THE CHALLENGES OF FINANCING SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) A CASE STUDY OF THE TRUST BANK LIMITED

By

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CERTIFICATION

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

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ABSTRACT

In Ghana, available data from the Registrar General indicates that 90% of companies registered are micro, small and medium enterprises. This target group has been identified as the catalyst for the economic growth of the country as they are a major source of income and employment. Despite these things, SMEs find it difficult to grow because they lack the adequate resources needed to develop. There are many who believe that the single most important factor constraining the growth of the SME sector is the lack of finance.

This focus of study was on challenges in financing SMEs by the Trust Bank Limited. The study sought to among other things identify the numerous contributions of the bank in relation to financial assistance likewise identifying the numerous constraints and challenges by these SMEs. Through the use of questionnaires, data were collected from staff and customers of the Trust Bank, entered using SPSS and analyzed with a combination of qualitative and quantitative methods. It was observed that though, the Bank being profit-oriented institution, has long acknowledged the importance of SMEs in its operations. The Bank offers a range of services to satisfy the financial needs of their customer (SME segment), thereby contributing to SME development. Notwithstanding this, The bank continue to reject a large percentage of SMEs requests for financial assistance, sighting inadequate provision of information, lack of collateral by SMEs as some of reasons. Additionally, managerial incompetence of SMEs does not make them credit worthy and attractive to the bank. Consequently, the bank has modified its strategy in their dealings with SMEs by providing the latter with business advisory services and managerial assistance to reduce default risk and improve their chances of success.

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CHAPTER ONE

1.0 OVERVIEW AND BACKGROUND OF THE STUDY

1.1 Introduction

Financing for small and medium-sized enterprises (SMEs) continues to be a key focus for government and industry. It is recognized that every business has unique needs when it comes to financing. This chapter offers a comprehensive insight into the central issues of concern in assessing the challenges of financing SME's. It begins with a brief background of the study of issues related to financing SMEs. This chapter discusses the overall approach to the study and provides the initial questions required for further probing into the research issues of financing SMEs

1.2 Background of the Study

Small and Medium Scale Enterprises (SMEs) constitute about 60 percent of the private sector of the Ghanaian economy. It therefore contributes significantly to the economic development and growth by providing employment opportunities for the vast majority of the workforce and increasing the nation's access to the world market.

One reason for SME's attention has been the belief that for a healthy and vigorous micro-economy, small and medium enterprises development is crucial to the performance of the any economy and therefore considered as an engine of growth. SMEs therefore have become an important contributor to the Ghanaian economy. The sector accounts for a greater percentage of business establishments in many economies. A 1992 study by the Ghana Statistical Service revealed that nearly 93 percent of all registered businesses in

Ghana are of the SME category. As a result, SMEs need access to funds to carry out their business operations. These funds can be sourced from institutions such as banks, NGOs, and government. Unfortunately, this sector is faced with constraints that inhibit them from accessing financial assistance especially from banks.

Arguably some of the issues bother on the absence of properly laid down organizational structures, good book keeping, and collateral security amongst others. Access to credit stands as the sole ingredient for the sustenance of SMEs over time. SMEs are offered various forms of financial assistance from many institutions including banks. Most Banks gradually declined from lending to SMEs because they lacked trust and confidence in SMEs because of their inability to pay back in good time or often defaulted in repayment. Fortunately, things are changing with the passage of time as banks are gradually lending to SMEs by allowing them to deposit funds and receive financial assistance.

Recently, banks have also realized that they are still the main source of financial assistance to SMEs as compared to other institutions. This has led to many banks redesigning their business services into a new product called SME Banking which provides SMEs access to a variety of financial services. They however, continue to find it problematic to provide SMEs with financial assistance because SMEs continue to present insufficient information, have shorter credit histories, and exhaust the funds on things other than what it is meant for, resulting in high loan default rates.

Banks spend large amounts of funds and resources on the operations that fetch them money such as deposits, loans, and corporate banking. Therefore they must take adequate measures to ensure that the liabilities they assume are managed well such that depositors have access to the funds when they need them whilst banks make reasonable profits from these assets.

In 2008, The Trust Bank Limited (TTBL) was adjudged the Bank of the year 2007 by the Corporate Initiate Ghana yet the Bank did not win an award in SME financing.

This dissertation therefore seeks to examine the hindrances that SMEs face in securing financing from the Bank for their activities and challenges the Bank also faces in lending to SMEs. The study also attempts to suggest ways of improving access to credit for smooth delivery of their operations.

1.3 Problem Statement

Considering the importance and benefits to be derived by well developed SMEs to the economy in terms of employment generation, income generation etc, and one would have thought that every effort would be made to fully support the development and performance of SMEs but unfortunately, there are numerous obstructions hindering the achievements and growth of the sector.

The relationship that existed between banks and SMEs in the past was fragile as banks perceived SMEs to be dishonest because they fabricate information and financial figures to complete the application forms, so as to give an impression that they were performing well. SMEs are of the opinion that banks are obligated to facilitate their acquisition of funds especially if they are also customers of the bank. This has led banks to tread the waters cautiously when dealing with SMEs so that they don't lose out. Unfortunately, as a result of the perception banks have about SMEs, it has rather been difficult for banks to approve credit applications for SMEs.

In spite of the growing importance of alternative sources of financing, most SMEs still depend on banks even though their credit applications are sometimes rejected and this is a clear indication of the hindrances that are associated with the SMEs access to credit facilities for their operation.

1.4 Research Questions

In order to achieve the objectives of the study, the following research questions were addressed. To find out:

1. What is the role of banks especially the Trust Bank Limited in SME development?
2. What are the challenges faced by the bank when lending to SMEs and
3. What are the alternative sources of finance for SMEs other than the bank?

1.5 Objectives of the study

Following from the statement of research problem and questions, the general objective of the study was to find out the challenges faced by The Trust Bank Limited when lending to Small and Medium-Scale Enterprises. The study sets out to achieve the following specific objectives:

1. Ascertain how supportive financial institutions (Banks including TTBL) have

been to SMEs development in the country.

2. Assess how SMEs carry out their operations.
3. Find out the relationship that exists between financial institutions (with reference to The Trust Bank Limited) and SMEs.
4. Assess the various sources of finance available to SMEs.
5. Identify the problems SMEs encounter when assessing these finances and the challenges the Bank faces in lending to SMEs

1.6 Organisational Profile (The Trust Bank Limited)

The Trust Bank (TTB) was incorporated on 3rd October 1996 and commenced business on 14th October 1996 to provide universal banking services to its valued customers. Operating for a over decade now, TTB has undergone a lot of strategic transformations to become more competitive in its chosen markets. It was adjudged bank of the year 2007 by Corporate Initiative Ghana and a London based emeafinance magazine. The Bank also received the Dr. Kwame Nkrumah Excellence in Enterprise Award 2007.

TTB's core activities are structured along the following businesses:

- Their **Commercial and Consumer Banking** strives to optimise the conventional commercial banking services while providing professional asset management, business advisory and investment services with the support of in-house and outhouse specialists.

- As a **Corporate Banker**, TTB assumes its role as a first-rate supplier of finance and advisory services in close co-operation with the corporate finance skills of Fortis Bank's European network.

- The (financial markets) dealing room and its sales/trading specialists are playing an increasingly active role as **the Bank for Institutions**.

- The main focus of the **Retail Banking** team is to identify the retail banking needs of their customers and fashion out innovative solutions in a way that makes sense to the customers.

SHAREHOLDING STRUCTURE OF THE TRUSTBANK LIMITED

Share Holding Institution	% Shares
Social Security and National Insurance Trust (SSNIT)	61.14
FMO	10.00
COFIPA	13.50
African Tiger Mutual Fund	06.00
Ghana Re-Insurance	09.36
Total	100

Source: www.thetrustbank.com.gh (sighted Sept. 14, 2009)

The Social Security and National Insurance Trust (SSNIT), the single largest pension fund in Ghana, is the single largest shareholder of The Trust Bank. Other shareholders include: Ghana Reinsurance Company Limited, Holding COFIPA (a Paris-based investment company owned by West African businessmen), The African Tiger Mutual Fund (an investment company registered in Ghana) and FMO (The Netherlands Development Finance Company).

1.7 Justification for the Study

Since the government want to create an enabling microeconomic environment conducive for rapid economic growth, there is the need for the financial sector to grant credit facilities to the private sector to improve upon their business operations which would eventually reflect in the growth of the economy. The study of financing SMEs therefore is very essential to the various stakeholders in the private development sector. The problem of financing SMEs is a serious drawback to the development of the sector and the economy as a whole and thus the need to jointly collaborate with all stakeholders.

