

**EXPLORING BARRIERS TO ACCESS TO FUNDING AMONG SMALL AND
MEDIUM ENTERPRISES FROM RURAL BANKS IN THE EJISU DISTRICT**

BY

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DECLARATION

I hereby declare that, this project work is the result of my own research and that it has not been presented for another degree in this University or elsewhere.

All citations from books have been acknowledged. However, any error, omission and shortcomings that may be found in this text are entirely mine.

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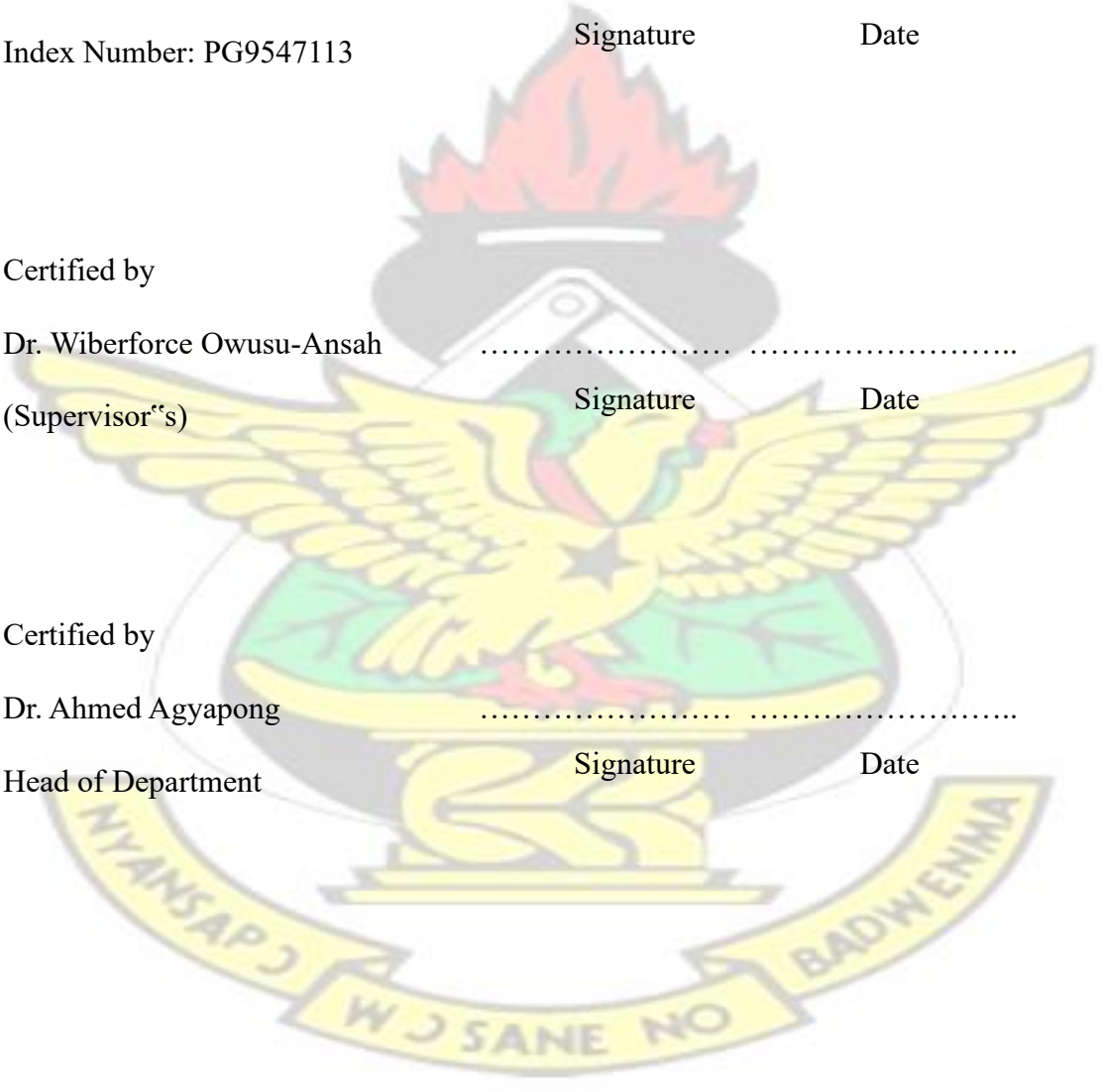
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ABSTRACT

Small and Medium Enterprises (SME's) in Ghana play a dynamic role in the development of this nation, and this cannot be over-emphasized. It also serves as a means of employment in the country thus releasing the pressure on the civil and public sector in the case of employment. The study seeks to solve a problem of collateral, track record and high interest rates that deny most SME's owners access to fund from rural banks. This research explores barriers to access to funding among SME's from Rural Banks in Ejisu District. The study examine various sources of funds available to SME's from Rural Banks in Ejisu District; access the costs associated with debt finance to SME's from Rural Banks in Ejisu District, assess various barriers to access to funding on SME's from Rural Banks and finally to ascertain the effect of barriers to access to funds on SME's from Rural Bank in Ejisu District. Data were obtained through twenty-seven item questionnaires from sixty (60) entrepreneurs in Ejisu District. The sample was selected using quota, stratified and convenient sampling method. The data was analysed using Statistical Package for Social Sciences (SPSS) in the form of tables, narrations, regression, charts, etc. The findings of the study indicated that the rigid process that entrepreneurs pass through before they can access loan is tedious. Again, entrepreneurs use their own personal saving as start-up capital. It is recommended that entrepreneurs must regard the track record of their finances and the business as a whole. Again, bank should reduce their interest rate and also eliminate the collateral so that clients can afford to repay their debt. It is believed that if all the recommendations are taken into consideration, it will help reduced the numerous barriers that hinder the entrepreneurs when accessing loan from Rural Banks.

DEDICATION

This work is dedicated to the Heavenly Father who granted me the grace to pursue this course. May His name be praised! Amen.

I will be ungrateful if I fail to also dedicate this work to Mr. Patrick Frimpong, who advised me to further my education in the year 2006. I cannot forget my dear wife Mary Amoako (Mrs.) who reliably supported me physically and in spirit.



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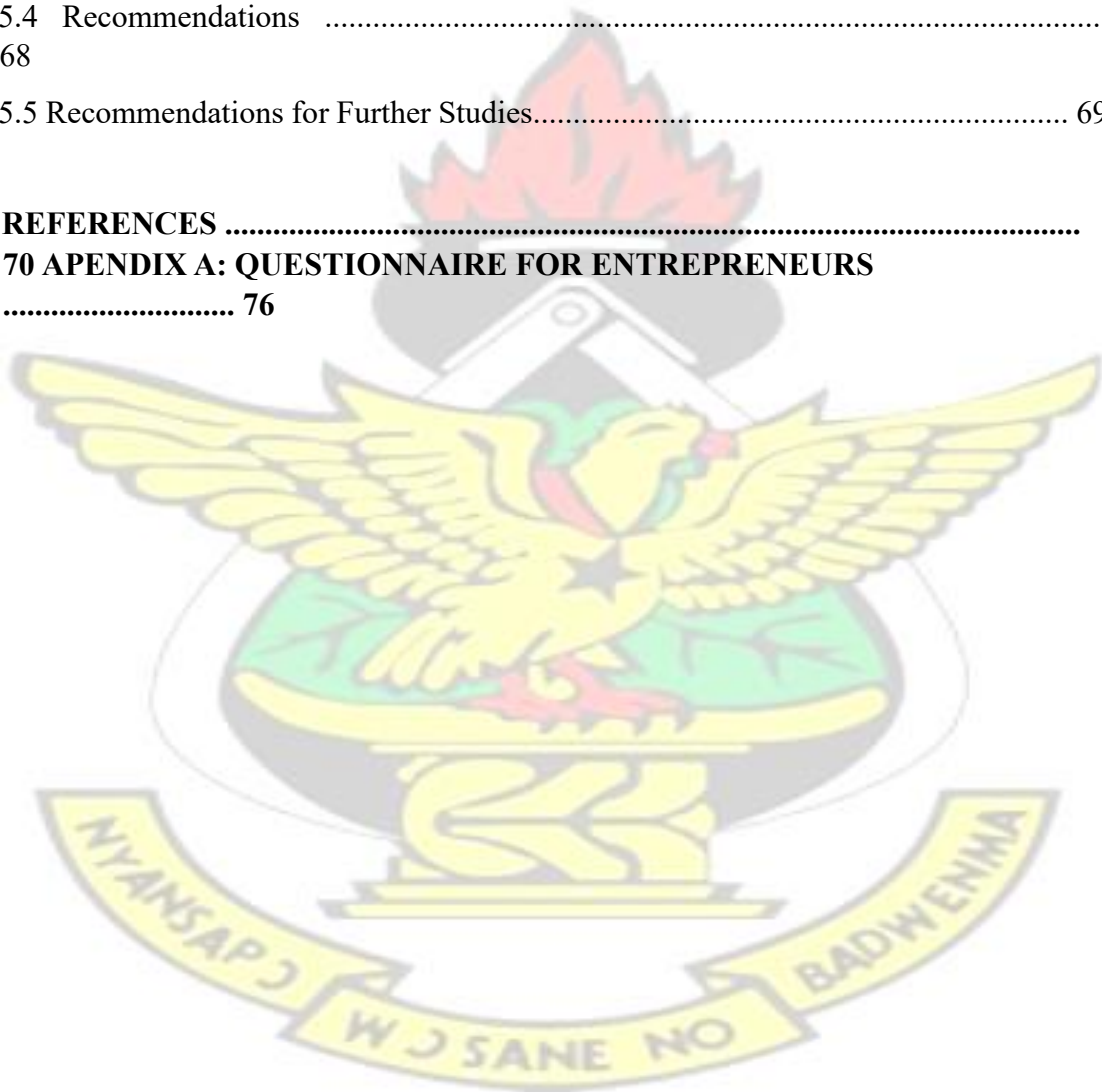
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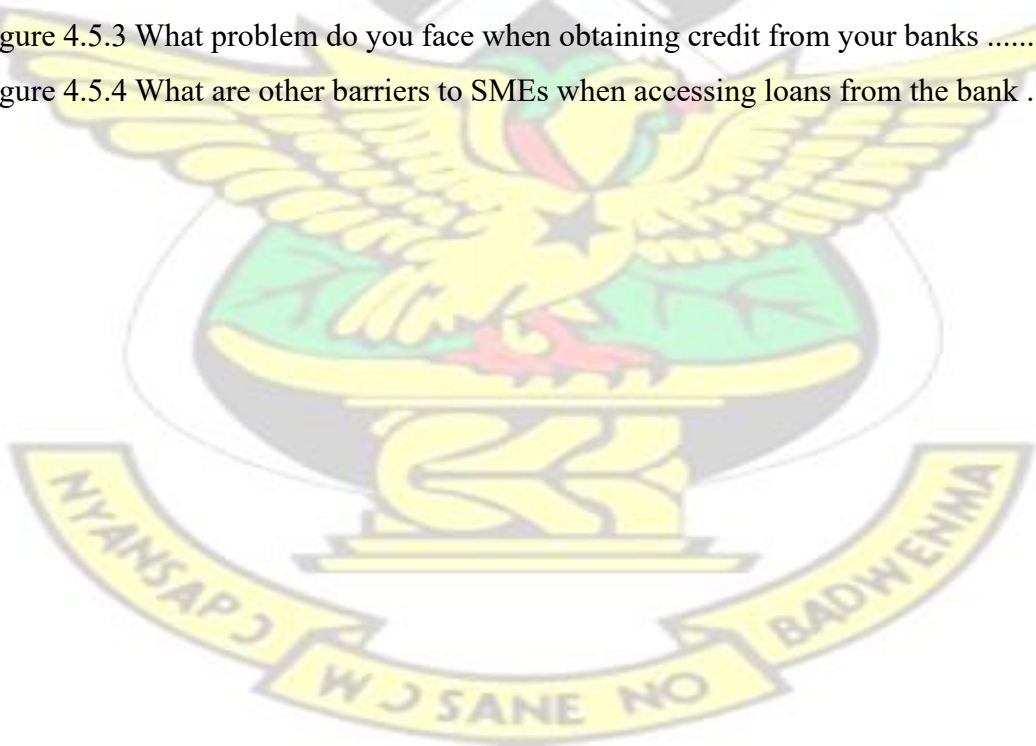


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CHAPTER ONE

INTRODUCTION

1.0 Background of the Study

It is obvious that entrepreneurship has been in existence for quite a couple of years worldwide and in Ghana to be precise. The vital role that Small and Medium Enterprises (SME"s) take in the development of every developing country as wheel through which the growth of the developing country cannot be over emphasized. Over the years, Small and Medium Enterprises (SME"s) have contributed immensely to the economy of Ghana. Small and medium Enterprises act as a resilient resource to the economy of Ghana. It ensures a nucleus for economic growth during bad and good times. SME"s have in the past been the leader in growing innovations and inventions to practice. For instance, they contribute greatly to the Gross Domestic Product (GDP) and also to the provision of employment opportunities especially to remote areas and rural communities in Ghana. In the year 2003 (SME"s) contributed about 40% of the total GDP and employed about 60% of labor force in the country. (Dwomo-Fokuo, 2005).

It is also estimated that about 75% of the population derives its livelihood from this sector. In view of the fact that the economic growth and progress of the country depends greatly on the success of SME"s, the need arise for the government to encourage the activities of this sector of the economy.

It is believed that Small and Medium Enterprises (SME"s) engage 22% of the grownup workers in developing countries. The Small and Medium Enterprises sector employed nearly 15.5% and 14.09% of the total labour in 1993 and 1994 respectively

(Parker et al, 1994), has acquired elevated employment rate more than SME's (5% in Ghana), the output of the sector is expressed as a percentage of GDP contributed at 6% of GDP in 1988.

The Commercial Banking conditions like stringent collateral and guarantor requirements and high interest rate charge on the loans greatly restricted the Small and Medium Enterprises (SME's) from accessing credit facilities in Ghana.

This brought about the introduction and establishment of Rural Banking system in the mid 1970's to partly help minimize these draw backs. The major objectives for the establishment of rural banks in Ghana are to:

- a. Mobilize excess money in the rural and remote areas
- b. Allow rural banks to give credit to the populace at the rural areas and thereby supporting them to increase their production and as a result raise their living standards
- c. Promote economic growth and development in the rural economy.

