 million yen in retail and service sector. In developing countries, number of employees and size of asset or turnover for SMEs tend to be much smaller compared with their counterparts in developed countries due to their relative size of business entities and economies. For example, in Ghana, SMEs are defined as legally registered business entities with employees of 199 or less and with an annual turnover of 15,000,000 million Ghana cedis (approximately 1.3 million US$ equivalent) or less respectively (Gandbold, 2008).

As comparative study purpose, currently the SMEs Department of the World Bank works with the following definitions: microenterprise up to 10 employees, total assets of up to $10,000 and total annual sales of up to $100,000; small enterprise up to 50 employees, total assets and total sales of up to $3 million; medium enterprise up to 300 employees, total assets and total sales of up to $15 million (Ayyageri et al, 2003).

3.9 CASE STUDY: MERCHANT BANK

3.9.1. Organizational Profile

Merchant Bank is the premier bank in the sub sector of merchant banking in Ghana. It was incorporated in 1972 as National finance and Merchant bank (Gh) Ltd. It is a limited liability company with a shareholding structure of Government of Ghana 30%, National investment Bank 25%, Grindslay 30% and State insurance Company 15%.However, Merchant bank has over the years changed in character with a current shareholding structure of SSNIT 55%, State insurance Company 15%, Trustee (staff provident fund) 10% and Treasury 20%.

Apart from normal banking operations both domestic and foreign, private banking, treasury services, the bank has also established two subsidiaries and two specialised departments to complement the effort of the subsidiaries in the provision of investment services and products.

Merchant Bank thus, prides itself as a one-stop bank which enables customers to access normal banking service, and at the same time tapping into services offered by the subsidiaries and the specialized departments.

Merchant bank is customer-centered hence, believes in its customers and responds to their needs. The bank set the pace for growth of merchant banking in the country, and thus contributed immensely to the economic development of the country over the last three decades thus, prides itself with the accolade' Relationship Banking at its Best" thus, urging them to serve adequately the needs of it chosen market, predominantly the timber sub sector, trade finance of corporate institution, individuals and the SMEs market.

3.9.2 Merchant Bank Branch Network

With about eighteen (18) business offices, connected online-real time, the merchant franchise covers a network which is strategically located in some selected national capitals to meet the future challenges of the industry and also to serve the needs of its chosen markets, predominantly the timber subsector and trade finance of corporate institution, individuals and the SMEs market.

3.9.3 Corporate Performance

Merchant Bank is one of the established and profitable banks in Ghana with equity to total assets ratio known as the capital adequacy ratio representing about 12.32% .This gives an idea of how prepared a bank is to fulfil its obligations to depositors if things go wrong. Merchant as at end of December,2008 is the ninth (9^{th}) highest bank in terms of deposit with a total amount of GHC317,820.The bank is also ranked seventh(7^{th})in terms of shareholders funds in the industry with an amount of GHC54,213 millions. Shareholders' funds represent the minimum capital required of the universal banks by bank of Ghana.

3.9.4 Subsidiaries

The bank has two subsidiary companies namely (Merban Investment Holdings Ltd. and Merban Stockbrokers Ltd.) as well as two specialised departments(Registrars' Service and Corporate Finance Advisory services) offering the following range of products and services:

3.9.4.1 Merban investment Holding Limited

The above subsidiary offers services such as portfolio management, trustee services, investment advisory services and custodial and nominee services

3.9.4.2 Merban Stockbrokers Limited

Services provided by the above subsidiary include share valuation, dealing representation for trading and the Ghana stock exchange, investor search and joint venture arrangement and advisory services for investment in companies listed on the Ghana Stock Exchange.

3.9.4.3 Registrar's Services Department

Among the services and products offered by the unit include share transfer and issues, payment of dividends and interest to investors, organising annual general meetings, maintaining records of shareholders and creditors and dealing with correspondence pertaining to members of shareholders.

3.9.4.4 Corporate Finance Advisory Services Department

Joint ventures arrangements, funds sourcing, project finance, trade finance, general finance advisory services, mergers and acquisitions and company restructuring are some of the products and services offered by the above named department.

3.10 MISSION

The Mission of the bank is "As a universal bank in Ghana Merchant Bank is committed to providing quality banking products and services to its customers across our chosen market and maintaining its place as the leading and preferred banking institution in Ghana".

3.11 VISION

The overall vision of the bank is to be the leading, most influential and best performing financial services provider in Ghana by 2010, and one of the leading banks in West Africa by 2015.

3.12 Core -Corporate Values

A set of core –corporate values that guides staff attitudes have been adopted as follows:

1. The bank must be a performance-oriented organisation.

2. All decisions and actions must be based on unshakable facts.

3. Business must all times be conducted with a sense of competitive urgency

4. High Ethical Standards must be maintained in all internal and external relationships.

3.13 Corporate strategy

From inception, Merchant Bank has clearly set out to differentiate itself in the banking industry through its service quality, drive for unique customer experience and the calibre of its client base. Today, it is easily associated with the following attributes in the banking industry:

1. The promotion and formation of the first discount house in Ghana.
2. The initiation of the preparatory work in the establishment of the Ghana stock Exchange (GSE)
3. Consistent superior financial performance
4. High quality personnel
5. An advisory body for the merger of Ashanti/AngloGold.
6. Pioneering role in the acquisition of SSB by society General

3.14 Management Team

The Merchant Bank management team is made up of individuals determined to deliver superior financial solutions to both business and individuals. The Bank's success stems from the experience, leadership and vision of it staff. Merchant Bank leverages the talent of some distinguished and experienced Ghanaian individuals made up of financial experts, legal and technology experts, to deliver industry leading solution and services for its consumer and business customers.

