EXAMINING THE IMPACT OF LOANS ON SMEs IN GHANA.

(A Case Study of SME Customers in Stanbic Bank)

By

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DECLARATION

I hereby declare that this submission is my own work towards the Commonwealth Executive Masters in Business Administration and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the university, except where the university due acknowledgement has been made in the text.

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DEDICATION

This work is dedicated to my lovely mum, Joyce Naa Borley Quainoo.

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ABSTRACT

Small and Medium enterprises are the catalyst for economic growth in most economies thus, the fundamental objective of this study is to investigate the impact of loans on Small and Medium Enterprises (SMEs) in Ghana. So that the ability of SMEs to develop positively and drive economic growth in the Ghana will become real. Simple random sampling technique was employed in selecting the 100 SMEs that constituted the sample size of the research. Structured questionnaire was designed to facilitate the acquisition of relevant data which was used for analysis. Descriptive statistics which involves simple percentage graphical charts and illustrations was tactically applied in data presentations and analysis. The findings of the study reveal that significant number of the SMEs benefitted from the loans even though only few of them were capable enough to secure the required amount needed. Interestingly, majority of the SMEs acknowledge positive contributions of loans towards increasing their returns and sales thus placing them in the competitive arena. It is recommended that Banks should review their interest rate downwards and also share best practices with their SME customers especially on the efficient use of loans; this will boost their productivity and support SMEs in Ghana.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction and Background

In Ghana, available data from the Registrar General Department indicates that 90% of companies registered are micro, small and medium enterprises (Mensah, 2004). This target group has been identified as the catalyst for economic growth of the country as they are a major source of income and employment to many Ghanaians. According to Mensah (2004) Small enterprises employ between 6 and 29 employees with fixed assets of $100 Thousand with Medium enterprises employing between 30 and 99 employees with fixed assets of up to $1 Million, Hallberg (2001) put forward that SMEs account for majority of firms in an economy and a significant share of employment. Like other countries of the world, SMEs in Ghana have the tendency to serve as sources of livelihood to the poor, create employment opportunities, generate income and contribute immensely to economic growth. Small firms are the engines for economic development of several developed countries such as the US and Japan (Hallberg, 2001).

Developing countries such as Zimbabwe have also identified the potential of small firms to turn economies with negative growth into vibrant ones. For this reason, several governments in developing countries offer funding to small firms either directly or by guaranteeing the payment of such loans as lack of funding is cited as one of the major challenges faced by small businesses. Obert and Olawale (2010) argues that due to limited resources by governments, not all small firms receive funding from the government; therefore, the other option would be to go for bank loans Obert and Olawale (2010). Despite its increasing roles, access to credit by

SMEs remains one major constraint to Ghanaian SMEs. According to Augusto et al (2008), most large companies usually start as small enterprises, so the ability of SMEs to develop and invest becomes crucial to any economy wishing to prosper.

Although countries' definitions of what constitutes an SME for legal or statistical purposes are typically based on the number of employees, banks generally define SMEs in terms of average annual sale; an indicator that is more easily observable, a good proxy of an SME level of business activity, and, thus, more useful to banks' business and risk management purposes (Augusto et al 2008). Augusto et al (2008) further points out that the threshold of annual sales used by banks varies by country, according to the size of the economies and structure of their corporate sector. Augusto et al (2008) hints that in Argentina, a company is considered to be an SME when its average annual sales are approximately between 300,000 and 30 million US dollars. In Chile, the range goes from around 90,000 to 24 million US dollars.

In Colombia, banks consider SMEs those firms with annual sales between 400,000 and 13 million US dollars (although for most domestic banks the range is between 100,000 and 5 million. In Serbia, SMEs are typically defined as having annual sales between 500,000 and 10 million Euros. A vast number of data on SMEs in Ghana also suggest SMEs are more financially constrained than large firms. For example, using data from 10,000 firms in 80 countries, Beck et al (2006) showed that the probability that a firm rates financing as a major obstacle is 39% for small firms, 38% for medium-size firms, and 29% for large firms.

Mensah (2004) states that a major barrier to rapid development of the SME sector is a shortage of both debt and equity financing. However Mensah (2004) postulate that equity shortage occurs because Equity investors seek highest return consistent with the risk of the investment and since SME investments are difficult to evaluate, their investments take time to mature and among others major institutional investors such as insurance companies are not allowed to invest in private SMEs. Hence there are many who believe that the single most important factor constraining the growth of the SME sector is the lack of finance.

There are many factors that can be adduced for this lack of finance according to Mensah (2004). For instance a relatively undeveloped financial sector with low levels of intermediation; Lack of institutional and legal structures that facilitate the management of SME lending risk; High cost of borrowing and rigidities interest rates. Thus 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. Karimunda and Barumwete (2006) put forward the fact that, there are several reasons why a SME need a loan such us the financing of new branches, of new projects and more. Companies do not always have the capacity for finance their own business that is why they have sometimes to turn to other financers. However, when companies need new capital, they firstly resort to their internal generated funds.

After these sources, SMEs turn to equity financing by addressing closely related investors. These sources exhibit very low costs and may be for example equity capital from the owner, family or friends. Despite these, there are others types of financing that one can use: external equity financing and external debt financing. For SMEs, possibilities for using external equity finance are limited since the majority of these companies are privately managed. Companies can also use venture capitalist as alternative means of equity financing.

However, these possibilities are difficult for SMEs since most of them do not always meet the return expectations. They thereby become less attractive for this group of investors. Other alternatives to financing are private placements and corporate bonds. Unfortunately, these types of financing are too expensive for SMEs or have limited resources. Therefore bank loans seem to be an appropriate way to finance SMEs' capital requirements and seem to be an appropriate way. As a result, SMEs prefer most frequently debt funding by bank loans. The bank financing is tremendously attractive and seems to be realistic and a more reliable source to SMEs. Mensah (2004) states that recently, as banks and other financial institutions have sought to broaden their loan portfolio, SMEs have become an increasingly attractive customer group. Traditionally, however, financial institutions in Ghana have been cautious with lending to SME groups because of high default rates and risks associated with the sector. Few banks have therefore developed an explicit policy for SME target groups taking the particular requirements and needs into consideration, an example is the development of customized financial products and appropriate credit management systems.

Only few banks have SME specific loan products, and many of these are donor funded. Since SMEs are scarcely finance by equity due to risk in its operation amongst others, the last resort is thus debt financing and this is usually financed by financial institutions through the granting of loans. Debt financing according to Ayadi et al (2009) continues to be the primary source of financing for SMEs in Europe, much more important than venture capital. This implies, for one thing, that an efficient functioning of credit markets is of utmost importance for SMEs – and the economy at large – to thrive. This problem seems to be particularly severe in transition economies, whose catching-up may suffer from continued wide-spread exclusion of SMEs from external bank finance. Of recent, there has been an increase in the recognition of the role played by small firms in national economies. Their contribution to job creation and poverty alleviation has been recognized by several governments of developing countries to the extent that they now include them in their development plans.

Abor (2005) proposed among the support structures include offering funding to the small firms' sector, usually at concessionary rates. But whether the use of such debt improves the profitability, thereby enhancing sustainability, is not well known Abor (2005). However, despite the importance of the small business sector, access to finance is a frequently cited problem. Sources of capital are more limited for SMEs compared to large firms.

Therefore, unlike large, particularly publicly-listed firms, SMEs do not have the option of issuing shares or debentures in the capital market. Even if they are allowed to participate in the capital market, the high transaction costs associated with publicly issued debt and equity will be too expensive for them. Owing to their inability to access the public debt and equity markets, SMEs tend to be heavily reliant on commercial banks as a source of debt financing (Berry et al., 2002). Research by Berry et al. (2002), documents the reliance of SMEs on bank debt as a source of financing. These researchers, however, point out that access to bank debt is, paradoxically, a frequently cited challenge for SMEs.

SMEs are often relatively new and lack a consistent track record of profitability that would demonstrate the capability to repay a loan. In addition, many SMEs lack assets that could be used as collateral. SMEs are also more prone to financial distress and failure. Commercial banks, because of these factors, consider lending to SMEs a high risk. Therefore, commercial banks often deny loans or offer loans to SMEs at higher rates of interest to accommodate the perceived high credit risk of SMEs according

Coleman and Cohn (2001). The inaccessibility of debt finance to SMEs can further be attributed to information asymmetry. Rwelamila et al. (2004) indicates that this arises when one party to a transaction has better information than the other.

SMEs may have more information about their future prospects than the banks. Since banks do not have the necessary information, even small firms with profitable investment opportunities are turned down when requesting credit facilities. Banks, therefore, introduce restrictive covenants and also collect collateral from small firms to mitigate this problem Bose and Cotheren (1997).The question is what the impact of this loan on these SMEs is? Traditionally, debt finance has been viewed as less expensive than equity. It furthermore has been used both to decrease the average cost of capital and enhance shareholders returns.

However, there is a negative side to debt, since interest payments must be made regardless of market conditions. This vulnerability is an important factor that firms must consider when making capital structure decisions. In addition Glen (2004) states, there is a very strong economic and statistical link between macroeconomic variables and a firm's ability to meet debt obligations. The macro-economic environment implies the level of aggregate demand, the level of interest rates, and the level of inflation. A positive macro-economic environment results in a rise in aggregate demand and positively impacts on the ability of a firm to meet debt obligations.

The ability to service debt becomes problematic when the macro-economic environment deteriorates; resulting in the insolvency of firms (Glen, 2004). Rwelamila et al. (2004) affirm that, during the early stages of starting a firm, many owners commit themselves to the use of debt, which might be one of the sources of finance available to them. The use of debt can be disastrous, as high interest rates and unfavorable repayment schedules are often overlooked due to the pressure of financing the firm.

Against this background, the study investigates whether SMEs in developing countries can use debt and still remain solvent in this era of high interest rates. Furthermore, SMEs often pay interest premiums and a host of non-interest fees such as application and other transaction fees when borrowing from commercial banks. The cause of this is that SMEs are considered a high credit risk compared to large firms. This high cost of funds because of increased risk increases the costs of debt for small firms.

1.2 Problem statement

Inferring from the above, SMEs serve as sources of livelihood to the poor, create employment opportunities, generate income and contribute to economic growth. There is also the potential of small firms to turn economies with negative growth into vibrant ones, not to mention the fact that most large companies usually start as small enterprises, so the ability of SMEs to develop and invest becomes crucial to any economy wishing to prosper. From the argument above the only easier finance options for SMEs are loans (Debt financing) assess from financial institutions, thus it's necessary to examine the impact of these loans on the performance of SMEs. Are they having negative or positive impact on their performance .this is worth investigating because majority of the businesses fall within the SME category especially in developing countries.

1.3 Objectives

The general objective of this work therefore is to investigate the contributions of loans to SMEs performance.

The specific objectives of the study are:

a) To find out what SMEs classify as disadvantages and advantages of accessing loans.

b) To find out how loans provided by financial institutions are utilized by the SMEs.

c) To investigate whether loans to SMEs actually lead to increase in stated performance or otherwise.

1.4 Research questions

a) What are the disadvantages and advantages of taking a Bank Facility?

b) How do SMEs utilize loans?

c) Do SME loans affect performance ?

1.5 Relevance of the study

A research of this sort is necessary with respect to the fact that;

1) Worldwide, the SMEs have been accepted as the engine of economic growth and for promoting equitable development. Thus its leverage should be of great concern.

2) Accessing finance has been identified as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries.

3) Small business especially in Africa can rarely meet the conditions set by financial institutions, which see SMEs as a risk because of poor guarantees and lack of

information about their ability to repay loans. Without finance, SMEs cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms (UNCTAD, 2002).

1.6 Research Methodology

1.6.1 Type of research

The research will be descriptive in nature and employs the survey method in assessing the impact of loans on SMEs development Ghana. In order to effectively conduct a valid analysis in the presentation and analysis of the data collected on the research field, the researcher will use descriptive statistics such as tables and charts to depict the relevant data. The study will utilize primary sources of data in which structured questionnaire are extensively used.

The purpose is to generate data about the opinion and perceptions of SMEs owners in relation to the effectiveness of loans to the performance of their companies. Thus, in addition provide means of analyzing the likely impact of loans on SMEs.

1.7 Scope of study

The research covered the whole SME industry in Ghana since one SME was picked randomly from each sector .namely primary, secondary and tertiary. Thus making it more representative of the overall Ghanaian industrial sector.

1.8 Limitations

Although the data collected concentrated on one SME each from each industry, it might not have reflected a true representation of realistic issues, but at least it showed a bit of what happens in each Segment. Another limitation may the fact that a single researcher collected and analyze the data. Because of this, some explanations may be skewed toward personal interpretations to distort the meaning of the results. The research is also constraint with time since the time frame for the thesis is limited.

1.9 Organization of the Study

The study is divided into five main chapters and each chapter is divided into various sub sections.

Chapter one is the general introduction. It elaborates on the setup of small and medium enterprises (SMEs) and its financing options among others reviews also focuses on the impact of loans on SMEs and presents problems identified. It also presents the research objectives, rational, methodology and scope of the study.