Rural Banking is thus geared towards accelerating development in the rural communities. The bank hopes to achieve this by mobilizing funds from surplus spending units and using such savings to extend credit to deficit spending rural business units. (Asiedu, 1987)

It is important to note that most people who are economically active in the rural areas are engaged in SME's activities like farming and trading. Such rural activities need some form of institutional financial assistance since incomes are normally low in the rural areas. It is in view of this gap in the financial needs of the rural economy that today almost every district, municipal and metropolitan local government areas have rural banks operating within its confines. In the Ejisu District, some of such rural banks are

the Yaa Asantewa Rural Bank, Juaben Rural Bank, Asokore Rural Bank and others. It is hoped that the Rural Banks would play a main role in helping to uplift the financial base of the Small and Medium Enterprises (SME's) from accessing credit facilities in Ghana.

1.1 Statement of the Problem

To start with, it is anticipated that most of the entrepreneurs who enter into Small and Medium businesses do not have enough financial background or financial know how. Adequate financial resource is a major pre-requisite for the sustenance of many organizations or entity. The problem of collateral, track record and high interest rates that deny most SME's owners access to fund from rural banks. Therefore, SME's owners use their personal savings and profit to start and expand their businesses. Thus in order for (SME's) to perform efficiently and expand their capacities, there is the need for some form of external financial support. Small and Medium Enterprise (SME's) could get support from the banking institution, especially, rural banks. This is because normally rural banks tend to have more liberal collateral terms and conditions regarding their credit facilities than other banking institutions in Ghana. Right of entry to credit facility is a major predicament confronting the management of many Small and Medium Enterprise (SME's) in Ghana. All business units, large, medium, and small businesses require funds to survive. Due to the financial constraints facing the Small and Medium Enterprise (SME's), the researcher has made an effort to look into the barriers to access to funding among Small and Medium Enterprise(SME)'s in the Ejisu District.

This study was aimed at exploring how well the Small and Medium Enterprise

(SME's) were performing and the major problems or challenges that confronted the Rural Banks with regard to providing financial assistance to Small and Medium Enterprise (SME's) in Ejisu and its immediate environs.

1.2 Research Objective

The objective of the study is divided into general and specific.

1.2.1 General Objective

The general objective of this study is to explore the barriers to access funding among Small and Medium Enterprises from Rural Banks in the Ejisu District.

1.2.1 Specific Objectives

The specific objective of the study is to:

1. Assess the various sources of funds available to the Small and Medium Enterprise (SME's) from Rural Banks within Ejisu District of Ashanti Region
2. Assess the costs associated with debt finance to Small and Medium Enterprise (SME's) from Rural Banks
3. examine various barriers to access to funding on Small and Medium enterprises from Rural Banks
4. Ascertain the effect of barriers to access to funds on Small and Medium Enterprise (SME's) funding from Rural Banks

1.3 Research Questions

1. What are the various sources of funds available to the Small and Medium Enterprise (SME's) from Rural Banks within Ejisu District of Ashanti Region

2. What are the costs associated with debt finance to Small and Medium Enterprise (SME's) from Rural Banks
3. What are the barriers to access to funding on Small and Medium enterprises from Rural Banks
4. What are the effect of barriers to access to funds on Small and Medium Enterprise (SME's) funding from Rural Banks

1.4 Significance of the Study

The significance or the importance of the study cannot be overlooked since it would provide useful information to stakeholders and also to those who want to embark on future research on the topic since it will add to literature available. The significance of the study is to correct the idea that small and medium enterprises are not profitable business venture. Again, the study is designed to quash the idea that the owner is always the financial manager of their own businesses. Finally, the study is designed to educate those in small and medium enterprises to use debt and equity funds.

1.5 Scope of the study

The study should have included majority of entrepreneurs in Ejisu District; if not all, so as to render the findings as well presented. This location has been chosen due to limitation in time, inadequate funds and transportation. Nevertheless, it was the researcher's conviction that the quality of work and the information presented was in no way adversely affected by the limitation.

1.6 Limitation of the Study

Limitation as it stands cannot be overemphasized in every human endeavour. The researcher had a lot of challenges which in a way render the credibility of the study very subjective paving way for further research. Among such challenges are;

- i. Time Constraints: Much time allocated for the completion of this work but there were other academic activities which needed to be attended to rendering the researcher no option of visiting very few websites and library.
- ii. Respondents' reluctance: Most people who were contacted for responses were not ready to provide most detailed information, all in the name of ensuring secrecy and confidentiality.
- iii. Financial constraint: Money is a commodity that cannot be overemphasized in our everyday activities likewise this piece of work. Cost of transportation, script typing and printing all in a way hindered the utmost success of this research.

1.7 Organization of the Study

There are five (5) chapters in all. Chapter one (1) is the introductory or initial chapter, it deals with the background of the study, nature of the study including the statement of the problems, objectives of the study, research question, significance of the study, scope of the study, limitations of the study, and the organization of the study. Chapter two (2) is the review of literature or literature review. It covers a number of literatures consulted as reference for the research study. Chapter three (3) deals with the methodology used to undertake the research study also known as research methodology such as research design, sources of primary and secondary data, population, sampling and sampling technique, data instruments and data analysis. Chapter four (4) deals with the analysis of data also known as data analyses where the information gathered or obtained are analyze to come out with the final results of the research study. Chapter five (5) this is the final chapter that deals with the summary of findings, conclusion, suggestion and recommendation of the research study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter tends to note how various writers have endeavored to publish about Small and Medium Enterprise (SME's), especially in Ghana. It deals with the various definitions, characteristics associated with Small Scale Enterprises, their roles in developing the economy, sources of their financial operations and support service provided by the government of the day, and to explore the various barrier to access to Small and Medium Enterprises (SME's) and their owners in Ejisu District.

2.1 Definition and Concept of Small and Medium Enterprises

The many positive characteristics of Small and Medium Enterprise have long been recognized at the first and second Industrial Development Decade for Africa (IDDA) as a potent engine for growth.

After independence policies on economic development in Ghana are paying attention on the formation of contemporary industrial structures throughout Direct Public Investment in large scale industries. Creditable as they were, polices on industrial development become unsuccessful because insufficient concentration was remunerated to the economic feasibility of the enterprise market prospect. As a result of a change in government policies-not granting subsidies to and a move from direct state contribution through ownership of enterprises, government now places stress on private sector initiatives instead of the large public enterprises. Since that time, micro businesses have played a meaningful role in the direction of industrialization.

Advanced argument to give good reason for the promotion of Small and Medium Enterprise is generally by Victorious industrialization must have amative base and that can help attain this.

Micro businesses is inclined to be labour concentrated and use near to the ground level of skill and that their back-up would attain employment and income sharing objective and if sustain would increase productivity through technological innovation.

According to Steele and Webster, the importance of the role played by Small Scale Industry in Ghana could be seen in the brightness of four interrelated areas namely: The balancing assistance it gives to agriculture in making sure that the growing rural population gets remunerative employment. Making sure that “soil erosion “by assisting to stop the movement of the highly knowledgeable people from rural to urban areas and provided that locally distributed economic development

According to them, there is thus the need to promote Small Scale Industry at the individual levels. Expressing view on the Economic Recovery Programme (ERP) noted that no clear policy was formulate for the promotion of Small Scale Industry during Economic Recovery Programmers (ERP) which ushered in area of liberalization and that it was the same credit scheme policy which continued while the ERP beneficiated mainly the commercial and farming sectors.

He illustrated with facts that by the end of the first four years of operation, the NBSSI Loan Scheme established in 1970 had given 94.7% of the approved loan to small businesses alone.

John Aryee (1997), in his thesis-small scale manufacturing activities: A case study of the inter relationship between the formal and informal sectors in Kumasi, examine the

role of SME's manufacturing industries in the urban informal sector in terms of functional linkage with formal urban sector.

This thesis appears to find out how micro businesses could be lifted through support services coerced functions with the large scale enterprises.

Steel (1997) wrote on small scale employment and production in developing countries: Evidence from Ghana examines the roles of Small Scale Industry in production and employment creation and the link to settlement size.

Dinye (1979) in his book "Potentials of Micro businesses Development in Rural Ghana" notes the much discussed role of Small Scale Industry and accredited the failure of Small Scale Industry to the attempt at fostering the utilization of their potential to the lack of knowledge and understanding of what these industries can offer.

Thomi and Yankson (1985) came out with conclusion that financing micro businesses have been poor due to the fact that many Micro businesses are ignorant of Credit Guarantee Scheme and other financial facilities and the pessimistic mind-set of beneficiaries of the loan granted to them in terms of their payment.

An assessment of the studies of the range of authors as mentioned, and even many others, support the relevance of Small Scale Industries activities in national and local economic development but these roles can be well performed if micro businesses become flourishing in their operations, hence, the need for sufficient support to Micro businesses.

It is clear that many scholars and other institutions have spoken their opinion on the view of managerial problems of small and medium scale enterprises in Kumasi

metropolis. According to a journal of the institute of chartered Accountant, Ghana (1988) is really difficult and worrying that major businesses operating today did not set up formally, but as a result of individuals exhibiting their God given talents ended up with the establishment of their own ventures and businesses. Meanwhile, management is more of science than art and is based on generally accepted principles of planning, organizing, directing, controlling and delegating.

Buambark et al (1973), and Thompson and Strickland (1990) also said preferably, plans should be stated in a specific terms so that they provide clear control for manager and workers. They were of the view that planning specifies the activities that the business intends to carry on and choose inappropriate course of action to provide for the future. Moreover, according to „Moudy et al“ book “Management concept and practice (4th edition) define organization as the process of prescribing formal relationship among people and resources to accomplish specific goals. This requires determine new relationship that would exist among workers and management.

Holt (1978) also has a view about organizing. That is, getting things done through others. Clearly it means much more than defining structures. Assigning job and bringing together resources needed for performance. A firm cannot function in anarchy. Getting organized simply implies the creation of harmonious working environment. Harmony in return is largely as a result of effective leadership style. In building a capable organization,

Strict land et al holds the view that management should follow the following procedure as helpful guiding principle, locate the key function and task necessary for successful planning executives, reflect on how the strategy-critical operation and organizational unit relating to others that are regular and to those that make available staff assistance,

make critical strategic business unit and operate as the major organizational building blocks, decide the degree of authority required to manage each organizational unit keeping in mind both the benefits and cost of delegating authority and provide co-ordination among the various organizational units. Katz (1990) drew three skills that an entrepreneur or a person placed at the top of an establishment should possess or be able to acquire. These are the skills readily to enable them discharge their responsibilities effectively and efficiently. These include: Technical skills which provides specialized knowledge to their field of operation, human skills which provides entrepreneurs with the ability to work with others in an organization and conceptual skills which enables the entrepreneurs of small and medium scale enterprises to view their business as a whole.

The term Small and Medium Enterprise has been given dissimilar definitions. These definitions vary from one nation to another, division to division and even industries to industries. A good number of the definitions have been in terms of either employed or the number of persons engaged.

In Ghana, a SME's is defined in relation to the number of persons engaged.

According to the National Board for Small Scale Industries (NBSSI), "it is the production of unit that engages primarily in the manufacturing outside the residential premises with investment machinery, equipment and tools less than \$ 6,500 and or which engage not more than 9 persons".

Addae Stephen, 7th Annual Banking Conference argued that Small and Medium Enterprise are businesses which employ roughly less than thirty (30) workers. He further stated that micro businesses are mainly operated by the owner.

From the research study it is known that Small and Medium Enterprise is small unit of business which employ less than ten with a turnover of about GH1000 and are independently owned and controlled by the owner.

2.1.1 The Bolton Committee Definition for a Small Firm

Indeed it is worth knowing that there has been no one or consistently suitable definition of a small firm (Storey, 1994). Firms vary in stages of capitalization, trade and employment. Therefore, definitions which utilize measures of size if it is functional to one division could show the way to many businesses being categorized as small scale enterprise, while the same size explanation when it is applied to another or dissimilar division could give dissimilar meaning.

The primary effort to conquer this explanation was defined by Bolton committee (1971) when they came out with an "economic and a „statistical“ definition. Under the economic definition, an organization is considered as small if it satisfies the following requirements: It must have a moderately market share;

It must be managed mainly by owners or joint owners in a personalized way, but not means of the medium of official managerial set up; it is not dependent such that it must not form part of a large enterprise.

The committee has come out with a statistical explanation that can be applied in three main areas: measuring the dimension of the small businesses division and its amounted to GDP, employment and export. Including the degree in which the small business division economic contribution has move from one place to another over time; applying the statistical meaning in a cross country comparison of the small businesses economic contribution. In this way, the Bolton committee engaged different definition of the small

firm to different sectors. Below indicates or shows the various definitions:
Manufacturing - 200 employees or less Construction - 25 employees or less Mining -
25 employees or less. (Turnover Based) Retailing - 50,000.00 Pounds or less,
Miscellaneous - 50,000.00 Pounds or less,

Services -50,000.00 Pounds or less, Motor Trades -50,000.00 Pounds or less,
Wholesales Trades -50,000.00 Pounds or less, Road Transport - five (5) Vehicles or less
and Catering - all including multiples and brewery managed houses

2.2 Country Definitions (Ghana)

Small scale enterprises have been defined in various ways, but one that is frequently used is the number of employees within the enterprise criterion. Whenever one tries to apply this definition, misunderstanding usually occurs in reference to the characteristics and the scaling used by the various official sources. As spell out in the Industrial Statistical Service (GSS) considers firms which have below 10 employees as small and any firm which has above 10 employees as medium and above 30 employees as large sized enterprises.

Inversely, the GSS national accounts well thought-out companies which has 9 employees as small and medium enterprises. Defining SME"s are to quantify by the value of the business fixed assets.

Meanwhile, the National Board for Small Scale Industry (NBSSI) in Ghana considers and accepts including fixed assets and the number of workers" criteria. It defines small scale enterprises as firm which does not have more than 9 workers, has plant and machinery (excluding land, buildings and vehicles) that does not go beyond 10 million old cedi or one thousand Ghana cedi (US\$ 9,506.00).

The Ghana Enterprise Development Commission (GEDC) also applies a 10 million old cedi top seal definition for machinery plant and. Major warning is that the procedure of evaluating fixed assets in it creates a difficulty. Again, the constant reduction in the exchange rate frequently makes such definition out-of-date.