3.15 CHAPTER SUMMARY

The chapter is summarised as follows; it outlined the nature of the research was a case study with Merchant Bank being the subject. It also provided a detailed organisational profile of the organisation under study. The methodology applied on the execution of this study, the instruments employed as well as the types and sources of data to be used were outlined kin this chapter. The chapter also looked at the type(s) of data analysis to be employed in the study.

CHAPTER FOUR

4.0 PRESENTATION AND ANALYSIS OF DATA

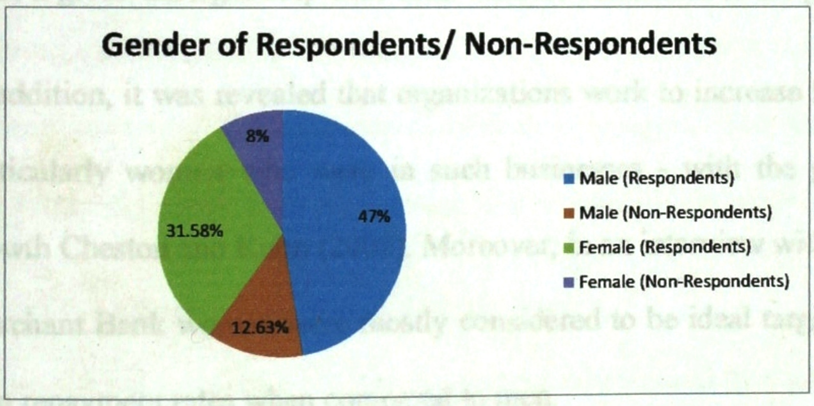
4.1 Introduction

This chapter consists of the analysis of data collected for the research, discussion and presentation. It aims at primarily answering the research questions set out chapter one. It also describes responses provided by Merchant Bank Ghana Limited with the aim of finding out how they have impacted on the growth and sustenance of SMEs. Descriptive statistics were used in analyzing the data. Charts were employed to illustrate certain points where necessary. The variables considered included personal data; barriers faced by SMEs in accessing credit, security required in accessing credit; problems hampering credit taking and respondents' suggestions on how access to finance by SMEs can be improved.

4.2 Analysis of Responses from SMEs

Personal Information

This focused on the gender of the respondents as represented in the pie chart below in Fig



4.1

The fig 4.1 shows the gender of the respondents. As depicted, 47% of the respondents were males as against 31.58% being females.However,12.63% men represented male non-respondents as well as 8% representing Female non-respondents. The analysis shows that males are forming the majority and that there is gender inequality in the SMEs sector. However, the females are the larger groups facing financial difficulties. This outcome was confirmed from the head of the credit department which revealed that one hundred and twenty-five (125) of the customers who patronized the SMEs scheme were females whilst two hundred and fourteen (214) were males. (From January 2009-March 2009). This shows that there is gender imbalance in the SMEs financing. This represents thirty-six percent (36%) percent of females and (64%) of males. This is an indication that majority of participants were male which shows that there is gender inequality at Merchant Bank Ghana Limited when it comes to the granting of small and medium scale credits to customers. The reason might be that women are more vulnerable in the society than men, more especially when it comes to small and medium scale businesses.

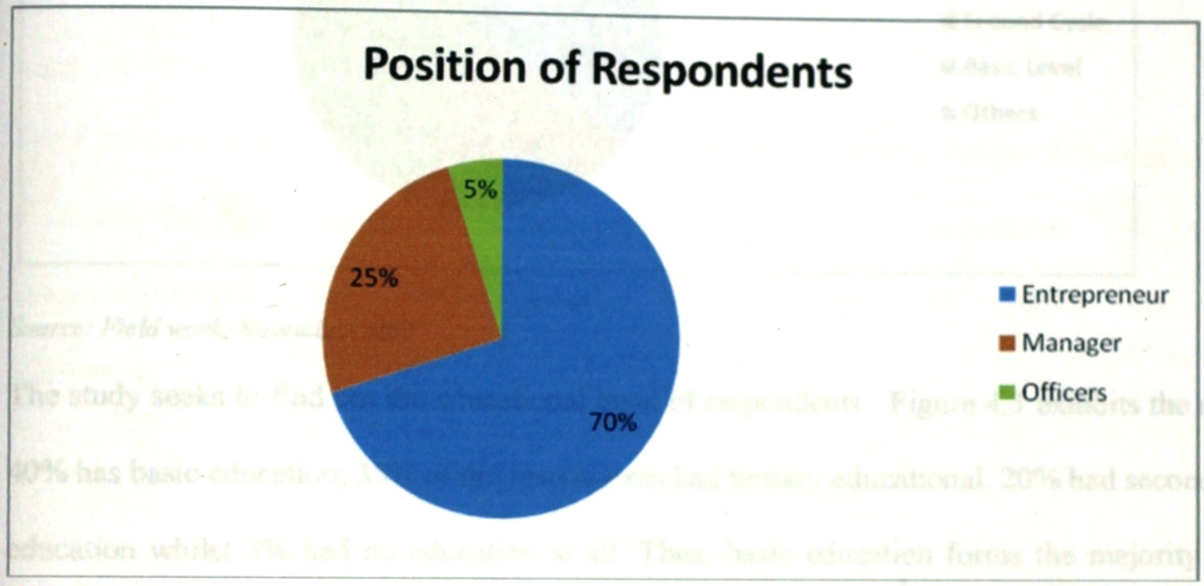
This shows that SMEs financing might impact on the social status of women to a reasonable level if given the right help with other flexible conditions in the granting of loans.

In addition, it was revealed that organizations work to increase financial and lending services to particularly women who were in such businesses - with the goal of creating overall market growth Cheston and Kuhn (2002). Moreover, in an interview with some of the credit managers in Merchant Bank women were mostly considered to be ideal targets because of their proven high loan repayment rates when compared to men.

Chart 4.2 Positions of Respondents

Figure 4.2 below analysis the various positions of the respondents as entrepreneurs, managers' and officers.