Chapter two reviews literature related to the problem under study. It mainly reviews literature on Small and medium enterprises and access to finance, Alternative sources of financing SMEs.

Chapter three chronicles the methodology and approach for the study.

Chapter four focuses on the presentation of data and analysis of the data collected. It starts with the test Accessibility to loans and moves on to establish loans Contributions toward SMEs Sales and Marketing Activities and overall performance. Chapter five which is the final chapter is the presentation of the major findings, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter deals with the review of relevant literature. The researcher discusses past research done on the topic and other related ones in order for the researcher to analyze, summarize, cite, and relate previous studies explicitly. This enabled the researcher to establish theoretical framework for the problem and to establish the significance of the study.

2.2 The Definition of SMEs and its Growth.

By and large small and medium enterprises are becoming or are the back bone of most economies especially developing countries like Ghana, since the large corporate bodies mostly spring up from these small firms. Thus Cook and Nixson (2005) commented that in majority of cases, these small enterprises are initially informal but gradually some of them survive and become formal businesses, thereby providing the foundation of modern private companies .Hence, the growth of these enterprises is part and parcel of a dynamic growth process in the corporate sector, as argued by Liedholm et al. (1994) and Prasad et al. (2005).

Cook and Nixson (2005) put forward that, although a number of measures have been used to identify and describe small firms, there is no consensus on any one measure and it is customary to use several metrics, including the value of fixed assets of the enterprise, enterprise turnover and the number of employees. Ryan (2007) has pointed out that the term may be used to cover a wide range of economic activities for an indicative number of employees; for example survival activities (<1 employees), household activities), microenterprise sector (<5), small emergent enterprises (<25) and growth businesses (<100 employees).

In the poorest countries, on average almost two thirds of workers are employed in enterprises with less than 5 employees while the majority work for enterprises with less than 100 employees Cull et al.(2004). Early literature, particularly Staley and Morse (1965), enhanced the conceptualization of the main characteristics of small enterprises and the pattern of growth of these enterprises. However, Anderson (1982) notes that there was lack of basic data on the management and characteristics of micro and small enterprises.

Cook and Nixson (2005) supported that, the lack of data hampered any attempts to undertake serious empirical work on measuring the characteristics of small and medium enterprises and explaining the behavior of these enterprises. However, due to poor book-keeping by small enterprises in the 1980s, the data were often incomplete, unreliable and not repeated across samples. According to Levy (1993) while the baseline data could be used for measuring the characteristics of small enterprises, it was not adequate for testing theoretical propositions about the expected behavior of the small enterprises.

Gradual improvements were achieved over the years such that by the early 1990s, some basic databases were available for empirical studies aimed at identifying the constraints facing the growth and development of small enterprises in developing countries Levy (1993). Green et al. (2006) concluded that one of the main findings from these studies was that the growth and development of small enterprises in developing countries were mainly inhibited by access to finance, poor managerial skills, lack of training opportunities and high cost of inputs Cook and Nixson (2005). Importantly, further studies especially those conduced in the late 1990s and thereafter suggest that finance is the most important constraint for the small enterprises sector Green et al.(2002). Fisher and Reuber (2000) enumerate a number of characteristics of small and medium enterprises in developing countries under the broad headings: labor characteristics, sectors of activity, gender of owner and efficiency.

According to Abor and Quartey (2010) given that most small and medium enterprises are one-person businesses; the largest employment category is working proprietors. This group according to them makes up more than half the small and medium enterprises workforce in most developing countries; their families, who tend to be unpaid but active in the enterprise, make up roughly another quarter. The remaining portion of the workforce is split between hired workers and trainees or apprentices. Small and medium enterprises are more labor intensive than larger firms and therefore have lower capital costs associated with job creation according to (Anheier and Seibel, 1987; Liedholm and Mead, 1987; Schmitz, 1995). In terms of activity, they are mostly engaged in retailing, trading, or manufacturing Fisher and Reuber (2000).

Abor and Quartey (2010) states that while it is a common perception that the majority of Small and medium enterprises will fall into the first category, the proportion of small and medium enterprises activity that takes place in the retail sector varies considerably between countries, and between rural and urban regions within countries. Abor and Quartey (2010) continue that retailing is mostly found in urban regions, while manufacturing can be found in either rural or urban centers. They states that the extent of involvement of a country in manufacturing will depend on a number of factors, including, availability of raw materials, taste and consumption patterns of domestic consumers, and the level of development of the export markets.

Abor and Quartey (2010) postulate that in Ghana, small and medium enterprises can be categorized into urban and rural enterprises; the former can be subdivided into "organized" and "unorganized" enterprises. Kayanula and Quartey (2000) states that The organized ones mostly have paid employees with a registered office, whereas the unorganized category is mainly made up of artisans who work in open spaces, temporary wooden structures, or at home, and employ few or in some cases no salaried workers .Whilst Kayanula and Quartey, (2000) builds on the fact that They rely mostly on family members or apprentices.

Rural enterprises are largely made up of family groups, individual artisans, women engaged in food production from local crops. The major activities within this sector include:- soap and detergents, fabrics, clothing and tailoring, textile and leather, village blacksmiths, tin smiting, ceramics, timber and mining, bricks and cement, beverages, food processing, bakeries, wood furniture, electronic assembly, agro processing, chemical-based products and mechanics .

Another perspective from (Aryeetey et al., 1994; Abor and Biekpe, 2006) argues that Majority of small and medium sized enterprises are female-owned businesses, which more often than not are home-based compared to those owned by males; they are operated from home and are mostly not considered in official statistics. This clearly affects their chances of gaining access to financing schemes, since such programmes are designed without sufficient consideration of the needs of businesses owned by females. These female entrepreneurs often get the impression that they are not capable of taking advantage of these credit schemes, because the administrative costs associated with the schemes often outweigh the benefits.

Prior empirical studies in Ghana have shown that female-owned small and medium sized enterprises often have difficulty accessing finance.

Females are mostly involved in sole-proprietorship businesses which are mainly microenterprises and as such may lack the necessary collateral to qualify for loans (Aryeetey et al., 1994; Abor and Biekpe, 2006). But Little et al. (1987) also comes in with a different view to state that Measures of enterprise efficiency (e.g. labor productivity or total factor productivity) vary greatly both within and across industries. Firm size may be associated with some other factors that are correlated with efficiency, such as managerial skill and technology, and the effects of the policy environment. Most studies in developing countries indicate that the smallest firms are the least efficient, and there is some evidence that both small and large firms are relatively inefficient compared to medium-scale enterprises.

Acs et al.(1999) also argues that Small and medium sized enterprises are more innovative than larger firms. Many small firms bring innovations to the market place, but the contribution of innovations to productivity often takes time, and larger firms may have more resources to adopt and implement them. D'Ambroise and Muldowney (1988), also point out that most writers use the term rather loosely. Researchers and other interested parties have used specific criteria to operationalise SME as a construct: value added, value of assets, annual sales and number of employees. D'Ambroise and Muldowney (1988), argue that annual sales and number of employees are most often used to delimit the category. For a growing number of researchers and reporting organisations, the SME is generally considered to employ no more than 250 persons and to have annual sales of less than £50million.

According to Preston et al. (1986), the SME is one which is independently owned and operated and which is not dominated in its field of operation. Although the term small and medium sized enterprise (SME) is perceived by many authors as an ambiguous parameter which does not lend itself by definition, defining an SME is necessary to avoid misunderstanding of the term. A small firm is one that has only a small share of its market managed in a personalised way by its owner or part owner and not through the medium of an elaborate management structure. It is therefore, not sufficiently large to have access to the capital market for the public issue or placement of securities. Bannock (1981), notes that a branch of a large company cannot be regarded as a small firm because although it is small and may even be independent with regard to decision-making, it will still have access to capital and technical assistance from the parent company.

In a more recent thorough review of financial assistance available to SMEs, Curran (1999) notes that wide variations are apparent where quantitative parameters are applied to determine eligibility of the small to medium sized firms: for example turnover limits ranging from £50,000 to £50 million and the number of employees between 50 & 250.

In contrast some scholars for example, Scott and Rosa (1996) suggest that employing additional qualitative criteria can enhance quantitative definition of an SME. For instance, Scott and Rosa (1996) provide the qualitative definition of an SME by arguing that an SME is one, which has three characteristics. Abor and Quartey (2010) states that; first, management is independent: usually managers are also the owners. Second, Capital is supplied and an individual or small group holds ownership. Third, areas of operation are mainly local. Workers and owners are in one home community, but markets need to be located in the same community. Abor and Quartey (2010) indicate that; the best description of the key characteristics of a small firm remains that used by the Bolton Committee in its 1971 Report on small firms.

According to Abor and Quartey (2010), a small firm is an independent business, managed by its owner or part owners and having a small market share. The Bolton report also adopts a number of different statistical definitions. Abor and Quartey

(2010) said that they recognise that size is relevant to the sector. A qualitative approach view would suggest that a small firm is one "that has a relatively small share of the competitive market; that is unable to influence prices or if it is a non-profit organisation makes little significant impact in its area; which the management has close personal involvement in all aspects of decision-making Abor and Quartey (2010). In a commercial organisation they are likely to be the owners or part- owners; is independent, with the owners/managers having effective control of the business or activities of the organisation although they might be limited in their freedom of action by obligations to financial institutions or founders Abor and Quartey (2010).

2.3 Overcoming the Barriers to SME Growth

A host of explanatory factors as indicated by Abor and Quartey (2010) for the growth of SMEs has been advanced, and a number of authors have made real attempts to conceptualise integrative models of firm growth rather than simply itemising factors or concentrating on one specific aspect of growth. Some of the writers; Davidson (1991) and Jennings and Beaver (1997) management perspective of performance.

However, with the exception of Davidson (1991), these authors do not conceptualise development of micro-businesses, which are typical 'entrepreneurial start-ups'. There is also a lack of empirical evidence and only Gibb and Scott (1985) and Jennings and Beaver (1997) attempt to address the full range of factors influencing a firm's development. The remaining models, as pointed out by Perren (1999), concentrate on factors, which influence the entrepreneurial process and behaviours.

Authors also refrain from commenting on how the various factors actually interact to influence development of the firm. These integrative models also tend to impose rather simplistic stages on the process of development.

The point is also made by Perren (1999), who suggests that "development is often much more a process of slow incremental iterative adaptation to emerging situations, than it is a sequence of radical clear steps or decision points". Improving the competitiveness of SMEs also involves understanding the problems of such businesses and identifying potential solutions.

Storey (1994) notes that new businesses encounter a number of barriers to success throughout the start up period and during their first year of operation. These barriers can be both "internal" including government control and lack of skilled labour. Fielden et al. (2000) note that owner-managers often perceive barriers of growth as being external in origin issues related to "money management" are often mainly cited as the main difficulty for business start-up.

Problems include a poor understanding of tax, national insurance and bookkeeping, as well as, difficulties in obtaining capital and the absence of a guaranteed income. Scott et al. (1996) point out that owners of the failed businesses often point to the shortage of the working capital as the prime cause of business failures. Fielden et al. (2000), documented that lack of adequate start up funds has a "knock-on" effect restricting development and growth by reducing funds available for activities such as advertising, publicity, and acquiring suitable premises. Issues of finance are followed by concerns related to the level of demand for products and services as well as nature of market place competition. Storey (1994) notes that key constraints on growth are related to a combination of internal factors as unwillingness to delegate or bring in external skills and external factors including finance, employment and competition.

2.4 Small Business and their Banks

Binks et al. (1996) argues that in 1988 the perception of small firms in England and their banks was virtually identical across banks. Firms feel most constrained by the level of bank charges (37%) in interest rates (19.7) and availability of credit (12.9%). Binks et al. (1996) indicates that the relationship between banks and small firms in England, from the firm's perceptions, revealed a lack of understanding by the banks of the conditions under which small firms operate. The general conclusion was that the bank / small firm relationship was insufficiently close to enable anything other than a capital gearing based loan decision rather than any form of prospects based on income gearing approach.

The case of Scottish Banks; Binks et al. (1996) states, as perceived by their customers was significantly different. There appeared to be less reliance on collateral for security purposes, loans tended to be shorter term and the general perception of banks by their customers was better. The overriding conclusion from the 1988 survey, Binks et al. (1996) said it was that the similarity of the banks and their customers' perception was such as to indicate that any competition between them was essentially cosmetic rather than strategic or fundamental.

Even their most recent survey in 1994 Binks et al. (1996) indicated that it continues to show the dissatisfaction by small business customers with their banks. Problems according to Binks et al. (1996) rated as important by the small business customers were interest rate, transaction charges and collateral.Given their conviction that a debt gap is both pervasive and unavoidable in the UK for a significant number of small businesses, the authors focus naturally upon scheme such as the Small Industry Loan Guarantee Scheme. They argue that the remit of such a scheme should be broadened and strengthened in order to close the aforementioned finance gap; Binks et al (1996). They also suggest that more flexible provision of long term finance in the form of debt would be advantageous in confronting some of the problems to which small businesses are subject to.