Steel and Webster (1990), Osei et al (1993) defines small scale enterprises in Ghana as one which has an employment seal of 30 employees to represent small scale enterprises. The latter on the other hand, divided small scale enterprises into three (3) categories: micro – is a firm that employs less than 6 people; very small – a firm that employs between 6 and 9 people whiles small – employs between 10 and 29 employees.

2.3. Characteristics of Small and Medium Scale Enterprises in Ghana

Only one of its kind features of SMEs from large firm is to have direct access to international and local major markets whereby the Small Scale businesses are exempted due to the higher intermediation price of minor projects. Therefore, SMEs encounter similar fixed cost as compare to large.

Large scale enterprise (LSEs) meets the terms with regulations but has insufficient capacity to market products overseas. Small and Medium Enterprise (SMEs) in Ghana and Malawi has been grouped into urban and rural enterprises. The previous can be divided into sub-division such as organized and unorganized enterprises. The formal organization is the one that pay their employees and has a registered office whereas the non-formal or unorganized firm is categorized as one that is highly consist of artisans who are exposed to the sun, temporary wooden structures, or at home and employ little salary workers or a situation where there is no salary workers. These workers rely mainly on family members or depend on their trainees. However, rural businesses are

mainly consist of family members, individual, Artisans, retailers and mostly who women engaged in food production from local foodstuffs or crops.

There are many activities within the rural set up but the main activities within this sector may include-clothing and tailoring, soap and detergents, fabrics textile and leather, village blacksmiths, ceramics, timber and mining, tin-smiting bricks and cement, beverages, electronic assembly food processing bakeries, wood furniture, agro processing, chemical based processing and mechanics (Liedholm & Mead, 1987; Osei et al, 1993, World Bank, 1992).

Therefore, it is appealing to note that small scale enterprises make good of rare resources as compared with large scale enterprises. Research in Ghana and in some other countries has proven that capital requirements or productivity is often huge in Small and Medium Enterprise (SMEs)as compared in the case of Large Scale Enterprise (LSEs) (Steel, 1977; Child, 1971). The reason for this is not difficult to see, SMEs are labour intensive with very small amount of capital invested.

As a consequence, they have a propensity to witness high capital productivity which an economically sound investment. In this way, however, it has been make a case that promoting the SME sector in developing countries will create more avenue and employment opportunities, lead to a more reasonable distribution of income and will ensure increase in productivity with better skills and technology (Steel & Webster, 1991).

2.4 Sources of Finance to Businesses

Sources of finance are the means by which a firm obtains the funds or money needed to pay for fixed assets and finance the business

According to Floyd (2001), sources of finance could be grouped into external and internal sources. In other words, it could be classified into debt and equity depending on the purpose of the finance. External Source of Finance Debt is where an organization seeks fund outside the organization in order to undertake its day to day activities whiles Short Term Debts

Short term debt is any liability which is expected to be paid within one year. Such debts include trade credit, bank loans payable within a year. Usually, this liability arises in the everyday function of the business. In spite of emphasizes by several authors on fostering access to debt, Churchill and Frankiewicz (2006) argued that accessing credit is not enough as a developmental tool. Consequently alternate sources of financing such as equity financing, and more especially venture capital, should be taken into consideration.

2.4.1 Bank Overdraft

This type occurs when a customer of a banking financial institution is allowed to over withdraw his bank account. In other words, this is the amount by which the accountholder is allowed to withdraw in excess of the amount in his credit. More often than not, a bank grants overdraft when the firm has enough savings with the bank and that the firms known as the customer of the bank. As per Schell (1998), the firm pays interest on the amount over withdrawn.

2.4.2 Long Term Debt

These are liabilities which the businesses anticipate to pay off in a stipulated time give beyond one year. Long term debts are most often used to finance assets of the firm that are to be purchased for and used over a long period of time, and not used in the course of the day to day business operations, such as the case with assets like inventory. Assets

which are financed from long term debts are fixed assets like equipments, plant and machinery land and buildings etc. Aryeetey et al (1994).

Just like short term debts, long term debts consist of the following:

2.4.3 Leasing

Leasing is a long term means of getting hold of finance for a business. This agreement is between two parties where one party the renter obtains the right to use an asset and makes period payment, known as rent, to the other party (lessor). Thus, instead of a firm acquiring an asset with cash, the business can obtain such an asset through hiring from another business. In leasing, the user of the asset holds rights of the asset, but the only ownership rests with the lessor. Leasing contract could be operating (service), financed (capital). With the operating lease, according to Rose et al (1996), operating lease is not fully amortized. That is, payments (rent) required are not enough to recover the full cost of the asset. This occurs due to the life span of the operating lease is usually lesser than the economic useful life cycle of the asset.

2.4.4 Internal Sources of Funds: Equity

Equity financing, unlike debt financing, creates a more uniform or stable correlation in which ownership interests are transferred to the person, a firm or entity providing funds. Equity in business reflects the owners' investment in the business. This usually happens or comes from capital invested by the owners and through profit generated by the firm, in case any sharing of profits taken by the owners.

Equity funding is wholly an investment that is made with the hope of a return on that investment. These returns could come from future cash returns or cash flows of the firm, selling the business, taking a business public or from the resale of stock.

2.4.5 Partnership/ Joint Venture

Partnership is one means through which individuals can contribute funds towards the operations of their business. Two or more individuals can come together as partners or joint ventures to form a firm. Partnership usually helps in risk management in periods of losses. As Harper (1984) said, a member of the firm contributes to meet the needs of the firm in times of financial needs.

2.4.6 Personal Savings

Storey (1995) further indicated that personal savings must be brought to the barest minimum levels and may end up in a steady lack of local savings with regards to domestic investment or accounts for surplus demand for available domestic savings. The most commonly source of funds for micro businesses is through personal past accumulations of funds. With this source of finance, the individual personally starts the business with his /her past savings accumulated over a period of time. The merit associated with this source of funds is that there is no or low risk associated with it.

2.4.7 Retained Earnings

This is a resolution by owners of a firm to plough back part of the firm's profit as reinvestment. This source of fund is recently perceived by many firms as a requisite of every growing firm. Retained earnings refer to that part of a firm's legitimate profit which instead of withdrawing, it is maintained in the business in order to sustain the life of the business in the future. However, the retention of profit has an opportunity cost, Rose et al (2012).

2.5 Evolution of the Rural Bank Business Model

Correlation lending requires: clear evidence of credit-worthiness; and those who are in the lending organization who can withstand or bear risk, and to perform this on progressive manner. There seems to be a scarcity of employee with the skills or techniques required to assess credit-worthiness of SME when they want to borrow.

Furthermore, current years have experienced vital changes in technology, equipping banks to adopt swifter money-making avenue to process applications. This has come out as a result in a move some distance from association banking towards a more model-based approach to approving loan applications. The transaction is a more helpful way to process applications of loan against a minimum clear conscience of the firm seeking for a loan.

The shift towards a model-based approach is considered favourable as it is still affordable to process an application using this approach (Cowling 2010).

Meanwhile, the required interest gain by SME's are comparatively small loans which does not give good reason for the same continuing link management and thorough credit risk checks that businesses with larger loans receive. As a consequence, there is at least the potential for more credit to be given to more SMEs, in particular to minimum risk firms.

2.5.1 Institutional Creditors (Banks)

According to Steel and Webster, (1992) one other source of finances for business operations are funds from financial institutions including, banks. Institutional creditors require a formal credit relationship with businesses upon granting the credit. Banks may grant short term credit or long term credit to a business upon a request. These

institutions will give credit based on the risk associated with it. Other reason taken into account before providing credit include: credit worthiness of the borrower, purpose, amount, repayment and security.

In spite of several reasons well thought-out before granting credit which sometimes deter borrowers, it sometimes appears cheaper in times of low interest rate.

2.6 Small Business Lending Conditions

Apparently, SME's pay more interest on loans for debt compared with both small and larger businesses. In the midst of worldwide financial disaster, normal credit rates for smaller businesses shot up beyond those for larger businesses and SME's. In spite of the potential role of SMEs to increase job creation in developing countries and growth, a number of bottlenecks have an effect on their aptitude to increase their full potential. SME development is hindered by a numerous factors, including finance, lack of equipment and technology, regulatory issues, managerial skills, and access to global markets (Anheier and Seibel, 1987; Steel and Webster, 1991; Aryeetey *et al*, 1994; Gockel and Akoena, 2002)

Substantially, lending to SMEs could be more risky for they are extremely feeble to the fiscal cycle, since they characteristically have no balance sheet to come to grips with, for instant, those customers' delaying payments. Apart from that, in spite of the many organization given that training and advice-giving services, there is still a skills differences in the SME sector as a whole (Kayanula and Quartey, 2000).

One of the major concerns is that this economic rotation may differ owing to the effect of the worldwide financial crisis (GFC) and that conditions will not go back to its old ways to a pre-GFC world. The GFC cause major change in behaviour towards risk as

needed for control took having main concern over opposition in lending. Meanwhile lending institutions such as non-bank and bank re-assessed loan books and exposures; financing to borrowers who are not faithful was stretched, with many unfavorable results for SMEs.

Majority of SMEs but not all of them sooner or later meet their finance needs. On the other hand, it is more difficult and dearer to SMEs to get finance as compared to other types of borrowers.

There are many SMEs that have small access to money, whether due to rational credit rationing by borrowers or other reasons exacerbate loan rationing above efficient levels. Finance is believed to be the “glue” that joins different kinds of activities involved in small business start-up and expansion (Green *et al.*, 2002)

2.7 General Barriers/Constraints to SME Development

Anthony K. Ahiawodzi in his dissertation on the topic: Access to Credit and Growth of SME's in the Ho Municipality of Ghana published in the British Journal of Economics, Finance and Management Sciences 34 November 2012, Vol. 6 (2) outlined that, in spite of the potential role of SMEs to increase speed of growth and creating jobs in developing countries, a numerous bottlenecks affect their capacity to realize their full potential. SME's growth is depressed by a many reasons such as lack of managerial skills, finance, regulatory issues, equipment and technology, and access to worldwide markets (Anheier and Seibel, 1987; Steel and Webster, 1991; Aryeetey *et al*, 1994; Gockel and Akoena, 2002). Lack of managerial expertise puts significant limitation on SME expansion. Though SMEs be apt to utilize motivated managers, they could compete with larger organization. Lack of managerial skills is common in many countries in the region, has a great effect on SMEs. Limited support services can be

comparatively higher unit cost that can block SMEs' ability to get better management, for those consulting firms are not prepared regularly with appropriate profitable solutions for SMEs. Above and beyond, in spite of the many institutions giving training like National Board For Small scale Industries (NBSSI), there are skills differences in the SME division as a whole (Kayanula & Quartey, 2000). For entrepreneurs may not have sufficient money to pay the high cost of advisory services while others do not bother to get better their skills due to self-satisfaction. With reference to technology, SMEs more often than not have difficulties in gaining right of entry to appropriate information and technologies on available techniques (Aryeetey *et al.*, 1994). In most cases, SMEs uses foreign technology with a rare percentage of shared ownership. They more often than not get foreign licenses, for local patents are difficult to get.

Mabe, Franklin and Francis in their submission on the topic: Constraints Facing New and Existing Small and Medium-Scale Enterprises (SMEs) in Greater Accra Region of Ghana in the International Journal of Economics, Finance and Management Vol.2, No.1 March 2013 outlined the four main constraints facing new and existing SMEs are, high cost of renting premises, high wages, high interest rate and high income tax.

2.8 Barriers to access to funds

Asian Journal of Business Management 4(1): 58-67, Scientific Organizational, 2012 written by Musara Mazanai and Olawale Fatoki on the topic Access to finance challenges facing South African SME: explained that many entrepreneurs do not get access to finance in South Africa. Foxcroft *et al.* (2002) revealed the rates those entrepreneurs who apply for financial assistance are very small.

Angela and Motsa Associates (2004) reviewed that entrepreneurs encounter some hardships in accessing finance from banks, such as: lack of personal savings, lack of

collateral security, and lack of collateral, blacklisting, lack of financial track records and business plans and high interest rates.

Foxcroft *et al.* (2002), also well thought-out problems that hampers entrepreneurs from borrowing money for business purposes. Lack of collateral, high risk: they stated that lack of collateral is the widest problem, especially, in case the entrepreneur applies for capital for business start up. They also outlined that blacklisting, and inadequate financial records are other barriers to access funds. They added that, based on international comparisons, for a significant aggregate of failed applicants, their failure would not seem to be entirely unreasonable.

Another research has proven that, the Organisation for Economic Cooperation and Development (OECD, 2006) stated that the difficulty that SMEs face when accessing finance could be the unfinished financial services and products, gaps in the legal framework or regulatory rigidities.

Financial system in all countries play a major role in the development and growth of that country's Economy. Lemuel (2009) stated that, the customary commercial banks that are major players in the financial systems of almost every economy have the likely to get financial resources collectively to meet the credit by no means there is a vast hole between supply capacities of the banks and the demanding needs of SMEs. Financial institutions in Ghana face many challenges, which stop them from lending to SMEs.

Funds, as usually recognized, are the „life blood“ of all continuing businesses. Firms cannot stay alive without enough financial capital. The Africa Recovery Magazine has it that, lack of finance is the most significant limitation to the informal sector development. Operators in this are scarcely ever able to borrow from financial

institutions owing to the high cost of credit, collateral condition and reluctant to lend to what are well planned “risking ventures”.

Alidu and Addae (1994) states that, insufficient financial resources is as a consequence of collateral security which will facilitate micro businesses to get hold of loan that will allow micro firms to adopt contemporary way of production and take pleasure in economics of scale.

Micro businesses have over the years been deprived of access to credit from banks due to their lack of giving essential asset as security. Collateral is an asset which a client who seeks financial assistance is required to provide, or pledged to admit defeat as obligation to obtain a loan. The collateral is requisite as substitute to the banks to be repaid of their funds to the borrower if the borrower does not repay when due.

Oteng-Gyasi, (2003) also itemize the following as barriers to access to funds: lack of suitable collateral, lack of owners’ equity, lack of management expertise, lack of faith that is the failure of beneficiaries of bank facilities to honor their loan requirement (delay payment or outright default). High contract cost involved in loan administration due to the smallness of such enterprise and inability of micro enterprises to prepare good feasibility studies and business plans. Below are some of the barriers to access to fund that Small and Medium Enterprises face when accessing funds from banks.