Figure 4.2



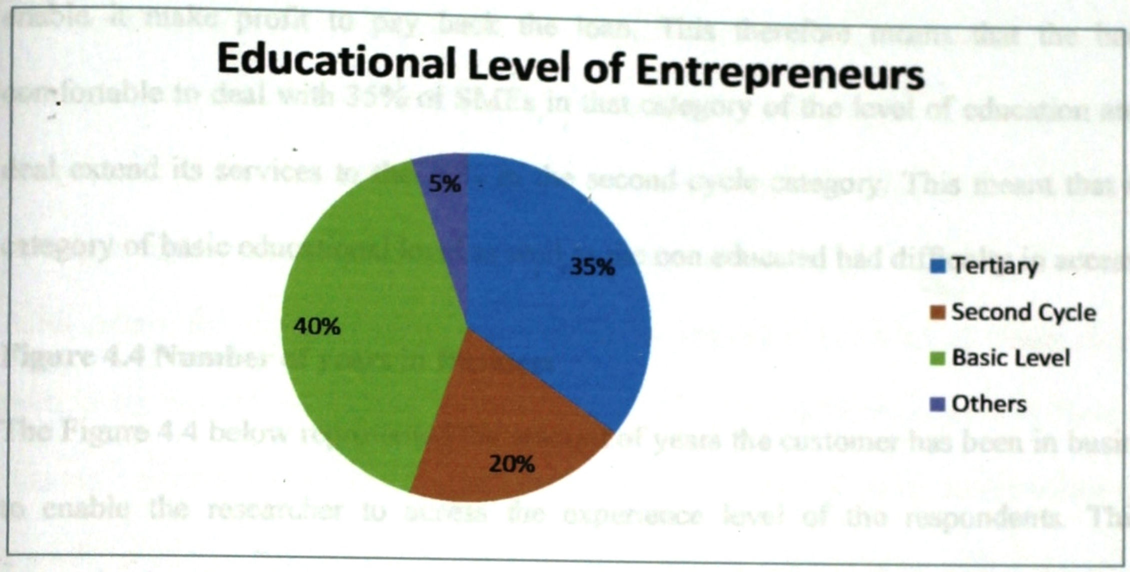
Source: Field work. November 2008

In finding out the position of the respondents from the SMEs, 70% were entrepreneurs, 25% were managers with 5% being officers. This analysis shows that the majority of the respondents are entrepreneurs who were owners of their businesses. This confirms the focus position which was targeted. They are in the position to give true and accurate information.

Figure 4.3 Educational level of Entrepreneurs

Figure 4.3 below takes a look at the various educational backgrounds of the entrepreneurs as to whether they were educated to the tertiary level e.g. university or polytechnic, second cycle by way of secondary, vocational e.t.c. whereas basic refers to JHS and Primary with others falling in the category of illiterates.

Figure 4.3



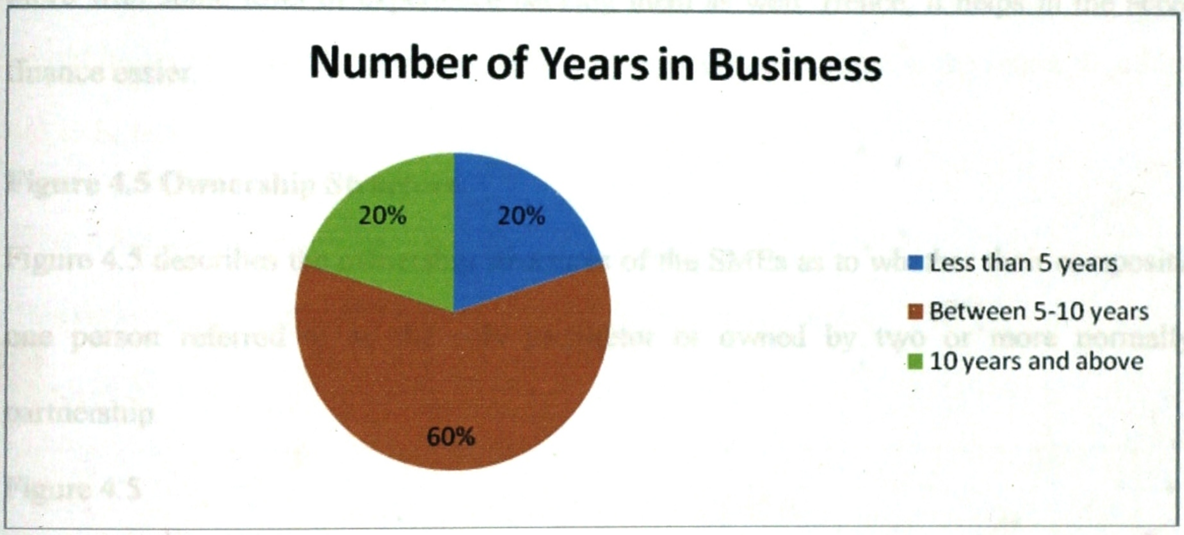
Source: Field work, November 2008

The study seeks to find out the educational level of respondents. Figure 4.3 exhibits the results. 40% has basic education; 35% of the respondents had tertiary educational, 20% had second cycle education whilst 5% had no education at all. Thus, basic education forms the majority of the sample size. It could be seen from the table that the majority of the respondents had higher educational standards, which enable them understood and answered the questionnaires without much difficulties.