This research therefore seeks to diagnose SME financing malaise by assessing the availability of entrepreneurs and the financial environment within which these SMEs function (with special reference to the Trust Bank Limited). It is expected that, the outcome of the study would serve as an important guideline to policy makers about their next point of action. Finally, it would also serve as a written document to add to existing literature on the subject and be a guide and springboard for further research.

1.8 Scope and Limitations of the Study

Due to limited time and financial resources at the disposal of the researcher, a sample proportion with varied characteristics of the entire population was chosen for the purpose of the study and the conclusion generalized to reflect the entire situation. The research study covered Staff and customers of the Trust Bank Limited Kumasi Branches.

1.9 Structure of the Report

The report is structured into five (5) chapters. Chapter one entails background information to the study, the problem statement, research questions and objectives as well as the significance of the study.

Chapter two reviews related literature which was of significant importance to the study. It includes theories, definitions, views of the studies undertaken and other authors in relation to the study.

Chapter Three deals with the approaches in carrying out the research which entails the research design, population and the sampling method, data collection techniques, data collection procedure and data analyses technique.

Chapter four contains the analysis of the data collected from the field whereas the final chapter, which is chapter five, presents a summary of the research findings together with recommendations and conclusion.

CHAPTER TWO

2.0 THEORETICAL FRAMEWORK FOR THE ANALYSIS OF DATA

2.1 Introduction

This chapter presents a review of the theoretical framework by offering some SME definitions and discussing institutions that promote SME development. Also, it discusses the contribution that SMEs make to economic development. It continues with an examination of SME financing with particular emphasis on sources of finance and the problems associated with accessing and supplying finance. The chapter concludes with a discussion of the importance of financial institutions to SME development.

2.2 An Overview of the SME Sector

In Ghana, available data from the Registrar General indicates that 90% of companies registered are micro, small and medium enterprises. This target group has been identified as the catalyst for the economic growth of the country as they are a major source of income and employment.

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

A typical profile of this target groups are characterized by the following:

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

2. The lack of technical know-how and inability to acquire skills and modern technology impede growth opportunities.
3. Management skills are weak, thus inhibiting the development of a strategic plan for sustainable growth; and
4. This target group experiences extreme working capital volatility.

Many non-financial constraints inhibit the success of such enterprises. SME owners are reluctant to be transparent or open up involvement of their businesses to outsiders. They seem to be unaware of or oblivious to the obligations and responsibilities they have toward capital providers, and the need to acquire or seek support for technical services like accounting, management, marketing, strategy development and establishment of business linkages. Management and support services are perceived to be cost prohibitive and non-value adding. SMEs have not taken full advantage of Government-sponsored business support services such as the National Board for Small Scale Industries (NBSSI), which operates in the 10 regional capitals under the Ministry of Trade and Industries and the Ghana Resource Appropriate Technology and Industrial Service (GRATIS), a foundation that provides skill training and basic working capital tools for start-ups.

2.3.1 Definitions of Small and Medium-Scale Enterprise (SME)

According to Ward (2005) there is no universal definition for SMEs since the definition depends on who is defining it and where it is being defined. For example, in Canada SME is defined as an enterprise that has less than 500 employees and a small enterprise as one that has less then 100 employees. On the other hand, the World Bank defines SMEs as having more than 500 employees.

SMEs can be defined in two ways:

i. Based on the number of employees in an enterprise and/or

ii. The enterprises fixed assets.

According to Boon (1989), the size of the enterprises employment is the most important criterion used in Ghana. But he urges that, one must be cautious when defining SMEs based on fixed assets because of the continuous depreciation in the exchange rates, which often makes such definitions out-dated.

In addition, UNIDO defines SMEs in developing countries based on the number of employees in an enterprise. A small enterprise has between 5 and 19 workers and takes the example of the small shops in the cities such as hair dressing salons, chop bars etc. A medium enterprise has 20 to 99 workers and these include manufacturing firms and exporting companies.

The Ghana Statistical Service, in their 1987 Ghana Industrial Consensus, considers firms employing between 5 and 29 employees and with fixed assets not exceeding $100,000 as small scale, while those employing between 30 and 99 employees medium scale category.

Staley and Morse (1998) in their companion study defined Small and medium Enterprise (SME) as manufacturing carried on in relative small establishments. It thus include both non-factory and factory firms. Household industry and artisan industry are examples of non-factory forms of SME.

For the purpose of this research, The Venture Capital Trust Fund Act 2004 (Act 680

Section 28) definition of SMEs will be used since it's a more recent definition. SMEs are defined by the Venture Capital Trust Fund as "an industry, project, undertaking or economic activity which employs not more than 100 persons and whose total asset base, excluding land and building, does not exceed the cedi equivalent of US$1 million in value."

2.4 Promoting SME Development

The idea of SME promotion has been in the existence since 1970, though very little was done. At that time, key institutions were set up to assist SMEs, and prominent among them are the office of Business Promotion and the present Ghana Enterprise Development Commission (GEDC). It aims at assisting Ghanaian businessmen and women to enter into fields where foreigners mainly operated. GEDC also had packages for strengthening small scale industry in general, both technically and financially.

The Economic Recovery Programme (ERP) instituted in 1983 has broadened the institutional support of SMEs. The National Board for Small Scale Industries (NBSSI) was established within the ministry of trade and industry to address the needs of small businesses. The NBSSI established an entrepreneurial development programme intended to train and assist persons with entrepreneurial abilities into self employment. In 1987, the industrial sector also witnessed the coming into operation of the Ghana Resource Appropriate Technology Industrial Service (GRATIS). It was to supervise the operations of the Intermediate Technology Transfer Unit Service (ITTUS) in the country. GRATIS aims at upgrading SMEs concerns by transferring appropriate technology to small scale and informal industries at the grass root level. ITTUS in the regions are intended to develop the engineering abilities of small scale manufacturing and service industries engaged in vehicle repairs and other related trade. They are also to address the needs of non-engineering industries. The setting up of the new Ministry for Private Sector Development by government is also an attempt to focus on the development of the SME sector and to give employment to the youth.

There are several institutions, programmes and government agencies that aim at promoting SME development. These were created to help SMEs in various ways such as;

1. access to finance
2. Training programmes and
3. Technological development.

2.4.1 Government Institutions

Government has implemented several programmes to benefit the SME sector in Ghana. This started in 1969 with the establishment of the Credit Guarantee Scheme, which was administered by the Bank of Ghana (BOG) to assist entrepreneurs to obtain bank credit. Shortly after this, in 1970, the Ghana Business Promotion Programme was established to provide financial assistance to newly established SMEs. Unfortunately these schemes did not have the intended impact because of low loan repayment rates and the fact that beneficiaries were politically connected to former managers of foreign-owned enterprises (BOG, 2006).

Under an Act of Parliament in 1981, Act 434, The National Board for Small-Scale Industries (NBSSI) was established to promote and develop the small-scale industrial sector because of their importance and contribution to the economic development of Ghana. The NBSSI also has a revolving loan scheme that is intended for working capital and fixed assets acquisition by enterprises in selected sectors. It collaborates with and receives support from several NGOs and international organizations such as the Friedrich Ebert Foundation, World Bank, and UNDP. Unfortunately, according to Adu-Amankwah (1999), this institution is poorly funded thus limiting the assistance that they can offer to help SMEs develop and grow in the economy.

GRATIS is another organization that was established by the Government of Ghana to promote small and medium scale industrialization, provide employment opportunities, improve incomes and enhance the development of Ghana. This is accomplished through the dissemination of appropriate technologies by developing and demonstrating marketable products and processes for small and medium enterprises.

The Ministry of Private Sector Development (MPSD) was established to coordinate and harmonize inter-sectoral efforts to propel the development of the private sector as an engine of growth and poverty reduction. With a majority of the working population in this sector, government is aiming at a successful reform that will have a major effect on the development of society and the economy.