2.8.1 High Interest Rates

Like all other businesses, banks bring upon themselves costs to do a business; they bring upon themselves costs to assess credit, Process and check loans, contract costs in a straight line related to profitability, whenever the cost of giving out a deal is high, the lesser the return. Checking and managing SMEs’ loans often consume time. According

to Zavatta (2008), irrespective of risk profile considerations, the handling of SME financing is an expensive business.

Many bankers recognize that small business need much more suggested support-hand than large corporate client does. The interest rates that are more often than not imposed on credit approved is another major complexity that detects the interest of going for credit from the financial institution by Micro businesses. The interest rates are sometimes bigger than the profit even earned by the Micro businesses. It means that individuals may sooner or later pay price higher than the benefit from that price. in spite of the high interest rates, banks employ firm conditions to get back their funds regardless of whether the enterprise is profitable or not. It follows that, on one hand, interest rates are too very high and are not made in order to suit the need of the individual borrower. There are more than a few reasons why doing this efficiently is more difficult for SMEs than for larger firms. For this reason, banks would take on credit rationing to SMEs than to larger companies (Stiglitz and Weiss, 1981; Hoff and Stiglitz, 1999).

2.8.2 Short period for repayment

At times, loans received are less than requested and short periods are giving for the repayment of the loans. Ricupero (2002) states that commercial bank loans given to SMEs are extremely limited to a period far too minute to finish paying any substantial investment and Abereijo and Fayomi (2005), notes that the larger part of commercial bank loans easy to get to SMEs are often give insufficient time far too short to pay any considerable investment.

2.8.3 Track Record

According to (Hoff and Stiglitz, 1999) loans are provided in relating to the firms track records. That is, the earlier record of turnover and profit of the borrower is taken into account before granting the credit. Again, the past record of dealings with the bank is referred to before providing the firm with the loan. This is done to note the previous of the firm in terms of loan repayment ability. Previous research has outlined the inadequate right of entry to access funds by SME"s as measured against larger firms and the cost for their growth and development (Levy, 1993).

2.8.4 Associate Risk

Banks have alleged that high risks are related with Micro businesses and for that matter, they wish giving loan below the credit as may be requisite to reduce risk. In some other cases, to completely function with less risk, they give loan to well – recognized client. Then, one analyst found that manufacturing firms with less than 20 employees were five times more likely to be unsuccessful in a given year as compared with larger firms (Storey, 1995).

2.8.5 Limited Market

Small and Medium Enterprise (SME"s) have inadequate market, mainly in the developing countries as an effect of impoverished population. A bigger percentage in the developing countries just cannot have sufficient money to buy the product and even if they can, they prefer to pay money for foreign goods because of their higher quality. According to World Bank informal enterprises and SMEs account for over 60% of GDP and over 70% of total employment in developing countries, while they give over 95% of total employment and about 70% of GDP in middle-income countries (Ayyagari, Beck and Demirgüç-Kunt, 2003).

2.8.6 Managerial Inadequacy

Most operators in the Small and Medium Enterprise (SME's) division have low management skills and attitude as a consequence of the low level of official learning that most of the owners have. Ghanaians have the knowledge and to some extent the skills to work with but lacking in having the correct approach towards work, law, maintenance, and civil life SME development is in a weak position by a many factors, including lack of managerial skills, finance, technology and equipment, issues of regulatory, and access to global markets (Anheier and Seibel, 1987; Steel and Webster, 1991; Aryeetey *et al*, 1994; Gockel and Akoena, 2002).

2.8.7 Collateral

Numerous theoretical papers (Bester, 1985) have made a case that collaterals are used as security. It signifies that clients who are faithful would be keen to offer security against a loan because they are sure that they can pay and will not lose their assets. Awful client who know that they cannot pay back their loans, are unwilling to present security against loans for they are aware of losing them.

For instance, a genuine client who provides security against their loans shall pay a minimum interest rate. Awful client reluctant to provides security will of course pay a huge interest rate. Modern administration banks differentiate client according to the risk nature within the contractual agreement, even though information asymmetric presence may exist. Bester make a case that whenever security is introduced into the credit market may get rid of credit rationing. Contradictory statement made was that, in many cases where the genuine and awful client are adequately dissimilar in conditions of their risk level, the intensity of security require from genuine clients will differ.

2.8.8 Business Plan

A business plan can be a written narrative, typically 25 to 30 pages long, that aims to describe all the aspects of a business venture. The aspects in question seek to answer what a new business intends to accomplish and how it intends to accomplish it.

Crafting a business plan usually serves dual-purpose for most businesses; it is used both internal and external reasons. Internal reason is to understand all the necessary aspects of the new venture that might have otherwise gone remarked. The external reason is to raise money and attract high-quality business partners. (Barringer & Ireland, 2010)

2.8.9 Bank Balance

A bank balance is the ending cash balance appearing on a bank statement for a bank account. The bank balance can also be derived at any time when an inquiry is made regarding the bank's record of the cash balance in an account.

The bank balance figure is used by a company's accounting staff in its monthly bank reconciliation, where the staff isolates all differences between the bank's and the company's records regarding a bank account through a bank reconciliation procedure. This procedure may (and usually does) require some journal entries in the company's accounting records to record such items as interest income and bank service fees. When a company engages in daily bank reconciliation, the bank balance is the ending cash balance appearing on the bank's website for the relevant bank account as of the end of the preceding day. The accounting staff will then use this figure as part of its daily bank reconciliation procedure. A daily reconciliation is used to maintain a highly accurate book balance, as well as to detect fraudulent transactions as early as possible. The ending date on a bank statement (and the corresponding bank balance) does not

necessarily coincide with the last day of a month, since a company may request a different ending date for its bank statement. Foxcroft *et al.* (2002)

2.8.10 Guarantor

A guarantor is a person who guarantees to pay for someone else's debt if he or she should default on a loan obligation. A guarantor acts as a co-signor of sorts, in that they pledge their own assets or services if a situation arises in which the original debtor cannot perform their obligations.

Angela and Motsa Associates (2004) reviewed that entrepreneurs encounter some hardships in accessing finance from banks as a result of guarantor to a loan. If you don't have much of a credit history or you have bad credit, getting a loan can be difficult. You'll either struggle to get a loan in the first place, or you'll end up paying such a high rate of interest, you could easily land yourself with serious debt issues. Quite recently a new type of loan has been introduced in the UK. A guarantor loan allows you to take out a loan, where a second person acts a guarantor.

2.9 Financial Literacy

Obviously, financial illiteracy and complications are minor key predicament all over the world. It is also known as one of the main or important reasons why SMEs are not able to access loans. Most SMEs, which are unable to properly appreciate the extended terms and conditions, are also unconscious of the interpretation of the percentage charged on the loans and become worried when the repayment periods tend to be longer than expected.

Creditors must converse what they need from the lender to ensure that a thoughtful agreement is attained and to decrease the information irregularity among both parties.

It is believed that micro finance institutions are doing their best by giving loan facilities for SMEs, but they from time to time fail to tell the truth. Some of these institutions take advantage of their educational weakness, and for one cause or the other, refuse to give details and explain the interest.

Borrowers need to be able to converse their needs to the lender to ensure that a thoughtful agreement is reached and to decrease the information irregularity between the two parties. If creditors are unable to converse what they need, loan facility providers are reluctant to issue out money owing to doubt in their minds as to how the money given is going to be used.

Concerning the owners of SME's, the major factor in credit facility is how credible the application has been prepared. The major reason for the preparation of the application is that business owner wants to tell the bank that they have genuine business. Meanwhile, business loan to smaller enterprises has higher risk as compared to larger organizations and the associate effect it has on their development and growth (Levy, 1993).

2.10 Effect of barriers to access to funding

Small and Medium enterprises (SME's) that do not have the cash to finance their operations while waiting for their customers to pay them really feel the effect of barriers to access to funding and these barriers has been explained in the preceding paragraph..

2.10.1 Retards business growth

The effect of collaterals as barriers to access to SME funding affect the financial capabilities of the firm such that the necessary equipment's and infrastructures that the

firm may need in order to grow the business rather tends to reduce the rate at which the business is growing.

According to Dwomo-Fokuo, 2005, SME's have in the past been the leader in growing innovations and inventions to practice. For instance, they contribute greatly to the Gross Domestic Product (GDP) and also to the provision of employment opportunities especially to remote areas and rural communities in Ghana. In the year 2003 (SME's) contributed about 40% of the total GDP and employed about 60% of labor force in the country. It is also estimated that about 75% of the population derives its livelihood from this sector. In view of the fact that the economic growth and progress of the country depends greatly on the success of SME's, the need arise for the government to encourage the activities of this sector of the economy.

2.10.2 Creation of unemployment

Private sector development is said to be critical for employment creation, growth and development of Africa (Kurokawa et al 2008). It is estimated that about 69% of the country's population are employed in the MSE sector. Thus the sector provides employment for a considerable number of people both in rural areas as well as cities. However, despite this recognition and its significance for local and national economic development, research has not investigated systematically, the real strengths and weaknesses of these rural enterprises, at least in Northern Ghana where poverty is very high (GSS, 2007). Therefore, the effect of barriers to access to SME funding will lead to creation of unemployment in the country.

2.10.3 Creation of poverty

According to Winters (2002), effect of barriers to access to SME funding can affect poverty through different channels (economic growth, price changes and government revenue). Because poverty remains Ghana's greatest challenge, analyzing the link between trade and poverty is crucial, and reducing its effects is the fundamental objective. Given the potential gains from increased trade, many countries are pursuing trade liberalization policies to achieve prosperity and growth and eventually alleviate poverty. The literature indicates that a close relationship exists between aggregate economic growth and poverty reduction. These simple correlations do not prove any causal relationship, but they do show the relevant role that pro-growth policies play in any poverty-reducing strategy.



CHAPTER THREEs

RESEARCH METHODOLOGY AND ORGANISATIONAL PROFILE

3.1 Introduction

Research methodology is the mode through which the entire research was conducted. Methodology as defined in the Merriam-Webster's Dictionary and Thesaurus is "the analysis of the principles or procedures of inquiry in a particular field".

This chapter consequently presents to the user the methods and procedures used in data collection, analysis, face value validity and the reliability of data of this research work.

This project aims at studying or exploring the barriers to access to funding among Small and Medium Enterprises from Rural Banks in Ejisu District.

This chapter focuses on the general research design. It comprises the area of study, population sample and sampling procedures, and the administration of the instrument, limitation of the study and data analysis procedures.

3.2 Research Design

A quantitative research design was used and a descriptive study is used to produce the information so that a description of what is going on can be made. The research study was conducted in the Ejisu District of Ashanti Region which is closer to the Kumasi metropolis.

In this research work, the Small and Medium Enterprise (SME's) operators were chosen because the researcher believes it would help him to have the chance to work together with them.

Entrepreneurs in this industry in order to get hold of how they carry on with business in relation to financing in the Ejisu District.

3.2.1 Sources of Data

It is extremely significant that the suitable data collected for the various stages of the research must be identified. In order to allow the researcher collect data, an effective data collection approach was designed for the research work. In fact, this part of the study brings to the user how data was collected for the study. The mode of data collection incorporated both secondary and primary sources.

3.2.2 Secondary Source

This source provided the researcher with second-handed data relating to the research topic. In other words, data collected from this source are those which are already in existence and have been conserved for further use and studies. They are normally from credible sources such as banks, educational institutions, governmental organizations etc.

This also brought to light the extent to which awareness is being given to this study; exploring the barriers to access to funding among Small and Medium Enterprises from Rural Banks in Ejisu District.

3.2.3 Primary Source

The primary sources of data make available direct and new data from the field. This source of data enabled the researcher to get hold of first hand facts on the ground of study. This data was collected after the researcher had sufficiently exhausted the secondary data. The researcher employed designed questionnaires techniques to collect data

3.3 Population

The populations of the study consist of two hundred and fifty (250) Small and Medium Enterprise (SME"s) operators or owners who are located in Ejisu District and its environs such as: retailers, catering services, and carpenters etc, who are customers of the Yaa Asantewaa Rural Banks in Ejisu. Ejisu is well-known as an exceptional place where almost all kind of trade takes place since it is the central business capital in the Ejisu District. Over the years, micro business operators in Ejisu District have been a key opportunity for self-employment and stage for training most of the youth especially the unskilled ones.

The population consists of entrepreneurs with technical skills or educational background and those without technical skills or educational background. For the purpose of this study, main populations targeted were the owners or managers of various small and medium enterprises in the Ejisu District.

3.4 Sample Size and Sample Techniques

The sample size of the population was sixty (60) operators or owners in Eisu District. In view of the information needed for the study, and the nature of the population, the researcher adopted quota, stratified and convenient sampling techniques. Quota sampling was employed to specify certain number to each group in the District. After allocating required number to each group, convenient sampling was used to choose respondents who were available to the data needed.

For this study, in selecting the sample size of the entrepreneurs in the Ejisu District the Slovin"s (1973) sampling method was adopted. The formula is presented as; $n = \frac{N}{1 + N(e)^2}$ (where n = sample size; N = sample frame; and e = margin of error/confidence level. Two hundred and fifty (250) being the population, now, using a

margin of error of 13%, and applying the Slovin's formula to compute for the sample size of the study two hundred and fifty (250) resulted in the following:

$$n = \frac{N}{1 + N(e)^2} = \frac{250}{1 + 250(0.13)^2} = \frac{250}{4.24s} = 59.96$$

The sample size selected was therefore approximately sixty (60) people of the population of Small and Medium Enterprises in the Ejisu District such as retailers, food vendors, carpenters etc. With this sampling, the researcher considered each element Small and Medium business operator or owners in the population to have the same and independent chance of selection.

The District was divided into six (6) main groups and ten (10) small and medium enterprises were selected from each group. The enterprises were grouped into two (2) that is A and B of which A represents Small enterprises and B also represents Medium enterprises for easy facilitation of administration of the questionnaire.

A convenient sampling was used to select thirty (30) from each group just to ensure that the required information has been given for the purpose of the study. Based upon the method of selection, it is agreed that roughly all the small and medium scale enterprises in the Ejisu District is equally represented for the research study.