However, it became a limitation for those who had lower educational qualification, since some of the questions had to be translated in their local dialect. In addition, when someone takes out a loan, a legally binding contract is formed between the borrower and the lender. Before the borrower could understand some of these technicalities binding the loan contract will probably depend on the level of education of respondents. Additionally, in recommending of finance by the credit officers of the bank a thorough assessment on the educational level of the customer was mandatory since that would inform the bank about the know-how of the customer as well as his understanding of his business environment in the management of all the major challenges to enable it make profit to pay back the loan. This therefore means that the bank is more comfortable to deal with 35% of SMEs in that category of the level of education and to a great deal extend its services to the 20% in the second cycle category. This meant that those in the category of basic educational level as well as the non educated had difficulty in accessing credit.

Figure 4.4 Number of years in Business

The Figure 4.4 below represented the amount of years the customer has been in business. This is to enable the researcher to access the experience level of the respondents. This has been categorized into less than 5years, between 5and 10 years and above 10years.



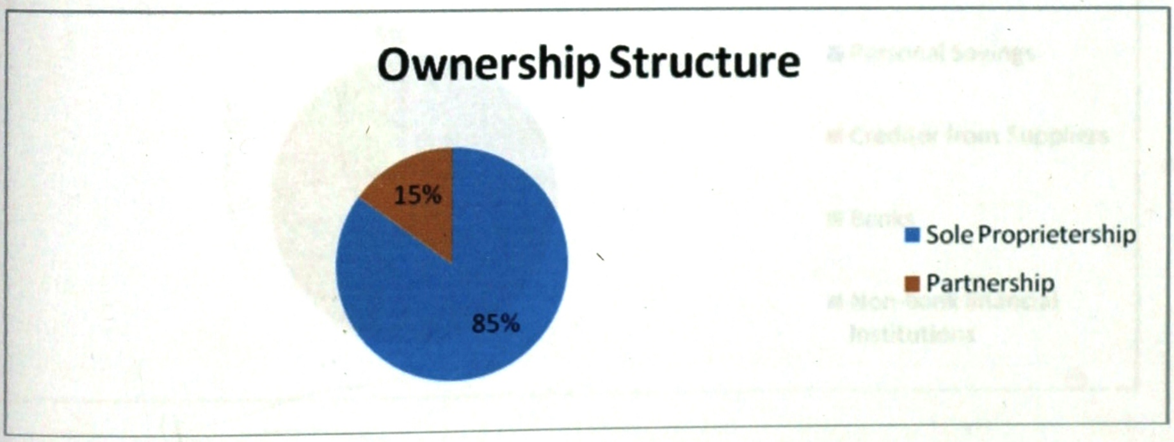
Source: Field work, November 2008

In response to how long the respondents have been in business, 60% been in operations between 5 to 10 years whilst 20% each, 10 years and less than 5 years. This confirms that Ghana's SMEs is a young and growing one and needs to be helped in order to enhance, sustain and encourage those who want to enter into SMEs in the future. This is because the SMEs is not matured competitively to enjoy the economies of scale as compared with the advanced countries. Additionally, customers who are less than 5 years find it difficult to access finance in the bank since the bank is not interested in start up businesses because they are not certain of the future of the business as the risk associated with it is extremely high with most of them without any record of credit history thus, making it difficult to access the credit worthiness of the customer. Furthermore, the entrepreneur may also be in- experienced. The bank also sees those who have been in business above 10years as becoming risky and complacent since they have experienced success overtime and as does happens to businesses by way of its cycle semantics of inception, growth, maturity and decline. However, the bank is comfortable with businesses who are between the years of 5-10.This is due to the belief that at this stage, enthusiasm is high to achieve more with some level of experience backing them as well. Hence, it helps in the accessing of finance easier.

Figure 4.5 Ownership Structure

Figure 4.5 describes the ownership structures of the SMEs as to whether their composition is by one person referred to as the sole proprietor or owned by two or more normally called partnership.

Figure 4.5



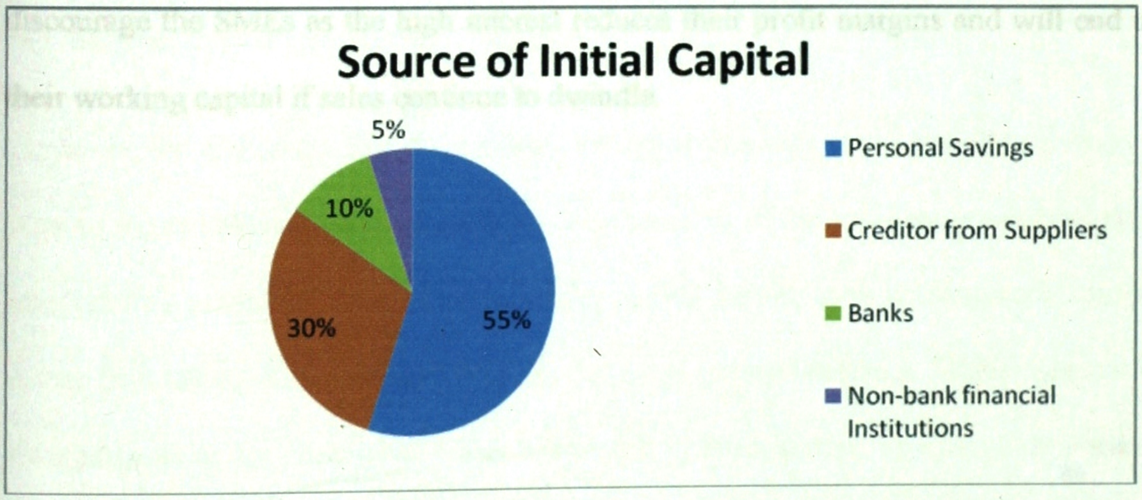
Source: Field work, November 2008

The Figure 4.5 reveals that majority of the SMEs are sole proprietorship representing about 85% with 15% representing partnership. This shows that the zone is capital intensive hence the need to give confidence and encourage those who want to go into partnership in their businesses. This also limits the access to finance by sole proprietors since it is owned by one person mostly without any continuity plan hence, the bank finds it more difficult to lend to an SMEs since, and demise of the owners will mean that repayment will be an issue. Though the bank takes collateral mostly in the form of landed property, it is not in the business of selling fixed assets but as a way of providing extra comfort and security. The bank rather looks at the ability to repay. Additionally, it takes considerably more than a year for the bank to realise the sale of a landed property supposing a bank goes to court to enforce it after default. During this period interest would be accruing and a value of a cedi today is worth more same in the future. In effect it turns out to be loss.