Within the MPSD is the Business Development Unit which aims to facilitate business support services targeted especially at the informal sector and access to credit for micro and SMEs. Some of these services are the African Development Fund (ADF) and Ghana Government providing between 5 to 8 SMEs with up to US$500,000 each for the next 5 years; the Italian Credit Facility of 10,000,000 Euros; the Danish Government's contribution of US$30m for the Business Sector Programs Support; and the Swiss Government support of US$5m which is being administered by The Trust Bank Limited. Also, in addition to a US$40m HSBC credit, MPSD has arranged for the SOFITEL Bank of USA to approve and release a US$17m facility to the Ghana Commercial Bank (GCB) to enable the bank to provide long-term project credit to SMEs (http://www.mpsd.gov.gh/)

Government has also issued several policy papers to support SMEs. These include the Investment Code 1985 (PNDC Law 116), Draft Policy Paper on Micro and Small Enterprise Development (May 2002), MPSD Policies, Strategies and Action Plan: 2002-2004, Ghana Poverty Reduction Strategy Paper (2002-2004), and the National Medium-Term Private Sector Development Strategy (2004-2008), which articulates government's commitment to facilitate private sector-led growth. There have also been various programs and initiatives over the past 10 years to support the sector such as Vision 2020, President's Special Initiative (PSI), and The Fund for Small and Medium Enterprise Development (FUSMED).

2.4.2 Non-Governmental Organisations

EMPRETEC Ghana and TECHNOSERVE are two of the most popular NGOs in Ghana established to offer assistance to SMEs. The former raises funds for SMEs through venture forums where entrepreneurs are linked with potential investors. The latter on the other hand, helps entrepreneurs to build businesses that create income, employment opportunities, and economic growth for the nation. They train and mentor the entrepreneurs to identify customer needs, employ capable managers, and act strategically.

2.5 SMEs Contribution to Economic Development and Growth

"The private sector is the engine of growth of the economy therefore they must be given the necessary tools to increase their growth" (Anyima-Ackah, 2006).

Economic development is a process of economic transition involving the structural transformation of an economy through industrialization, rising GDP, and income per head. Economic growth, on the other hand, contributes to the prosperity of the economy and is desirable because it enables the economy to consume and contribute to more goods and services by increasing investment, increase in labour force, efficient use of inputs to expand output, and technological progressiveness. Any nation that experiences economic development and growth will benefit from improvements in the living standards especially if the Government can assist in growth by implementing complementary and growth-enhancing monetary and fiscal policies (Pass et al, 1993).

The SME sector is considered very important in many economies because they provide jobs, pay taxes, are innovative, and very instrumental in countries participation in the global market. Beck and Kent (2004) state that SME activity and economic growth are important because of the relatively large share of the SME sector in most developing nations and the substantial international resources, from sources like the World Bank Group, that have been channeled into the SME sectors of these nations.

SMEs account for nearly 93% of the registered businesses in Ghana and therefore play an important role in economic development by providing employment opportunities, opening up new business opportunities, enhancing entrepreneurship, and fostering creativity among many other things. Kaynula and Quartey (2000) recognize them as the engines through which the growth objectives of developing countries can be achieved and are potential sources of employment and income in many developing countries. Mensah (2005) makes the analogy that SMEs act like sponges by soaking up surplus labour to provide a large share of employment and income in Ghana.

Many researchers have discovered that SMEs enhance competition and entrepreneurship therefore they suggest that direct government support can boost economic growth and development. Also SMEs growth boost employment more than large firm because they are labour intensive and make better use of scarce resources with very small amounts of capital. Hallberg (2000) stated that, developing countries should be interested in SMEs because they account for a larger share of firms and employment in these countries. Young (1994) continues by saying that SMEs are not only important because they are a source of employment but also because they are a source of efficiency, growth, and economic decentralization.

2.6 Financing SMEs

SME business operations are being transformed as a result of events on the international scene, such as rapid globalization and WTO commitments. The ability of SMEs to grow depends on their potential to invest in restructuring, innovation and efficiency improvements. All of these investments require capital and, therefore, access to finance. Unfortunately, this sector is faced with a major constraint that hinders investments, that is lack of adequate financing facilities.

This section gives a brief overview of the sources of finance and then examines some of the major problems that SMEs face in accessing finance. It also examines the problems confronted by banks in supplying credit.

2.6.1 Sources of Finance available to SMEs

Finance is important to businesses since funds are needed to conduct business activities. Access to finance from banks is perceived as extremely pertinent to the financial well being of SMEs (Eurobarometer, 2005). Many SMEs are of the opinion that banks are the best source of finance. Filgrave (1998) however, states that banks are not the place for SMEs to seek finance and that it should be accessed from other sources. On the contrary, Altman and Sabato (2005) found that borrowing from commercial banks remains the most important source of external finance for SMEs. SMEs can choose from an array of financial sources that will best suit their needs. The following is a list of financial sources that SMEs can choose from to best meet their financial needs.

1. Banks
2. Capital Markets
3. Government
4. Personal Finances
5. Contributions from family and friends
6. Informal Sector
7. Non-Bank Financial Institutions

SMEs use banks as a source of finance by making use of the products and services that are available such as business loans, letters of credit, and management advice. The capital market is another source of finance but it is usually unsuccessful with SMEs because the cost of listing to raise small amounts of funds is as costly as raising large amounts. It is, however possible for a consolidation of SMEs that are willing to coalesce to raise funds on the capital markets. Funds are available through government-sponsored programs for the development and expansion of SMEs. Unfortunately, the SMEs finance their business operations through the personal finances of the entrepreneur especially during the start up phase but they can also access funds from relations and friends with the agreement to refund the money at a later date. Susu is a popular and cheap source of finance especially among traders such as market women. It consist of collectors who have clients who agree to save with them by depositing money each day and at the end of the saving period (maybe end of every month), the collector returns the deposits for the savers use. NBFIs are usually short term loans with high lending rates and requirements that seem unachievable. It is possible for businesses to access this form of finance but it's not recommended if the business is small and doesn't make too much profit.

2.6.2 Current Status of SME Financing

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

a) A relatively undeveloped financial sector with low levels of intermediation

b) Lack of institutional and legal structures that facilitate the management of SME lending risk.

c) High cost of borrowing and rigidities interest rates. Because of the persistent financing gap, many interventions have been launched by governments and development partners to stimulate the flow of financing to SMEs over and above what is available from exiting private sector financial institutions.

2.7 Problems with Accessing Finance

Finance for business activities is crucial for the development of SMEs but due to their high-risk profile they face many barriers with accessing finance. According to a 1992 research conducted by Steel and Webster, the most critical constraint on expansion was lack of finance for working capital and new investment. They are also faced with other constraints such as: lack of access to appropriate technology, the existence of laws, regulations and rules that impede the development of the sector, weak institutional capacity, and lack of management skills and training (Kayanula and Quartey, 2000). These constraints, in addition to the relatively shorter credit histories, have limited SMEs access to finance.

Levy (1993) also found that, there is limited access to financial resource available to smaller enterprises compared to large organizations and this affected their growth consequently. This stems from the fact that SMEs have limited access to capital markets partly due to the perception of high risk information barriers and high cost of intermediation for smaller firms. In Sub-Saharan Africa, most small businesses fail in their first year due to lack of support from government and traditional banks (Biekpe, 2004). In Ghana, the problem of financing SMEs has significantly hindered the role they play in the overall macro-economic performance of the Ghanaian economy.

In developing markets lack of adequate information on the financial creditworthiness and financial conditions of SMEs stands as an obstacle in obtaining adequate finance. Aryeetey et al (1994) suggest that the ability of small enterprises to exploit highly profitable opportunities would be enhanced if external financing were more accessible. Likewise, according to Winter (2005), SMEs should be better served because of their potential for greater benefits to the economy and long-term development. Most informal lenders are oriented toward small consumer and trading loans cannot provide the amount of funds demanded by SMEs or accommodate the low interest rates that they can afford.

In spite of these developments, lack of finance continues to be a major problem to SME development in Ghana. The explanation of the growth of these SMEs is more complex and factors that are put forward by researchers include:

a) Structural Changes in the economy especially the growth of the sector where a smaller size firm is more optional.
b) An associated change in the extent of economies of scale partly associated with technical changes which suit smaller scale production.
c) The ability of the smaller firm to be more flexible and respond to "market opportunities", the ability to be both specialized and flexible.
d) Change in government policy and the fostering of the so-called enterprise culture.
e) Change in micro-economic policy in favor of small firms. For example, reduction on interest rate, change in company tax to ensure fair treatment of small firms.
f) A more important role for the small firm in local authority policy.

Private sector initiatives by the government of Ghana, for example, agencies like NBSSI, GEPC, EDIF, BAF, etc. were established for the promotion of SMEs in Ghana. The idea that problems in financing small firms have significantly hindered the role they play in the overall macroeconomic performance of the Ghanaian economy is deeply rooted since the overthrow of the first Republic of Dr. Nkrumah (Boapeah, 1993). Previous studies have identified a growing gap in the financial support offered to Ghanaian SMEs. Aryeetey et al (1994) reported that 38% of the SMEs surveyed mention credit as a constraint.