Majority of Entrepreneurs were always at post, and some of the entrepreneurs were hardly to be met in their offices. Yet, the needed information was given within time for the research study to be conducted.

3.5 Data Instrument Design

The basic instruments used to collect the primary data for this study was questionnaires.

The questionnaire is considered suitable because it is in general less costly and

relatively quick to administer. The suitability of the structured questionnaire lies in the fact that some of the sampled respondents were illiterates and therefore could not respond to the questionnaires that were in English. The nature of the research made it possible to use questionnaires as the research instruments for the study. Apparently, twenty-seven (27) item questionnaires were designed for the entrepreneurs.

3.5.1 Questionnaires

The initial step to take was to visit some of the small and medium scale enterprises in the Ejisu District, after that; I visited the office of the National Board for Small Scale Industry for more information to help the research to be more précised. Almost all the owners were able to fulfill their part of the research because the researcher explained some of the questions on the questionnaires to those who find it difficult to understand the questionnaires.

The entrepreneurs were almost busy to get even closer to them. Yet, they were able to finish their part on time and this assisted the research work to be executed without much difficulties.

3.6 Data Analysis

The data collected and gathered from the different sources using the designed questionnaires was analyzed in a way that was meant to aid the reader to make sense of the information contained in the researcher's findings. There were abundant method of data analysis that were open up to the researcher to employ, however, the researcher selected these methods which for the purpose of this project would allow the user to interpret the information contained in the project without any sense of ambiguity and also to make easy assimilation. The data collected and gathered from the questionnaires

were analyzed using Statistical Package for social Sciences (SPSS) in the form of charts, tables, narrations, regression etc.

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CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter presents the information on data collected from the respondents on the topic exploring barriers to access to funding among Small and Medium Enterprises from Rural Banks in Ejisu District. The chapter presented the findings base on the objectives set for the study. The study evaluate demography of the respondents, and examine various sources of funds available to the Small and Medium Enterprise (SME"s) from Rural Banks, access the costs associated with debt finance to Small and Medium Enterprise (SME"s) from Rural Banks, Assess various barriers to access to funding on Small and Medium enterprises (SME"s) from Rural Banks and finally to ascertain the effect of barriers to access to funds on Small and Medium Enterprise (SME"s) from Rural Bank in the Ejisu District.

The data was presented in tables, and other statistical tools. The survey was conducted on a total of 60 respondents out of which 50 responses were received representing 83.33% response rate.

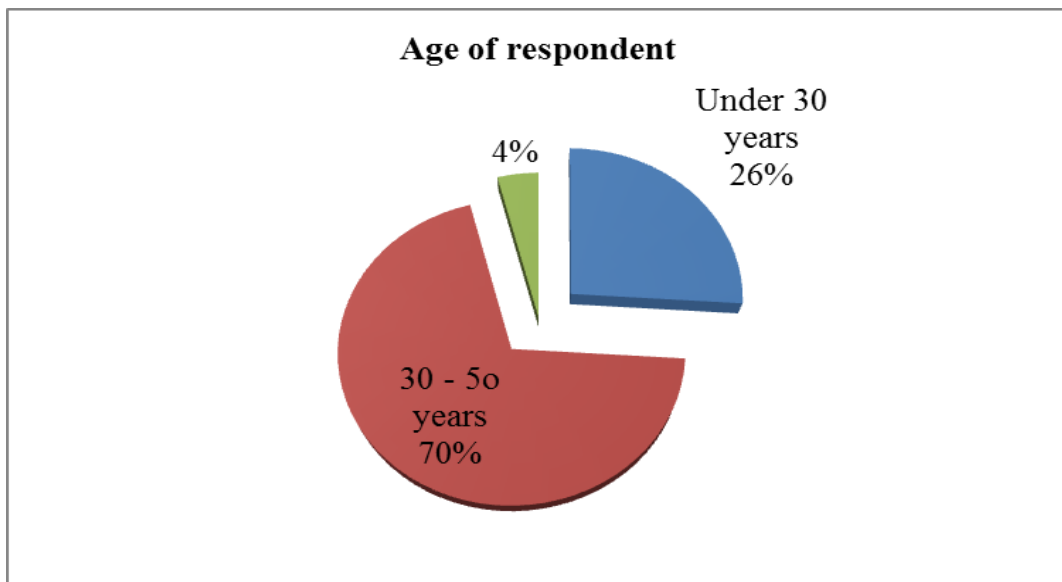
4.2 Demography of entrepreneurs

Table 4.2.1 Age of Respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Under 30 years	13	26.0	26.0	26.0
30 - 5o years	35	70.0	70.0	96.0
Above 50 years	2	4.0	4.0	100.0
Total	50	100.0	100.0	

Source: Researcher"s Field work, 2015

Figure 4.2.1 Age of respondent



Source: Researcher's Field work, 2015

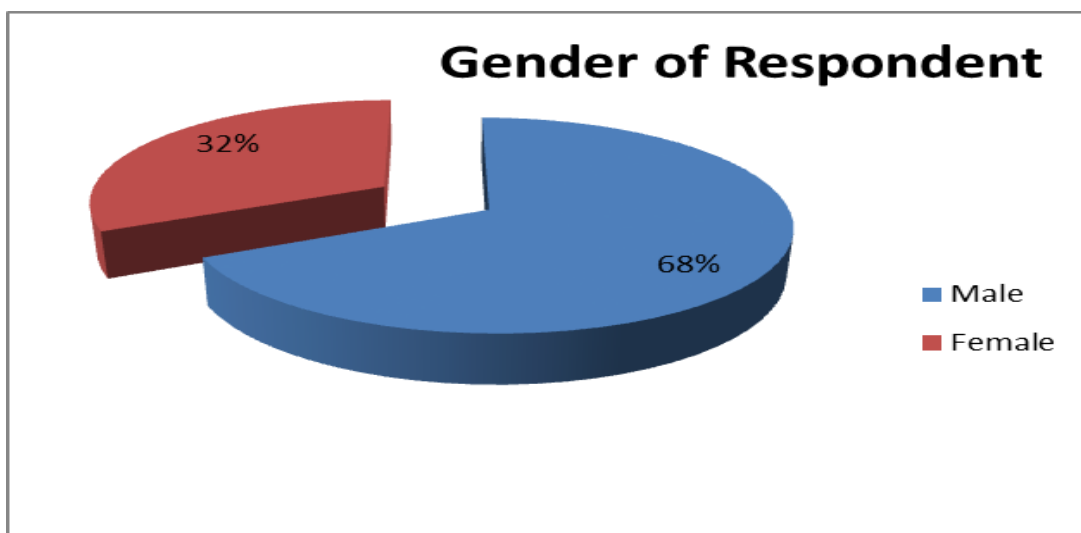
From the information stated above, it indicates that 26% of the respondent fall below 30 years and 70 % of the respondents fall between 30-50- year's whiles 4 % of the respondent fall above 50 years. This means that majority of the respondent are matured enough to take a good decision

Table 4.2.2 Gender of Respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	34	68.0	68.0	68.0
Female	16	32.0	32.0	100.0
Total	50	100.0	100.0	

Source: Researcher's Field work, 2015

Figure 4.2.2 Gender of Respondent



Source: Researcher's Field work, 2015

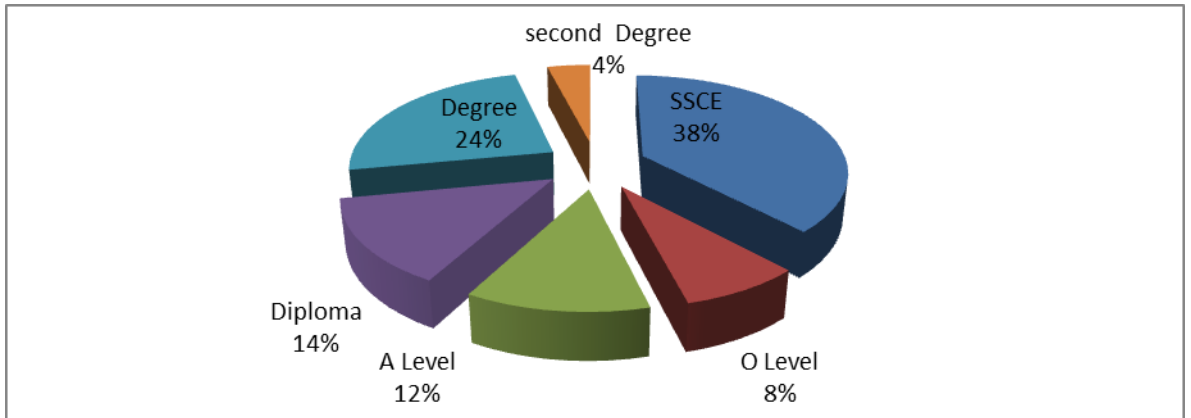
The above information shows the analysis of the gender of the respondent, therefore, from the table, the male and female had 68 and 32 percent respectively. This state's clearly that, the male are into entrepreneurship more than the female.

Table 4.2.3 Qualification of Respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
SSCE	19	38.0	38.0	38.0
O Level	4	8.0	8.0	46.0
A Level	6	12.0	12.0	58.0
Diploma	7	14.0	14.0	72.0
Degree	12	24.0	24.0	96.0
second Degree	2	4.0	4.0	100.0
Total	50	100.0	100.0	

Source: Researcher's Field work, 2015

Figure 4.2.3 Qualification of Respondent



Source: Researcher's Field work, 2015

From the information stated above, it indicates that, majority of the entrepreneurs are Senior High graduates representing 38% followed by Degree holders also representing 24% and the least among is the second Degree holders representing 4%..

This means that a lot of Senior High graduates are entrepreneurs.

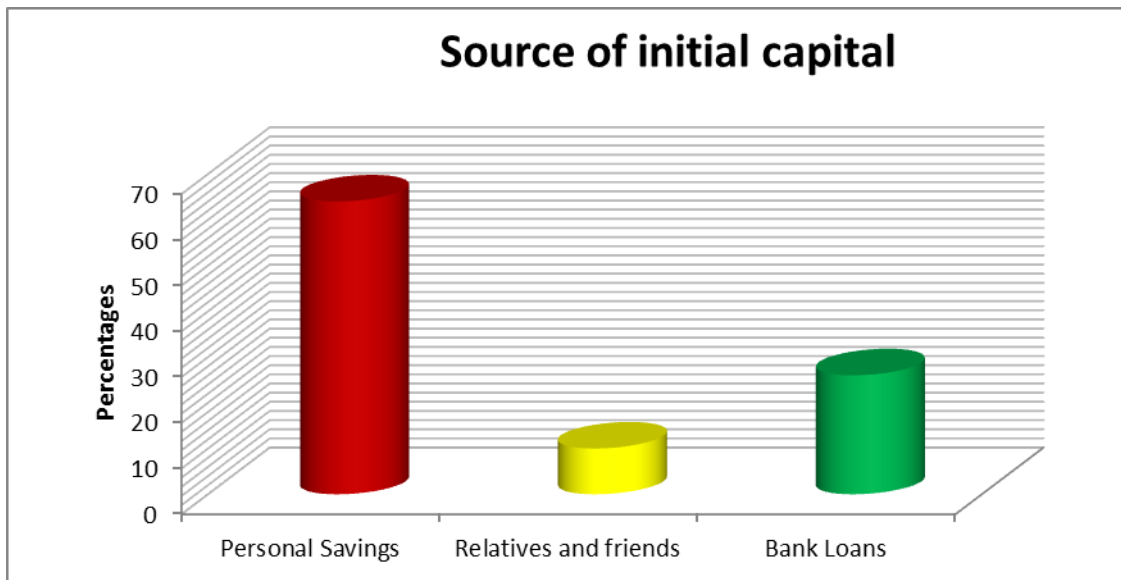
4.3 Assess various sources of funds available to the Small and Medium Enterprise (SME's) from Rural Banks

Table 4.3.1 where did you get your source of initial capital

	Frequency	Percent	Valid Percent	Cumulative Percent
Personal Savings	32	64.0	64.0	64.0
Relatives and friends	5	10.0	10.0	74.0
Bank Loans	13	26.0	26.0	100.0
Total	50	100.0	100.0	

Source: Researcher's Field work, 2015

Figure 4.3.1 where did you get your source of initial capital



Source: Researcher's Field work, 2015

Finance is the engine of every business; therefore from the above table 64% of the entrepreneurs used their personal finance as a source of fund while 26% of the respondent's access loans from banks to start their businesses. The least among is accessing funds from friends and relatives representing 10%. This means that, majority of the entrepreneurs do not access funds from banks this could be the high interest rate, collateral or track record. Meanwhile those who acquire funds from friends and relative do not pay interest rate on the fund. According to (Steel & Webster, 1992) one other source of funds for business operations are funds from financial institutions including, banks. Institutional creditors require a formal credit relationship with businesses upon granting the credit. Banks may grant short term credit or long term credit to a business upon a request

Storey (1995) further indicated that personal savings must be brought to the barest minimum levels and may end up in a steady lack of local savings with regards to domestic investment or accounts for surplus demand for available domestic savings The most commonly source of funds for micro businesses is through personal past

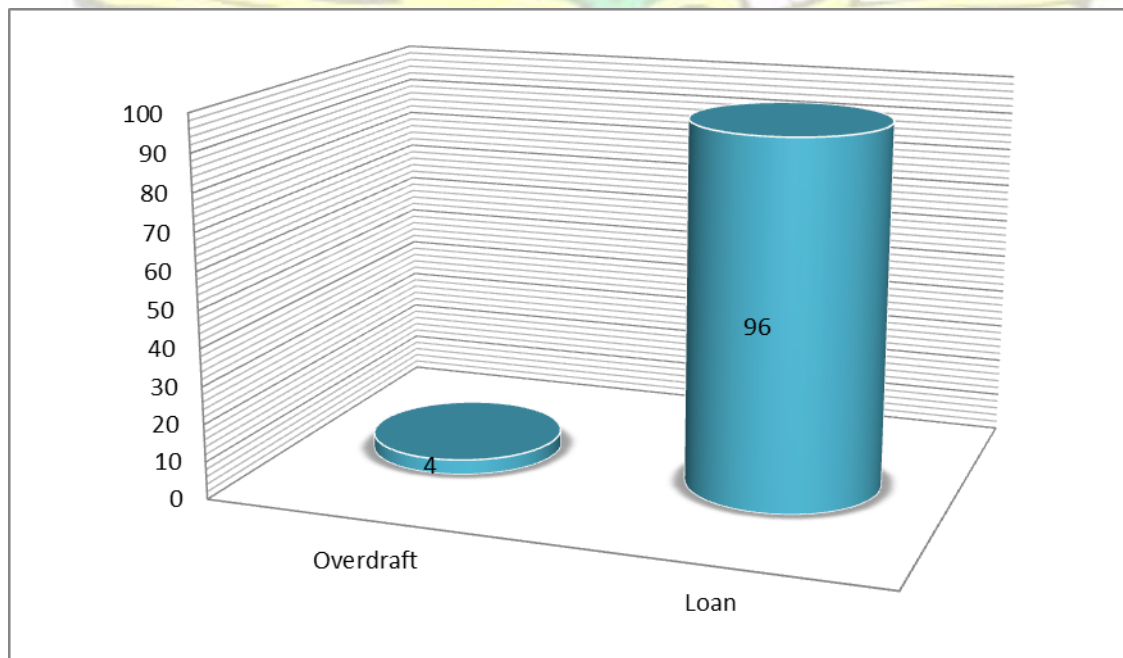
accumulations of funds. With this source of finance, the individual personally starts the business with his /her past savings accumulated over a period of time. The merit associated with this source of funds is that there is no or low risk associated with it.