Figure 4.6 Source of Initial Capital

This figure gives a representation of selected SMEs initial capital.

Figure 4.6



Source: Field work, November 2008

The analysis of the data in the above table indicate that majority (55%) of the SMEs still finance their business through personal savings, 30% through credit from suppliers and10% through bank whilst 5% had it from non-bank financial institutions.

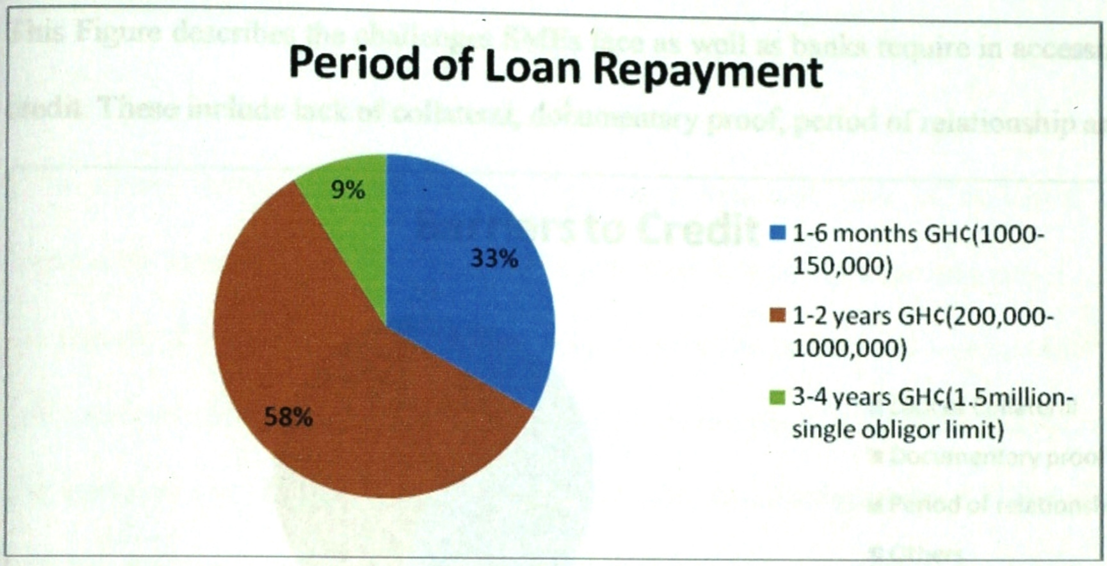
The analysis goes to testify that SMEs receive very little support from the bank to help start and grow their businesses hence unable to realise their full potential. This is because the bank is not interested in start-ups due its high risk nature.55% start through personal savings and other contributions. Such monies are treated as personal and not differentiated from business since no interest accrues on it.

Additionally, it also includes contribution by friends and family who may make demands when the business is not yet stable.30% of those who do not have any capital at all enter into agreements with suppliers to sell and pay within specific creditor days which in turn puts a lot of pressure on them since these payments are dependents on the level of sales. On-bank financial institution provides 5% of initial capital for the start of SMEs business with the reason that the interest rates are extremely high since the corresponding risk is same. This also tends to discourage the SMEs as the high interest reduces their profit margins and will end up affecting their working capital if sales continue to dwindle.

Figure 4.7 Period of loan repayment

This figure gives an overview of range of amounts accessible as well as the period of repayment

Figure 4.7



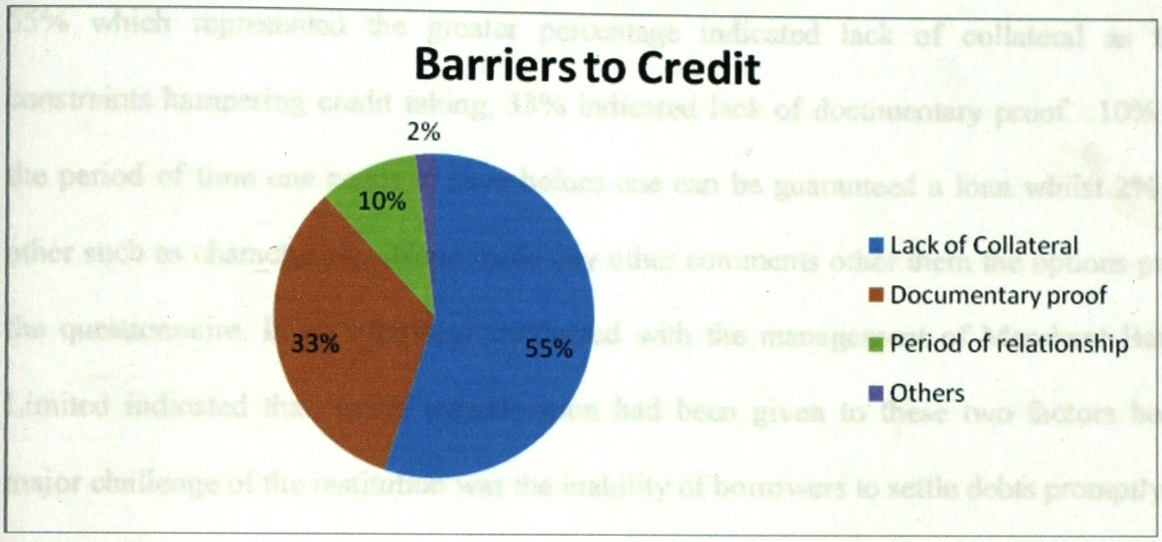
Source: Field work. November 2008

Figure 4.7 shows the period of time SMEs use in repaying the various amounts collected as loans. It shows that the majority of them which constitute 58% access amounts ranging between GH¢200, 000-1000, 000 payable between one (1) to two (2) years. This means that the bank is more comfortable to lend those amounts only within that period of time since they believe that the lengthier the loan the riskier it becomes.

