COMMUNITY BANKING AND FINANCING SMEs (ARTISANS) AT KOKOMPE IN TAKORADI

By

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Of

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DECLARATION

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

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ABSTRACT

The study was carried out to investigate Community Banking and financing of Small and Medium Scale Enterprises, using artisans at Kokompe Industrial Area in Takoradi, in the Western Region of Ghana as a case study. It was designed to determine the factors which limit SMEs to assess of credit facility from the formal financial sector.

The major instruments used in the study were questionnaires, interview schedules and discussion. A questionnaire of 38 questions was presented to the artisans to respond to. The financial institutions had 15 questions to respond to. The study revealed that 75% of the SMEs were owned by men and 25% owned by women. The artisans were financed by both banks and other financial institutions. Most SMEs preferred the non-bank financial institutions to the banks because of higher interest rate, delay in the release of loans by banks, and inability to provide collateral securities required by the banks. The researcher recommended that, banks and informal financial agents may be able to enter into relationships that took advantage of the latter's superior information about small clients and their relatively low cost of frequent small transactions, risk can be controlled through character based lending to entrepreneurs (artisans) who have good track record of repayment of loans. Also working arrangement with NGOs may help reduce the cost of screening and monitoring of SMEs entrepreneurs and financing small medium scale enterprises need support in terms of protection from the government against competition from abroad. This can go a long way to help the SMEs increase their sales, profit as well as working capital which would be plough back into the business to increase the capital base of the SMEs businesses.

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D E D I C A T I O N

This piece could not have been successful without the mighty hand of God. I therefore dedicate it to God Almighty, the Son Jesus Christ and the Holy Spirit.

I also dedicate it to my dearest wife, Mrs. Grace Nancy Avevor my children Percy Kafui Avevor and Peggy Dziedzom Avevor and not forgetting my extended family.

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ABBREVIATIONS

SMEs	- Small and Medium Enterprise
LDCs	- Least Developed Countries
NBSSI	- National Board for Small-Scale Industries
RoSCAs	- Rotating Saving and Credit Associations
DFE	- Development Finance Institutions
ADB	- Agriculture Development Bank
NIB	- National Investment Bank
BHC	- Bank for Housing and Construction
GCB	- Ghana Commercial Bank
SCB	- Standard Chartered Bank
SG-SSB	- Social Security Bank

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CHAPTER ONE

INTRODUCTION

1.0 BACKGROUND TO STUDY

Many African countries attempted a modern structure of financing businesses through public investment in large-scale industries (Steal and Webster 1992) but inadequate economic attention and market prospects resulted in substantial excess capacity with many large firms unable to survive.

Many firms were squeezed by economic crises, fluctuating prices, restrained demand and withdrawn subsidies. This led to the shutting down of most existing large-scale firms. The outcome of this was that people tried to earn a living by using some of the existing natural resources to produce goods such as baskets, pots, just to mention a few and sell to make a living (Kitching, 1982).

Workers mainly consisted of a family size which was usually known as a small size firm. Some existing literature had made it known that; there were no consensus on the definition of small and medium scale enterprises (SMEs) (Kitching, 1982). The definitions of small and medium enterprises (SMEs) differ widely and depended on the phase of economic development as well as their prevailing social conditions. Various indexes were used by various economies to define small and medium scale enterprises such as number of employees, invested capital, total amount of assets, sales volume and production capability (APEC Survey 1994). Many SMEs played a substantial role in many economies especially from the view point of employment, production of national output and exports, creation of competition and providing opportunities for innovation and breeding grounds for new businesses, acting as a transfer agent from big businesses to the consumers of products and services and creation of competition.

The growth of small and medium scale enterprises and the role they played in the economy were mostly hindered or affected by reported constraints in countries with underdeveloped financial and legal systems.

Small and Medium Scale Enterprises in developing countries as a whole typical cited lack of access to finance as an important constraint on their operations (findings of the report on ongoing operational, economic and its member government in the African region, 2006).

The idea that financing SMEs have significantly hindered the role they played in the performance of the Ghanaian economy was deeply rooted since the overthrow of Dr. Kwame Nkrumah (Boapeah 1993). Also, the problem of financing businesses was known to be the most threatening challenge to SMEs (Morese and Staley 1995). It was in the light of this that what was seen as a constraint, such as access to credit, capacity building, and development of the business from SME to large scale enterprises was analyzed.

1.1 STATEMENT OF PROBLEM

Small and medium scale enterprises in Ghana have been acknowledged to face many problems in their operations and this was often limited to the absence of a clear vision of the role they played in development of the economy of Ghana and the lack of credible policy framework and distinct interventions to promote the growth and expansion of

(SMEs) (Aryeetey et al 1994).

Most prominent of these problems were lack of credit facilities especially from the formal financial institutions, notably the banks. This problem caused the SMEs to resort to the informal financial institutions (i.e. from friends and relations, money lenders, supplier's credit and from 'susu' groups the likes) for loans. This, in most instances delayed production due to disappointment from the informal financial institution lenders because, the loan amount requested for was not readily available or lack of trust the artisan might not reliable.

The problem of lack of credit facility from formal financial institutions to (SMEs) was in existence because many of the SMEs do not meet the requirements of formal financial institutions to access loans which were collateral securities, guarantors or business registration certificate and the likes. Due to socio-economic reasons in less developed countries (LDCs) like Ghana, property jointly owned by the family cannot be used as collateral.

In addition to the major problem, inadequate information on existing government established institutions that help SMEs in the form of access to loans and other training programs to equip them with skills needed to operate their business from, institutions the National Board for Small-Scale Industries' (NBSSI) was inadequate. Lastly, many artisans do not have their businesses registered with the NBSSI, hence were denied assistance needed to expand and grow their business in other to contribute to the development of the locality, region and the country at large.

1.2 OBJECTIVES OF STUDY

GENERAL OBJECTIVE

The general objective of the study was to identify how small and medium scale businesses could be financed through community banking and financing systems of artisans in Kokompe, Takoradi.

SPECIFIC OBJECTIVES

The specific objectives of the study were to:

a. Determine factors which limit SMEs to access credit facilities from the formal financial sector.

b. Identify which types of credit facilities were easily obtainable by SMEs from formal and informal financial institutions.

c. Examine the reliability as well as the viability of all lending markets SMEs can borrow from.

1.3 RESEARCH QUESTIONS

Out of the objects raised above, the following research questions were formulated for verification about SMEs access to credit which include:

1. What factors limit SMEs access to credit facility from the formal financial sector?
2. What types of credit facilities are easily obtainable by SMEs?
3. How can the reliability as well as viability of all lending markets be examined by SMEs?

1.4 SIGNIFICANCE OF THE STUDY

For any economy to grow and develop, the growth and role of the SMEs must be given adequate financial support to contribute to the economic growth as expected of them by the public. This study will identify how SMEs can obtain credit facilities from financial institutions both formal and informal. The study drew a fundamental distinction between the formal and informal financial market with respect to their reliability to lend money to the SMEs. Lastly, the study would help how SMEs respond to the changing conditions of their businesses .The issue of lack of access to capital by the SMEs that was raised in this study and the suggestions offered would help policy makers in the trade sector, align its policies in such away to promote SMEs financing and to identify problems SMEs face at present and the near future, and find ways of addressing such problems.

The study also enlightened owners of SMEs about ways of reducing or completely overcoming some constrains such as finance.

1.5 SCOPE OF STUDY

The study covered SMEs in Takoradi Kokompe area. This area was chosen because of abundance of SMEs and also the viable information that were gathered. The study dwelt with blacksmiths, liners, fabricators, welders, etc at Kokompe Industrial Area. The credit lines that were focused on, included the formal financial sector, specifically community banks, government financing agencies and among others.

One hundred (100) respondents were considered under this study. This number was chosen because of the high degree of accuracy aimed at and also to do away with very extreme situations.

1.6 LIMITATION OF THE STUDY

Financing is a broad area of study and therefore impossible to address the whole issue of financing in a short study like this. Again due to limited resources available to the researcher in terms of finance, time and material, the study was limited to two selected areas in Takoradi, where the concentration of SMEs were high. These areas were Kokompe number one and two. To reduce the frequency of travel to Kokompe, the researcher took the telephone numbers of heads of various artisans' shops and financial institutions and communicated with them on issues that needed more clarification.