2.8 SME Financing from Financial Institutions

The formal financial sector in Ghana comprises commercial banks (including Merchant Banks and Development Banks), 17 of which operate a network of 303 branches in the country; 115 rural and community banks, savings and loan companies and non-bank financial institutions.

Recently, as banks and other financial institutions have sought to broaden their loan portfolio, SMEs have become an increasingly attractive customer group. Traditionally, however, financial institutions in Ghana have been cautious with lending to SME groups because of high default rates and risks associated with the sector. Few banks have therefore developed an explicit policy for SME target groups taking the particular requirements and needs into consideration, e.g. developing earmarked financial products and appropriate credit management systems. Only few banks have SME specific loan products, and many of these are donor funded. Few banking institutions have SME desks or departments. For the others, lending to micro and small businesses is simply transacted by credit officers from corporate finance departments of the bank who generally apply the same appraisal and lending principles to SMEs.

2.9 Considerations in Given-Out Financial Credit

Lacks of collateral and firm size are some problems that SMEs encounter when they are accessing bank credit. The following subsections examine the problems and looks at how they may affect the credit demands of SMEs.

2.9.1 Collateral

Collateral is a credit risk management tool used by banks as compensation in the case where a borrower defaults on a loan. It can take the many forms such as landed property, automobiles, compensating balances, and houses. The lender will sell the collateral if the borrower defaults on the loan to make up for the loss.

Collateral continues to be an important part of SMEs access to bank finance. The ability for them to provide it still remains a determining factor in their access for credit. Many SMEs have little or no collateral to offer against a loan. The fact that almost all SME loans are backed by some form of collateral (usually in the form of property) indicates that it must be the single most important factor beyond credit rating that the banks rely upon to deal with information asymmetry and agency costs. Aryeetey et al (1994) suggest that banks can offer alternatives to property as collateral such as guarantees, sales contracts, and liens on equipment financed.

The existence of collateral means that banks do not have to rely as much as they otherwise would on detailed investigation and analysis of the borrower's business. At one level, collateral can be viewed as a relatively efficient form of insurance for banks. But at a more fundamental level, collateral serves as an important incentive for borrowers to avoid defaulting on loans and as a means by which borrowers can signal their creditworthiness to lenders.

Unfortunately, in Ghana, collateral is a difficult thing for SMEs to provide. Entrepreneurs usually offer their own property to compensate banks in the case where they may default on their loans. Land and buildings are usually used as collateral in Ghana but this poses a problem because of land ownership problems, a piece of land usually doesn't belong to one individual. The importance of collateral does, however, depend on other factors such as the size of the firm, length of time that the business has been in existence, bank-borrower relationship, and the reputation of business.

Availability of collateral and reputation (track record) can alleviate the problem of adverse selection and moral hazards. Low risk borrowers (who could otherwise leave the market due to high interest rates) can indicate their status through provision of adequate collateral and good reputation. With their assets at stake as collateral, firms will be motivated to perform to the best of their abilities. In this context, lack of collateral and reputation may lead to a firm being denied credit.

To the extent that small firms posses less collateral and reputation than large firms, they may face yet greater difficulty raising capital than to large firms. This implies that the already disadvantaged small firms may even need proportionally more collateral than large firms would do.

2.9.2 *Size of the Firm*

SMEs face more challenges in doing business than large enterprises because of the difficulties in financing start-up and expansion. Schiffer and Weder (1991) found that small firms tend to experience more difficulties than medium-sized firms, which also experience more difficulties than large firms. In most countries, especially developing nations, lending to small businesses and entrepreneurs remain limited because financial intermediaries are apprehensive about supplying credit to businesses because of their high risk, small portfolios, and high transaction costs. Young (1994) also found that both small and medium sized firms experience greater challenges in accessing finance than large firms.

2.9.3 *Capitalization*

In addition, small and medium enterprises are frequently under-capitalized (Blanton and Dorman, 1994). That is, the term structure of loans granted to SMEs does not suit their needs. Whilst many SMEs need long term capital, banks are usually only willing to grant them short-term sources such as lines of credit and informal sources to finance long-term needs like new equipment purchases (Riding and Short, 1987a).

2.9.4 *Attitudinal Behaviour*

The attitude and objectives of the owner-manager can also exert an important impact on the firm's ability to secure external finance. Such managers are often unwilling to provide personal assets as collateral. Furthermore, many small businesses have objectives other than growth as priority (e.g. "lifestyle businesses"). However, Binks and Ennew (1996) argue that many small firms will be forced to provide yield expansion to protect their limited liability status (which could be otherwise eroded by the provision of personal assets as loan collateral). A primary motive for starting a small business is to exert greater control over the work environment and to internalize the benefits of personal effort and risk-taking. In this regard, then, it is understandable that many small business mangers would not countenance any dilution of this control through the introduction of outside equity from venture capitalists or business angels. Thus, the attitude of SME managers may sometimes constitute an important constraint on the range of external financing sources available to the firm.

2.10 Symmetric Information: Adverse Selection and Moral Hazard

Lending to SMEs is a risky activity that entails both adverse selection and moral hazards problems. Banks generally rely on "soft" or unverifiable information that is provided by the SMEs. There is, therefore, the need to bridge this information gap. Information asymmetry occurs when business owners know more about the business than lenders. For example, owners of the business know how well the business is performing compared to the shareholders. The presence of asymmetric information leads to banks incorporating high interest rate premiums to their charges to make up for the perceived high incidence of default on facilities that are offered.

2.10.1 Information Asymmetry

The problem is also due to information asymmetries. Information asymmetries refer to the disparity between the information available to businesses seeking capital and suppliers of capital who are typically assumed to be at an information disadvantage with respect to insiders of the business. Two direct aspects of information asymmetry are usually identified: adverse selection and moral hazards (Inks and Ennerr, 1996, Bester and Hellwig, 1989).

Adverse Selection – Adverse selection is a result of asymmetric information and occurs before a loan transaction occurs. There are individuals or businesses that have taken up a profession to actively seek for funds from banks. Unfortunately, these "fund-seekers" are usually bad credit risks. Because they are always seeking funds, they have perfected the art deceiving moneylenders, and at the end of the day, unsuspecting banks will usually grant these money-seekers the funds.

When businesses acquire loans the owners may have incentives to take higher risks than they otherwise would. In other words, they may use the funds from the loans they acquire to engage in business ventures other than the original purpose resulting in the gains of the venture going into the pockets of the owners. This is referred to as the moral hazard problem.

It can also be argued that when banks lend to firms, their monitoring of the firms helps to impose discipline on the firm and, in so doing, reduce the tendency for the firm to over-invest.

Banks can avoid the moral hazard problem by screening and monitoring the applicants who apply for and are granted loans. Another way of dealing with this problem is through credit rationing by refusing to make loans even though the borrower is willing to pay higher than the stated interest rate. Also banks can concentrate their lending on firms in specific industries so that they can become more knowledgeable about the industries and better able to predict if they will be able to make timely payments.

Theoretical models often assume that an entrepreneur has private knowledge about the success probability of a project or expected profits that are not shared with the financiers. Consequently, suppliers of capital cannot differentiate between a high-quality business and a low quality business and adverse selection can result.

Moral Hazard – Refers to the inability of financiers to control fully how the entrepreneur uses funds provided. Owners can benefit economically for example, by redirecting borrowed funds to invest in high risk project than those approved by the lender. To avoid this situation, financiers can implement contract provisions that discourage borrowers from acting against interest of investors or lenders, and these precautionary actions can lead to credit rationing.

2.10.2 Issues for Lenders

Despite strong demand for finance from small and medium enterprises, banks may perceive a lack of effective demand by clients they consider creditworthy. Difficulties of small enterprise lending from the banks' perspective include:

Information and risks: Statistically, small and medium enterprises tend to have high failure rates. Hence, lenders need to be selective. It is difficult, however, to assess accurately the viability of a small enterprise and the likelihood that the client will repay which are the most important criteria of creditworthiness applied by the banks. Banks have to depend heavily on an entrepreneur's track record.

Finance Gap: Small firms have traditionally encountered problems when approaching providers of finance for funds to support fixed capital investment and to provide working capital for their operations. The presence and nature of "finance gap" for small firms have been debated for decades (Macmillan, 1981).

Small business owners complain that they cannot access funds to satisfy their financial needs. Applicants who are denied capital are even willing to pay higher economic costs for financing but cannot get it. Credit then appears to be rationed from an apparently finite supply of capital. This practice is known as credit rationing.