However, the customers find the amounts as against the repayment period to be too short since it puts so much pressure on their business. Furthermore, if the business is not booming accrual of interest rate gradually affect their working capital hence, they decline such repayment terms rather than taking it to become a burden. Amounts granted between 3-4years are meant for long term projects or for established SMEs which fall in the minority. The period between 1-6 months is seen by the customers as too short even for such an amount to make any impact on their business. Additionally such credit facilities are even mostly as overdrafts does not give the SMEs the needed time to mature since it is meant to cater for working capital needs.

Figure 4.8 Barriers to Credit Taking

This Figure describes the challenges SMEs face as well as banks require in accessing and giving credit. These include lack of collateral, documentary proof, period of relationship among others.



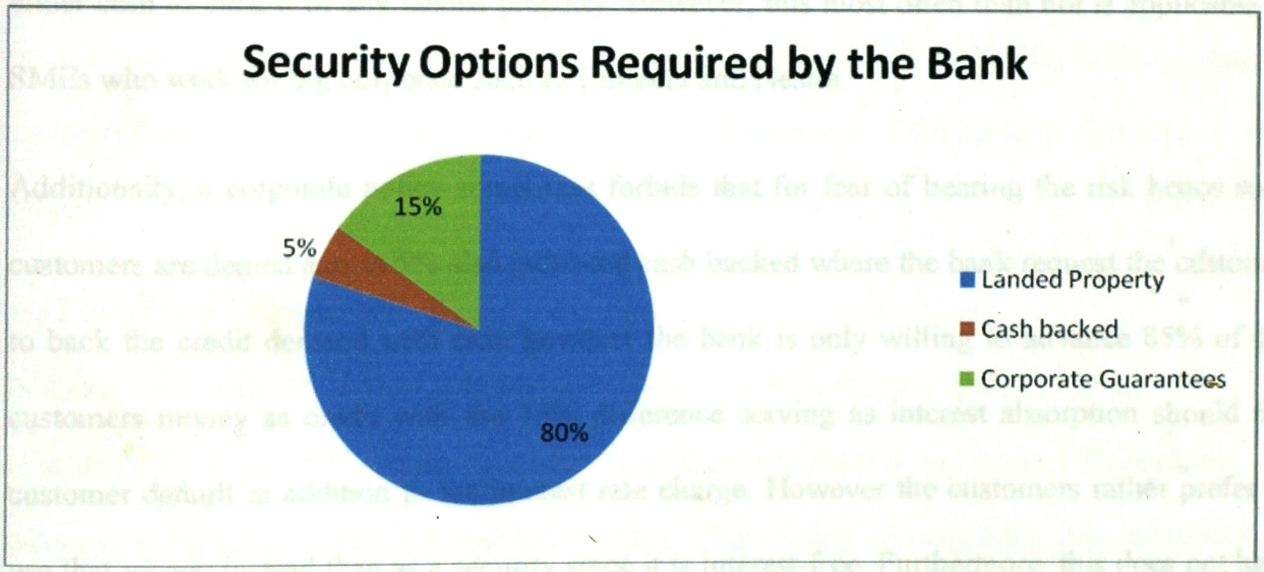
Source: Fieldwork, November 2008

Financing SMEs aim to provide SMEs with the additional income that allows them to become self-sufficient and provide necessary resources for their businesses.

However, in applying for the loan, applicants had to go through a lot of exercise by providing the necessary requirements before loan is granted to them. When such requirements are not met SMEs are compelled to resort to non-formal financial service from money lenders with its associated exorbitant interest. This will provide insufficient opportunities or support for SMEs to invest their money in personal projects. This ultimately decreases the potential empowerment and control SMEs could experience if they were investing their money in their own opportunities. Even when SMEs do invest money in their own opportunities, they typically limit the investments to low investment and low return initiatives, which are traditionally categorized as small activities. Among the major challenges identified in this study were lack of collateral (mostly landed property), period of relationship, lack of documentary proof such as financials, management accounts.

An item was to find out some of the problems hampering credit taking and it was found out that 55% which represented the greater percentage indicated lack of collateral as the major constraints hampering credit taking, 33% indicated lack of documentary proof. 10% indicated the period of time one needs to save before one can be guaranteed a loan whilst 2% indicated other such as character etc. None made any other comments other them the options provided in the questionnaire. In an interview conducted with the management of Merchant Bank Ghana Limited indicated that, much consideration had been given to these two factors because the major challenge of the institution was the inability of borrowers to settle debts promptly.