Table 4.3.2 What type of credit facilities does the Bank offer to SMEs clientele

	Frequency	Percent	Valid Percent	Cumulative Percent
Overdraft	2	4.0	4.0	4.0
Loan	48	96.0	96.0	100.0
Total	50	100.0	100.0	

Source: Researcher's Field work, 2015

Figure 4.3.2 What type of loans do you access



Source: Researcher's Field work, 2015

It is clear those entrepreneurs who access overdraft represent 4 % and 96 % of them access loan. This indicates that, majority of the entrepreneur's access loan because,

overdraft gives small amount where as loan has huge sums of amount and a longer period to repay unlike overdraft that has shorter period to repay. This confirms Aryeetey et al (1994), that long term debts are most often used to finance assets of the firm that are to be purchased for and used over a long period of time, and not used in the course of the day to day business operations, such as the case with assets like inventory. Assets which are financed from long term debts are fixed assets like equipment's, plant and machinery land and buildings etc.

Schell (1998), More often than not, a bank grants overdraft when the firm has enough savings with the bank and that the firm is known as the customer of the bank as the firm pays interest on the amount over withdrawn. The result from above table tells that majority of the entrepreneurs do not have enough savings in their accounts therefore they go for loan instead of overdraft.

Table 4.3.3 What type of loans do you access

	Frequency	Percent	Valid Percent	Cumulative Percent
Short-Term Loan	25	50.0	50.0	50.0
Medium-Term Loan	12	24.0	24.0	74.0
Long-Term Loan	13	26.0	26.0	100.0
Total	50	100.0	100.0	

Source: Researcher's Field work, 2015

It is clear those entrepreneurs who access short-term loan represent 50 % and 24 % of them access medium-term loan while 26 % of entrepreneurs also access long-term loan. This indicates that, majority of the entrepreneur's access short-term loans to avoid high interest rate. According to Floyd (2001), sources of finance could be classified into external and internal sources. In other words, it could be classified into debt and equity depending on the purpose of the finance. External Source of Finance debt is where an

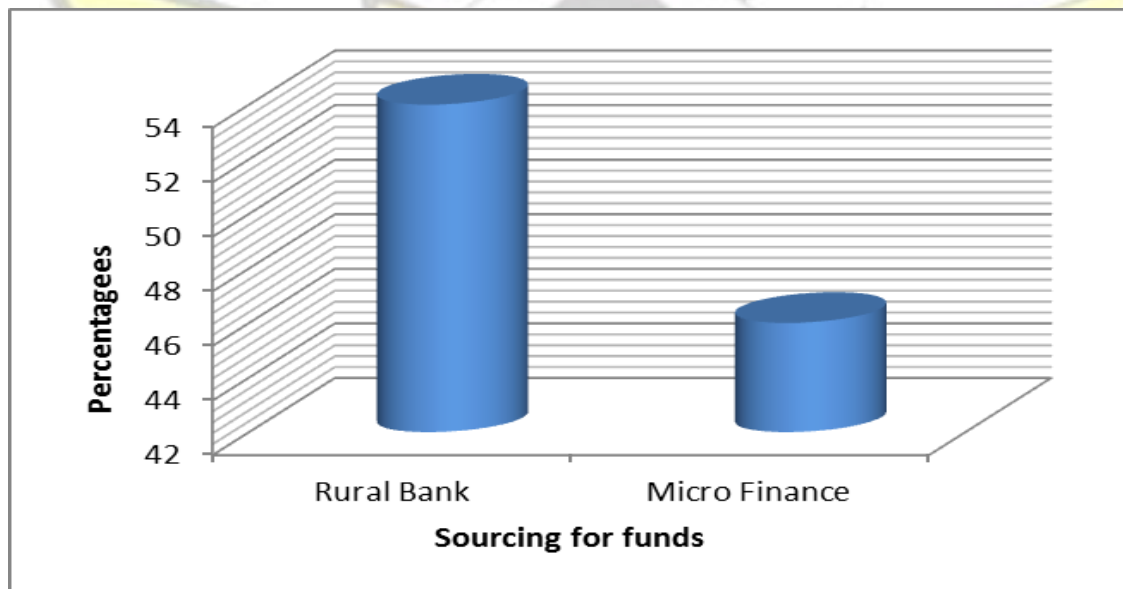
organization seeks fund outside the organization in order to undertake its day to day activities .Debt finance are liabilities which the businesses expect to pay off in a time frame beyond one year Assets which are financed from long term debts are fixed assets like equipment's, plant and machinery land and buildings etc. Aryeetey et al (1994).

Table 4.3.4 which of the following lending agency did you obtain the loan

	Frequency	Percent	Valid Percent	Cumulative Percent
Rural Bank	27	54.0	54.0	54.0
Micro Finance	23	46.0	46.0	100.0
Total	50	100.0	100.0	

Source: Researcher's Field work, 2015

Figure 4.3.4 which of the following lending agency did you obtain the loan



Source: Researcher's Field work, 2015

The above table shows that 54 % of the respondent access loan from rural banks whiles 46 % of the respondent also access loan from Micro Finance. The implication is that, majority of the respondent access loan from rural banks which is safer than Micro Finance. The confirmation according to Steel and Webster, (1992) is that, one other

source of finances for business operations are funds from financial institutions including, banks. Institutional creditors require a formal credit relationship with businesses upon granting the credit. Banks may grant short term credit or long term credit to a business upon a request. These institutions will give credit based on the risk associated with it. Other reason taken into account before providing credit include: credit worthiness of the borrower, purpose, amount, repayment and security. In spite of several reasons well thought-out before granting credit which sometimes deter borrowers, it sometimes appears cheaper in times of low interest rate.

Table 4.3.5 How did you come about your business

	Frequency	Percent	Valid Percent	Cumulative Percent
Started a new business	43	86.0	86.0	86.0
Purchased an existing business	6	12.0	12.0	98.0
Franchising	1	2.0	2.0	100.0
Total	50	100.0	100.0	

Source: Researcher's Field work, 2015

The above table shows that 86 % of the respondent started a new business, 12% of the respondents purchased an existing business while 2% of the respondents started with franchising. The implication is that, majority of the respondent started their own businesses.

4.4 Assess the costs associated with debt finance to Small and Medium

Enterprise (SME's) from Rural Banks

Table 4.4.1 Which of the following were cost when sourcing for funds from banks

	Frequency	Percent	Valid Percent	Cumulative Percent

Processing Fee	27	54.0	54.0	54.0
Collateral Security	10	20.0	20.0	74.0
Insurance	13	26.0	26.0	100.0
Total	50	100.0	100.0	

Source: Researcher's Field work, 2015

The above table shows that 54 % of the respondent finds out that processing fee were cost accessing loan and 20 % of the respondent also finds out that collateral security were cost when accessing loan and 26 % of the respondent finds out that insurance is cost when accessing loan from bank. Generally it is very clear that processing fee is the highest cost when accessing loan. Inversely, the banks uses processing fee to gain some profit.

According to (Besanko and Thakor, 1987, Bester, 1985; Coco, 2000) collateral is used as a security. It signifies that clients who are faithful would be keen to offer security against a loan because they are sure that they can pay and will not lose their assets. Awful customer who know are aware that they cannot pay back their loans, are unwilling to present security against loans for they are aware of losing them.

For instance, a genuine borrower who provides security against their loans shall pay a minimum interest rate. Awful customer reluctant to provide security will of course pay a huge interest rate. Modern administration banks differentiate client according to the risk nature within the contractual agreement, even though information asymmetric presence may exist (Leeth and Scott, 1989). Bester make a case that whenever security is introduced into the credit market may get rid of credit rationing. Besanko and Thakor make a case that the contradictory that in many cases where the genuine and bad

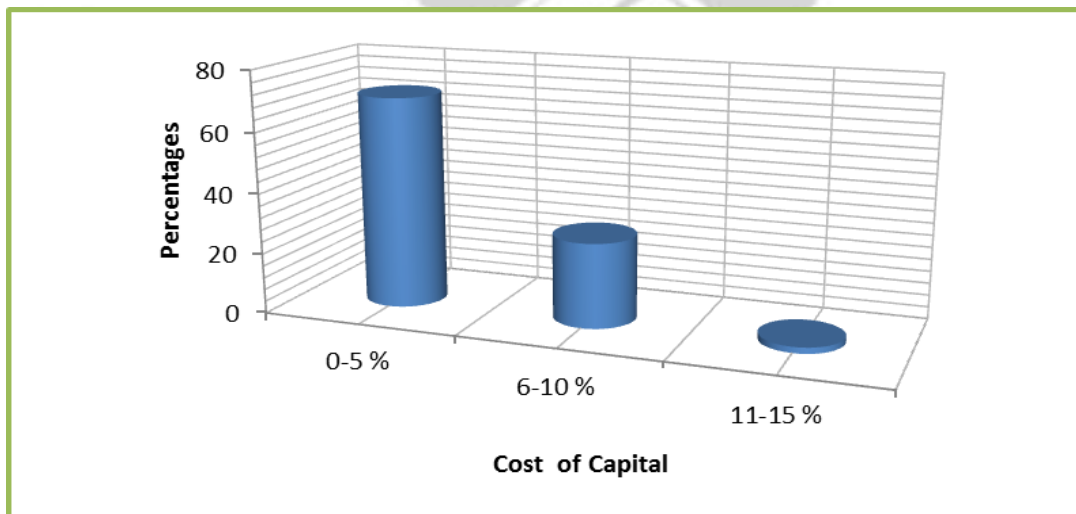
borrowers are adequately dissimilar in conditions of their risk level, the intensity of security require from genuine borrower will differ.

Table 4.4.2 What is the rate of cost incurred when accessing debt finance from banks

	Frequency	Percent	Valid Percent	Cumulative Percent
0-5 %	35	70.0	70.0	70.0
6-10 %	14	28.0	28.0	98.0
11-15 %	1	2.0	2.0	100.0
Total	50	100.0	100.0	

Source: Researcher's Field work, 2015

Figure 4.4.2 What is the rate of cost incurred when accessing debt finance from banks



Source: Researcher's Field work, 2015

The above table shows that the rate of cost incurred when accessing debt finance from banks between 0-5 % rates of the cost represents 70 % of the respondent. Again, between 6-10 % rates of the cost represents 28 % of the respondent while between 10-15 % rates of cost represents 2 % of the cost incurred when accessing loan from bank. Generally it is very clear that between 0-5 % rate is incurred when accessing loan from bank because majority of the clients go in for short term loan that has lower rate of cost.

Table 4.4.3 Which of these types is faster and cheaper when accessing funds from banks

	Frequency	Percent	Valid Percent	Cumulative Percent
Overdraft	41	82.0	82.0	82.0
Loans	9	18.0	18.0	100.0
Total	50	100.0	100.0	

Source: Researcher's Field work, 2015

The table above tells that 82 % of respondent acknowledge the fact that accessing overdraft from bank is cheaper in terms of cost and faster as compared to accessing loan. It therefore means that client prefer overdraft to loan because of the lower cost associated and the time of issue. Overdraft occurs when a customer of a banking financial institution is permitted to over withdraw his bank account. In other words, this is the amount by which the accountholder is allowed to withdraw in excess of the amount in his credit. Usually, a bank grants overdraft when the firm has saved with the bank and that the firm the firm is known as the customer of the bank. As per Schell (1998), the firm pays interest on the amount over withdrawn yet, this is faster and cheaper than loan

Table 4.4.4 Which of these types of loans do you pay high interest rate

	Frequency	Percent	Valid Percent	Cumulative Percent
Short-Term Loans	2	4.0	4.0	4.0
Medium-Term Loans	3	6.0	6.0	10.0
Long-Term Loans	45	90.0	90.0	100.0

Total	50	100.0	100.0	
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Source: Researcher's Field work, 2015

The table above tells that 90% of respondent acknowledge the fact that accessing long-term loan from bank is highest in terms of cost followed by medium-term loan which represents 6% and lastly 4% of the respondents believe that short term loan is also high. It therefore means that majority of the clients agree that long term loan attract more interest when one accesses loan.

This confirms the below statement that, like all other businesses, banks bring upon themselves costs to do a business; they bring upon themselves costs to assess credit, Process and check loans, contract costs in a straight line related to profitability, therefore, if the cost of giving out a loan is high, the lesser the return. Checking and managing SMEs' loans often consume time. According to Zavatta (2008), irrespective of risk profile considerations, the handling of SME financing is an expensive business.

4.5 Examine the various barriers to access to funding on Small and Medium

Enterprises SME's from Rural Banks

Table 4.5.1 How would you describe the processes/procedure that you had to go through before gaining the credit facility

	Frequency	Percent	Valid Percent	Cumulative Percent
Cumbersome	4	8.0	8.0	8.0
Very Cumbersome	28	56.0	56.0	64.0
Quite easy	18	36.0	36.0	100.0
Total	50	100.0	100.0	

Source: Researcher's Field work, 2015

The above table shows that 8 % of the respondent finds it cumbersome when accessing loan. 56 % of the respondent also finds it very cumbersome accessing loan and 36 % of the respondent finds it quite easy accessing loan from bank. Generally it is very cumbersome accessing fund from bank.