Another limitation was noise at the workplace of the artisans interfering in the questioning and feedback from the artisans. This was resolved by constant repetition of questions and answers by both the researcher and the respondents respectively.

Again, the formal educational background of some of the artisans was low; so the researcher used the local dialect (Fante) in asking and responding to questions.

Last but not the least, there was also the problem of some owners of these SMEs and financial institutions being reluctant in completing the questionnaire due to the fear that it might be used to tax their incomes. The artisans and the financial institutions were assured that any information and data that they gave were to be treated confidentially. The researcher assured the artisans that, the study would be implemented and the other research that has been conducted, majority of its recommendations would be factored into the national trade and industry policies.

A number of problems were encountered in the conduct of study.

To begin with, it was realized that, the SMEs, in Takoradi Kokompe were much chocked with research work. This has made most of the artisans of SMEs tired with responding to questionnaires every now and then, and as a result, some of the artisans could not complete the questionnaires in good time whilst others were lackadaisical in their approach to responding to the questions from the researcher. The artisans also complained that, previous study conducted under the pre-text of addressing the financial problems of SMEs are yet to be addressed. The most difficult aspect of administering the questionnaires was the fact that SMEs in Takoradi Kokompe were many. As a result, the researcher employed the services of someone who is familiar with the artisans for a fee. The researcher assured them that, the findings and recommendations from the study would be sent to the ministry of trade and industry for discussion and implementation at Kokompe in Takoradi and in Ghana in general for the benefit of SMEs.

1.7 ORGANIZATION OF THE STUDY

The study was organized into five chapters. Chapter one comprises of introduction, background of the study, statement of the problem, the objectives of the study, the research questions, the significance of the study, the scope and the limitations of the study.

Chapter two deals with the review of relevant literature related to the study while chapter three outlines the method and procedures used for conducting the study.

These include the population, the instruments and the procedures for collection and analysis of data. Chapter four presents analysis and findings of the data whilst chapter five provides the summary, conclusion as well as recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

In general, statistical definitions of a small to medium scale enterprises (SMEs) use one of these three measurements which include; number of employees, turnover, or size of the balance sheet. The department of trade and industry loosely defines a small enterprise as "one with zero to forty-nine employees and a medium sized enterprise as one with fifty to two hundred and forty-nine employees", (Ayeetey 1996).

The definition of medium and small scale industry has differed according to the period, varying in maximum complement from ten to hundred employees today. The government of Japan's classification of Medium and Small Scale industries designated enterprises with less than three hundred employees and capital of less than 100 million Yen as medium to small-scale. (Annual Report of the Trade Ministry, Japan 2005).

According to the findings of the report on ongoing operational, economic and its member government in the African region (2006), enterprises range from micro (1 to 9 workers), small (10 to 29 workers) to medium-scale (30 to 140 workers) to large-scale (above 141 workers) (Annual Report of Trade Ministry of Japan, 2005).

This chapter reviews literature on financing SMEs based on both theoretical framework and an empirical analysis of related studies on financing SMEs.

2.1 THEORETICAL FRAMEWORK

Money management in small organizations was often focused on cash flow management. The goal of these smaller organizations were to ensure that excess cash was invested to earn maximum returns with a reasonable level of risk coupled with capital resources in place when there was a deficit in larger organizations, cash flow management was also an area of concern. However, many other items must be dealt with as well, such as how to raise capital required for investments, what was the right level of risk and rewards, what type of insurance or hedging arrangements should be in place, and how to evaluate capital projects?

Small firms face these same problems. The difference was the tools available to finance their operations. For example, public offerings of equity shares, corporate bonds and debentures would not be options available to the smaller organizations.

Financing decisions determine the way in which a firm raises funds to procure its assets. These funds can consist for example, of a mixture of borrowing (debt capital), share issues (equity capital) and accounts payable (trade credits taken by a firm from its suppliers).

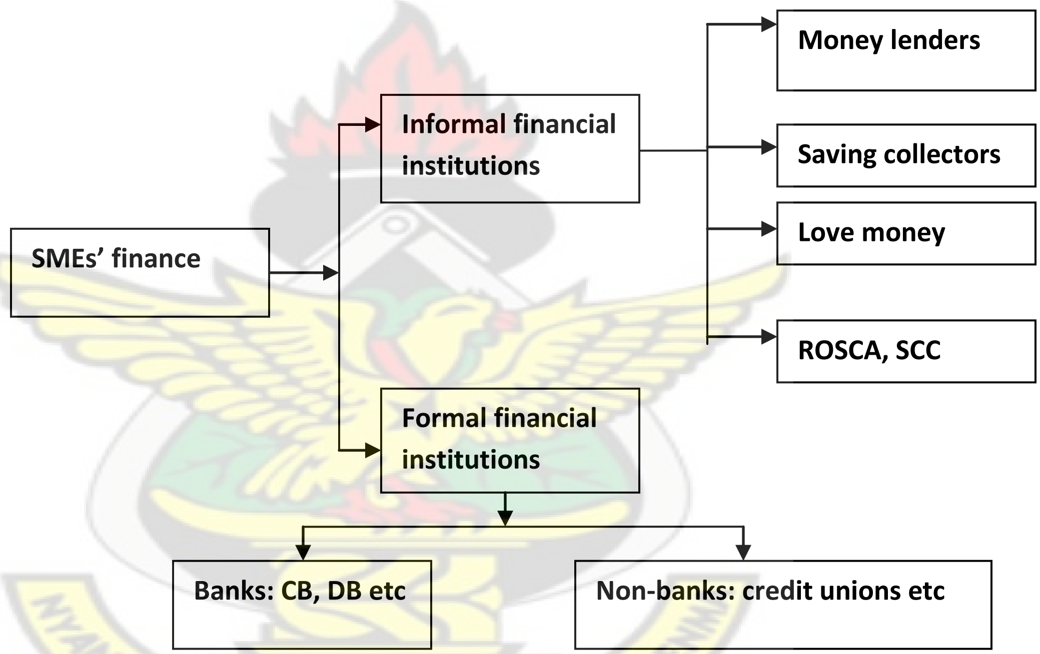
Each of these sources of finance has a cost, for example, the interest rate on debt, and return on equity that share holders as owners of publicly quoted company expect and acquire. (Hutchinson 1995).

According to Ross et al, (1996), business finance has three main areas of concerns irrespective of the size of the firm. These are capital budgeting, capital structure and working capital management. Capital budgeting was the process of planning and managing a firm's long-term Investments by identifying investment opportunities which were worth more to the firm than they cost the firm to acquire. Regardless of the specific investment under consideration, the financial manager must be concerned with how much cash they expect to receive, when they expect to receive it, and how likely they are to receive it. Evaluating the size, timing and risk of future cash flows was the essence of capital budgeting.

Capital structure of a firm refers to the specific mixture of long-term debt and equity the firm uses to finance its operations. Financial managers have two areas of concern with capital or financial structure; first, how much should the firm borrow? Secondly, what are the least expensive sources of funds for the firm? In addition to deciding on the financing mix, the firm had to decide exactly how and where to raise the money and the expenses associated with raising long term financing. Firms borrow money from a variety of lenders in a number of different ways, choosing among lenders and among loan types were a job handled by the firm's financial manager (Duff 2003). Managing a firm's capital was a day-to-day activity that ensured the firm has sufficient resources to continue its operations and avoid costly interruptions. This involves a number of activities related to the firm's receipt and disbursement of cash. The following concerns were seriously considered by firms; how much cash and inventory should be kept on hand? Should the firm sell on credit? How should the firm obtain any needed short –term financing? If the firms borrow short-term, how and where should it do it? (Ross, et al, 1996). Loan administration cost (screening, monitoring, etc were generally lower as a percentage of loan amounts for informal lenders that for banks) (Aryeetey and Steel, 1997). Most of the informal lenders' costs were pre-screening the client's ability to repay but not the feasibility of their particulars whereas banks devoted considerable resources to projects evaluation. The diagram below on financing SMEs in general which shows the picturesque view of the various types of lending markets. The relationship between the various variables was also discussed.