Figure 4.9



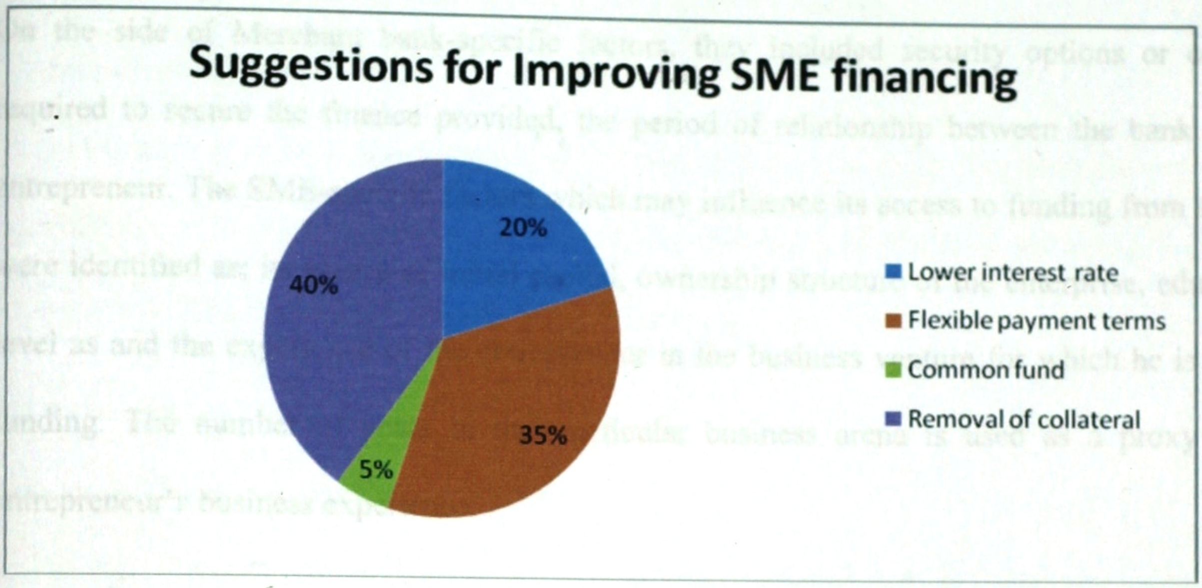
Source: Field work, November 2008

The above Figure gives an indication of the various security options required by the bank before credit can be accessed. From the responses 80% which represents the majority indicated landed property as the main security required by the bank. This is because the bank believes it is more tangible as well as appreciative in value though it is also dependent on the location, accessibility etc and also very important to anyone. However, the bank is also specific by way of accepting landed property with certified land title documents on them.

Although a customer could own a landed property in terms of a house they do not have the necessary documents hence are denied access to credit since in case of default the bank cannot realise the property as the allocation documents is not enough for the bank to use to enforce the sale of the asset in the court of law.15% of the respondents also indicated Corporate Guarantees which the bank accept base on the Net worth of the company guaranteeing for the customer. The bank allows corporate organisations with reputable status and very huge net worth depending only on the criteria of the bank to guarantee for customers who need credits and cannot provide either cash to back it or any landed property. However, this most often than not is applicable to SMEs who work for big corporate such as Unilever and Nestle.

Additionally, a corporate policy sometimes forbids that for fear of bearing the risk hence such customers are denied access.5% also indicated cash backed where the bank request the customer to back the credit demand with cash however the bank is only willing to advance 85% of the customers money as credit with the 15% difference serving as interest absorption should the customer default in addition to the interest rate charge. However the customers rather prefer to use that money instead than as a security since it is interest-free. Furthermore, this does not help them to obtain the needed credit for their businesses.

Figure 4.10



Source: Field work, November 2008

An open ended item was requested from respondents on their view on ways to improve SMEs financing in Ghana, 20% suggested lower interest rates, 35% of the respondent suggested flexible terms of credit repayments, 40% indicated removal of collateral security by the bank and 5% for setting up an SMEs common fund for the contributions to source credit from the fund with minimal interest or without interest in the form of revolving fund. The findings suggest innovative strategies to improve access to SMEs, which was one of the cardinal objectives of this project.

4.3 CHAPTER SUMMARY

In summary, chapter four provided information realised from the data analysis carried out by the researcher in this study. The results of the data were provided in the form of Figures and the relevant interpretation accompanied each Figure. The choice of pie charts was necessary to provide a pictorial view with relative ease of appreciation and interpretation by the reader. The data analysed cut across Merchant bank-specific factors which may impact SMEs financing and SMEs-specific factors which may also influence their accessibility of finance.

On the side of Merchant bank-specific factors, they included security options or collateral required to secure the finance provided, the period of relationship between the bank and the entrepreneur. The SME-specific factors which may influence its access to funding from the bank were identified as; its source of initial capital, ownership structure of the enterprise, educational level as and the experience of the entrepreneur in the business venture for which he is seeking funding. The number of years in that particular business arena is used as a proxy for the entrepreneur's business experience.

CHAPTER FIVE

SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

5.1 Introduction

This chapter is devoted to the summary of findings, recommendations for policy formulation and conclusions. The main objective was to find the challenges of SMEs in accessing finance and recommend effective ways to improve SMEs financing.

5.2 Summary of Findings

The main findings of the study are as follows:

1. The study reveals that majority of the respondents were males, 47% on gender balance. 70% of the respondents were entrepreneurs of their endeavour and 35% had tertiary education. In the SMEs, individuals must have the zeal for business. Therefore, what is left are managerial skills to effectively and efficiently manage their businesses.

2. It came to light that majority of the respondents 60% have been in business between 5-10 years.

This proves that Ghanaian businessmen are late starters.

3. Ownership of the small and medium enterprises is dominated by sole proprietorships which formed 85% of those interviewed, followed by partnership (15%) and this contributes significantly to the financial constraints the small – scale industrialists faced.

4. The study also indicated that majority of the SMEs (55%) started their business with personal savings as their initial capital. The SMEs is capital intensive which requires a sizeable capital. The main source of the initial capital which came from the personal savings, contributions from

partners and family assistance. These are informal sources. A total of 15% came from the bank and non-financial which is highly inadequate for the necessary expansion to enjoy economies of scale

5. The study also further revealed that the main difficulties in accessing credit from formal sources included inflexible repayment terms, delays in loan processing, high collateral security, and high interest rate.

6. In finding an effective ways of addressing the SMEs financing, the respondents suggested flexible credit repayment terms, lower interest rates, establishment of common fund, and removal of collateral security regarded by the financial institutions.