Table 4.5.2 Were you satisfied with the terms of the loan

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	9	18.0	18.0	18.0
Agree	40	80.0	80.0	98.0
Disagree	1	2.0	2.0	100.0
Total	50	100.0	100.0	

Source: Researcher's Field work, 2015

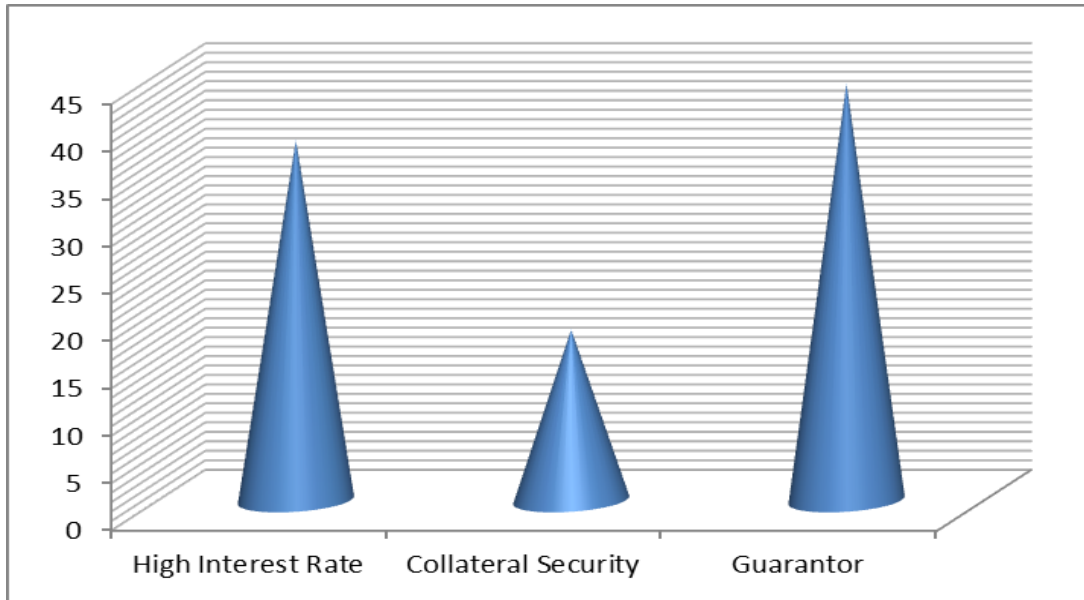
The above table shows that 18 % of the respondent strongly agrees to the terms when they access loans. 80 % of the respondent also agrees to the loan terms and 2 % of the respondent disagrees to the terms of loan. Generally it is clear that almost all the respondents agree to terms whenever they access loans.

Table 4.5.3 What problem do you face when obtaining credit from your banks

	Frequency	Percent	Valid Percent	Cumulative Percent
High Interest Rate	19	38.0	38.0	38.0
Collateral Security	9	18.0	18.0	56.0
Guarantor	22	44.0	44.0	100.0
Total	50	100.0	100.0	

Source: Researcher's Field work, 2015

Figure 4.5.3 What problem do you face when obtaining credit from your banks



Source: Researcher's Field work, 2015

High interest rate represents 38 % of the problem faced when obtaining fund from bank. Collateral security also represents 18 % while 44 % represents Guarantor. The notion is that the major problem faced by entrepreneurs when accessing fund from bank is Guarantor. It is established that the interest rates that are usually imposed on credit granted is another major problem that detects the interest of going for credit from the financial institution by Micro businesses. The interest rates are sometimes greater than the profit even earned by the SME's. (Stiglitz and Weiss, 1981; Hoff and Stiglitz, 1999). Numerous theories Bester, 1985 have made a case that security serves as a sorting device for instance; a genuine creditor who offers security against loan pays lesser interest rate. Awful creditors who are reluctant to give security, will pay a far above the ground interest rate. Modern administration banks undo out creditors by the nature of the contractual agree they make, even in the presence of information asymmetric.

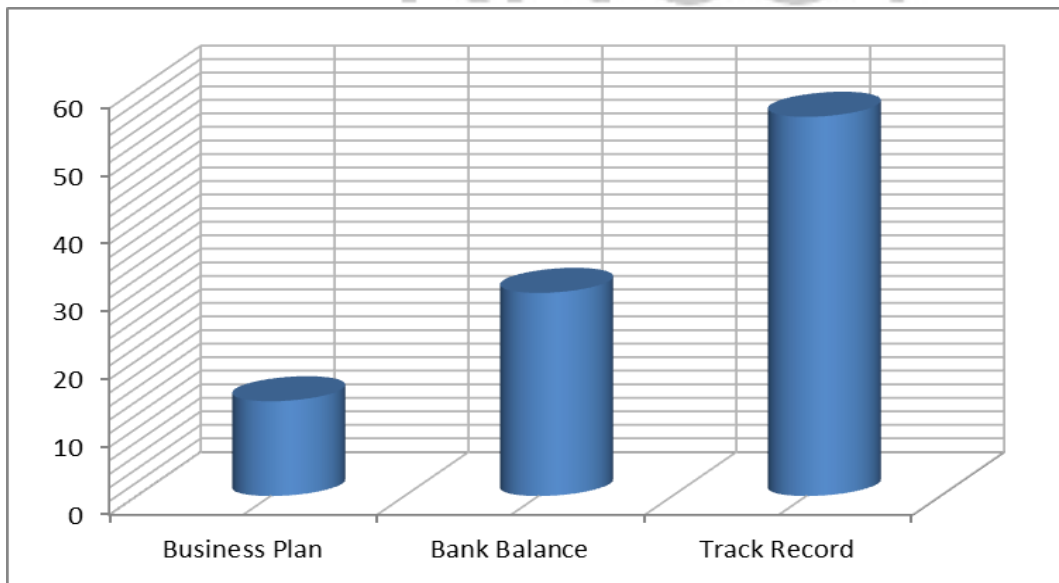
Table 4.5.4 What are other barriers to SMEs when accessing loans from the bank

	Frequency	Percent	Valid Percent	Cumulative Percent

Business Plan	7	14.0	14.0	14.0
Bank Balance	15	30.0	30.0	44.0
Track Record	28	56.0	56.0	100.0
Total	50	100.0	100.0	

Source: Researcher's Field work, 2015

Figure 4.5.4 What are other barriers to SMEs when accessing loans from the bank



Source: Researcher's Field work, 2015

It was realised that 56 % of the other barriers when obtaining loan from bank is track record of the entrepreneur. Bank balance represents 30 % of the other barriers when accessing loan while business plan represents 14 % of the other barriers to access funds from bank. The overall notion is that, track records play a major role in barriers to access funding from bank. According to (Hoff and Stiglitz, 1999) loans are issued on the firms track records. Earlier studies have indicated the insufficient access to funds to SMEs as compared to larger firms and the cost for their development and growth (Levy, 1993).

Table 4.5.5 Give some suggestions on how these problems could be solved or minimized

	Frequency	Percent	Valid Percent	Cumulative Percent
Track records	17	34.0	34.0	34.0
Reduction of Interest Rate	21	42.0	42.0	76.0
Elimination of Collateral	12	24.0	24.0	100.0
Total	50	100.0	100.0	

Source: Researcher's Field work, 2015

The table above give some suggestion as to how to minimise problems when accessing fund. Track record represents 34 % and reduction of interest rate represents 42 % while elimination of collateral represents 24 %. The implication is that, if bank reduce their interest rate, they will increase the number of client who access loan.

It is believed that micro finance institutions are doing extremely good work by providing loan facilities for SMEs, but they sometimes fail to tell the truth. Some of these institutions take advantage of their Educational feebleness, and for one cause or the other, refuse to provide details and explain the interest. Creditors must converse their needs to the credit facility provider to ensure that a consensus is reached and to reduce the information asymmetry between the two parties.

Table 4.5.6 Do you have a business plan

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	17	34.0	34.0	34.0
No	33	66.0	66.0	100.0
Total	50	100.0	100.0	

Source: Researcher's Field work, 2015

The table above give some suggestion as to how to minimise problems when accessing fund. The entrepreneurs who had business plan before accessing loan represents 34 %

and those who do not have business plan at all also represents 66 % . The implication is that, if bank demands business plan before giving out funds to entrepreneurs, majority of them would be denied of getting funds.

Table 4.5.7 How long did it take the bank to process and grant you the credit

	Frequency	Percent	Valid Percent	Cumulative Percent
Very Short	4	8.0	8.0	8.0
Very Long	9	18.0	18.0	26.0
Quite Long	37	74.0	74.0	100.0
Total	50	100.0	100.0	

Source: Researcher's Field work, 2015

The table above indicated that, 74% of the respondents believed that it takes quite a long time before a bank can complete the loan processes. The other respondents representing 18% believes that it takes very long time for the bank to complete loan processes while 8% of the respondents also believe that it takes very short time for the bank to complete the loan processes. The implication is that, majority of the respondents are uncomfortable with the banks in terms of their lengthy processes they go through before accessing loans.

4.6 Ascertain the effect of barriers to access to funds on Small and Medium Enterprise (SME's) funding from Rural Banks

In assessing the effect of barriers to access to funds on SMEs funding in the private sector in Ghana, the study adopted regression analysis to assess the impact of independent variables on the dependent variable. The independent variables used are

collateral, interest rate, guarantor, business plan and track records and the dependent variable used is SMEs funding.

The variables used in the regression analysis are defined below:

R represents the correlation or relationship between the dependent and the independent variables

R² represents how much of the dependent variable can be explained by the independent variables.

B represents the coefficients of the independent variables.

Sig. represents the statistical significance level of the model (the acceptable level of significance for this research was 0.05).

Beta compares the contribution of each independent variable to the dependent variable (ignoring any negative signs)

The table below shows the regression results

Table 4.6.1: Regression Results

	Unstandardized coefficients. B (S.E)	T	Sig.	Beta
(Constant)	.085 (.544)	.157	.000	
Collateral	-.023 (.225)	-.101	.920	.012
Interest Rate	.176 (.121)	1.455	.152	.172
Track Record	.962 (.212)	4.537	.000	.561

Guarantor	-.075(.124)	-.606	.548	-.090
Business Plan	.078(.096)	.910	.368	.169
Bank Balance	-.075(.107)	-.700	.488	-.129
R	.617			
R Sq.	.380			
Adj. R. Sq.	.340			
F Statistic	9.405***			

Source: Researcher's Field work, 2015

From the analysis above, it was realized that barriers to access to funding had a moderate relationship with SMEs funding. The correlation value was 0.617 (when the correlation value falls between .30 and .70 it is considered a moderate correlation). The R² value indicates that 38% (.380) of SMEs funding (dependent variable) could be explained using the barriers to access to funds (independent variables).

The analysis revealed that, the coefficient value for collateral was -0.023 showing an inverse relationship on SMEs funding. All things being equal, when the other independent variables (interest rate, guarantor, business plan, bank balance and track records) are held constant, SMEs funding would decrease by 2.3% if there is 100% demands for collateral before funding will be given to SMEs. This is however not statistically significant and collateral is not making any unique contribution to the prediction of funding SMEs because it has a significant value of 0.920 which is greater than 0.05.

The analysis revealed that, the coefficient value for interest rate was .176 showing a positive relationship on SMEs funding. All things being equal, when the other independent variables (collateral, guarantor, business plan, bank balance and track

records) are held constant, SMEs funding would increase by 17.6% if there is 100% changes in interest rate when funding is being sought by SMEs. This is however not statistically significant and interest rate is not making any unique contribution to the prediction of funding SMEs because it has a significant value of 0.152 which is greater than 0.05.

The analysis revealed that, the coefficient value for track record was .962 showing a positive relationship on SMEs funding. All things being equal, when the other independent variables (collateral rate, guarantor, business plan, bank balance and interest rate) are held constant, SMEs funding would increase by 96.2% if there is 100% demands for track record before funding will be given to SMEs. This is however statistically significant and track record is making unique contribution to the prediction of funding SMEs because it has a significant value of 0.000 which is less than 0.05

The analysis revealed that, the coefficient value for guarantor was -0.075 showing an inverse relationship on SMEs funding. All things being equal, when the other independent variables (interest rate, collateral, business plan, bank balance and track records) are held constant, SMEs funding would decrease by 7.5% if there is 100% demands for guarantor before funding will be given to SMEs. This is however not statistically significant and guarantor is not making any unique contribution to the prediction of funding SMEs because it has a significant value of 0.548 which is greater than 0.05.

The analysis revealed that, the coefficient value for business plan was 0.075 showing an inverse relationship on SMEs funding. All things being equal, when the other independent variables (interest rate, collateral, guarantor, bank balance and track records) are held constant, SMEs funding would increase by 7.5% if there is 100%

demands for business plan before funding will be given to SMEs. This is however not statistically significant and business plan is not making any unique contribution to the prediction of funding SMEs because it has a significant value of 0.368 which is greater than 0.05.

The analysis revealed that, the coefficient value for bank balance was -0.075 showing an inverse relationship on SMEs funding. All things being equal, when the other independent variables (interest rate, collateral, guarantor, business plans and track records) are held constant, SMEs funding would decrease by 7.5% if there is 100% demands for collateral before funding will be given to SMEs. This is however not statistically significant and business plan is not making any unique contribution to the prediction of funding SMEs because it has a significant value of 0.488 which is greater than 0.05.

However, in comparing the contribution of each independent variable (collateral, interest rate and track records) on funding SMEs, the beta values are used ignoring the negative sign. Collateral, interest rate and track records have beta values of .012, .172, and .561 respectively. In this case, the largest beta value is .561, which is track records meaning that, this variable makes the strongest contribution to explaining SMEs funding (dependent variable) when the variance explained all other variables in the model is controlled for.

CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSIONS

5.1 Introduction

In this chapter, the study explored the summary of findings, recommendations that are stated based on the study and conclusion of the study. The summary of findings is captured under the objectives which are stated below.

5.2.1 Find out the various sources of funds available to the Small and Medium Enterprise (SME's) from Rural Banks

Sources of finance are the means by which a firm obtains the funds or money needed to purchase fixed assets and finance the business), sources of finance could be classified into external and internal sources. In other words, it could be classified into debt and equity depending on the purpose of the finance. External Source of Finance Debt is where an organization seeks fund outside the organization in order to undertake its day to day activities while Short Term Debts. Short term debt is any liability which is expected to be paid within one year.