The concept of credit rationing is important for SMEs because the most common source of external financing for small firms is bank credits. Small firms, however, find it more difficult to obtain bank loans than to large firms (Peterson & Schulman, 1978; Orser et al, 1994). Binks et al (1992) cautioned that restricted access to bank debt by SMEs may not be directly attributable to their size but, rather to problems associated with the availability of information from which projects are evaluated (information asymmetry noted previously). They argue that such information problems are not peculiar to the small business sector alone, but are predominantly there, because of the anticipated (proportionately) higher costs of information-gathering associated with that sector. Binks et al, (1992) suggest that the provision of finance by a bank to a firm could be considered as a simple contract between the two (2) parties in which the bank is the principal and the small firm is the agent. This relationship potentially leads to the problem of information asymmetry.

2.11 Problem with Supplying Credit

Banks have been criticized for years for being over cautious in their dealings with SMEs. Such banks consider SMEs to be risky and unprofitable ventures with short life spans, and which offer inadequate information about their financial conditions and performance. Some businesses borrow without paying back resulting in a moral hazard situation, which negatively affects more credible borrowers.

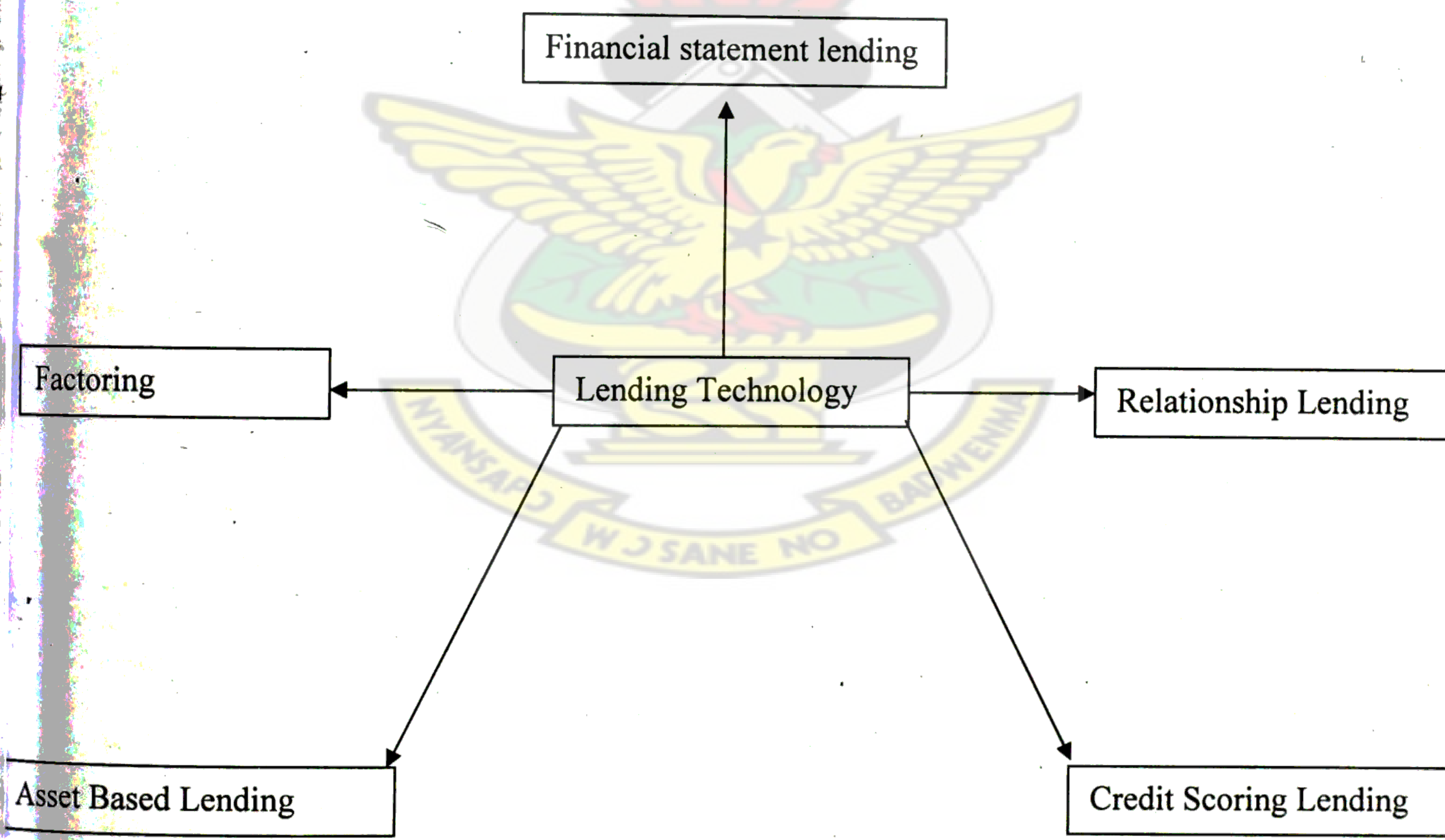
The funds that banks receive belong to the depositors and therefore they must be cautious about how they supply credit because the depositors can demand their money at anytime and the banks must be ready to deliver. Filgrave (1998) complements this statement by citing that SMEs and especially new ones are very risky and people deposit their monies in banks to keep them safe therefore bankers have the right to be risk averse.

Banks are also faced with problems that prevent them from supplying SMEs with credit. These problems may be as a result of the banks lending technologies, asymmetric information, or from the absence of a credit rating agency.

2.13 Lending Technologies and Financial Infrastructure

Berger and Udell (2004) found two types of lending technologies that have an effect on supply of credit to SMEs. These are transactions-based lending technologies and relationship lending. Transaction-based lending is further divided into five types: financial statement lending, small business credit scoring, asset-based lending, factoring, and trade credit. Financial statement lending involves underwriting loans based on the strength of the borrowers' financial statements. Small Business credit scoring is based on hard information about the owner and his/her personal consumer data obtained from credit bureaus combined with the information financial institutions collect. Asset-based lending uses continuously generated information about the firm's assets and the amount of credit offered here is based on the value of collateral (which is the underlying asset of the firm). Factoring is related to the above but involves financing receivables. Relationship lending is based on soft qualitative information that is gathered through contact with SME owners, relationship with bankers, past provision of financial services offered by the banks, and future prospects, therefore there should bet a long and broad bank-borrower relationship.

Figure 2:1 Berger & Udells' Lending Technology Framework



The above indicates that differences in financial institutional structure and lending infrastructure may significantly affect the availability of funds to SMEs by affecting the feasibility with which financial institutions may employ the different lending technologies in which they have comparative advantages to provide funds to different types of SMEs. They found that small institutions have a comparative advantage in using relationship lending because they typically have less separation between ownership and management and fewer overall layers of management and a rich accumulation of soft information. According to Stein (2002) large institutions have a comparative advantage in employing transaction-lending technologies (based on hard information) because they take advantage of economies of scales.

Aryeetey et al (1994) believe that strategies to increase SMEs access to credit are to reduce the high processing costs relative to small loan amounts and focus on working capital credit. Risk can be controlled through character-based lending to entrepreneurs who have a good track record and close on-site monitoring. Banks can develop alternatives to property as collateral and local branch officers need incentives to undertake small enterprise lending and savings mobilization.

Uchida et al (2006) found that multiple lending technologies are usually used at the same time although financial statement lending technology is the most common. They also stated that transaction based borrowing is best suited for relatively large transparent borrowers, while relationship lending suits small and opaque SMEs. They also found that financial statement lending and relationship lending are used in tandem. Hard information is relatively more important for smaller SMEs than larger SMEs.

2.14 Absence of Credit Rating Agency

Credit rating is a predictive indicator for risk, which assesses the credit worthiness of an enterprise by calculating their financial history, assets and liabilities so as to inform a bank of the enterprises' ability to pay back a loan. A credit rating agency conducts the assessment by collecting data from stakeholders and beneficiaries but, in Ghana these agencies do not exist therefore banks must use their own resources and time to carry out assessments.

Credit ratings can be useful to the business operations of SMEs by providing them with a risk assessment of their potential clients and partners. It can also help them understand what initiatives they need to take to improve their operating and financial positions thereby making their access to finance more efficient by providing benchmarks and improving transparency.

Similarly, it allows financers and suppliers to gauge the creditworthiness of SMEs, which can help determine the type of credit line to offer. In developing countries, according to Claessens and Tzioumis (2006), SMEs financing behaviour and constraints cannot be easily inferred due to the lack of detailed and reliable data. Rating can provide greater confidence to lenders and consequently broaden the range of financial resources available to SMEs because the reports provide most of the information banks need for approving loans. Credit rating agencies can improve the banks' uncertainty in lending decisions, reduce time and transaction cost in the system by providing faster processing of credit facilities, and strengthen the relationship between banks and its SME clients.