Diagram 2.1 Conceptualized frameworks on financing SMEs

(Source: World Bank,(2004), MC 13-121.)



2.7 FORMAL AND INFORMAL FINANCIAL MARKET

In most African countries, the indigenous private sector consists largely of households and small-scale enterprises that operate outside the formal financial system Aryeetey, (1997). Analyses referred to the informal sector by many terms as unorganized, non-institutional, and curb markets.

Conforming to recent trends in literature, the term informal finance is defined by Adams and Pischke (1998) as all transactions, loans and deposits occurring outside the regulation of a central monetary of financial market authority. Informal savings activities in Africa were widespread but generally self contained and isolated from those of formal institutions. These were general types of informal units to be found in Ghana (Aryeetey, 1997). These were savings mobilization units that do little or no lending, lending units that seldom engage in savings mobilization and units that combine deposits mobilization with some amount of lending. (Aryeetey, 1997).

2.8 INFORMAL FINANCIAL UNITS IN GHANA

In Ghana, most informal financial agents or arrangements tend to specialize in either lending or savings mobilization. Informal financial units in Ghana have been developed in response to the demand from a distinct clientele. Each unit tends to serve a particular market niche (Aryeetey and Udry, 1997). These units include among others, money lenders, love money, savings collectors, rotating savings and credit associations, suppliers' credit and savings, and credit cooperatives.

2.8.1 MONEY LENDERS

Money lending covered a wide range of credit arrangement that differ across countries, with its interest rate ranging from zero to as much as 100% a month (Aryeetey et al, 1997). Most informal money lenders base their lending decisions on firsthand knowledge of the borrower.

2.8.2 LOVE MONEY

This form of informal financial market was the most common because entrepreneurs turn to seek for assistance from family members and friends first before they seek for funds from other avenues. Though it was the most common, its contribution to financing SMEs was very negligible because majority of family members and friends would prefer to lend to outsiders to gain interest than to their relatives. (Shipton, 1991).

2.8.3 SAVINGS COLLECTORS

Aryeetey, et al, (1997) discovered that individuals who operate primarily as savings collectors were found only in West Africa, including Ghana. Savings collectors took regular deposits (usually on a daily basis of an amount determined by each client and returned the accumulated sum typically at the end of each month) minus one day's deposits as a commission. These mobile bankers developed relationship with small business owners and market traders, protecting daily earnings from competing claims of the well established financial institutions and ensuring working capital to restock supplies at the end of the month (Aryeetey and Steel, 1997).

Savings collectors placed most of their deposits in banks for safe keeping, but sometimes extend advances to their best clients before the end of the month.

2.8.4 ROTATING SAVINGS AND CREDIT ASSOCIATIONS (ROSCA)

These are persistent in most African countries. RoSCA also known as "Susu" in Ghana, was a membership group in which all members pay in set amounts at regular intervals to a common pool, which goes to each member in turn (usually randomly, but some variations allow bidding).

Mutual trust they have in the SMEs offsets the risk that early recipients will drop out. In another type of savings and credit associations such as corporate credit unions, provident funds and the like's, members save jointly towards common objectives such as school fees, funerals or community development, and sometimes granting loans at high interest rates to increase the accumulated amount. (Nissanke and Aryeetey, 2006).

2.8.5 SUPPLIERS' CREDIT

Suppliers are also an important source of informal credits in Ghana. They supply either inputs or cash advances to small business operators. Landlords and estate owners too were often seen lending to their tenants. (Nissanke and Aryeetey, 2006).

2.8. 6 SAVINGS AND CREDIT COOPERATIVES (SCCS)

These societies raise savings from and grant loans to members. They are organizations which sometimes raise money from shares or voluntary deposits relatively large and open to new members, unlike ROSCAs (Nissanke and Aryeetey, (2006).

2.9 FORMAL FINANCIAL INSTITUTIONS IN GHANA

2.9.1 Development Finance Institutions (DFI)

Most DFIs in Ghana were formed in the 1960s and 1970s to fill in perceived gaps of financial intermediation and the provision of long-term financing. DFIs were sector specific and one of their major impacts appeared to be the increase in financial sector segmentation. Examples of DFI in Ghana include the Agricultural Development Bank (ADB), the National Investment Bank (NIB), and Bank for Housing and Construction (BHC) and the likes.

The Agricultural Development Bank, established in 1970, was structured to cater for large and small-scale farmers. The National Investment Bank and the Bank for Housing and Construction were similarly formed in 1963 and 1973 respectively with the motive of financing large, medium and small businesses and housing and construction needs of Ghanaians (Boapeah, 1993). DFIs often have special lending programs for SMEs though coverage and impact have not been as noticeable, as they tend to prefer lending to large enterprises.

2.9.2 COMMERCIAL BANKS

Presently, there are a number of commercial banks with branches and sub-branches operating throughout the country who, account for over 60 percent of total deposits in the economy (Adzah-gidi, 1998). Lending done by commercial banks was short-term mostly, two years or less and the bulk of the credit was in the form of bank overdraft (Adzah-gidi, 1998).

A few major banks namely the Ghana Commercial Bank (GCB), Standard Chartered, Barclays Banks and the Social Security Bank (SG- SSB), dominated the commercial banking system in Ghana. These commercial banks were conservative in their lending policies, and lending to SMEs did not form a significant part of their portfolio (Aryeetey, 1993). This argument was based on the fact that most commercial banks lending had land, building and equipment as the main form of collateral.

Commercial banks were also reluctant to offer collateral-free loan. In 1992, the distribution of loans granted by the commercial banks revealed that while average loan size to indigenous sole proprietorship was only 15000 Cedis, credits to indigenous limited liability companies were far larger with an average figure of 620,000 Cedis. Indigenous sole proprietorship thus, received on average, the smallest amount and share of total domestic credit from commercial banks (Adza-Gidi, 1998). The reasons for the reluctance of commercial banks in Ghana to lend to SMEs were that commercial banks were profit oriented and operated in a competitive environment. They were therefore less likely to lend to sources where repayment cannot be reasonably guaranteed, thus, minimizing credit risk in their loan portfolio. (Quarshie 2001)

2.9.3 Mutual Saving and Loans Schemes

Mutual savings schemes were similar to savings and loans association. They raise funds by accepting deposits and use them primarily for loans. The operational structure of Mutual Savings and Loans Schemes were different from that of savings and loans association in that; they were structured as mutual, which means that they functioned as cooperatives where members own the organization.

12.4 FRAMEWORK ON FINANCIAL INSTITUTIONS

Recent studies on SMEs access to funding focused on the advantages of different types of financial institutions in lending. An additional area of concern regarding SMEs credit availability was the lending infrastructure of a nation, which defines the rights and flexibility of financial institutions to fund SMEs using the lending technology that best fits the institution and the borrower. This infrastructure include the commercial and bankruptcy laws that affect creditor rights and their judicial enforcement, the regulations of financial institutions including restrictions on lending, barriers to entry, and direct state ownership of financial institutions; the information infrastructure, including the accounting standards to which potential borrowers must comply as well as the organization and rules for sharing information and the taxes that directly affect credit extension and among others that provide the economic environment in which institutions may lend in a given SME. The legal, judicial and bankruptcy environment and asset-based lending are some of the general issues considered in measuring the effects of financial institution structure on SMEs credit availability of which are discussed below.

2.4.1. LARGE VERSUS SMALL FINANCIAL INSTITUTIONS

There are a number of reasons why large financial institutions may have comparative advantage in employing transactions lending technologies, which are based on hard information, as compared to small financial institutions like SMEs may have comparative advantage in using the relationship lending technology, which was based on soft information to determine the creditworthiness of SMEs. Large institutions may be able to take advantage of economies of scale to determine the processing hard information, but be relatively poor at processing soft information because it was difficult to quantify and transmit through the communication channels of large organizations (Stein, 2002).