The most commonly source of funds for micro businesses is through personal past accumulations of funds. With this source of finance, the individual personally starts the business with his /her past savings accumulated over a period of time. The merit associated with this source of funds is that there is no or low risk associated with it.

The respondents were asked where you got your initial sources of fund. It was found out that majority of the entrepreneurs used their personal savings to start their businesses instead of bank loans and funds from friends and relatives.

The respondents were also asked the type of credit facility their banks offer. Majority of them responded that loan is the credit facility their banks usually grant instead of overdraft. Further question was asked that, what types of loan do you access and the majority of them responded short term loan as against medium and long term.

Furthermore, the respondents were asked which type of lending agency you obtain loan. It was found out that rural banks are the major agency that the respondents obtain loan as against micro financial institution.

Finally, it was realized that 86% of the businesses started as new ventures 12% of the businesses were purchased while 2% of the businesses in Ejisu District were franchised.

5.2.2 Assess the costs associated with debt finance to Small and Medium

Enterprise (SME's) from Rural Banks

In many businesses, banks bring upon themselves costs while doing business. Monitoring loans and procedure to process are all cost and business deal costs affects profit.

The respondents were also asked which of these were cost when accessing loan from bank. The impression was that processing fee is the highest cost as against collateral security and loan insurance. Processing fee from the bank is on the higher side that also adds cost when accessing fund from bank. They were asked to indicate the rate at which the processing fee is paid and the response was 5% of the total amount granted. There is no doubt that high cost of loan transaction reduces profit margin of an organization.

Again, the respondents were asked to indicate the type of fund that is faster and cheaper when accessing credit from their banks. The results were that overdraft is the faster and cheaper as compared to normal loans.

The entrepreneurs were asked the type of loan they pay high interest rate. It was recorded that long term loan attract high interest rate due to its terms of repayment as compared to medium and short term loans which has different repayment schedules. It is clear that high interest rate also affects the rate at which entrepreneur's access loan from bank.

5.2.3 Examine various of barriers to access to funds on Small and Medium

Enterprise (SME's) funding from Rural Banks

Having examined and ascertained the problem that Small and Medium Enterprise face when accessing loan from bank it was realized that generally it is very cumbersome accessing fund from bank. High interest rate, Collateral security and Guarantor to loan were assessed. The notion is that the major problem faced by entrepreneurs when accessing fund from bank is Guarantor.

It was realised that other barriers when obtaining loan from bank were track record of the entrepreneur. Bank balance and busine plan. The overall notion is that, track records play major role to barriers to access funding from bank.

The respondents were asked whether they have business plan or not. It was clear that majority of them had no business plan. It was realised that the process that one goes through before accessing loan was quite long.

It was realised that 56 % of the other barriers when obtaining loan from bank is track record of the entrepreneur. The overall notion is that, track records play major role to barriers to access funding from bank. It was also realised that among three variable guarantor to a loan was keen. The notion is that the major problem faced by entrepreneurs when accessing fund from bank is Guarantor. Again, 80 % of the

respondent also agrees to the loan terms. This means that even though the loan processes are very cumbersome yet a lot of entrepreneurs agreed.

5.2.4 Ascertain the effect of barriers to access to funds on Small and Medium

Enterprise (SME's) funding from Rural Banks

In assessing the effect of barriers to access to funds on Small and Medium Enterprise (SMEs) funding in the private sector in Ejisu District in Ghana, the study adopted regression analysis to assess the impact of independent variables on the dependent variable. The independent variables used are collateral, interest rate, guarantor, business plan, bank balance and track records and the dependent variable used are Small and Medium Enterprise (SMEs) funding.

It was proven that all things being equal, when the other independent variables (interest rate, guarantor, business plan, bank balance and track records) are held constant, Small and Medium Enterprise (SMEs) funding would decrease by 2.3% if there is 100% demands for collateral before funding will be given to SMSEs.

Again, the analysis revealed that all things being equal, when the other independent variables (collateral, guarantor, business plan, bank balance and track records) are held constant, Small and Medium Enterprise (SMEs) funding would increase by 17.6% if there is 100% changes in interest rate when funding is being sought by Small and Medium Enterprise (SMEs).

The analysis also revealed that all things being equal, when the other independent variables (collateral, guarantor, business plan, bank balance rate and interest rate) are held constant, SMEs funding would increase by 96.2% if there is 100% demands for track record before funding will be given to SMEs. This is however statistically

significant and track record is making unique contribution to the prediction of funding SMEs because it has a significant value of 0.000 which is less than 0.05 set as standard.

The analysis revealed that, all things being equal, when the other independent variables (interest rate, collateral, business plan, bank balance and track records) are held constant, SMEs funding would decrease by 7.5% if there is 100% demands for guarantor before funding will be given to SMEs. This is however not statistically significant and guarantor is not making any unique contribution to the prediction of funding SMEs because it has a significant value of 0.548 which is greater than 0.05.

The analysis revealed that, all things being equal, when the other independent variables (interest rate, collateral, guarantor, bank balance and track records) are held constant, SMEs funding would increase by 7.5% if there is 100% demands for business plan before funding will be given to SMEs. This is however not statistically significant and business plan is not making any unique contribution to the prediction of funding SMEs because it has a significant value of 0.368 which is greater than 0.05.

The analysis revealed that, all things being equal, when the other independent variables (interest rate, collateral, guarantor, business plans and track records) are held constant, SMEs funding would decrease by 7.5% if there is 100% demands for bank balance before funding will be given to SMEs. This is however not statistically significant and business plan is not making any unique contribution to the prediction of funding SMEs because it has a significant value of 0.488 which is greater than 0.05.

However, in comparing the contribution of each independent variable (collateral, interest rate, guarantor, business plan, bank balance and track records) on funding SMEs, the beta values are used ignoring the negative sign. In this case, the largest beta

value represents track records meaning that, this variable makes the strongest contribution to explaining SMEs funding (dependent variable) when the variance explained all other variables in the model is controlled for.

5.3 Conclusion

On the whole, the study concludes that most of the Small and Medium Enterprises (SME's) surveyed in Ejisu District a suburb of Kumasi metropolis of Ghana have no business plan and this has direct impact of access to loan.

It was also revealed that the problem that Small and Medium Enterprises (SME's) in Ejisu District are facing is the rigid process that they pass through before they can access loan.

The study also revealed that most of the entrepreneurs do not patronize bank loans since access to credit has become one of the major challenges due to collateral to loan. Therefore, entrepreneurs resort to personal savings to start their own businesses.

5.4 Recommendations

The researcher suggested that to minimise problems when accessing fund from bank, entrepreneurs should maintain very good bank balance of their fund thus increasing the performance of entrepreneurs.

Again, the researcher recommended that it would be better if entrepreneurs could use their own personal saving as start-up capital and in addition resort to debt finance from the banks in order to expand their businesses to employ more people. Furthermore, the researcher recommended that the bank should reduce their interest rate and also eliminate the collateral so that clients can afford to repay their debt.

Finally, the researcher suggested that entrepreneurs must regard the track record of their finances and the business as a whole so that they may be able to access loan easily from the bank.

5.5 Recommendations for Further Studies

The study consist fifty SME"s, meanwhile, all facet of exploring barriers to access to funding among Small and Medium Enterprise (SME"s) had not been covered. Meanwhile, some basic variables within the SME industry can be subjected to more critical study so that one can decide the degree that one can compete by the use of quantitative procedure. In view of this other right variables such as interest rate, security and track record of entrepreneurs and practicality could be considered to ascertain the effect of barriers to access to funds among Small and Medium Enterprise (SME"s) funding from Rural Banks. Further studies could be conducted on this important area.

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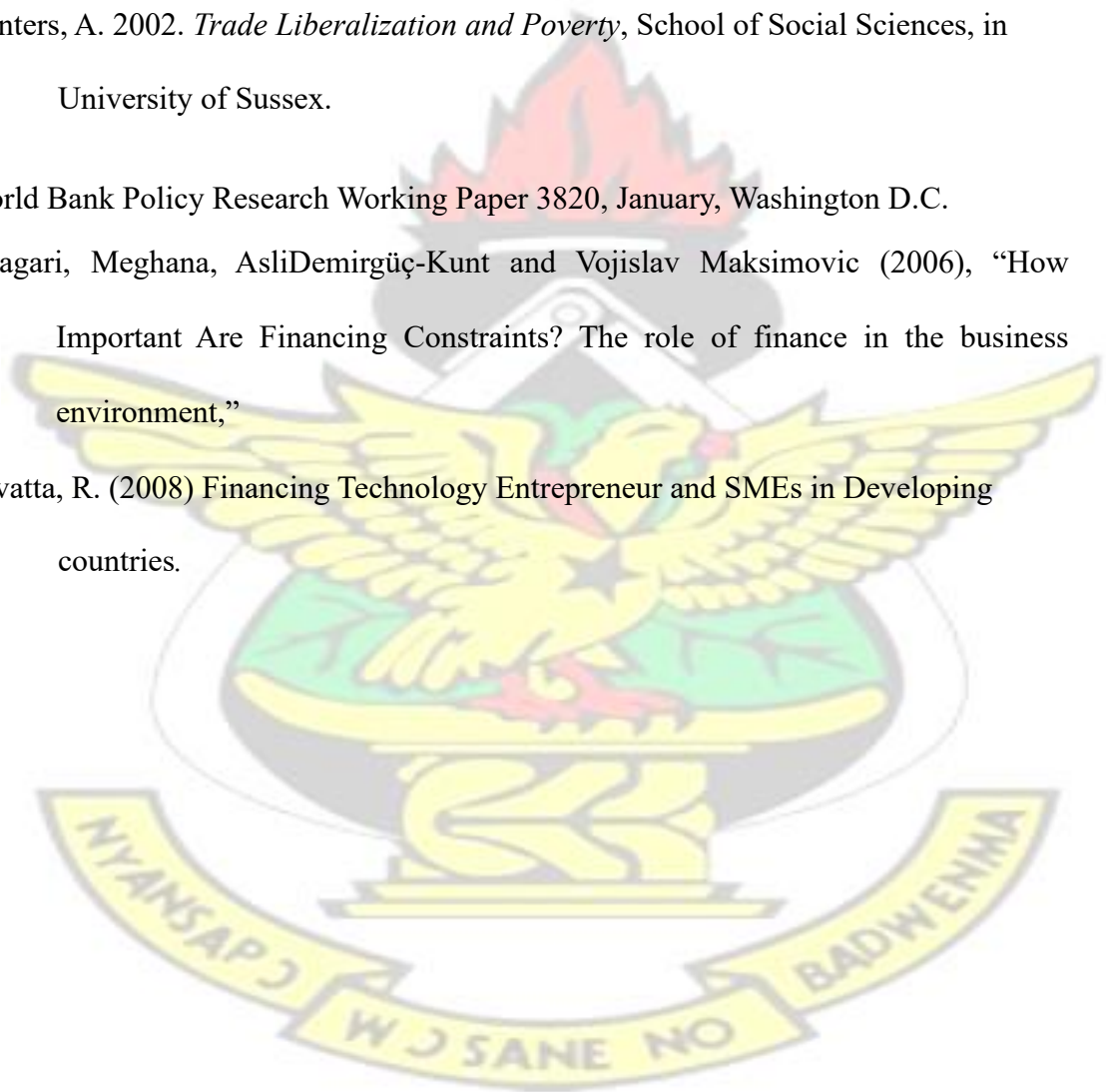
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APENDIX A: QUESTIONNAIRE FOR ENTREPRENEURS

This is an academic research being undertaken by a Student of Kwame Nkrumah University of Science and Technology on the topic exploring barriers to access to funding among Small and Medium Enterprises from Rural Banks in Ejisu District. The researcher shall be grateful if you could respond to the understated questions. All information shall be treated as confidential.

Please tick in the box the answer applicable e.g [√]

1. Name of organization
2. Name of respondent.....
3. Age Below 30 years [] 30-50 years [] Above 50 years []
4. Gender Male [] Female []
5. Nationality.....
...
6. Academic qualification
SSCE [] O Level [] A Level []
Diploma [] Degree [] Second Degree []
7. Do you have a business plan? Yes [] No []
8. How did you come about your business? started a new Business []
purchased an existing business [] Franchising []
9. Where did you get your source of initial capital? Personal savings []
Relatives and Friends [] Bank loans []
10. Have you obtained a bank loan before? YES [] NO []
11. What type of loans do you access? Short-Term loans [] Medium-Term
loans [] Long-Term loans []

12. Which of the following lending agency did you obtain the loan? Rural Bank []
 Micro Finance [] Others Please Specify.....
13. How long have you been a client/customer to your financier? Below 5 years []
 6-10 years [] Above 10 years []
14. What type of credit facilities does the Bank offer to SMEs clientele?
 Overdraft [] Loan [] Others Please Specify.....
15. Which of the following were cost when sourcing for funds from banks?
 Processing Fee [] Collateral security [] Insurance []
16. What is the rate of cost incurred when accessing debt finance from banks? 0-5 % [] 6-10% [] 11-15% []
17. Which of these types of loans do you pay high interest rate? ? Short-Term loans [] Medium-Term loans [] Long-Term loans []
18. Which of these types is faster and cheaper when accessing funds from banks?
 Overdraft [] Loan [] others please specify.....
19. How long did it take the bank to process and grant you the credit? Very short [] Very long [] Quite long []
20. How would you describe the processes/procedure that you had to go through before gaining the credit facility? Cumbersome []
 Very cumbersome [] Quite easy []
21. Does your Bank have any special credit facility package for SMEs? YES []
 NO []
22. If yes please specify.....
23. How much loan did you apply for? Ghc.0-2,000.00 [] Ghc 2,001.00-6,000.00 [] Ghc 6,001 and Above []

24. Were you satisfied with the terms of the loan?

Strongly Agree [] Agree [] Disagree []

25. What problem do you face when obtaining credit from your banks? High

interest rate [] Collateral security [] Guarantor []

26. What are other barriers to SMEs when accessing loans from the bank?

Business Plan [] Bank Balance [] Track Records []

27. Give some suggestions on how these problems could be solved or minimized.

Training the entrepreneurs [] Reduction of Interest Rates [] Elimination
of Collaterals []