2.15 Importance of Financial Institutions in SME Development

"Finance is the oil for growth. It is indeed the life-blood of the economic system. The financial system is the vessel that carries this life-blood through the economic system. Faulty vessels prevent the life-blood from reaching essential parts of the economic system." (Sowah, 2003)

Gockel and Akonea (2002) offer a historical account of the banking industry in Ghana. They write that GCB entered the banking market with the purpose of providing credit to large indigenous enterprises since the expatriate banks refused to offer assistance. NIB, established in 1963, provided credit facilities for manufacturing and agro-based industries and ADB was established in 1976 to provide financial assistance for the development of agricultural and allied industries. Even though banks were established to cater for all sectors of the economy financing small businesses was still a problem, therefore Government started rural banking to mobilize funds and channel them to SMEs and other informal activities in their localities.

ERP led to the liberalization of financial markets, removal of restrictions and the deregulation of interest rates but it had a minute effect on the conditions that inhibit banks from financing SMEs leaving their demand for credit unsatisfied (Aryeetey et al, 1994). In 1988, FINSAP was embarked upon with the main objectives to restructure financially distressed banks, improve savings mobilization and enhance credit allocation especially to SMEs, enhance soundness in the banking sector by promoting competitive banking practices, develop money and capital markets, and establish NPART (non-performing assets recovery trust). In a study conducted by Galindo et al (2002), financial liberalization leads to improvement in the efficiency with which investment funds have been allocated. Antwi-Asare and Addison (2000) states that FINSAP sought to ensure that businesses have access to institutional credits and deposit mobilization. Unfortunately, Gokel and Akonea (2002) state that SMEs have rather been marginalized from the credit market after financial liberalization and therefore they are still suffering from credit scarcity.

Levine (1997) argues that the financial system plays a crucial role in development through the reduction of information and transactions costs and its efficiency in reducing those cost influences savings rates, investment decisions, technological innovation and long run growth rates. Patrick (1966) stated in his work that financial institutions play a major role in promoting economic growth by ensuring the availability of cash flow cost credit to potential investors. Likewise, King and Levine (1993), agree with the above that countries with better financial systems have superior economic growth while Arestis and Demetriades (1996) added that this varies across countries. Goldsmith (1969) and Gerschenkron (1962) argued that in the early stages of economic development suppressed interest rates, credit policies, and institution building provided the financial impetus necessary for economic development. Llewellyn (1997) has a different perspective by saying that an efficient and robust financial system is necessary but not a necessary condition for economic development.

It is the interest of financial institutions to ensure that the economy is growing efficiently by playing an intermediary role between suppliers and borrower of funds in any economy by gathering surplus funds in the economy and then lending these funds to those in need. According to Mishkin (2001), banks are the most important source of external funds, especially for loans. This suggests that banks play an important role in financing business activities especially in developing countries. Beim and Caloramis (2001) found that when financial intermediation is performed effectively capital flows towards those users that promise to create value and the result is that society's savings are being put to the best possible use. This lack of saving in the country affects the banks negatively because it limits the funds that will be available to lend to SMEs.

Recent developments in the financial sector such as globalization, mergers, worsening of economic situations in banks, and the implementation of Basel II will result in higher sensitivity for risks and profits in the finance sector. The new changes in the finance sector will affect the accessibility of SMEs to finance because risk assessment by banks will force the SMEs to present more and quality information as new rating systems are introduced (UEAPME, 2004).

2.16 Summary of Key Lessons from Conceptual Framework

A summary of key lessons in the literature are as follows:

1. There is a strong demand for the government to elaborate and implement policies and strategies for financing SMEs as well as for developing and improving financial institutions and financial instruments.
2. The legal framework plays an important role in the creation and successful operation of SMEs and should encourage a simplification of the procedures involved in the creation, financing, training and other aspects of the SME sector.

3. In Ghana, banks do not pay sufficient attention to the development of SMEs. The role of Governments should be to open the dialogue and to create instruments together with the banks to promote the financial aspects of successful SME development.
4. There is a great need for improving different aspects of financial services for SMEs such as seed money, leasing, venture capital, and investment funding.
5. There is a lack of long-term loans; interest rates are still high, etc. All these limit the development of SMEs.
6. Diversification of financial support for start-ups, growing and successfully operating SMEs will significantly contribute to the creation and development of SMEs.
7. It is necessary to take into account in all support programmes the different needs of micro, small and medium-sized enterprises.
8. The creation of a system of education and training on different aspects of SME activities for entrepreneurs is crucial to the development of the sector.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This research paper was designed to study the hindrances that SMEs face in securing financing from the Bank for their activities and challenges the Bank also faces in lending to SMEs. To describe the methods used in conducting this research the chapter has been organized into the following sections: population, sampling, sample selection, instrumentation, research design, and model.

3.1 Population

In this study, staff and customers of The Trust Bank Limited constituted the relevant population. The bank operates SME Banking, for a fair assessment to be made of the means by which the bank finances SMEs, a sample size of seventy (70) made up of twenty (20) staff members and fifty (50) SMEs who are customers of the bank. A sample is randomly drawn from the three (3) branches of the bank in Kumasi; namely Harper Road, Ash-Town and Suame Branches.

3.2 Sampling / sample size

Expert sampling technique for gathering information from SME banking officers from the three branches of the Bank through the use of questionnaires to discover the banks' objectives in lending to SMEs and the extent to which they feel the services they offer to the SMEs has contributed significantly to the overall business success.

Due to the very large and varied nature of the target population (customers of the bank), random sampling technique was used in order to give every element the chance of being selected

3.3 Instrumentation (Tools and Method of Data Collection):

Questionnaire was the main research instrument coupled with personal interviews. The structure of the questionnaire was designed based on the objectives of the research to collect the primary data. The items on the questionnaire consisted of mainly closed-ended type as well as few open-ended ones. The researcher personally administered the questionnaire to the respondents.

3.4Analysis of Data:

The data collected with the questionnaire were coded and analysed using SPSS (Statistical Package for the Social Sciences) version 12.0 for Windows. The reason for selecting this software is because it is readily available and easy to use.

Data categories were developed and relationships were recognized between the categories. The results of the data were presented using frequencies, percentages, means and standard deviations

35. Research Design

The research design used to obtain the data was a survey. It was not only qualitative and quantitative, but it produced empirical results in the study. Descriptive statistics was used to present the summarized information in frequency distribution, percentages and pie-charts. The analysis was based on questionnaires from seventy (70) respondents made up of members of staff and customers of The Trust Bank (TTB) Limited, selected for the study.

3.6 Model

1. The major source of data collected was qualitative data through the use of interview-administered questionnaires. The data was analysed through the use of SPSS 12.0. This allowed for data to be arranged systematically and so that is could be thoroughly analysed.

CHAPTER FOUR

4.0 RESEARCH FINDINGS, ANALYSIS AND DISCUSSIONS

4.1 Introduction

The focus of this chapter is on the analysis of data gathered from the field with the aid of research instruments which is questionnaire. This was designed purposefully to elicit information on the operations of the bank in relation to SMEs. It was therefore imperative to consider issues that border on the framework and operational practices of the various SMEs; their perception on the operations of the trust bank in relation to financial assistance, the customer services and relation; and reasons for loans default. The institutional challenges facing SMEs and the measures necessary to overcome these challenges are discussed. In all, two (2) sets of questionnaires were analyzed, one set for customers of the bank which according to this study is SMEs and the second set for the bank. In all, seventy (70) questionnaires were administered by the researcher, fifty (50) to the customers of the bank (SMEs) and twenty (20) to the staff of the bank.

4.2 RESULTS AND DISCUSSIONS OF OPINIONS OF BANK STAFF

4.2.1 Age and Sex Structure of Respondents

Age and sex structure represents the number of people of a given age and sex in a society. Age and sex influence the working of society in important ways because society assigns social roles and frequently organizes people into groups in the bases of their age and gender. A population is considered either old or young depending on the proportion of people at different ages.