Under relationship lending, there may be agency problems created within the financial institutions, because the loan officers who have direct contact over time with the client (i.e. SMEs) was the repository of soft information that cannot be easily communicated to management or owners of financial institutions. This may generate comparative advantages in relationship lending to small institutions with lower agency costs within the SMEs because, they typically have less separation (if any) between ownership and management and fewer overall layers of management (Berger and Undell, 2002). Finally, it was often argued that large institutions are relatively disadvantaged at relationship lending to SMEs, because of limited market share in providing transactional loans and other wholesale services to large corporate customers (Williamson, 1988)

Large institutions were found to lend to larger and more financially secured SMEs (Haynes, Ou, and Berney, 1999). It was often argued that these findings are consistent with large institutions lending to relatively safe borrowers that were more likely to receive transactions credits. Large institutions were also found to charge lower interest rates and earn profit on SME loan contracts (Berger and Undell, 2002). It was contended that these results may reflect that large institutions lend to safer borrowers and or employ lending technologies with lower operating costs, which were more likely to be transaction loans. In addition, large institutions were found to have temporally shorter, less exclusive, more impersonal, and longer distance relationship with their SME loan customers (Berger and Petersen, 2000). Finally, institutions appear to base their SME credit decisions more on strong financial ratios than on prior relationships (Berger and Pertersen, 2002).

2.4.3 FOREIGN-OWNED VERSUS DOMESTICALLY-OWNED INSTITUTIONS

Foreign-owned institutions may have comparative advantage in transactions lending and domestically owned institutions may have comparative advantage in relationship lending as they deal personally with their clients (SMEs) Foreign–owned institutions may also face additional hurdles in relationship lending because they may have particular difficulties in processing and transmitting soft information over greater distances, through more managerial layers, while having to cope with multiple economic, cultural, language, and regulatory environments (Buch, 2003).

Moreover, in developing nations, foreign-owned institutions headquartered in developed nations may have additional advantages in transactions lending to some SMEs because of access to better information technologies for collecting and assessing hard information. Other institutions provide home-nations training for loan officers stationed in developing nations (Berger, Hasan, and Klapper, 2004).

2.4.4 THE LENDING INFRASTRUCTURE

The lending infrastructure includes information environment, the legal, judicial and bankruptcy environments. All of these elements may directly affect SMEs credit availability by affecting the extent to which the different lending technologies may be legally and profitably employed to expand their businesses.

2.4.5 THE INFORMATION ENVIRONMENT

Information infrastructure had significant effect on the availability of credit to SMEs. One important aspect of the information infrastructure was the accounting environment. The key issues here were existence of strong accounting standards and credible independent accounting firms.

These are necessary conditions for informative financial statements as well as necessary conditions for the feasibility of many components of loan contracting as financial covenants are not feasible if financial ratios calculated from bank's financial statements are not reliable (Miller, 2003).

Another important aspect of the information infrastructure was the availability of information on payment performance. The extent to which lenders share information about performance have been shown to have a significant effect on credit availability. (Udell, 2003) Moreover, availability of information on payment of loan performance by artisans have been shown to have power in predicting firm's failure beyond financial ratios and other descriptive information about the firm (Udell, 2003). Survey data also indicated that without credit bureaus, the time needed to process loans, the cost of making loans, and the level of defaults would all be higher (Miller, 2003).

2.4.6 THE LEGAL, JUDICIAL AND BANKRUPTCY ENVIRONMENT

A country's legal and judicial infrastructure significantly influences the context in which loan contracting would be conducted. The legal infrastructure that affects business lending consists of commercial laws that specify the property rights associated with a commercial transaction and enforcement of these laws.

Studies have shown that firms in countries with greater financial development and stronger property rights have increased levels of investment funded by external finance, while firms in countries with weaker financial background the SMEs depended on development banks, the government or informal small scale investment companies funded by external sources. (Beck, Demirguc-Kunt, 2004). In the course of default in repayment of loans to their clients, the banks may resort to the courts for redress.

2.4.7 ASSET-BASED LENDING

Under asset-based lending, financial intermediary looks to the underlying assets of the firm (which are taken as collateral) as the primary source of repayment. Also under asset-based lending, the amount of credit extended was linked to the value of the collateral on a formula basis to a dynamically managed estimation of the liquidation value of the underlying assets that were used as collateral (i.e., the accounts receivable, inventory and equipment). Aryeetey and Udell (2003).The banks and other financial institutions at times used business assets as collateral to secure loans granted to their clients.

2.5 FORMS OF CAPITAL AVAILABLE TO SMEs

2.5.1 STARTUP CAPITAL

Small firms that do not require huge initial capital and any high technology were more apt to finance start-ups through personal savings or credit from relatives and friends. These include the capital of the entrepreneurs themselves, occasionally supplemented with capital or loans from family members or friends, creditors for goods and services, credits from both the formal and informal financial sectors, (Koomson, 1982). Start-up capital was very key in the operations of businesses for which SMEs at Kokompe in Takoradi were of no exception.

2.5.2 WORKING CAPITAL

On working capital, large and more profitable firms were likely to have access to a larger pool of earnings that can easily be reinvested in the firm for expansion as well as a broader set of credit instruments.

Petersen and Rajan (1992) espoused that, once the initial startup phase of the SME business was completed the banks were the most important providers of financial means in the early growth of the SMEs. On the other hand, small firms that were profitable can reinvest retained earnings. They were less likely to get access to a broader set of credit instruments, especially from the formal financial sector. Also, the type of business that a firm engages in and the sector of manufacturing activities in which an SME finds itself have important effect on its need for physical and financial capital. (ibid)

2.5.3 ACCESS TO CREDIT

The ability of firms to obtain credit varies widely based on the perceived risk of the loan. Small firms may represent a greater risk, because of factors such as lack of a significant credit history, inadequate collateral and inadequate equity capital on their balance sheet. Ownership characteristics such as the education and the working experience of the owners of the firm and their personal wealth or family resources may also play a role in a firm's propensity to get access to the financial market (Cavalluzo, 1999).

Bates (1991), identified that commercial banks are more likely to lend to individuals with more human capital, and with demographical traits that are associated positively with business viability. In this context, human capital was likely to be reflected in the levels of education, their age, whether or not they have previous managerial experience. Apart from the attributes of the business owners, the credit history of the firm and its principal owner, (such as late payment of business or personal obligations, whether legal judgments have been levied or whether its owners have declared personal bankruptcy). This sends a strong signal to lenders about the risk of repayment.

2.2 EMPIRICAL ANALYSES

The empirical analysis deals with in-depth analyses of related studies in line with this study starting with related studies on Ghana.

Koomson (2003), in his study on non-bank credit and the growth of SME in Kumasi using the interview method espoused that majority of SMEs in the kumasi Metropolis preferred non- bank credit and suppliers' credit, desire an interest rate of 20% and below, were much particular with the mode of repayment and prefer long-term to short-term credit facilities. Again, he also found out that, many SMEs in the metropolis were dissatisfied with the quantity and timing of loans granted them, hence, financial institutions prefer lending to large and medium enterprises. From 1996 to 2002, credit institutions disbursed 66.9% of their loanable funds to large and medium enterprises with 33.1% going to the SMEs, (Aryeetey 2003). During that same period, non-banks disbursed 90% of their loanable funds to SMEs. His study concluded that majority of the loanable funds in the metropolis were granted to SMEs other than large and medium scale enterprises. The study built upon (Koomson, 2003) findings by using the interview and the questionnaire method of gathering data from respondents and also looking at some possible factors which can prevent SMEs from accessing credits from the banks and non-banks (Koomson, 2003).

Finemory, (2003) in his study on perceived impact of rural credit on SMEs in the Koulikoro Region of Mali revealed that, level of savings was between low and average, and that the practice could cause some problems of availability of funds, since savings constitute the main source of capital for credit. He further indicated that the level of loan recovery was good even though the level of loans given to the SMEs in Koulikoro was perceived to be low. He further identified that, due to the low level of savings, less capital was injected into SMEs which did little to affect the needed growth rate of the SMEs. SMEs in the Koulikoro region of Mali could not make any huge direct contribution towards the community's development. He recommended that for the SMEs to bring about the required and expected growth in their communities and the country at large, individuals should cultivate the habit of savings with the bane of building up capital for injecting into the economy through SMEs who are the engine of economic growth. Again the government should also create avenues like venture capital fund to grant credit to SMEs and also encourage the citizens to save from their earnings for the future so that the SMEs can access those to create jobs to bring the needed developmental growth to the communities and the country.