2.5 Contributions of SMEs to Economic Development

According to Abor and Quartey (2010), there is a general consensus that the performance of small and medium enterprises is important for both economic and social development of developing countries. From the economic perspective, Advani (1997) comes up with the fact that small and medium enterprises provide a number of benefits, thus small and medium enterprises have been noted to be one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low-income countries. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are thus potential sources of employment and income in many developing countries.

Furthermore Kayanula and Quartey (2000) in addition states that small and medium enterprises seem to have advantages over their large-scale competitors in that they are able to adapt more easily to market conditions, given their broadly skilled technologies. They are able to withstand adverse economic conditions because of their flexible nature. These authors: (Anheier and Seibel, 1987; Liedholm and Mead, 1987; Schmitz, 1995) contributed that small and medium enterprises are more labour intensive than larger firms and therefore have lower capital costs associated with job creation.

They thus according to these writers perform useful roles in ensuring income stability, growth and employment. Further stated that since small and medium enterprises are labour intensive, they are more likely to succeed in smaller urban centers and rural areas, where they can contribute to a more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Due to their regional dispersion and their labour intensity, (Anheier and Seibel, 1987; Liedholm and Mead, 1987; Schmitz, 1995) argued that, small-scale production units can promote a more equitable distribution of income than large firms.

Kayanula and Quartey (2000) added that small and medium enterprises also improve the efficiency of domestic markets and make productive use of scarce resources, thus facilitating long-term economic growth. Abor and Quartey (2010) expatiate on the fact that small and medium enterprises contribute to a country's national product by either manufacturing goods of value, or through the provision of services to both consumers and/or other enterprises. This encompasses the provision of products and, to a lesser extent, services to foreign clients, thereby contributing to overall export performance. In Ghana and South Africa, Abor and Quartey (2010) postulates that small and medium enterprises represent a vast portion of businesses.

Economic perspective wise, Abor and Quartey (2010), argues that small and medium enterprises are not just suppliers, but also consumers; and this plays an important role if they are able to position themselves in a market with purchasing power: their demand for industrial or consumer goods will stimulate the activity of their suppliers, just as their own activity is stimulated by the demands of their clients. Demand in the form of investment plays a dual role according to Berry et al. (2002), both from a demand-side (with regard to the suppliers of industrial goods) and on the supply-side (through the potential for new production arising from upgraded equipment) thus demand is important to the income-generation potential of small and medium enterprises and their ability to stimulate the demand for both consumer and capital goods Abor and Quartey (2010).

2.6 General Constraints to SMEs Development

From various arguments so far it can be concluded that small and medium enterprises are very essential to economies especially developing economies. But in their developments they face a number of constraints despite their potential role to accelerate growth and job creation according to Abor and Quartey (2010). (Anheier and Seibel, 1987; Aryeetey et al, 1994) states that small and medium enterprises development is hampered by a number of factors, including finance, lack of managerial skills, equipment and technology, regulatory issues, and access to international markets .hence the lack of managerial know-how places significant constraints on small and medium enterprises development.

Even though according to them small and medium enterprises tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, prevalent in most countries in the region, has a magnified impact on small and medium enterprises according to Abor and Quartey (2010). The lack of support services or their relatively higher unit cost can hamper small and medium enterprises efforts to improve their management, because consulting firms are often not equipped with appropriate cost-effective management solutions for small and medium enterprises according to Abor and Quartey (2010).

Moreover, per Kayanula and Quartey (2000) despite the numerous institutions providing training and advisory services, there is still a skills gap in the small and medium enterprises sector as a whole; this is because entrepreneurs cannot afford the high cost of training and advisory services while others do not see the need to upgrade their skills due to complacency. Likewise according to Aryeetey et al (1994), In terms of technology, small and medium enterprises often have difficulties in gaining access to appropriate technologies and information on available techniques

Aryeetey et al (1994); thus small and medium enterprises utilize foreign technology with a scarce percentage of shared ownership or leasing.

They usually acquire foreign licenses, because local patents are difficult to obtain. Regulatory constraints also pose serious challenges to small and medium enterprises development and although wide ranging structural reforms have led to some improvements, prospects for enterprise development remain to be addressed at the firm-level as postulated by Abor and Quartey (2010). The high start-up costs for firms according to Abor and Quartey (2010), including licensing and registration requirements, can impose excessive and unnecessary burdens on small and medium enterprises. The high cost of settling legal claims, and excessive delays in court proceedings adversely affect small and medium enterprises operations.

In the case of Ghana Abor and Quartey (2010) affirms that the cumbersome procedure for registering and commencing business are key issues often cited. For example according to Abor and Quartey (2010), World Bank Doing Business Report (2006) indicated that it takes 127 days to deal with licensing issues and there are 16 procedures involved in licensing a business in Ghana; It takes longer (176 days) in South Africa and there were 18 procedures involved in dealing with licensing issues. In the intervening time Kayanula and Quartey(2000) indicates that the absence of antitrust legislation favors larger firms, while the lack of protection for property rights limits small and medium enterprises access to foreign technologies. Abor and Quartey (2010) then conclude that previously insulated from international competition, many small and medium enterprises are now faced with greater external competition and the need to expand market share.

However, Aryeetey et al(1994) states that their limited international marketing experience, poor quality control and product standardization, and little access to international partners, continue to impede small and medium enterprises expansion into international markets. They also lack the necessary information about foreign markets. In competing for the corporate market, Abor and Quartey (2010) states that formal financial institutions have structured their products to serve the needs of large corporate.

A cursory analysis of survey and research results of small and medium enterprises in South Africa, for instance, reveals common reactions from small and medium enterprises owners interviewed. When asked what they perceive as constraints in their businesses and especially in establishing or expanding their businesses, they answered that access to funds is a major constraint according to Abor and Quartey (2010). This situation is not different in the case of Ghana as researched by (Sowa et al., 1992; Aryeetey, 1998; Bigsten et al., 2000, Abor and Biekpe 2006, 2007; Quartey, 2002).

Green et al (2002) adds that Requirements such as identifying a product and a market, acquiring any necessary property rights or licenses, and keeping proper records are all in some sense more fundamental to running a small enterprise than is finance. (Sowa et al., 1992; Aryeetey et al., 1994; Parker et al., 1995; Kayanula and Quartey, 2000) all voiced on Other constraints small and medium enterprises face include: lack of access to appropriate technology; the existence of laws, regulations and rules that impede the development of the sector; weak institutional capacity and lack of management skills and training .

Abor and Quartey (2010) contributes to the fact that ;potential providers of finance, whether formal or informal, are unlikely to commit funds to a business which they view as not being on a sound footing, irrespective of the exact nature of the unsoundness. Lack of funds may be the immediate reason for a business failing to start or to progress, even when the more fundamental reason lies elsewhere according to Abor and Quartey (2010). Finance is said to be the “glue” that holds together all the diverse aspects involved in small business start-up and development as indicate by Green et al (2002).

2.7 SME and Access to Finance

Idowu (2010) claim that a major barrier to rapid development of the small and medium enterprises sector is a shortage of both debt and equity financing. Accessing finance has been identified as a key element for small and medium enterprises to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries Idowu (2010). Small business especially in Africa can rarely meet the conditions set by financial institutions, which see small and medium enterprises as a risk because of poor guarantees and lack of information about their ability to repay loans Idowu (2010). Without finance, small and medium enterprises cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms Idowu (2010).According to Cork and Nisxon (2000), poor management and accounting practices are hampering the ability of smaller enterprises to raise finance. This is coupled with the fact that small businesses are mostly owned by individuals whose personal lifestyle may have far reaching effects on the operations and sustainability of such businesses according to Idowu (2010).

As a consequence of the ownership structure, some of these businesses are unstable and may not guarantee returns in the long run. According to Kauffmann (2005), access to formal finance is poor because of the high risk of default among small and medium enterprises and due to inadequate financial facilities. However, Cressy and Olofsson (1997) sum up constraints facing small and medium enterprises into two; these include demand-based (small and medium enterprises) and supply-based (formal banks) financial constraints. The duo define a supply-side finance constraint according to Idowu (2010) as a capital market imperfection that leads to a socially incorrect supply of funds to projects, or the incorrect interest rate charged on funds.

They further define a demand-side financial constraint as a capital market imperfection in which performance of a firm is adversely affected by a factor internal to the firm. Thus for example according to Idowu (2010), if the firm's owners would like to grow the firm faster, but the only way they can do this is to relinquish equity, and they refuse to do so, it may be said that the firm's demand for funds is demand-constrained.

2.8 Implications of Financing Decisions For Firm Performance, Growth And Survival

Franck and Huyghebaert (2008) examine whether having a lot of debt outstanding improves or hampers firm performance in the first few years after start-up. According to Modigliani and Miller (1958), financing decisions should not affect product market outcomes, as long as financial and product markets are perfect. So, Franck and Huyghebaert (2008) argue that leverage can affect firm performance only when some market imperfections pertain. When outside financiers according to Huyghebaert (2008), do not have the same information about firm quality as do firm insiders and when it is difficult for insiders to credibly transfer this information to outsiders, an important financial market imperfection arises.

Regarding product market imperfections, firms may recognize the impact of their decisions and behavior on one another when the number of competitors in a market is limited as postulated by Huyghebaert (2008). Rival firms may then engage in predation to drive entrants out of their market, provided that the benefits of doing so outweigh the costs Huyghebaert and Van de Gucht (2004). Franck and Huyghebaert (2008) focus on the above two market imperfections and investigate how the incentives of an entrepreneur and her rival firms' implications of financing decisions for firm performance, growth and survival affect the relation between leverage and post-entry performance in the context of business start-ups. Also, they examine how this relation changes over time, as the entrepreneurial venture grows older according to Huyghebaert (2008). For this purpose, they focus on two complementary measures of firm performance: current profitability and growth in earnings over time Huyghebaert (2008).

As a number of authors have already shown that profitability is an important determinant of firm growth, through the use of retained earnings Watson (2006), examining the link between leverage and internal cash generation in the context of business start-ups can make a further contribution to the literature. Other studies on small and medium enterprises have shown that small and medium-sized enterprises are financially constrained and face a financing gap.

Cash-flow investment sensitivities are typically large for small and medium enterprises and particularly for the smallest and unquoted among them. These studies thus stress once more the importance of internally generated earnings for firm growth and survival. From a start-up's perspective according to Huyghebaert (2008) , firm survival is indeed a key consideration for entrepreneurs, as they usually hold a largely undiversified portfolio, have pledged personal assets to secure their firm's bank debt, and enjoy sizeable private benefits of control. Entrepreneurs may take into account that according to Huyghebaert (2008), given asymmetric information, weak firm performance in one year could reduce their firm's access to future financing from banks and could even lead to firm liquidation following default. The other debt again largely consists of trade credit. Survivors have significantly more fixed tangible assets, whereas their capital expenditures are significantly larger, too. Not surprisingly, surviving firms significantly out-perform failing firms, both in terms of profitability and in terms of growth in earnings over time according to Huyghebaert (2008).

2.9 Empirical Literature on the Effect of Debt usage on firm performance

Studies on the effect of debt on returns have generated mixed results ranging from those supporting a positive relationship hypothesis to those opposing it according to Obert and Olawele (2010). Empirical studies such as Ruland and Zhou (2005) and Robb and Robinson (2009) agree with Miller and Modigliani (1963) that the gains from leverage are significant, and that the use of debt increases the market value of a firm. Financial leverage has a positive effect on the firm's return on equity provided that the earning powers of the firm's assets (the ratio of earnings before interest and taxes to total assets) exceeds the average interest cost of debt to the firm. Abor (2005) conducted a study on the effect of debt on firms in Ghana which indicated a significantly positive association between total debt and total assets and return on equity. The results therefore portrayed a positive leverage.

According to Berkivitch and Israel (1996), a firm's debt level and its value is positively related especially when shareholders have absolute control over the business of the firm and it is negatively related when debt holders have the power to influence the course of the business. According to Berkivitch and Israel (1996), the impact of debt on value of firms therefore, depends on the balance of power within a firm. If shareholders have more power, a positive leverage will prevail and if debt holders have more power, a negative leverage would take place.

The use of high levels of debt in the capital structure Obert and Olawele (2010), leads to an increase or decrease in the return on shareholders' capital/ return on owners' equity (ROE).

ROE refers to the return/monetary gain by shareholders in return for the capital they would have offered to firms. Debt is always desirable if a firm achieves relatively high profits as it results in higher returns to shareholders (positive leverage). If a firm incurs a major drop in income, employing more debt in the capital structure will be detrimental as the firm won't be able to cover the cost of debt (negative leverage). Other studies such as Negash (2001) and Phillips and Sipahioglu (2004) conclude that the tax benefits of leverage are insignificant. Negash (2001), for instance finds that the use of debt has been found to have a negative impact on the profitability of the firms quoted on the Johannesburg Stock Exchange.