5.3 Recommendations and Policy Implications

From the summary and conclusions, the researcher wishes to put forward the following recommendations, which will go a long way to solve the problem of SMEs financing:

1. SMEs Banks: from the nature of financial constraints identified the opportunities and constraints to financing SMEs and the insignificant role being played by the established institutions to cater for the needs of the SMEs. The stakeholders in the sector are expected to be the shareholders of the banks.

2. Common fund: it is also recommended that a clear and definite positive financing policy must be made through the central bank for implementation by all banks. Priorities should be set for the efficient allocation of the resources.

3. SMEs national policy: a national policy for small- scale industries including financing strategies should be eminent. It is expected that the government should provide resources to

create an incentive scheme for financial institutions to make flexible loans to small – scale industries in Ghana.

5. Insurance guarantees: the insurance companies should be actively involved in SMEs financing by providing credit guarantee for any credit delivery by the formal institutions. The insurance companies must have a sense of partnership with the banks and SMEs in areas of credit insurance and guarantee facilities.

6. Loanable fund: the government should also make available enough loanable funds to the institutions set up to help finance the SMEs. Again, the government should take bold initiative to introduce more financial schemes into the system with appropriate policy objectives.

7. Financial management education: educational workshops and training should be organized for the SMEs operators to ensure efficient and effective management of financial resources. Again, lack of knowledge by most industries on the activities and requirements of the establishment institution setup to help finance SMEs can be eliminated through such education

8. Collaboration: it is also recommended that all the stakeholders in the SMEs sector will collaborate, brainstorm and find workable and lasting solution to the problem of the SMEs financing.

5.4 Suggestions for Further Research

In order to reduce the problems in financing SMEs and increase the self confidence of clients there is the need for further research to be carried out in the areas below:

1. The challenges in financing SMEs and the way forward. This research did not tackle much in this area. However, the major challenge of the company was loan repayment. This had precipitated the management of the scheme to put in place some stringent measures which had earlier been mentioned. However, these measures had also reduced the desirability of clients to access credit and it multiple repercussion on the incomes and welfare levels of clients. It is recommended that future researchers should delve into an alternative ways of recovery loans such that it would be of mutual benefit to both willing borrowers and management.

2. It is also being recommended to future researchers interested in this area to research into techniques in assessing the impact of SMEs financing in Ghana using the same or similar study area as a test case.

3. It is also being recommended to future researchers interested in this area to use research instruments which had been mentioned below and were not covered in this study. This is because there were certain problems that were never anticipated during the field work. A notable example was cooperation from respondents. However, this problem could be overcome by using recognizance survey which enable the researcher have first hand information about the socio-cultural behaviour of the respondent and the real problems on the ground. Tools such as focus group discussion, social mapping, durbars, rapid rural appraisal, key informants, and in-depth interviews could also be applied. As it had been said, these instruments were not used in the study because the earlier mentioned limitations were not anticipated. These instruments may not

only provide an effective means of collecting high quality data but also serve as a way of cross-checking or invalidating information from other sources (i.e. triangulation).Recent methodological research papers had also revealed that there are limitations to a purely quantitative as well as to a purely qualitative approach in social science research, be it impact evaluation, SMEs assessment and so forth. The conventional approaches often give an imbalance focus on quantitative and measurable indicators such as income levels to the neglect of social and psychological issues that tend to be qualitative in nature. Hence, student researchers interested in this area should use the participatory approach as a way of complementing the conventional methods of data collection in impact assessment studies.

5.5 Conclusion

In fact, one of the objectives of the commercial banks is to help improve, enhance and sustain the growth of SMEs, by equipping them with financial support, some of the SMEs rated the comment collected as inadequate which reduces performance. It is hoped that the recommendations made will help to eliminate the financial constraints to the development of SMEs in Ghana. It is expected that this study will serve as a "springboard" for further research. Other SMEs in other parts of the country should also be taken into consideration in any future research.

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APPENDIX

QUESTIONNAIRE

In line with the KNUST regulations, every MBA student is supposed to write a research in partial fulfilment of the degree. I would therefore be grateful if you could spend a few minutes of your time to answer the following questions on the topic "Challenges of SMEs in Financing, The Merchant Bank Customers' Perspective: A case study of Merchant Bank, Kumasi.

Please be rest assured that any information collected would be kept in utmost confidence.

You may seek any clarification if the need be.

A. PERSONAL INFORMATION

1. Gender Male [ ] Female [ ]

2. What is your position in the Company?

(a) Entrepreneur [ ]

(b) Managers [ ]

(c) Officers [ ]

(d) Others (Specify) [ ]

3. What is your education level?

(a) Tertiary [ ]

(b) Secondary [ ]

(c) Basic [ ]

(d) Others [ ]

B. SME FINANCE

4. How long have you been business?

(a) Less than 5 years [ ]

(b) 5-10 years [ ]

(c) 10 years and above [ ]

5. What is the ownership structure?

(a) Sole Owner [ ]

(b) Partnership [ ]

6. What was your source of initial capital?

(a) Personal Savings [ ]

(b) Creditor Supplies [ ]

(c) Loan from Bank [ ]

(d) Loan Non-Bank financial Institution [ ]

(e) Other sources (please specify) [ ]

7. Period of Loan Repayment

(a) 1month- 6months [ ]

(b) 1-2years [ ]

(c) 3-4years [ ]

(d) Other [ ]

8. What are the problems hampering credit taking?

(a) Lack of collateral [ ]

(b) Strict procedures in applying for a loan [ ]

(c) Period of relationship [ ]

(d) Others specify [ ]

.9. What are your the various security options required by the bank?

(a) Landed Property [ ]

(b) Documentary Proof [ ]

(c) Period of relationship [ ]

(d) Others (specify) [ ]

0. In your own view, suggest how you think the problem of financing the Small – Scale enterprises could be solved or improved?

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