Fabgemi, (2001), in finding out about accessibility of credits to females working in SMEs in Ejura Sekyere Dumase District concluded that females of SMEs businesses were basically of primary rudimentary technology. They tend to rely on unpaid family labour which results in home based location of many of their business activities because of limited time and mobility related to their domestic responsibilities. His study revealed that financing female SMEs in Ghana are constrained by three factors i.e.

a. The enterprise level where females of SME borrower was seen as lacking experience before the financial institution which advances credit.
b. The institutional level, (where the financial institution were usually not inclined to lend to the SMEs), and;

c. The regulation tend to consider the total fund available for lending to the SMEs and with this, the financial institution will mostly prefer the male of SMEs owners.

His study however identified five important sources of capital to SMEs as owners' savings, gift and loans from relations, bank loans, and credit union loans and suppliers credit. He further pointed out from his study that, money lenders in all cases demanded some form of guarantee or security for the credit they give out to females who operates SMEs. His study again revealed that, irrespective of the size of credit available, SMEs preferred an interest rate of 18% or below.

Among the factors Fabgemi (2001) cited as limiting women's access to formal institutional credit were high rate of female illiteracy especially in the rural areas coupled with complex procedures for securing loans (example completing loan application forms and business plan), fear of indebtedness, low savings capacity, lack of capacity to establish a reputation for credit worthiness as independent agents.

Aryeetey (1993), in assessing enterprise financing of SMEs in Africa indicated that startup of micro business were primarily funded from the informal units such as credit cooperative societies, 'susu' groups, friends, relatives and landlords.

Some financial institutions view small borrowers so riskier than large ones for the reasons often related to the difficulty in obtaining accurate information about their geographical remoteness, literacy and unreliable incomes (Aryeetey, et al, 1997). Though there had been heavy emphasis on stringent collateral requirements, banks effectively screened out the vast majority of small clients' ability to repay their loans when granted.

Informal lenders on the other hand, depended heavily on information obtained through personal, social, and business relationships in order to pre-select clients. Most informal lenders do not use interest rates to discriminate among clients. Through screening, all the borrowers of each lender were grouped into a similar risk category (*ibid*). Informal lenders generally require securities but are more flexible than banks in accepting personal guarantees, arrangements with guarantors and moveable property.

According to a study done by Aryeetey and Steel (1997), SMEs access to informal institutional credits was about 83% of money lenders in Ghana required such securities as collateral from credit applicants. Interest rates vary widely across informal institutions as well as between formal and informal markets. They identified that money lenders' rates of interest were generally at least 50% above formal rates, with average monthly interest rate ranging from under 10% in Tanzanian to

Malawi, reaching as high as 100% a month in individual cases. Aryeetey and Steel (1997) noticed that default rates of informal lenders were generally low relative to banks that were sampled from African countries. In Ghana, 70% to 80% of informal lenders are confident that delinquent borrowers will repay within three months of the loan maturing.

The findings of Aryeety (1993) showed that SMEs prefer funding their businesses through the informal financial institutions. I would want to explore to include in my study whether the findings of Aryeety, (1993) were still the case about SMEs artisans at Kokompe in theSekondi- Takoradi metropolis.

CHAPTER THREE

RESEARCH METHODS

3.0 INTRODUCTION

This chapter focused on the methods and techniques used in the design of the instrument and the data collection process for the study. It dealt with the research design, population, sample and sampling procedure, research instrument, data collection procedures and the method of data analysis. The tools which were designed for the collection of data for the study were questionnaire and interviews.

3.1 RESEARCH DESIGN

The study is a survey in which a sample of the population of the study area was questioned on how they access funds for their businesses' results inferred on the whole population. The descriptive survey design was used because the study had its prime aim of examining the existing conditions (financial status) of the SMEs in order to ascertain and explain the characteristics of their financial status. Gay (1989) advocated that, this type of design was useful for investigating a problem and evaluating the trend of a situation on a relatively large and small scale enterprise business to make room for meaningful generalization.

3.2 TARGET POPULATION

The target population refers to the artisans and the bank officials that the study wishes to investigate at Kokompe in Takoradi. In this study, the target population covered one hundred (100) artisans and forty (40) bank officials at Kokompe within Sekondi-Takoradi metropolis of the Western region. This area has over a hundred SMEs and about five formal and informal financial institutions. However, the target population consists of selected artisans from SMEs and financial institutions.

3.3 SAMPLING AND SAMPLING PROCEDURE

Sample is a subject of an entire population which comprises of some members selected from the population. According to Koomson (1982), sample was part but not all the element of the population. The sample size for the study was drawn from the various artisan groups and some bank officials. In all one hundred (100) artisans and forty (40) financial institutions were selected. One hundred (100) artisans and the forty (40) bank officials were selected using the random sampling method.

3.4 RESEARCH INSTRUMENT

The tool designed for the collection of data for the study was questionnaire. This data collection instrument was adopted because it was found to be the most suitable and less expensive to administer, since it produced the needed information on statement of facts and responded personal opinions relevant to the study. The questionnaires were made up of thirty-five (35) close and open ended questions for the artisans and nineteen (19) questions for the officials of financial institutions. Respondents were required to select from a list of alternatives by ticking the appropriate box and provide an appropriate response to the few open-ended questions.

The questionnaires were of two main parts. The first part was based on demographic data such as; age, sex, academic and experience. The second part was based on issues concerning accessing credits to finance SMEs business operations.

3.5 DATA COLLECTION PROCEDURE

Primary data was mainly be used in the study. Structured questions were used as the instruments for data collection. A total of one hundred and forty (140) questionnaires were administered to artisans and forty to financial institutions respectively. The questionnaires were administered after permission had been sought from owners of SMEs and heads of financial institutions.

The researcher personally sent the questionnaires to both artisans and officials of financial institutions at Kokompe. This was followed by personal contacts since the researcher felt that some respondents might forget to answer the questionnaires while others might forget it in their homes. The questionnaires were distributed to both artisans and bank officers. The respondents had the opportunity to ask questions about the importance of the study, which the reasercher gave a satisfactory response.

3.6 DATA ANALYSIS PROCEDURE

Responses from respondents were summarized according to each objective and presented in the form of tables and graphs. The percentages were calculated where necessary for the analysis and conclusion. Interpretation of the data was based on majority view of respondents and the prominent variables emerging from the outcomes of data collated from the respondents

CHAPTER FOUR

ANALYSIS OF DATA AND DISCUSSION OF FINDINGS

4.0 INTRODUCTION

In this chapter, data collected were analyzed and attempts were made to discuss the findings of the survey conducted at Kokompe, a suburb of Takoradi. The study involved one hundred [100] artisans and forty [40] officials of financial institutions using structured questionnaires and interviews out of this, (80) artisans and (35) financial institution staffs returned their completed questionnaires for analysis.

4.1 FIRMS CHARACTERISTICS

The first section of the questionnaire centered on characteristic which highlighted the following subsections as sex, age, marital status, nationality, number of years in business, saving distribution, registration with NBSSI and the problem of financing SMEs. The study sought to find out the sex distribution of respondents. Information obtained were illustrated in Table 4.1

TABLE 4.1. SEX DISTRIBUTION OF ARTISANS

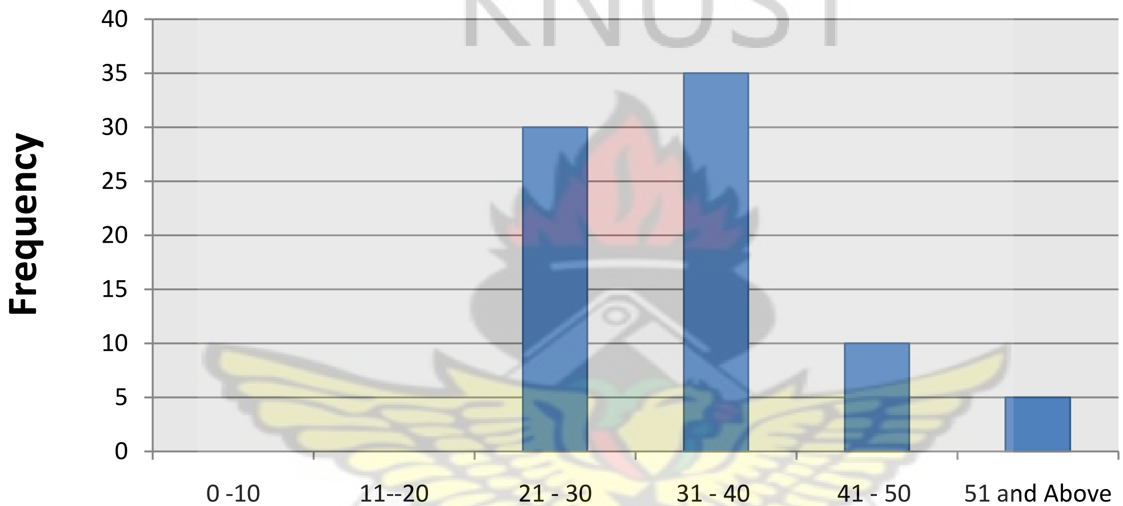
SEX	FREQUENCY	PERCENTAGE (%)	VALID PERCENTAGE
male	60	75.0	75.0
female	20	25.0	25.0
total	80	100.0	100.0