Negash (2001) further argues that, although the potential gains from leverage over an infinite period of time are significant and comparable to what is reported in studies from developed countries, in line with the theory of Modigliani and Miller of 1963. The actual gains, however, are not as implied by the 1963 theory since the effective tax rate for most firms in South Africa is lower than the statutory rate. This is because non-debt tax minimization efforts such as depreciation and amortization (investment and not debt related tax shields) reduce the significance of interest deductions and the tax advantages of debt. Empirical studies on the static theory discussed above have focused mainly on large firms.

Coleman and Cohn (2001) argue that some of the most interesting questions in SME finance relate to the extent to which the theories of corporate finance fit the SMEs. These researchers question whether these theories, which were developed within the context of large and publicly owned firms, actually work when they are applied to small firms. Rajan and Zingales (1995) indicate that although the study of the capital structures of listed and large firms may be of the greatest importance to the financial community, the interests of academics are broader. Academics are interested in studying the whole universe of firms and not just large firms.

Daniel et al. (2006) point out that in the case of small firms, the expected costs of bankruptcy is quite high and the expected costs of financial distress may outweigh any potential benefits from tax shield. Also, the advantage of the tax shield of debt is limited for small firms. Many small firms have limited revenues and the variability of their operating income can be quite volatile. Therefore, potential benefits of tax shields of interest payments remain doubtful. This is consistent with the results of a study by Sogorb (2002) which finds that the fiscal advantage of debt cannot be applied in the SME context because small firms are less likely to be profitable and therefore may not be able to use debt in order to get tax shields. Moreover, the main advantage of debt, the tax shield, can be especially complex to assess in new SMEs where business income is taxed as personal income.

Michaelas et al. (1999) in addition, reveal that the minimization of the cost of capital and maximization of profitability through the use of debt finance might not hold for small firms. Small firms find it difficult to borrow from commercial banks for a variety of reasons such as risk. When they are able to borrow from banks, the costs of debt financing for small firms are usually higher than those of large enterprises due to their higher credit risk. The reliance on debt to finance investment purposes therefore negatively impacts on the profitability of small firms. In Zimbabwe, interest rates on lending are very high compared to the rates in developed countries. According to Madera (2010) the huge appetite for funding and low liquidity levels since the introduction of the multiple currencies trading system has resulted in punitive lending rates on the market.

Companies' thirst for credit to better the decade-long recession points to a situation of a sustained high interest rate environment relative to those prevailing in the region. Prevailing lending rates range between London Interbank offered rate (Libor) plus 10 to 20% for 30 to 90-day paper according to Obert and Olawele (2010). Libor is the world's most widely used benchmark for short-term interest rates. It is the rate at which the world's most preferred borrowers are able to borrow money. It is also the rate upon which rates for less preferred borrowers are based.

According to Obert and Olawele (2010), Rates are expected to continue oscillating within their current ranges, firming from current levels to ranges between Libor plus 10 to 25% for 30 to 90-day borrowings. Therefore, it is more difficult for enterprises, in Zimbabwe, to earn returns higher than the cost of debt compared to enterprises in developed countries. Consequently, it is hypothesized that there is a negative relationship between the use of debt and the profitability of small manufacturing firms in Zimbabwe according to Madera (2010).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses how the necessary data needed for this research was gathered. The section provides information on the research methodology and techniques used to conduct the study. It defines the population from which the sample is selected and describes the sampling procedures used to select the sample. It also discusses the research design and the method of data collection which mainly involved in-depth interview. Data organization and analysis were also included in this chapter.

3.2 Research Design

The research is descriptive in nature and employs empirical survey method in assessing the impact of loans on SMEs development in Ghana. In order to effectively make valid analysis on the presentation and analysis of the data collected from the field, the researcher used descriptive statistics such as tables and frequency counts and charts to depict the relevant data. The study utilized primary sources of data in which structured questionnaire were extensively used. The purpose was to generate data about the opinion and perceptions of SMEs owners in relation to the effectiveness of loans on the performance of their companies.

Thus, in addition provide means of analyzing the likely impact of loans on SMEs. Data was collected to help elaborate on the problem and find proposed solutions from these SMEs with bank account in Stanbic Bank classified by annual revenue under Business Optima, business Pre-optima, business Expert and business Focus were randomly selected. Business Pre-Optima describes SMEs that fall within an annual revenue of three thousand US dollars (USD 3000) and Zero(0);Business Optimal

SMEs fall within an annual revenue of five thousand US Dollars (5000USD) and three thousand US Dollars(3000USD);

Business Expert falls within an annual revenue of five thousand US Dollars(USD 5000) and ten thousand US Dollars(USD 10,000) and lastly Business focus which falls within an annual revenue of ten thousand(USD 10,000) and one hundred thousand US Dollars(USD 100,000).Also data in the form of questionnaires were distributed to 100 SMEs.

3.3 Population and Sampling procedures

The chosen population for the study comprised of all Small and Medium Enterprises who keep accounts with Stanbic bank. Stanbic Bank Ghana Limited, is a subsidiary of Standard Bank Africa, South Africa, and has been in operation in Ghana since 1999. The bank offers all kinds of facilities that meets the needs of businesses in Ghana; working capital loans, overdrafts, term loans, bonds and guarantees, local purchase orders, import clearing facility. It has also segmented its target market into pre-optima, optimal, expert and focus to enable the Bank to meet the exact needs of each segment. Since the population for this work was large, a combination of sampling techniques was employed to give a fair representation for respondents.

For the purpose of this study out of the 303 total SME clients with facility with Stanbic bank, a sample of 100 small and medium enterprises from the target population was taken, made up of 25 business pre-optima, 25 business optima, 25 business experts and 25 business focus business clients. It is important to mention here that, a sample size of thirty-three (33%) percent of the total SMEs client population was used for the study. The focus however was on SME clients with loan facilities, since the objective of the study is to investigate the impact of loans on SMEs performance. For each business segment area, businesses were selected by simple random sampling. The sample size and technique used in the selection could be considered representative enough to enable the researcher to generalize the results of this study.

3.4 Corporate Profile of Stanbic Bank Ghana Limited

Stanbic Bank Ghana Limited (SBG) is a member of The Standard Bank Group which traces its roots back to 1862 and has a primary listing on the JSE Securities Exchange South Africa (JSE) with a secondary listing on the Namibian Stock Exchange (NSX). It is a registered bank controlling company under the main parent company, Standard Bank of Africa, South Africa. The Group remains committed to the practice of good corporate governance in all aspects of its operations and the establishment of subsidiaries within the Group is carefully managed to ensure compliance with both domestic and international regulatory requirements. The Board of Directors is responsible for the overall corporate governance of the Group, ensuring that appropriate practices are in place. A number of committees have been established that assist the Board in fulfilling its stated objectives. The committees' roles and responsibilities are set out in terms of agreed mandates, which are reviewed annually to ensure they remain relevant. Stanbic Africa is a division of The Standard Bank of South Africa Limited and oversees the Group's operations in Africa outside of South Africa.

3.5 Codes of regulations

The Bank complies with applicable legislation, regulations, standards and codes, with the Board continually monitoring regulatory compliance. SBG is not listed on the Ghana Stock Exchange (GSE).

3.6 Governance

The Bank operates in a highly regulated industry and is committed to complying with legislation, regulation, and codes of best practice and seeks to maintain the highest standards of governance, including transparency and accountability. SBG nurtures a strong culture of governance and responsible risk management in line with Standard Bank Group's risk appetite and governance framework, whiles constantly monitoring practices to ensure that they are the best fit for the Bank and serve to enhance business and community objectives.

3.7 Risk Management

The Board has ultimate responsibility for risk management, which includes evaluating key risk areas and ensuring the process for risk management and systems of internal control are implemented. To assist in fulfilling this duty, the Board has established a board Audit Committee, a Risk Committee and a Credit Committee. (Stanbic Bank Ghana Annual report Ghana 2005, page 6).

3.8 Sources of Data

Both primary and secondary sources of data were used in the research. The primary data was collected through questionnaires. The researcher conducted a survey using a questionnaire as an instrument for data collection. Face-to-face interviews and personal observations were also made during the survey period. At each point in time a questionnaire was administered on the sample population to ascertain the primary data.

It was administered by the researcher during working hours of the Bank, with the permission and support of the Business Bankers whilst they were attending to their business clients. The interviews were short and unstructured and were conducted by the researcher based on the general structure of the questionnaire. Face-to-Face interviews were conducted with Business bankers and SMEs for the purpose of verifying and clarifying the information obtained from the studied documents, thus ensuring data validity. The interview was highly formalized and structured using standardized questions for each respondent, or informal and unstructured conversation. In spite of making the interview process orderly, structured interview was used to restrict the interviewer from predetermination of questions. On few occasions however, unstructured personal interviews were also used to ensure clarity and also to prevent the interviewer from deviating.

Additionally secondary data from other surveys, organizational records and data were used to augment the collected primary data. This was done to appreciate the theoretical and conceptual framework of the subject under study.

3.9 Procedure for Data Collection

A person-administered survey method was used by the researcher. However, some business Bankers in some other Branches of Stanbic bank who were not in the same branch as the researcher assisted in the administering and collection of questionnaires from the SME clients. The necessary guide and explanations were further given to ensure completion. Respondents were given two weeks to complete them and the necessary follow-ups were subsequently made for their retrieval.

Furthermore interviews were conducted at scheduled convenient times of the interviewees which were previously agreed on to support the survey process.

3.10 Data Analysis

After the fieldwork, the responses were analyzed in detailed. The nature of the interview scheduled and the in-depth of the interviews at every point in time demanded the use of both quantitative and qualitative techniques to analyze the data obtained. These two types of data were used purposely to ensure accuracy and completeness. Frequency charts, tables, figures etc were also employed to make comprehension and understanding of findings easy for readers.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1Introduction

This chapter presents the analysis of the findings from data collected through interviews, observations and analysis made from the previous chapters' .This chapter looks at the analysis of the responses from respondents on the survey questionnaire administered and data collected through interviews, following the research methodology outlined in the previous chapter. It also aims at examining the understanding of the contribution and impact of loans on SMEs. Stanbic Bank Ghana categorize Small and Medium Enterprises (SMEs) into Business Optima, Pre-optimal, Expert and Focus.

Categorization is based on their annual revenue. Business Pre-Optima describes SMEs that fall within an annual revenue of three thousand US dollars(USD 3000) and Zero(0);Business Optimal SMEs fall within an annual revenue of five thousand US Dollars (5000USD) and three thousand US Dollars(3000USD);Business Expert falls within an annual revenue of five thousand US Dollars(USD 5000) and ten thousand US Dollars (USD 10,000) and lastly Business focus which falls within an annual revenue of ten thousand(USD 10,000) and one hundred thousand US Dollars(USD 100,000).

The analysis of the findings has been grouped into 2 parts. The first part looks at the analysis of data from customers and is presented in a tabular form. The second part analysis the responses provided by respondents and it is illustrated in statistical representation using graphs and charts for easy interpretation. Frequent charts, tables etc were adopted as one of the main statistical techniques for the interpretation and presentation of data.

Microsoft Excel 2007, spreadsheet software, was used for the statistical and pictorial presentation of the results.

4.2 Presentation of Data Collected

A total of 100 customers were sampled during the research work for the analysis. The customers were randomly and equally selected to represent the four classifications of SMEs. Customers sampled have been with the bank for the period ranging from 3months to 60 months and depend largely on the bank to finance their working capital or operations. 90% of these customers have loan facilities with the bank and the remaining 10% do not. Below is the table that shows responses from the questionnaires administered to the SMEs customers.