The age structure of any organization is important to assess those in the economically active group and those who are economically dependent. Cumulatively, all the respondents were economically active. None of the respondents was fifty years. Because of the broad classification of the age groups, this situation is concealed. However all the respondents were males. Table 4.1 shows the rest of the distribution:

Table 4.1: Age Structure of respondents

AGE	FREQUENCY	PERCENTAGE
21-30	10	50.0
31-40	8	40
41-50	2	10
TOTAL	**20**	**100.0**

Source: Authors Field Survey, 2009

From the above table, ten of the respondents were between the ages of 21-30 accounting for 50% of the distribution. Their age structure shows that all things being equal, they can render service for a longer period of time before going on retirement. The retirement age of the country is 60 years. Two respondents were identified between the ages 41-50 which represented 10% of the distribution.

4.2.2 Type of Financial Service Offered for SMEs Customers

It was imperative to ascertain the type of financial services offered for SMEs customers. There are indeed adequate services provided for the SMEs. Table 4.4 provides a summary of the results:

Table 4.2: Type of Financial Service Offered for SMEs Customers

TYPE OF FINANCIAL SERVICE	FREQUENCY	PERCENTAGE
Overdraft	12	26.1
Loans	8	17.4
Trade Finance	2	4.3
Venture Capital	3	6.5
Business Advisory	6	13
Leasing	2	4.3
Factoring	6	13
Cash Management	7	15.2
TOTAL	**46**	**100**

Source: Authors Field Survey, 2009

The services frequently provided according to table 4.4 are the granting of overdraft and loans. This accounted for 26.1% and 17.4% from twelve (12) and eight (8) respondents respectively. The capital injection for most SMEs is small normally from retained profit and personal savings. They therefore go in for these financial services for the purposes of expanding their businesses. The bank takes responsibility to undertake cash management for these SMEs.

4.2.3 Targeting of Specific Sectors

The banking industry has a wide range of services delivered to its clients however, it was important to identify whether the bank had specific targeted groups or sectors of engagement. The study obtained a divided opinion from respondents. This was because whereas seven respondents (58.3%) acceded to the issue that the bank had specific sectors they target, five respondents (41.7%) declined to the situation. They believe they exist to render services to the entire populace of the country and to all field of profession and organisation. A confirmation of tabular results is below:

Table 4.3: Targeting of Specific Sectors

TARGETING OF SPECIFIC SECTORS	FREQUENCY	PERCENTAGE
Yes	12	58.3
No	8	41.7
TOTAL	**20**	**100.0**

Source: Authors Field Survey, 2009

A follow up question was posed to know the specific sectors targeted by the bank according to its operations. The sectors identified and targeted from the respective opinions of respondents ranged from general trading, household consumables and the SMEs at large.

Table 4.4: Type of Sector Targeted by the Bank

TYPE OF SECTOR	FREQUENCY	PERCENTAGE
General Trading	5	71.4
Household Consumables	1	14.3
SME Sector	1	14.3
TOTAL	**7**	**100.0**

Source: Authors Field Survey, 2009

From table 4.3 above, the bank has targeted those who are engaged in general trading the rest of the sectors identified. It constituted 71.4% of the distribution. Moreover, household and the SME sector accounted for 14.3% respectively.

4.5 Extent of Relationship with Clients

The bank is into the rendering of variety of services including business advisory services, trade financing and others. It was important to delve into ascertaining the peculiar kind of relationship between the bank and SMEs and below is table 3 showing the situation:

Table 4.5: Extent of Relationship with Clients

EXTENT OF RELATIONSHIP	FREQUENCY	PERCENTAGE
Good	3	16.7
Very Good	14	66.7
Excellent	6	16.7
TOTAL	**20**	**100.0**

Source: Authors Field Survey, 2009

Relationship with the bank and SMEs was seen to be very good. This is confirmed from table 4.6 in which fourteen respondents (66.7%) constituting the majority indicated. Three (3) respondents each rated their relationship to be good and excellent constituting (16.7%).

In order to confirm the contributions from SMEs to the bank, the research delved to ascertain the percentage of the bank's deposits coming from SMEs over the trend period of five years. Out of the sample of twenty questionnaires which were supposed to answer this question, five respondents could not provide information for this issue. With the rest of the fifteen respondents, they confirmed that whiles percentage of the bank's deposit from SMEs is 1%-50% indicated by (five) respondents, others also think the deposit from SMEs is within 51%-70%. This from all indication confirms that averagely, the SMEs contribution to the bank is immense and as such they should be assisted as and when the need arise.

4.2.7 Factors Considered When Granting a Loan to SMEs Borrowers

There is high rate of default to loans on the part of borrowers in this country and SMEs are not exempted. Granting of loans should be subjected to proper scrutiny. This compels the borrower to fulfill the requirement of the banks before the loan would be granted. The bank does so to assess the credit worthiness of the borrower. The study therefore sought to know the factors considered by the bank before granting loan to SMEs who are the focal point for this study. The study identified a number of factors and below is table 4.8 showing the situation:

Table 4.6: Factors Considered When Making a Loan to SMEs Borrowers

FACTORS CONSIDERED	FREQUENCY	PERCENTAGE
Years in Existence	12	13.3
Cash flow (Past and Projected)	11	12.2
Total Asset Base	6	6.7
Board Resolution	11	12.2
Line of Economic Activity	6	6.7
Audited Financials	8	8.9
Credit History	6	6.7
Collateral	9	9.8
Performance Trends in Relevant Sector	4	4.5
Business Location	9	9.9
Business Plan	8	8.9
TOTAL	**90**	100

Source: Authors Field Survey, 2009

One of the most commonly considered is the years in existence. This is considered to ascertain the trend of business operation over the years. The study revealed of twelve (respondents) representing 13.3% confirming the issue. Moreso, the cash flow statement of the business and board resolution letter is considered as part of the necessary factors. This constitute (12.2%) from eleven respondents respectively. Past and projected cash flow statement is assessed to ascertain the payment ability of the business. They look at the revenue generating pattern of the business, their expenditure and their ability to increase proportionately their revenue in the future. Again on the issue of board resolution, letter of request for the loan should be accompanied by board resolution to ensure that the entire management team is aware of the issue, know the purpose of the loan being requested for and the total amount being requested. The rest of the other necessary factors are highlighted in the table above.

Because of the unpredictive nature of clients in relation to paying loans, the bank has taken a calculated risk with lending to SMEs. The study identified seven risks which were pertinent for consideration to the bank and these are:

i. Credit Risk
ii. Financial Risk
iii. Management Risk
iv. Market Risk
v. Operational Risk
vi. Security Risk
vii. Business Risk

Notwithstanding all these risk factors, the bank has developed higher concerns for lending to SMEs because of the following reasons which are presented in table 4.9:

Table 4.7: Concerns for Lending To SMEs

CONCERNS FOR LENDING	FREQUENCY	PERCENTAGE
High Default Rate	7	28.0
Lack of Collateral	7	28.0
Lack of Information	7	28.0
Lack of Credit Worthiness	4	16.0
TOTAL	**25**	**100.0**

Source: Authors Field Survey, 2009

Table 4.9 confirms the high defaulting rate, inability of SMEs to present collateral for a loan and lack of information as a result of information gaps or inaccuracies. These three concerns respectively accounted for 28.0% of the distribution. They were approved by seven (7) respondents each whiles one concern was the lack of credit worthiness on the part of these SMEs.

It was revealed that the bank requires collateral before a loan could be accessed. This situation was indicated by eighteen (18) respondents accounting for 83.3% who agreed to the requirement of collateral. However, a respondent (8.3%) declined to the issue that they require collateral before granting loan but on the contrary one (1) in his opinion said it depends on the amount of loan required.