Source: Field work, 2011

Table 4.1 indicates that there were more male owners of SMEs forms 75% than were females 25% SMEs owners. Thus, the population structure of Takoradi indicated that, there were more females relative to males, but in the field of enterprise; women were relatively less prominent in artisanal work than their male counterparts. While the males took the risk to enter into business with long gestation periods, women were more often seen in the buying and selling businesses with shorter gestation periods. This was largely a cultural phenomenon where women were expected to use their income on the upkeep of the home. This cultural demand meant that generally, most women cannot afford to establish enterprises with long-term returns. The study sought the age distribution of the respondents. The information obtained in the graph below (diagram 4.1) shows the sex distribution of artisans.

Other firm characteristic, especially on the age of firm owners from the survey as in figure 1 showed that 41.3% of them were between 21 and 30 years while 42.5% aged between 31years and 40 years, 13.5% of them were aged between 41 and 50 years, and 3.05% were aged 50 years and above indicating that majority (about 83.8%) of firm owners fall within these age 21 and 40 years whiles the minority (about 16.55%) categories .These were economically active population group , which indicated that, SME's were not dumping place of retirees but adventurous young entrepreneurs with the desire to develop their own business and see it grow.

Figure 1: Age Distribution of Artisans



Source: Fieldwork, 2011

MARITAL STATUS OF ARTISANS

The researcher wanted to know the marital status of the artisans. The information obtained are illustrated in Table 4.2

Table 4.2: Marital Status of Artisans

Marital status	No. of Artisans	Percentage (%)	Valid percentage (%)
Married	50	62.5	62.5
Single	20	25.0	25.0
Separated	8	10.0	10.0
Divorced	2	2.5	2.5
Total	80	100	100

Source: Fieldwork, 2011

Majority (i.e. 62.5%) of the respondent were married, whilst 25.0% were single, 10.0% of respondents were married but separated and 2.5% were divorced. This indicated that most artisans of SMEs in Takoradi were married and therefore have family responsibility to attend to. The 25.0% of the respondents being single was an indication of the potential of young people who are yet to marry engaged in SMEs.

EXPERIENCE IN BUSINESS

The study sought to find out how many years the respondents have been in business. The information gathered was illustrated in Table 4.3

Table 4.3: Number of Years in Business

Years	No. of respondent	Percentage (%)	Valid percentage (%)
1	2	2.5	2.5
2	3	3.75	3.75
3	12	15	15
4	8	10	10
more than 4	55	68.75	68.75
Total	80	100	100

Source: Fieldwork, 2011

From Table 4.3, it was not surprising to note that 68.75% of the SMEs interviewed had been in business for more than four years. This was a period long enough for these artisans to acquire any form of credit facility. The 21.25% of the respondents who have worked less than four years stood the risk of not obtaining credit as the traditional banks prefer businesses of long standing reputation to newly created ones.

4.4 SAVINGS DISTRIBUTION

The researcher sought to find out the attitude of the respondent towards savings . The information gathered was presented in the Table 4.4 below.

Table 4.4 Savings Distribution

Responses	Frequency	Percentage (%)	Valid percentage (%)
Yes	51	63.8	63.8
No	29	36.2	36.2
Total	80	100	100

Source: Field work, 2011

Table 4.4 above gives the indication that 63.8% of the artisans had a form of savings either with the banks or non-banks financial institutions. However 36.2% of them were ignorant or did not see the need to save with any financial institution. Lack of savings among these minority group in a way prevent them from getting loans from financial institutions as these banks consider clients with good savings potentials to deal with in granting credits SMEs.

4.5 REGISTRATION WITH THE NBSSI

The study wanted to find out if respondents have registered with the NBSSI. The information obtained was illustrated in Table 4.5 below;

Table 4.5 Artisans who Register with NBSSI

Response	Frequency	Percentage%	Valid Percentage%
Yes	57	71.25	71.25
No	23	28.75	28.75
Total	80	100	100

Source: Field work, 2011

Table 4.5 above explains that about 71.25% of the respondents were registered with the NBSSI while the remaining 28.75% respondents saw no reason in registering with the NBSSI, since the board did very little in ensuring their existence and growth.

4.5 PROBLEM OF FINANCING SMEs

The study wanted to find out whether financing was a problem to artisans in their production processes at Kokompe in Takoradi. Information obtained was depicted in Table 4.6 below indicated that, (100%) the respondents had problem with financing their business operations.

Table 4.6 Problem of Financing SMEs

Response	Frequency	Percentage%	Valid Percentage%
Yes	80	100	100
No	0	0	0
Total	80	100	100

Source: Field work, 2011.

Table 4.7 Major source of Financing SMEs

RESPONSE	FREQUENCY	PERCENTAGE (%)	VALID PERCENTAGE (%)
PERSONAL	24	20.00	20.00
FRIENDS	37	46.25	46.25
FINANCIAL INSTITUTIONS	19	23.75	23.75
TOTAL	80	100	100

Source: Field work 2011.

In table 4.7 above, it was found out that, the SMEs business operators in financing their production 24 of them (30%) relied on personal loan, 37 of them (46.25%) relied on loan from friends and 19 of them (23.75%) depended on loan from financial institution.

4.6 CREDIT OBTAINABILITY

Table 4.7 Distribution of lending markets that loans have been obtained by the SMEs

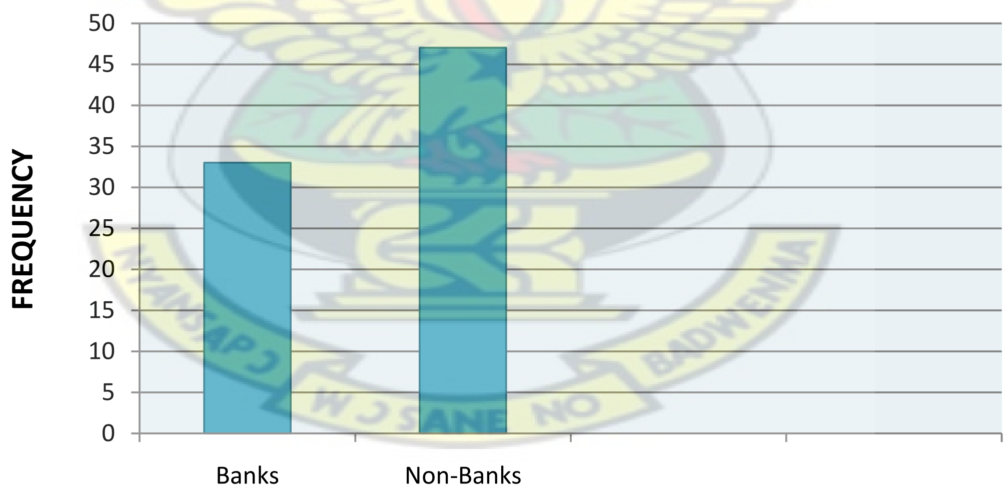
financial institution	Frequency	Percentage%	Valid Percentage%
banks	33	41.2	41.2
Non-Banks	47	58.8	58.8
Total	80	100	100

Source: Field work 2011.