Table: 1: Tabular Representation Of Findings

	QUESTION	Number of SMEs
1	Which segment of SME category does your business fall in?	
	Optima	24
	Pre-Optima	25
	Expert	22
	Focus	19
	TOTAL	90
2	Do you have a facility with a financial institution?	
	YES	81
	NO	9
	TOTAL	90
	Which of these types of facility have you benefited from?	
	Overdrafts	55
	Term loan	80

	Working capital loan	61
	Bonds and Guarantees	25
	Local purchase order	77
	Certificate Discounting	14
	Import clearing facility	50
	TOTAL	362
4	Which of these facilities easily meet your need?	
	overdrafts	55
	Term loan	80
	Working capital loan	61
	Bonds and Guarantees	25
	Local purchase order	77
	Certificate Discounting	14
	Import clearing facility	50
	TOTAL:	362

5	How does your firm utilize these loans?	
	Acquisition of assets	5
	Settlement of other debts	3
	To increase working capital	31
	Sourcing raw materials	42
	TOTAL:	81
6	Did the loan improve the overall firm's performance	
	Yes	78
	No	3
	TOTAL:	
7	What are some of the disadvantages of taking a business loan?	
	High cost of capital	79

	Risk of default	5
	Risk of losing collateral that were used as security	61
	Prioritizing inflows to settle debt	68
	Cumbersome procedures	81
	Unrealistic Terms and Conditions	36
	Reduction in loan amount requested	56
	TOTAL:	386
8	Did the loan fully satisfy its purpose?	
	yes	55
	no	26
	TOTAL	81
9	Did the loan result in significant increase in profit?	
	Yes	69
	No	12
	TOTAL	81
10	How did the loan help the business with respect to overall firm performance	
	Increase in sales	53
	Increase in returns	69
	Increase in stock levels	62
	Increase in retained earnings	
	Increase in profitability	41
	TOTAL:	248
11	What negative impact did the loan have on the overall firm performance?	
	Mismatch of funds	19
	Undue pressures for repayment	81
	Loan default	48
	Affect cash flows for adequate reinvestment	75
	Limits expansion	79
	TOTAL	302

12	What are some of the factors that make it difficult for the repayment of loans?	
	High interest rates	81
	Delayed payments by debtors	64
	Irregular cash flows	41
	Reduction in sales	77
	Functional obsolesce	32
	Management in competencies	22
	Economic changes	61
	Natural disasters	18
	TOTAL:	369
13	What are some of the advantages of Micro finance loans?	
	Less riskier	78
	Relatively cheaper	28
	Obtain other financial advise	58
	No collateral Required	31
	Best practices to use loan efficiently	43
	TOTAL	238

Source: Developed by the Researcher (2011)

4.3 Research Findings and Analysis

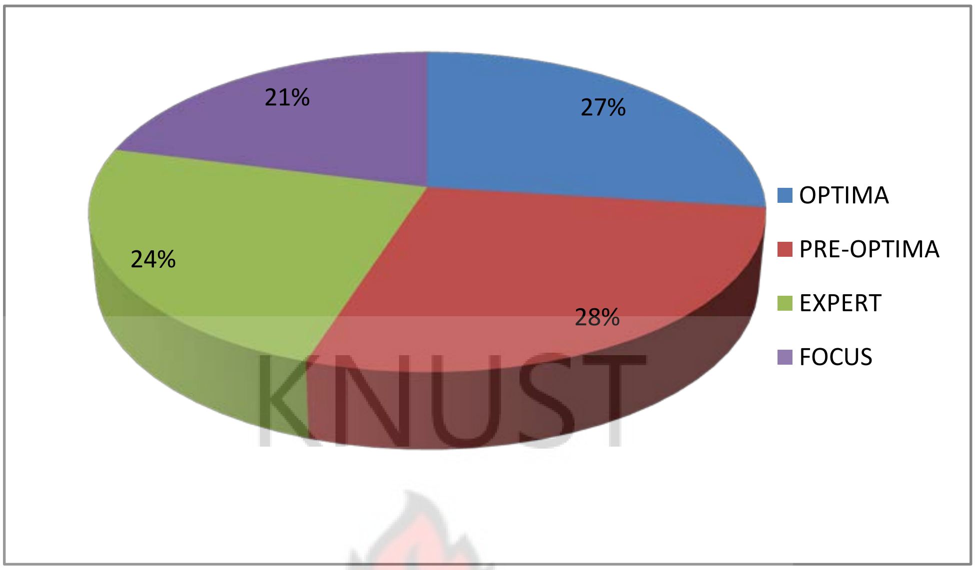
4.3.1 Background of Respondents

The Population Sample Distribution among the Segments of Small and Medium Enterprises selected per Stanbic Bank Classification of SMEs was 25:25:25:25 summing up to 100 (sample size). These SMEs are classified into Business Optimal, Pre-optima, Expert and Focus in line with Stanbic Bank Classification. Respondents were randomly and equally selected to represent the four classifications of SMEs.

Business Pre-Optima describes SMEs that fall within an annual revenue of three thousand US dollars(USD 3000) and Zero(0);Business Optimal SMEs fall within an annual revenue of five thousand US Dollars (5000USD) and three thousand US Dollars(3000USD); Business Expert falls within an annual revenue of five thousand US Dollars(USD 5000) and ten thousand US Dollars(USD 10,000) and lastly Business focus which falls within an annual revenue of ten thousand(USD 10,000) and one hundred thousand US Dollars(USD 100,000).On the question of which segment of SME category does a customer's business fall, 27% of the respondents indicated Optimal, 28% said Pre-Optima, 24% Expert and 21% designated Business Focus.

Figure 1 shows that feedback of data collected from Business Optima, Pre-optima, Expert and Focus was in the ratio of 27%:28%:24%:21% . This gives a representative distribution of the population sample of 100 among the Business segments concerned.

Figure 1: Population Sample Distribution



Source: Developed by the Researcher (2011)

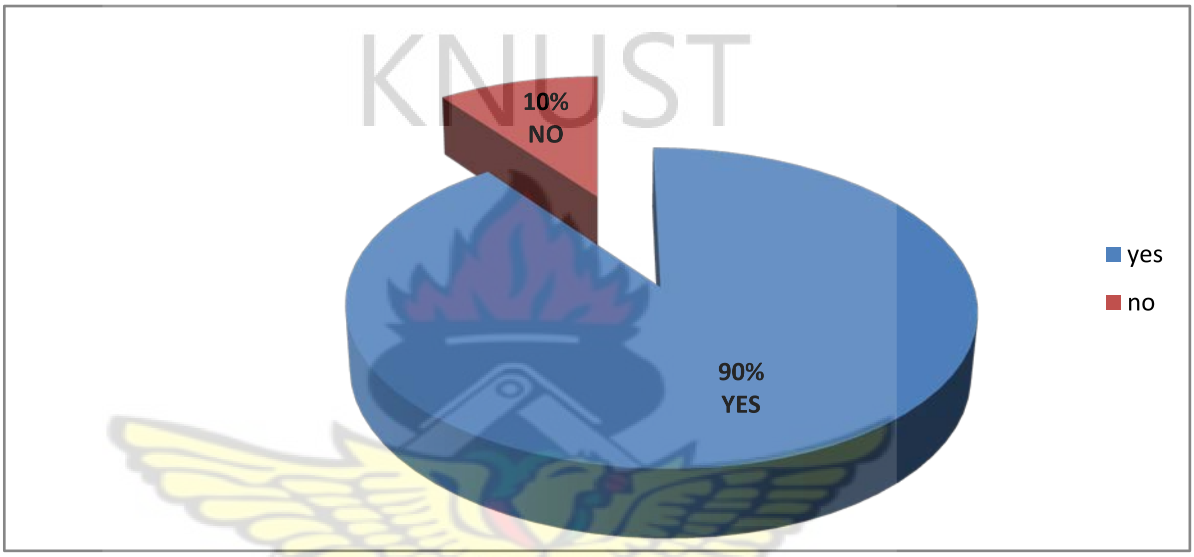
To obtain results that could represent the population, the researcher ensured that, to a large extent, a cross section of SMEs from the various Business segments were sampled.

4.3.2 Access to Financial Institution Facility.

From the results presented in Table 1, and on per pie chart below it indicates that 90% of respondents have Bank loan and 10% do not. It could be inferred from the responses of the 90% customers that have loan with the bank, argument in the literature review and introduction supports that most start-up firms fall on financial institutions for finance.

The low risk of Bank loans according to some respondents increase their request for Bank finance. Because according to them, in the event of their inability to meet dead lines for loan repayment or irregular cash flows, most financial institutions mostly do not opt for the extreme option of confiscation of the firms' property but instead they come to an agreement with their business clients and re-structure loans to suit the cash flows of the business. This according to them makes them feel more comfortable dealing with the Banks.

Figure 2. Access to Financial Institution Facility in Percentages.



Source: Developed by the Researcher (2011)

4.3.3 Types of Bank facilities and their patronage

Table 2 – Types of Beneficial Bank facilities

Type of facility	Response	Response %
Overdrafts	55	15%
Term loan	80	22%
Working capital loan	61	17%
Bonds and Guarantees	25	7%
Local purchase order	14	4%
Certificate Discounting	77	21%
Import clearing facility	50	14%
Total	**362**	**100%**

Source: Developed by the Researcher (2011)

Table 2 above gives the percentage distribution of the different types of Bank facility available or accessed by SMEs with respect to the respondents. There is a clear indication that the distribution is not skewed to just one type of facility. A business can have more than one type of facility in the Bank depending on the purpose for which it's requested. Term loan leading with 22% is a type of Bank loan used mainly to finance capital expenditure. It is short term (within a year), medium term (up to 3 years) and long term (above 3 years).

Term loans are supported by the borrowers' future cash flow generation capability and are repayable in equal installments basis. Thus per interview conducted with respondents, it favors them since they are given enough period to begin repayment, which is usually negotiable and it's tied to their cash flows, making it flexible. For example loan repayment can be structured as every quarter (i.e. every 3 months) or a once-off payment at the end of the duration of the loan. Most of these respondents who had Term loans were contractors, with seasonal inflows. Next is the certificate discounting with a percentage of 21: it is a type of in which the Bank discounts Certificates raised by reputable contractors in anticipation of expected payments. Thus the Bank finance a project in anticipation of being paid in the near future by the customer of the business customers.

Per face-to face interview with these respondents which fall within this category, certificate discounting enables quick access to loan since most of them were contracts awarded by Ghana Government and telecommunication companies amongst others. Example, contractors with no personal means of financing such projects fall on Banks for such finance. Working capital loan had 17%. Is a type of loan that is used to finance a one-off working capital item and payable over a very short term period, on structured repayment basis or one-off payment. According to respondents in this category; this facility favors them in times of emergency. But Banks do normally grant this type of facility to businesses with good cash flows.

Nonetheless overdraft followed with 15%, a type of loan that attracts daily interest (restricted to the amount utilized). and it has a short term period of one year (renewable).

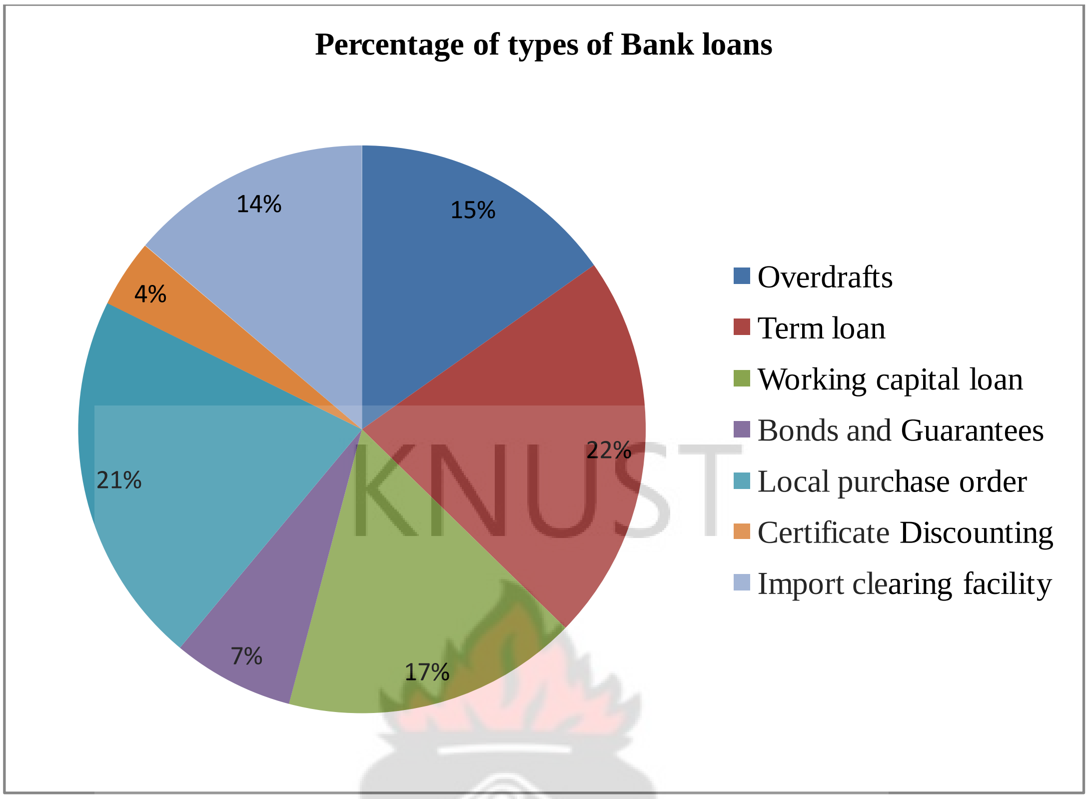
Respondent in this category expressed their interest in overdraft because of the daily calculation of interest .thus when unable to use the full loan; they are not charged the remaining interest. Unlike term loans where deferred interest is added to principal and amortized over the required loan period. But per face-to -face interview with some Relationship Managers, the Bank find it difficult to fully manage overdrafts because of irregular cash flows thus they seldom approve such loans.

According to respondent with 14% in import clearing facility, as the name suggests , is a type of loan that help firms who are into importing to clear their goods on time and then repay the Bank later as and when they sell the goods. Applying for this type of loan is quite cumbersome, since documents to help customers to pay for import duties and related charges to clear goods for business activity; are sometimes unavailable and Banks insist on them before approval of loan. 7% of respondents that have bonds and guarantees, which are off-balance sheet facilities extended to customers to enable them secure contracts or enjoy services in the normal course of their business. This is not usually common with respect to SMEs here in Ghana.