The study revealed that, credits that were easily obtainable were from the non-bank financial institutions constituting 47 (58.8%) of the total respondents whilst 33 (41.2%) of the responded obtained credits from the banks. Similarly to this, about 60% had opinion that the non-bank institutions were the most reliable financial institution in terms of timing of release of credits the terms of repayments as well as interest rates to be paid by clients.

Majority of the respondents 47 (about 60%) complained of bureaucratic behaviour of banks not forgetting their high interest rates. Due to this, 33 of the respondents (41.2%) commented that, it was not economically sound to borrow from the banks as indicated in table 4.8 above.

Figure 4.2 **Lending agencies where last loan was obtained.**



LENDING AGENCY

Source: Field work, 2011

4. 7 FACTORS LIMITING ACCESS TO CREDITS

According to the respondents interviewed, there were a number of factors which limited SMEs access to credit facilities which included interest rate on loans and securities against loans, amount of loans to be contracted and the timing of the release of loans.

4.7.1 INTEREST ON LOANS

Almost all respondents who had borrowed before had interest on loan ranging between 0% and 40% with the majority falling between 21% and 40% (approximately 54% as indicated in table 4.9 below. Almost all respondents complained about interest being high on loans given out to SMEs especially when the terms of repayment was short between 30 days and 3years. This had effect on the repayment ability of artisans considering the fluctuating nature of the business activities.

Financial institutions on the other hand did not see interest rate on loans to be the cause of delay in repayment of loans. In general, they contended that, these SMEs agreed on both interest rates and terms of the loans before any transaction took place. According to table 4.9, below, 83.75% of the financial institutions interviewed determined interest rate primarily by the risk of the business, size of loan, and duration for loan repayment.

Table 4.9 interest rates Ranges by banks on loans granted to SMEs

range	Frequency	Percentage%	Valid Percentage%
0-20%	33	41.25	41.25
21 – 40%	34	42.50	42.50
41 -160%	13	16.25	16.25
Total	80	100	100

Source: Field work, 2011.

4.7.2 SECURITIES AGAINST LOANS

Information from the study presented in (table 5.0) shows that about 95% of financial institutions required securities in the form of collateral, viable business plan and banking records. This was needed to enforce repayment in order to offset losses in the case of default and help screen applicants. Collateral securities were normally assets like land, building, machinery and other non-current assets. This was a great impediment to access credit by most SMEs since most of the respondents do not either have any of these assets or were yet to own one.

Table 4.9 Forms of securities demanded financial institution against loans.

securities	Frequency	Percentage%	Valid Percentage%
collateral	54	67.5	67.5
Viable Business plan	8	10	10
Bank records	14	17.5	17.5
system	4	5	5
Total	80	100	100

Source: Field work, 2011

4.7.3 RECORDS KEEPING BY SMEs

Information from table 5.1 below explains that about 42.5% of the SMEs owners keep proper records in a form of invoices, receipts, accounts and the likes about their business, whiles about (57.5%) do not keep any form of proper records about their business. As a result, those who keep proper records about their business were more favoured in accessing loans than those SMEs who do not keep any form of proper records about their business.

Table 5.0 Records about business kept buy SMEs

RECORDS	FREQUENCY	PERCENTAGE (%)	VALID PERCENTAGE (%)
YES	34	42.5	42.5
NO	46	57.5	57.5
TOTAL	80	100	100

Source: Field work, 2011

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.0 INTRODUCTION

This chapter outlines a frame-work for developing credit schemes for SMEs activities. On the basis of the findings derived from the study, the chapter was divided into two sections. The first section present a summary of the findings, the second part are the conclusions drawn from the findings and the recommendations made.

5.1 SCOPE AND THE NATURE OF THE STUDY

The main objective was to find some of the factors that impede SMEs access to credit facilities in some selected SMEs at Kokompe in the Takoradi metropolis. More especially it was to identify and analyze firm's characteristic, registration with NBSSI, problem of financing, ability to obtain credits, interest and security on loans. In pursuance of this, a questionnaire was designed and administered to artisans and financial institutions. A sample size of one hundred (100) artisans and forty (40) officials of financial institutions were used but only eighty (80)

artisans and twenty–five (35) officials of financial institutions were able to provide information for the study.

3.5 SUMMARY OF FINDINGS

The analysis of data on artisans at Kokompe in Takoradi brought to light some important results, which are worth noting. Evidence has shown that men owned most enterprises at Kokompe in Takoradi with a sizable number of women as artisans, thus, in percentages of 60 % men to 40% women.

Majority (83.8%) of the artisans at Kokompe in Takoradi were aged between 30 years and 40 years, most of them have been in business for four to ten years, long enough to acquire any form of finance. But unfortunately, quite a number (62. 4%) of artisans have either not acquired any form of credit or have been denied the access to credit.

Another aspect was the source of finance to SMEs. It was discovered that the source included the banks and the non-bank financial institutions. Commercial banks, development banks, rural banks were noted as the banks which normally gave credit facilities to SMEs. The non-banks were predominantly credit unions, mutual savings and loans, money lenders and cooperative societies (see figure 4.2).

The data (figure 4.2) showed that a greater percentage of SMEs at Kokompe in Takoradi preferred the non-bank financial institutions to banks for credits due to higher interest rate, delay in the release of loans by banks, inability to provide collateral securities required by banks and inadequate time for loan repayment. It was also clear from the study that a greater percentage (63.8%) of SMEs do save with the banks and non-banks. An appreciable number (about 36.2%) of the artisans did not have any form of savings with either the banks or non-banks.

For the cross sections that have a form of savings, 67.5% save with non-banks, the remaining 32.5% with the banks.

As to whether these SMEs at Kokompe in Takoradi kept any form of records such as invoices, receipts, inventories and others as inferred from the questionnaire, 42.5% of them kept records while 57.5% majority of respondents were either ignorant of record keeping or did not see the importance of it as indicated on Table 5.1. Because of improper record keeping, it was difficult for these SMEs to obtain loans from banks since these banks mostly required records to find out how business fared and would be doing in the future in order to determine their legibility for loans. Thus, they tend to seek loans from the non-banking sector where record keeping was of less importance in granting credits to SMEs.

5.4. CONCLUSION

The conclusions drawn with respect to the objectives of the study were:

A great number of artisans expressed their dissatisfaction with credit facilities offered by the formal sector partly due to their relatively higher interest rate, their short repayment period, and their demand for collaterals especially in the form of an asset.

Another conclusion drawn from the study was quite a sizable number of artisans were of the view that, the informal financial sector was more reliable than the formal financial sector in granting credits for their business operations.

Last but not the least conclusion drawn from the study was a great number of artisans were also dissatisfied with the role NBSSI in ensuring the growth of SMEs in Ghana.

It was the researcher's view that much attention should be paid to these factors encountered by the study.

5.5. RECOMMENDATIONS

Based on the advances made by this study and coupled with the extensive work done on the study the following were the recommendations adduced:

Any entrepreneurship development programs must have a substantial component devoted to the training of accounting record keeping and bank transactions of the SMEs business owners. This will increase the confidence the banks have in the SMEs entrepreneurs to enable them have more access to credits (loan):

i. To reduce high processing cost relative to small loan amounts and to minimize time- consuming project appraisal, banks and NBSSI should focus initially on working capital as against investment loans

ii. Working capital loans may indirectly generate investment by successful SMEs, which were likely to plough back profits into their operations and expand the capacity of SMEs businesses. Investment lending should be concentrated on SMEs that have already reinvested substantial internal resources but needed supplementary external capital injection.

iii. Financial institutions should avail themselves to artisans (SMEs) at Kokompe as they do to large and well established firms.

iv. To expand small enterprise lending, banks need to develop alternatives to property as collateral to secure loans, such as personal guarantors, sales contracts and lien on equipment financed. All of these, however, may depend on improvements in the ability of the legal system to enforce commercials contracts.

v. Banks and informal financial agents may be able to enter into relationships that take advantage of the latter's superior information about small clients and their relatively low cost of frequent small transactions in other to be able guide to the operations of SMEs to grant credits.

vi. Risk can be controlled through character based lending to entrepreneurs (artisans) who have good track records. Also working arrangement with NGOs may help reduce the cost of screening and monitoring of SMEs entrepreneurs.

vii. Financing small medium scale enterprises need support in terms of protection from the government against competition from abroad. This can go a long way to help them increase sales, profit as well as working capital.

The findings of Aryeety (1993), about SMEs' prefer informal financial institution credits of funding their business was confirmed in this study.

The study finally concludes that for SMEs to be more effective in their dealings with banks and non banks in order for them to access credits, they should keep proper business records, the government should protect them from foreign competition as they take advantage of the local environment to grow into maturity.

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APPENDIX A

QUESTIONNAIRES FOR THE SMEs (ARTISANS)
DEPARTMENT OF INSTITUTE OF DISTANCE LEARNING (IDL) KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY (KNUST) KUMASI.
QUESTIONNAIRE ON FINANCING SMALL AND MEDIUM SCALES ENTERPRISES (SMES) AT KOKOMPE IN TAKORADI

Dear Sir/ Madam,

This questionnaire is part of a study aimed at investigation the financing of small and medium scale enterprises, the artisans at Kokompe in Takoradi. Your objective responses will constitute a strong empirical basis upon which policy makers will adequately consider SMEs in the national policy planning programs to reflect their output in the national economy.

You are please entreated to provide objective and dispassionate answers to the questionnaire items. The information provided will be treated confidentially.

Write or tick (√) the appropriate response to each item

1. What is the name of your business

…………………………………………………………………………………………………

2. What do you produce?

…………………………………………………………………………………………………

3. Do you own a business or working for the owner?

a. Yes [ ] b. No [ ]

4. Sex: a. Male [ ] b. Female [ ]

5. Age in years: a. 20-30 [ ] b. 31 – 40 [ ] c. 41 – 50 [ ]

d. 51 and above [ ]

6. Marital Status: a. Married [ ] b. Divorced [ ] c. Single [ ]

d. Separated [ ]

7. Are you a Ghanaian? a. Yes [ ] b. No [ ]

8. If No, to questions 7, why are you in Ghana?

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9. How old is your enterprise?

a. 1 year [ ] b. 2 years [ ] c. 3 years [ ] d. More than 4 years [ ]

10. How many employees do you have in your enterprise?

a. Between 0-49 [ ] b between 0-249 [ ] c. between 50- 249 [ ]

d. More than 249 [ ]

11. Have you registered your enterprise with the National Board for Small Scale Industries (NBSS 1)? a. Yes [ ] b. No [ ]

12. If yes, to question 11, in which year did you register your enterprise?

a. Before 1994 [ ] b. between 1995 – 2000 [ ]

c. between 2000- 2004 [ ] d. between 2005 -2007 [ ]

e. Between 2007-2010 [ ]

13. Have you ever attended any workshop organized by (N B S S I)?

a. Yes [ ] b. No [ ]

14. If yes to question 13, how many times?

a. Once [ ] b. Twice [ ] c. Thrice [ ] d. more than thrice [ ]

15. Does the problem of financing in any way affect your production?

a. Yes [ ] b. No [ ]

16. How do you finance your enterprise?

a. Personal loan [ ] b. Loans from friends [ ] c. Loans from financial institutions [ ] d. other (specify)..

17. If yes finance your enterprise through from the financial institution, state the name of the financial institution

………………………………………………………………………………………………..

…………………………………………………………………………………………………

…………………………………………………………………………………………………

18. Which of these institutions do you easily access loan (credit) facilities from?

a. Formal sector, example Banks [ ] b. Informal sector (example Money lenders) [ ]

c. others specify...

19. Do you require providing Securities in the form of collateral, viable business plan, and banking records before accessing loans from financial institutions like the banks?

a. Yes [ ] b. No [ ]

20. Do you often meet the requirement of financial institutions being it in the form of collateral security? a. Yes [ ] b. No [ ]

21. If yes to question 20 above, what is the problem?

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…………………………………………………………………………………………………

…………………………………………………………………………………………………

22. Do these securities enforce repayments? a. Yes [ ] b. No [

23. In your view, which is more credible?

a. Formal sector example Banks [ ] b. Non-banking institutions [ ]

c. others (specify)..

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24. Give reason to your response to question 23 above

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…………………………………………………………………………………………….

25. Do you agree on interest rate and terms of loans before transacting business with financial institutions? a. Yes [ ] b. No [ ]

26. Give reason to your response in question 25 above.

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………………………………………………………………………………………………

27. What are the interest rates on the loan you normally access from financial institutions? a. 0- 10% [ ] b. 11-20% [ ] c. 21-40% [ ] d. above 41% [ ]

28. Give reason(s) for your response to question 27 above.

……………………………………………………………………………………………

29. Do you consider these interest rates as too high? a. Yes [ ] b. No [ ]

30. If yes, to question 29 above in what ways(s)

…………………………………………………………..

………………………………………………………………………………………………

………………………………………………………………………………………………

31. Does the interest rate on loans in any away affect your production?

a. Yes [ ] b. No [ ]

32. Does repayment period in any way affect your repayment ability?

a. Yes [ ] b. No [ ]

33. Which of these repayment periods do you consider most convenient?

a. Short term between 330 days and 3 years [ ]

b. Long term between 3 years and 10years [ ]

c. others (specify) ………………………………………………………………………………….

………………………………………………………………………………………………………

34. Do you receive incentives in any form from the government?

a. Yes [ ] b. No [ ]

35. If yes to question 34 above, what form of incentive do you receive?

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……………………………………………………………………………………………...........

APPENDIX B

QUESTIONNAIRES FOR THE FINANCIAL INSTITUTIONS

DEPARTMENT OF INSTITUTE OF DISTANCE LEARNING (IDL) KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY (KNUST) KUMASI.

QUESTIONNAIRE ON FINANCING SMALL AND MEDIUM SCALES ENTERPRISES (SMEs) AT KOKOMPE IN TAKORADI

Dear Sir/ Madam,

This questionnaire is part of a study aimed at investigation the financing of small and medium scale enterprises, the artisans at Kokompe in Takoradi. Your objective responses will constitute a strong empirical basis upon which policy makers will adequately consider SMEs in the national policy planning programs to reflect their output in the national economy.

You are please entreated to provide objective and dispassionate answers to the questionnaire items. The information provided will be treated confidentially.

1. What is the name of the institution you work for?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

2. What type of financial institution do you place your institutions?

a. Formal [ ] b. Informal [ ]

c. Others (Specify):

………………………………………………………………………………………………..

…………………………………………………………………………………………………

3. How many years does a business qualify for a credit facility from your institution?

a. 1 year [ ] b. 2 years [ ] c. 3 years [ ] d. above 4 years [ ]

4. How would you rate the savings of artisans in your institution? a. Low [ ]

b. very low [ ] c. high [ ] d. very high [ ]

5. What are the other requirements that artisans must meet in order to acquire a loan from

your institution? ……………………………………………………………………………..

…………………………………………………………………………………………………

6. How many years have institution been in operation? a. 1- 5years [ ] b. 6 – 10

years [ ] c. 11 – 15years [ ] d. Above 15 years [ ]

7. What is your institution's interest rate on loans?

…………………………………………………………...

………………………………………………………………………………………………

8. What is the repayment period of your loan facilities?

a. Long term [ ] b. Short term [ ] c. others

(specify)..

9. Do you consider the interest rate to be the cause of delay in repayment of loans to artisans? a. Yes [ ] b. No [ ]

10. Give reason for your response to the choice in question 9 above.

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……………………………………………………………………………………………

11. Do you agree on both interest rate and terms of repayment before transacting any business with the artisans? a. Yes [ ] b. No [ ]

12. If yes to question 10, what is the level of your institutions agreement?

a. Strongly Agree [ ] b. Agree [ ] c. Disagree [ ]

d. Strongly Disagree [ ]

13. What determines the interest rate on loan in your institution?

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14. Indicate the main security that your institution requires before granting loans.

a. Viable business plan b. [ ] building [ ] c. furniture [ ] c. Bank records [ ]

d. Car [ ] e. others (specify)

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15. Do these Securities enforce repayment of loan? a. Yes [ ] b. No [ ]

16. Given reasons to your response to question 15 above

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17. How many artisans have you financed since 2004?

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18. What is the rate of default in the repayment if loans accessed from your bank by the artisans

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19. Suggest measures that can influence customers to pay loans.

…………………………………………………………………………………………………

THANK YOU