Last and least percentage is the local purchase order which is 4% .in simple terms this type of loan assists businesses that have a sort of pro-forma invoice to produce items for another company and after get paid .the bank then comes in to finance based on the reputation in most cases of the company buying from the bank's business client. Consequently, such a facility may attract other forms of collateral security instead of the relative goods. This according to respondents is not attractive enough to patronize thus they only take this facility because it suits their immediate need and its convenient.

Figure 3.1 is a pictorial representation of Table 2 showing the percentage distribution of facilities that respondent consider as beneficial to their Business.

Figure 3.1 Pictorial Representation of percentage of Types of Loans accessed by SMEs



Source: Developed by the Researcher (2011)

4.3.4 How does your firm utilize these loans?

Table: 3; Loan Utilization by SMEs

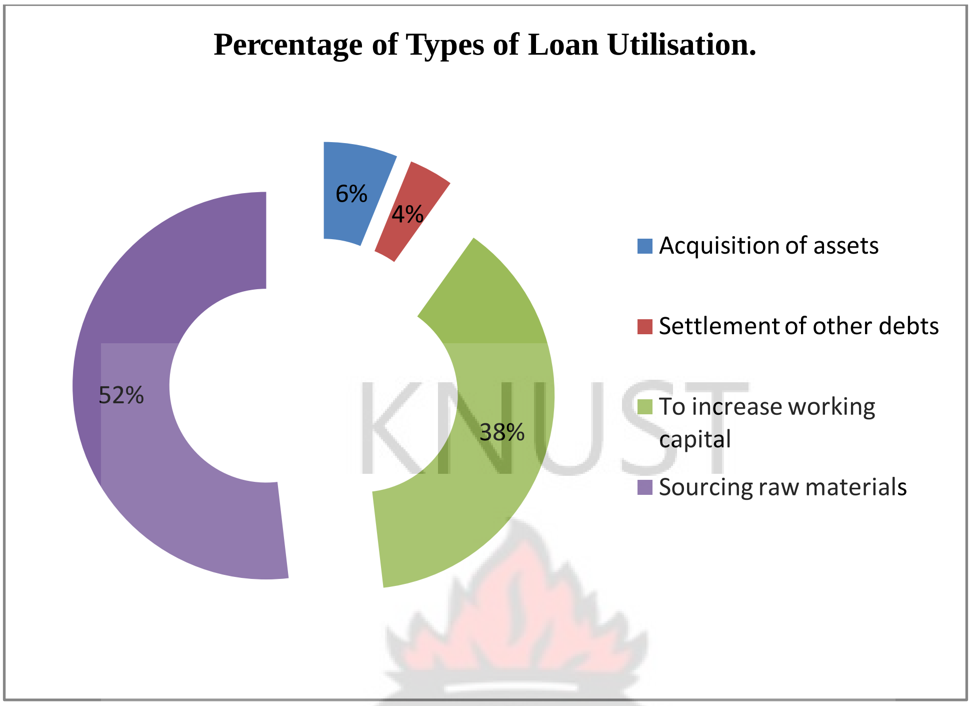
Loan utilization	**Response**	**Response %**
Acquisition of assets	5	6%
Settlement of other debts	3	4%
To increase working capital	31	38%
Sourcing raw materials	42	52%
Total	81	100%

Source: Developed by the Researcher (2011)

Table 3 above indicates how respondent utilized loan accessed from the Bank. Majority (52%) utilize the loan by sourcing raw materials, they buy raw materials to enable production. This enables them to buy as much as they require to start their business or to add up to existing stock levels. Respondents with 38% invest the loan in their business with the rational of increasing working capital. Mostly in the workflow process in the absence of an item or a service insufficient funds to help execute the production at hand.

Respondents who utilize loan in the acquisition of assets form 6% of total respondents. Most of these loans taken from Banks for asset finance have higher interest rates because of the long term nature of repayment. For example Stanbic Bank finances assets for up to a period of seven years. Thus the high interest rates and the cumbersomeness in procedures deters SMEs from applying for such loans.4% of respondent which chose the utilization of loan for settlement of other debts per face-to-face interview stated that the reduction of interest rates of some financial institution force them to change Banks that have better offers than their present banks which they have existing loans thus they use the newly acquired Bank loans to pay off this kind of debts. They also take these loans to pay off their creditors. This percentage is on the reduced side (4%) because most SMEs prefer to invest loans taken in viable ventures that will enable them meet deadlines for repayment.

Figure 4.1 below indicates the various uses of loans by respondents by pictorial representation.



Source: Developed by the Researcher (2011)

4.3.5 Importance of Loan in the Overall Improvement of Performance of a Firm.

Table: 4: The Effect of Loans on SMEs Performance.

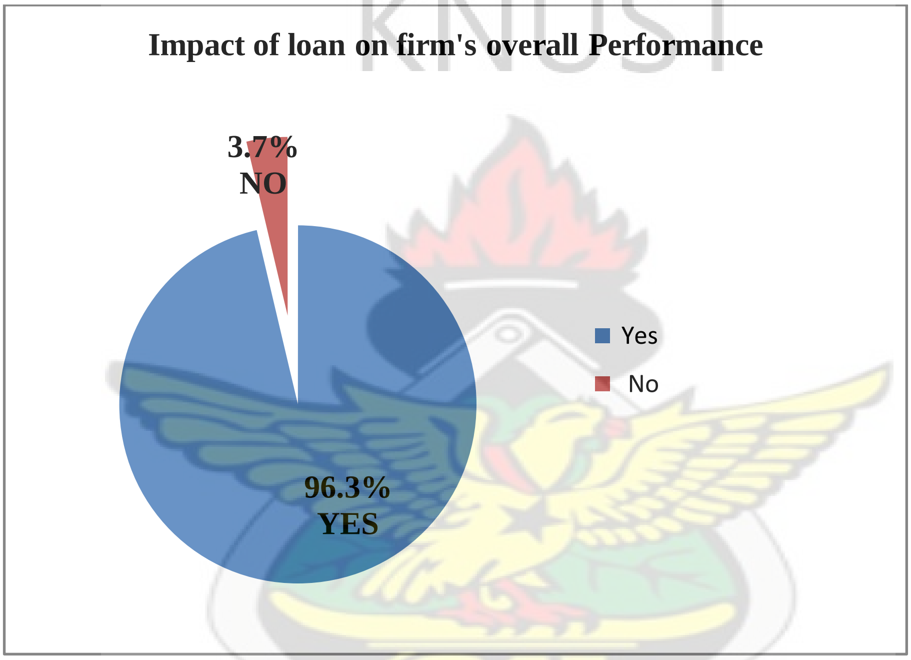
LOAN IMPROVEMENT?	RESPONSE	RESPONSE (%)
Yes	78	96.30%
No	3	3.70%
TOTAL:	**81**	**100.00%**

Source: Developed by the Researcher (2011)

Table 4 above indicates the percentage of respondents that indicated that the type of loan they took from the Bank either improved the over all firm performance per their own definition or not.

96% of total respondents indicated that the loan improved the overall performance of their firm.3.70% indicated that the loan did not improve the over all performance of their firm.

Figure 5.1: Impact of Loan on Firm’s Performance.



Source: Developed by the Researcher (2011)

4.3.6 How Did the Loan Help the Business With Respect To Overall Firm Performance?

Table: 5: Contribution of loan to Firm Performance

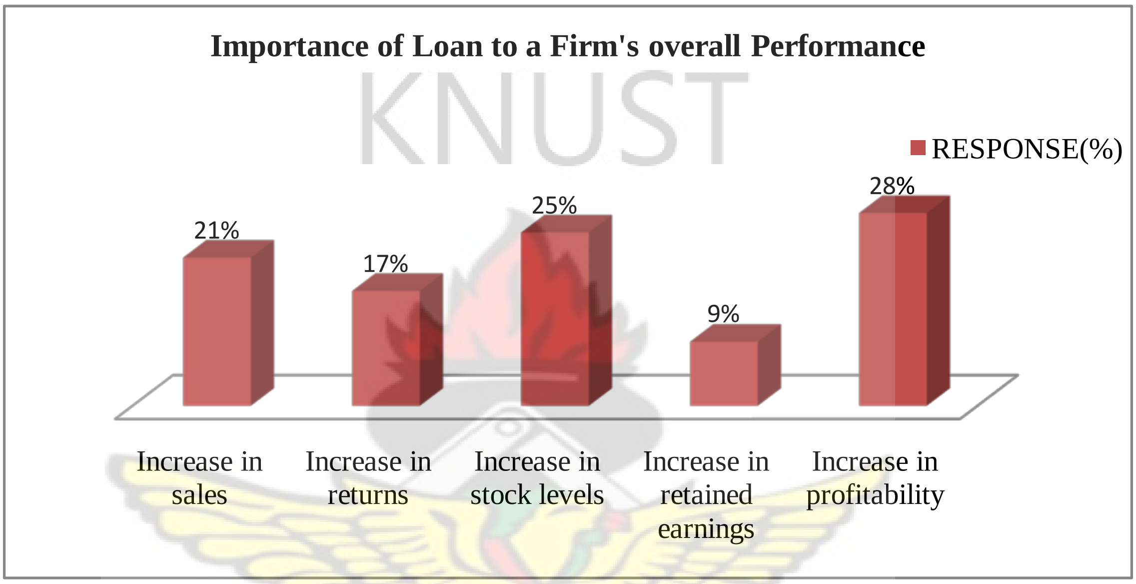
How Did Loan Help In Better Firm Performance	Response	Percentage (%)
Increase in sales	53	21%
Increase in returns	69	28%
Increase in stock levels	62	25%
Increase in retained earnings	23	9%
Increase in profitability	41	17%
TOTAL	**248**	**100%**

Source: Developed by the Researcher (2011)

Table 5 above indicates importance of loan to respondents' firm performance. The table indicates that loan help business overall firm performance in diverse ways: this is because percentages are not highly skewed towards one importance of loan. Respondents chose more than one important reasons of loan to their firms. Percentage wise, most respondents (28%) opted for increase in returns as their definition for importance of loan with respect to improvement in over all firm performance.

Thus the lower percentage falls in the region of increase in retained earnings (9%). This according to respondents is because of pressures to repay loan which limits expansion thus the business inability to retain excess funds. Increase in stock levels, that is inventory (25%) also on the high side implied that loan taken are use to purchase materials for production, thus businesses are able to up their stock to meet increasing Demand. Definitely ,with an increase in stock levels of (25%) of sample, its not surprising that increase in sales is 21%,because an increase in stock levels will all things being equal increase sales. Also 17% of respondents agreed that the loans increase their profitability. A better representation of table 5 above is in figure 6.2 below.

Figure 6.2-Importance of Loan to a Firm’s Overall Performance



4.3.7 What Negative Impact Did The Loan Have On The Overall Firm Performance?

Table: 6: Negative Impact of Loan on Firms' Performance

Negative Impact	**Response**	**Percentage (%)**
Mismatch of funds	19	6%
(Pressures for repayment	81	27%
Loan default	48	16%
Inadequate reinvestment	75	25%
Limits expansion	79	26%
Total	**302**	**100%**

Source: *Developed by the Researcher (2011)*

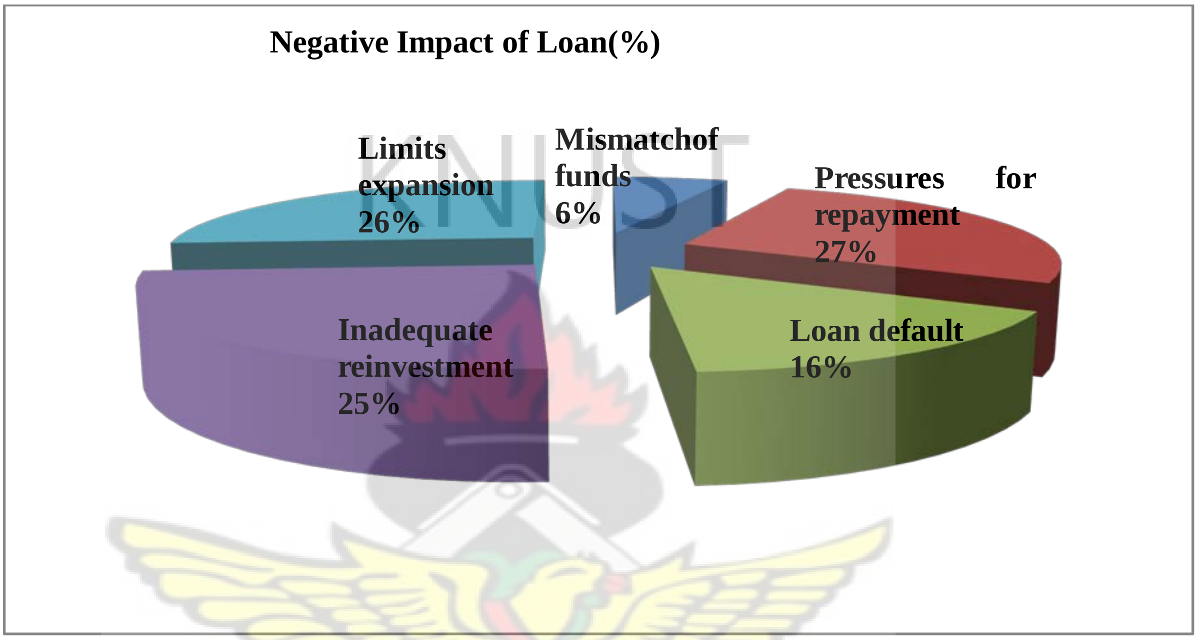
Table 6 explains what respondents classify as negative impact of loans accessed from the Bank. The analysis indicates that 27% of respondent chose pressures for repayment as a negative impact of loan taken.

Pressures in the form of conscious efforts to make sure that by the date of repayment, funds should be available, thus all efforts put in place to make this happen .also pressures in the form of the Bank's credit official chasing them to make payment into account when they have defaulted up to some period.26% chose limit in expansion; this explains the situation whereby all returns received from projects undertaken are channeled into loan repayment.

25% -inadequate reinvestment, thus when all excess funds are channeled into loan repayments, it stifles re-investment into the business or investment into other ventures.16%-Loan default ,this occurs according to respondents, when for examples their debtors fail to meet dead lines in paying back for goods sold to them on credit.

Thus affecting the business ability to meet the loan repayment date and thus defaulting. Lastly 6% admitted mismatch of funds, diversion of usage of loan granted into other ventures which weren't the original purpose of the loan. The Figures shows representation of this in a pie chart.

Figure 7.1 Negative Impact of loan on SME Performance



Source: Developed by Researcher (2011)

4.3.8 Disadvantages of taking a Business Loan.

Table: 7 : Disadvantages of taking a Business Loan.

Disadvantages	**Response**	**Response %**
High cost of capital	79	20%
Risk of default	36	9%
Risk of losing collateral	51	13%
Prioritizing inflows to settle debt	68	18%
Cumbersome procedures	79	20%
Unrealistic Terms and Conditions	18	5%
Reduction in loan amount	55	14%
TOTAL:	**386**	**100%**

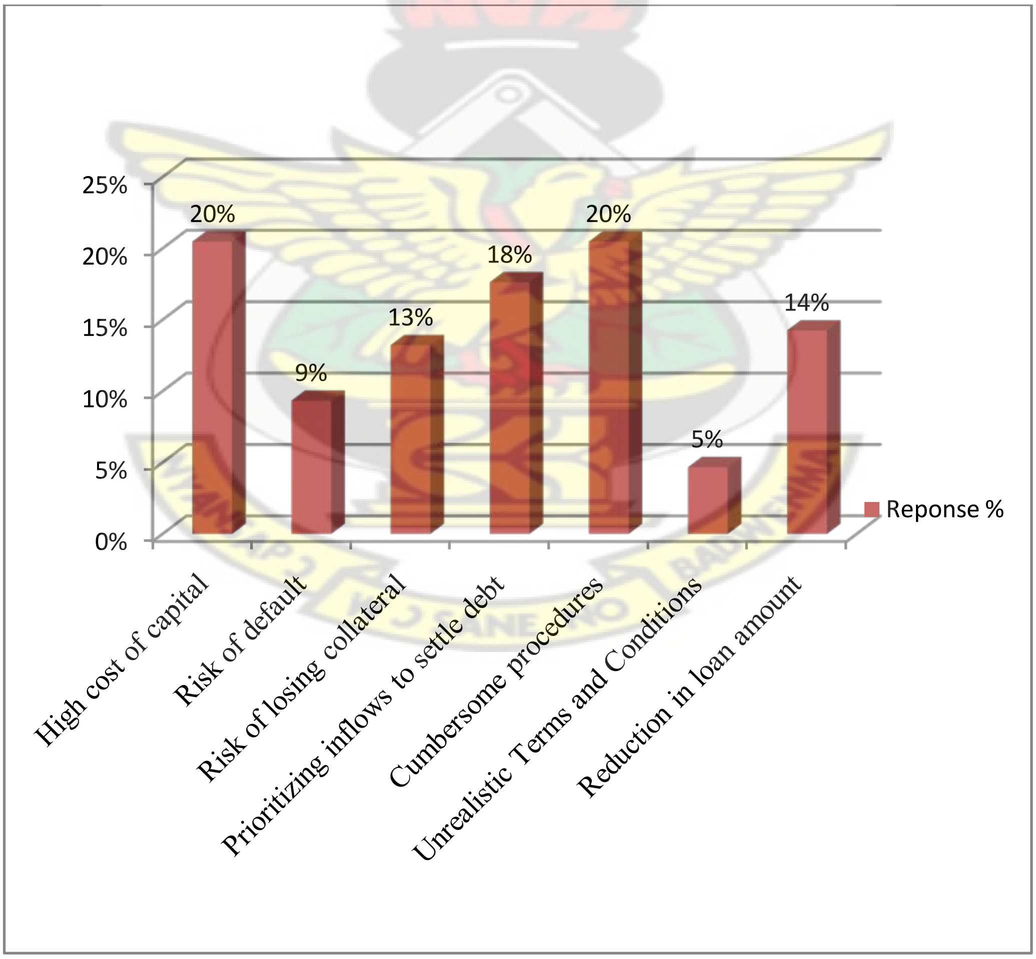
Source: Developed by the Researcher (2011)

Table 7 above indicates various disadvantages of loans and their percentages per classification by Respondents. High cost of capital (20%), with a frequency of 79 out of the 81 clients with loan. high cost of capital being high interest rate charges on loan granted by the Bank usually because of the small structure of SMEs in comparison to corporate clients, the uncertainty surrounding the SME is on the side, this discussed in chapter one and Literature review leads to a high interest rate charged.

Cumbersome procedures (20%) same frequency of 79, it's disadvantage because according to respondents, they fall on the Banks in times of emergency and when frustrated with cumbersome procedures and bureaucracy ,they tend to lose contracts in some cases and this stifles their growth and prioritization of Inflows to settle loan repayments (18%), as the name explains indicates that all inflows have to be prioritized into settlement of the loan ,so till that is achieved all other issues are put on hold. Then we have reduction in loan amount 14% this according to respondents occur a lot, because they analyze their needs and then request for a specific loan amount from the Bank and then based on the judgment of the Bank, they reduce the loan amount ,which to them is based on unrealistic measures.

Risk of losing collateral 13%, this as discussed in earlier analysis according to respondents occurs when the loan repayment is long overdue and they easily cannot help it. Risk of default 9% ,this is due to for instance debtors not paying back on time and the least being unrealistic terms and conditions of 5%.figure 8.1 depicts this.

Figure 8.1 **Disadvantages of taking a Business Loan**



Source: Developed by Researcher (2011)

4.3.9 Advantages of Business Loans.

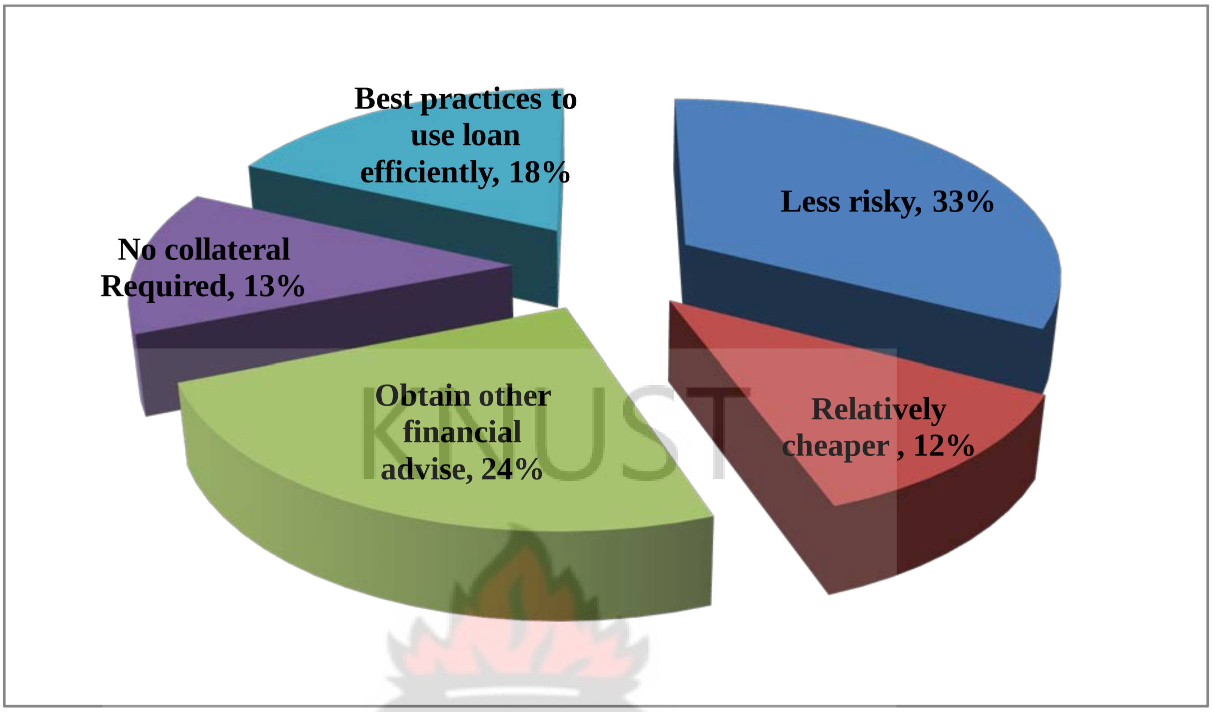


Figure 9.1 Advantages of Business Loans.

Source : Developed by Researcher (2011)

Figure 9.1 above indicates various advantages of loans and their percentages per classification by Respondents. Less Risky (33%), in terms of not losing collateral in the event of default, they only lose collateral in extreme cases. because most relationship managers agree with their Business clients and restructure the loan repayment to suit their current inflows. Obtaining of other financial advice (24%), mostly in interaction with their account managers according to respondents, they gain lots of financial advise .Best practices to use loan efficiently (18%), occurs when they access loan, their account managers advise them on how to use it efficiently .This type of advise is usually not for free in consultancy firms. No collateral required (13%) most for instance most bank grant loans to business based on their past records with respect to their cash flows and audited accounts only peculiar circumstances require collateral.

Then relatively cheaper 12% this is because with the advent of the recent reduction of most Banks base rate and intense competition, most businesses are able to negotiate, for better rates. Table 8 below depicts this into details.

Table: 8 Advantages of Business Loans.

Advantage	**Response**	**Percentage (%)**
Less riskier	78	33%
Relatively cheaper	28	12%
Obtain other financial advise	58	24%
No collateral Required	31	13%
Best Practices To Use Loan Efficiently	43	18%
Total	**238**	**100%**

Source: Developed by the Researcher (2011)

4.3.10 Did the Loan Fully Satisfy Its Purpose?

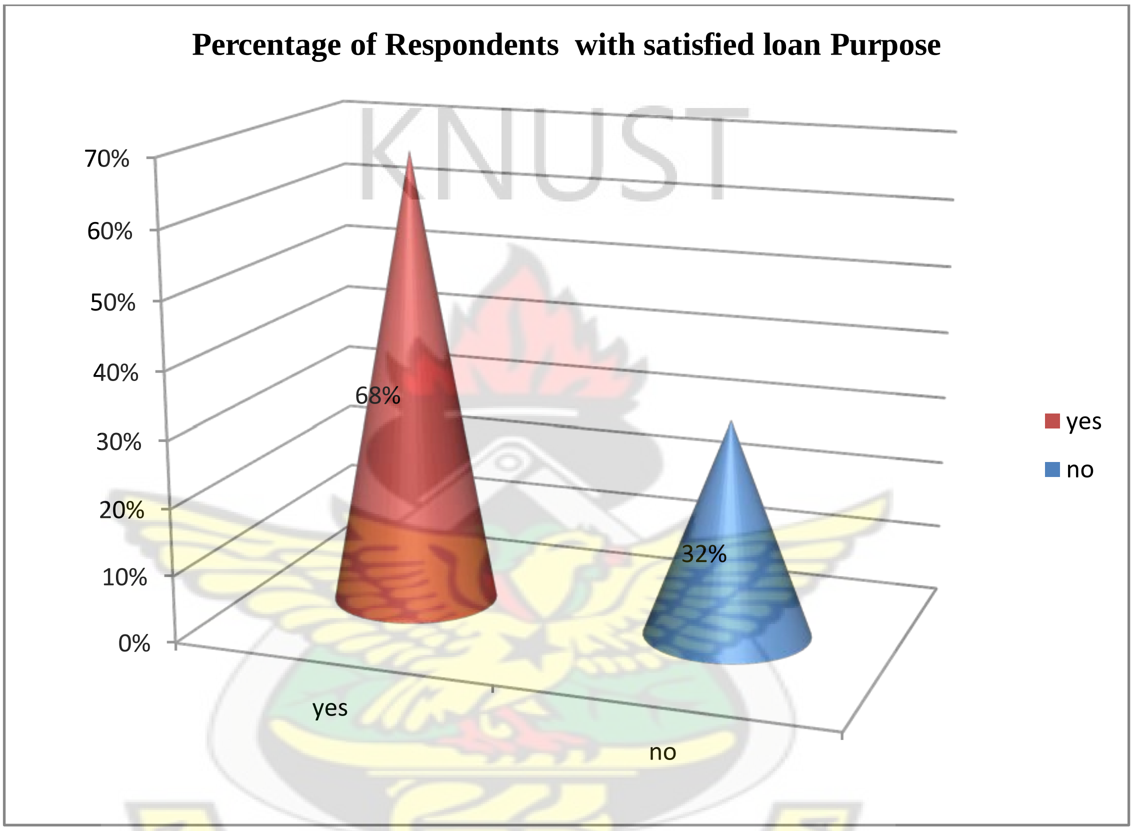
Table: 9: Impact of Loan

Did the loan fully satisfy its purpose?	**RESPONSE**	**Percentage (%)**
yes	55	68%
no	26	32%
TOTAL	**81**	**100%**

Source: Developed by the Researcher (2011)

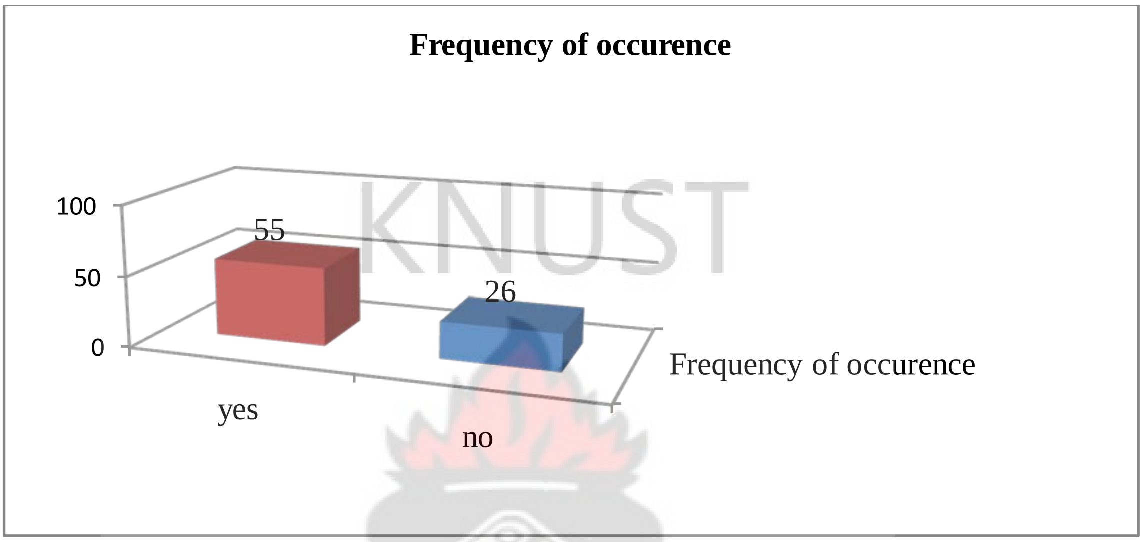
From Table 9, more than 68% of respondents expressed that loans obtained from the Bank achieved the purpose of its being requested.32% of respondents did not side with them Figure 10.1 and 10.2 below depicts this information.

Figure 10.1 Percentage of Respondents with satisfied loan Purpose



Source: Developed by Researcher (2011)

Figure 10.2: Number of SMEs either satisfied or Not Satisfied with Loans Granted.



Source: Developed by Researcher (2011)

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This study undertakes to investigate the impact of loans on SMEs. This study looks at impact with respect to sales, returns, stock levels, profit and retained earnings. These measurements of the impact are qualitative in nature with respect to the study .Responses from Questionnaires distributed, informal interviews with respondents and Relationship Managers and manuals characteristic to thesis topic were the only means of analysis. This chapter summarises the findings, draws conclusions based on the findings and make some recommendations.

5.2 Summary of Findings

The following research questions were formulated to guide the study:

a) What are the disadvantages and advantages of taking a Bank Facility?

b) How do SMEs utilize loans?

c) Do SME loans affect performance ?

It was revealing that 90% of respondents have loan with the Bank. Thus they rely on finance from the Banks. Per discussion with relationship managers most SMEs virtually open bank accounts mainly because of a Banks ability to grant finance to cushion them either immediately or later in time of financial difficulty.

Secondly it can be concluded that Term loans are the most patronized type of Bank loans, due to their repayment structure which are structured in line with the business cash flows .as a result, the repayment date for this type of loan is structured in a way that coincides with an estimated date when the Firm will have made some extra money to repay.

Also it can further be concluded that most SMEs use loans as working capital mainly to source raw materials for production. For instance with the increasing number of government contracts, most contractors apply for loans to enable them execute these government projects. The nature of the structure of most SMEs in Ghana makes debt financing one of the most convenient ways for start – up firms. They fall on banks for loans to boost their business.

Surprisingly only a few (4%) point blankly admitted that most of the loan they take from the Bank are used for settling other debts. This is a non-starter for most banks. Because they expect the loans to be invested into ventures that has a potential of meeting the requirement for loan repayments. That is investing into projects that will easily be able to allow the borrower to repay the loans in the near future easily.

With the introduction of credit bureau reference by XDS Data Company limited, Banks are able to easily track Businesses that already have existing loan with other financial institutions. For instance most banks have a percentage of debt to income ratio (i.e. the percentage of monthly returns that is deducted as loan repayment) of a business that most Businesses are not supposed to breach. This thus determines the amount of loan that would be granted to these businesses.

Since over 96% agree that Bank loans help in the overall improvement of their performance per their definition, it could be concluded that bank loans for SMEs mostly improve their performance.

Another conclusion that could be drawn is that there is a major disadvantage of accessing a bank business loan because of the high cost of capital (usually high interest rate) charged mostly on SMEs. Most banks classify SMEs as high risk thus high tendency of default leading high interest rate charges. Also all respondents indicated that cumbersome loan application procedures are a major disadvantage of accessing bank loans.

Something to take note of is the undue pressure of loan repayment that most respondents agreed to as a negative impact of Bank loans on their performance. It can also be concluded that one advantage of taking a bank loan is that its less risky, per face-to-face interview, some business customers explained that for some banks for example, in the event of default or not being able to repay loan on time, the bank next move is usually to restructure the loan repayment, be it date or monthly payments, to suit the current state of the business .making it more flexible and also less risky since their collateral or security that was given to the bank because of the loan application is not confiscated unlike other micro finance institutions.

Additionally, the researcher also found out that financial management advice is obtained from business relationship managers in their day to day interactions with owner-managers of the SMEs and this helps in efficiently managing their businesses.

The first chapter of the research stressed on the characteristics of SMEs and their importance to the economy of a country. Thus indicating that the survival of the SMEs should be of key concern to the country .Hence in their survival as Business entities, the means by which they use in thriving should be critically the best and thus examined to get the best out of it. Leading to debt financing which is a type of finance for Business. Finance sponsored by financial institution.

Chapter Two touched on the review of conceptual as well as empirical literature to throw more light on the research.

The third chapter laid emphasis on the explanation of the methods and techniques adopted in the study. Since it would be too costly, time-consuming or even practically impossible to collect data from all SMEs, the sampling technique of data collection were used.

5.4 Recommendations

Gathering from the work done on this study **four areas** were identified by the researcher as being of paramount importance.

5.4.1 The loan Application procedures and Requirements.

The bank should not consider collaterals and securities as the main support for lending out funds to borrowers since realization of these assets are difficult in our part of the world. Much focus and emphasis should be placed on the projected cash flow and viability of the borrowers' businesses. These will promote the growth of businesses and also reduce the risk associated with default of repayments of loans. The Bank should find ways of reducing the cumbersomeness of loan application procedures. Frontline staff members who respond to loan enquiries should be well trained to be competent enough to answer all issues one-off.so that SMEs are not frustrated to go and come back on several occasions.

5.4.2 Cash flow Irregularities and Loan Repayment.

The problem of cash flow irregularities with respect to SMEs is of much concern since that is the main basis for granting of some business facilities in the Bank. This is what determines loan repayment structuring. SMEs should seek advice on how to manage their cash flows effectively since this will motivate Banks to give those loans easily without issues.

SMEs should have proper book keeping of their daily business activities so that they don’t misuse funds meant for other purposes.

5.4.3 Best Practices To Use Loan Effectively.

It’s recommended that Best practices should be shared with SMEs on how to efficiently manage disbursed loans. This will let them realize good returns on their investments. It will also benefit the bank in terms of loan recovery, since SMEs will be able to repay their loans promptly.

5.4.4 High interest rate of SME loans.

SMEs are the engine of growth for developing economies like Ghana. Bank loans are usually one of the fastest means of acquiring credit for SMEs. This credit is what helps them in boosting their business and in effect economy growing as a result. Thus the cost of such loans should be reviewed downwards to enable smooth repayment and increase in the demand for loans by SMEs to enable growth in their business which will in effect affect the economy as a whole positively.

5.5 Limitations of the Study

There are a number of limitations associated with this study.

First, the obtained data were mainly from respondents’ perspectives who were mostly owner-managers of small and medium enterprises.

Also questionnaires were formulated based on face-to-face interactions with owner-managers of small and medium enterprises, bank relationship managers and some officers from the credit department.

Another limitation was that the analysis was skewed qualitatively. Thus there was no empirical evidence to support the formulation of questionnaires as this was based on the researchers` experience from the industry.

5.6 Suggestions for further Research

Future research should mainly base on the current limitations since the present findings cannot be generalized based on the fact that a relatively small sample was used even though more than 30% of the sampled population was used. For this reason the following research questions are worthy of exploration:

- On what grounds can one argue that there is no need to investigate the impact of loans on SMEs based on bankers` opinions and experiences?
- Under which circumstances can data obtained mainly from owner-mangers of small and medium enterprises perspective on the impact of loans on SMEs be considered as valid and reliable?

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APPENDICES

APPENDIX A

Questionnaire

<u>Questionnaire on the impact of loans on Small and Medium Enterprises</u>

This questionnaire is going to be used for academic purposes only and confidentiality would be adhered to. Note: please answer the following questions in this questionnaire with a tick except otherwise directed to specify.

1.0Does your firm have any access financial institution loans?

YES	
NO	

1.1 Which Category of SME does your firm belong to?

Business Pre-Optima	
Business Optimal	
Business Expert	
Business Focus	

1.2 Which of these types of facility have you benefited from?

Overdrafts	
Term Loan	
Working Capital Loans	
Bonds and Guarantees	
Local Purchase Order (Lpo)	
Certificate Discounting	
Import Clearing Facility	

1.3 Which of these facilities easily meet your needs?

Overdrafts	
Term Loan	
Working Capital Loans	
Bonds and Guarantees	
Local Purchase Order (Lpo)	
Certificate Discounting	
Import Clearing Facility	

1.4 How does your firm utilize these loans? 1.5 Did the loan improve the overall firm's performance

Acquisition of assets	
Settlement of other debts	
To increase working capital	
Sourcing raw materials	

YES	
NO	

1.6 How will you rank the uses of loan to your company? Refer to question 1.4 in order of importance

A……………………………….

B……………………………….

C………………………………

D………………………………..

1.7 What are some of the disadvantages of taking a business loan? 1.8 Did the loan fully meet the need for which it was requested?

High cost of capital	
Risk of default	
Risk of losing collateral that were used as security	
Prioritizing inflows to settle debt	
Cumbersome procedures	
Unrealistic Terms and conditions	
Reduction in loan amount requested	

YES	
NO	

1.9 Did the loan result in significant increase in profit?

YES	
NO	

1.10 How did the loan help the business with respect to overall firm performance? 1.11 How will you rank the answers in 1.10?

Increase in sales	
Increase in returns	
Increase in stock levels	
Increase in retained earnings	
Increase in profitability	

A……………………………

B…………………………….

C…………………………….

D…………………………….

E…………………………….

1.12 What negative impact did the loan have on the overall firm performance?

Mismatch of funds	
Undue pressures for repayment	
Loan default	
Affect cash flows for adequate reinvestment	
Limits expansion	

1.13 What are some of the factors that make it difficult for the repayment of loans?

High interest rates	
Delayed payments by debtors	
Irregular cash flows	
Reduction in sales	
Functional obsolence	
Management in competencies	
Economic changes	
Natural disasters	

1.14 What are some of the advantages of Micro finance loans?

Less riskier	
Relatively cheaper	
Obtain other financial advise	
No collateral Required	
Best practices to use loan efficiently	

1.15 What measures do you think when put in place will enable the best usage of these loans obtained: from the perspective of the financial institution?

………
………
………
………
…………………

1.16 What measures do you think when put in place will enable the best usage of these loans obtained: from the perspective of your business?

………
………
………
………
…………………

Thank you for your participation in this research.

APPENDIX B

SMEs	Small and Medium Enterprises
UNCTAD	United Nations Conference on Trade and Development