The collaterals required by the bank prior to granting of loans are summarized in table 4.10 below:

Table 4.8: Type of Collateral Required

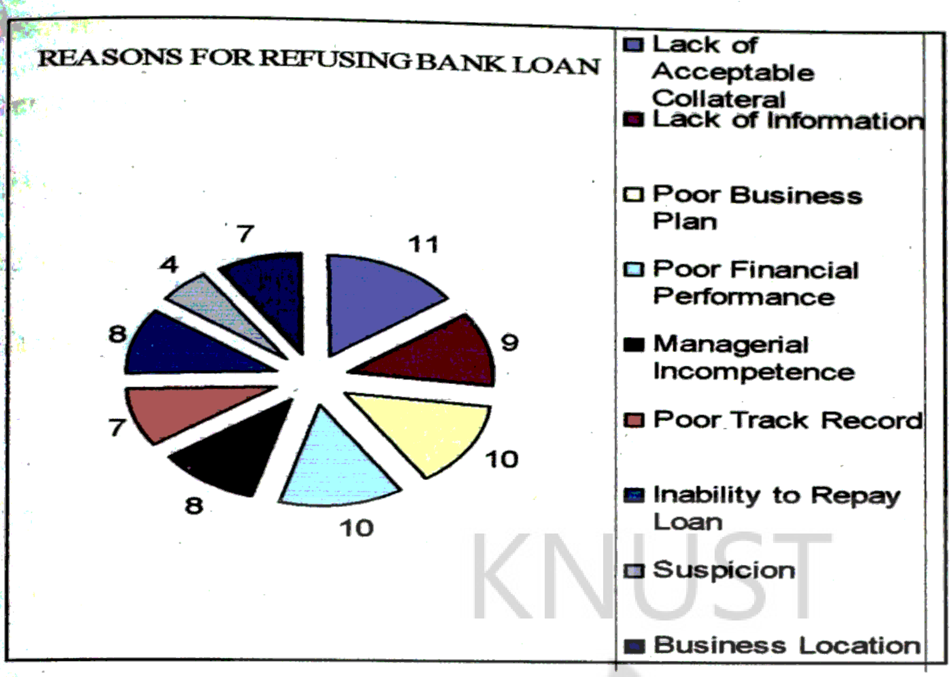
TYPE OF COLLATERAL	FREQUENCY	PERCENTAGE
Land	2	8.3
Insurance	3	16.7
Stock Certificate	3	16.7
Treasury Bills	6	25.0
Buildings	3	16.7
Bank Deposits	3	16.7
TOTAL	**20**	**100.0**

Source: Authors Field Survey, 2009

4.2.8 Reasons for Refusing Bank Loans

After a critical scrutiny of documentations presented by businesses (SMEs), the bank is in a position to approve or refuse the loan. Even though prospective loan applicant may provide the required documents to process bank loan applications, many of them are still denied due to several reasons. The reasons for refusing loans to SMEs were identified and presented in a chart below:

Figure 4.1: Reasons for Refusing Bank Loans



Source: Authors Field Survey, 2009

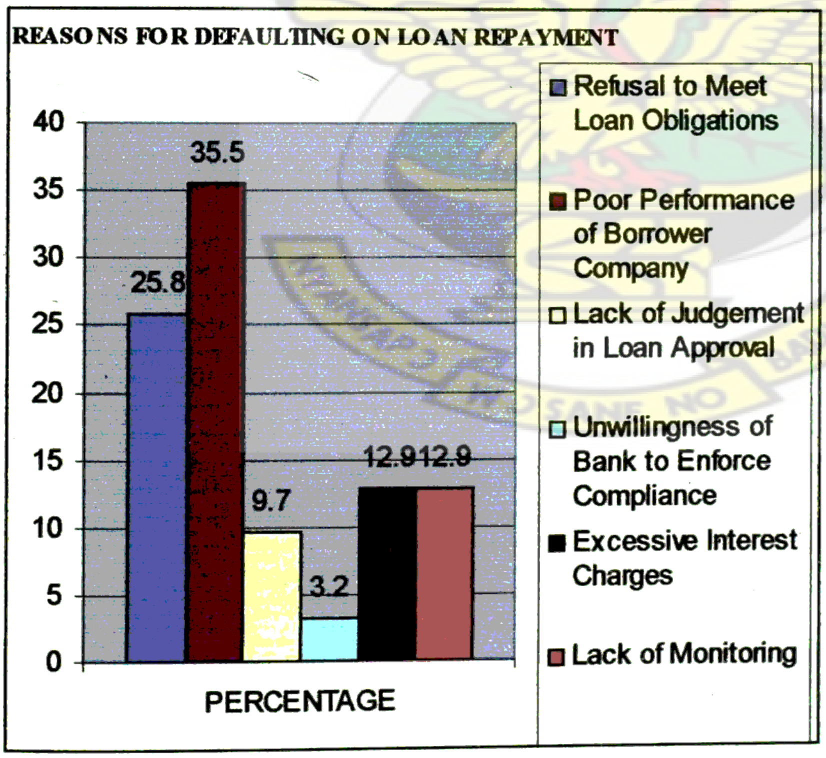
The chart provides a pictorial view of the reasons why the bank refuse loans from SMEs. The value assigned to each section of distribution is the frequency of respective reason provided by the bank. Most of the SMEs are denied with loans because of poor business plan and poor financial performance. They both constitute 13.5% each from ten (10) respondents. The bank would certainly not approve loan for a business with undulating financial performance. It expects such an SME to have his financial performance increasing at an increasing rate. Inability to also have a coherent, precise and informative business plan would lead to the bank refusing the loan. On top of the reasons is the lack of acceptable collateral which accounted for 14.9% of the respondents thus from the views of eleven people.

With respect to the loans approved, the study sought to know the average processing time between loan application and disbursement and it revealed that almost all of the respondents ten (10) out of the overall response constituting (71.4%) selected the average processing time to be more than one week. The rest of the indication was two (2) respondents each representing (14.3%) ascribing their processing time to be up to three days and one week.

4.2.9 Reasons for Default on Loan Repayment

Subsequent questions sought to identify the reasons for defaulting on loan payment on the part of borrowers. Several factors were identified and below is a graphical presentation of the situation:

Figure 4.2: Reasons for Default on Loan Repayment

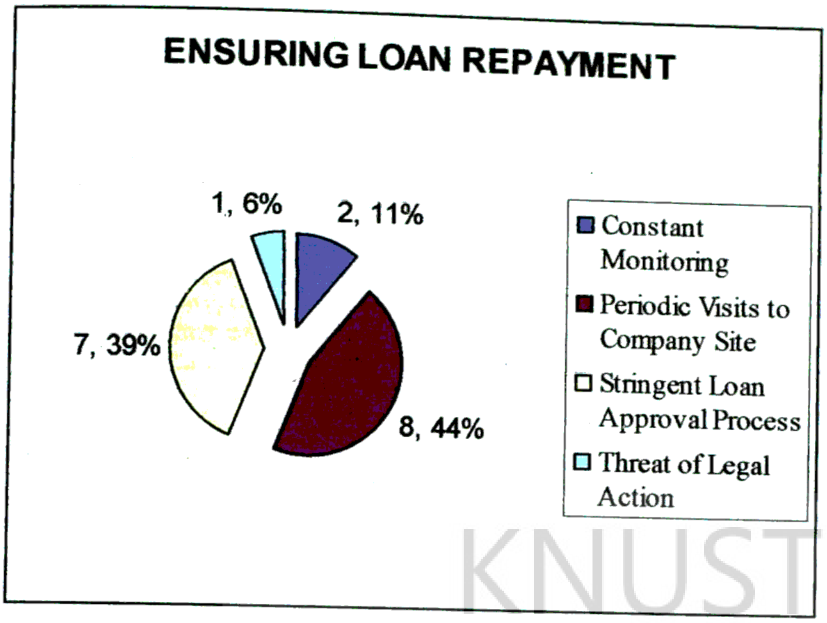


Source: Authors Field Survey, 2009

Poor performance of borrower's company according to the study was identified as the highest factor contributing to loan default. Eleven (11) respondents constituting 35.5% attested to this situation. Additionally, refusal to meet loan obligation has contributed to high default rate. About 25.8% of respondents confirmed to this issue. SMEs are given some conditions and obligations to comply however, these obligations are not fulfilled consequently leading to default. High interest rate and lack of periodic monitoring on the part of the various banks contribute to SMEs inability to pay back loans. The graphical presentation above portrays the values.

Also considered was the mechanism put in place to ensure loan repayment as a result of the increasing rate of default. The respondents confirmed that they undertake periodic visits to the company's site to ascertain the working condition of the business and also to find out how they are expending the loan. They also adopt stringent loan approval process which would entice borrowers offset their debt when the time is due. In some few instances, threat of legal action is embarked to recover debt. This situation is undertaken on an extreme circumstance whiles constant monitoring of the activities of the SME is espoused. A graphical overview is provided to reflect the opinions of respondents in figure 4.3:

Figure 4.3: Ensuring Loan Repayment



Source: Authors Field Survey, 2009

The banks do not simply grants loan to its potential borrowers just after cross checking and certification of important documents. They however, acquaint themselves with the business interest of potential borrowers. It therefore affords them the opportunity to direct and advise the company on the implementation of the loan. Close to 92% of respondents from eighteen staff agreed to the issue whiles two respondents declined to the fact that the bank acquaint itself to business interest of potential borrowers.

As a result of the increasing trend in defaulting loan by clients (SMEs), the bank has adopted some measures to reduce credit risk so as to recoup all amount granted to SMEs as loans. Table 4.11 shows the responses:

Table 4.9: Adoption of Measure to Reducing Credit Risk

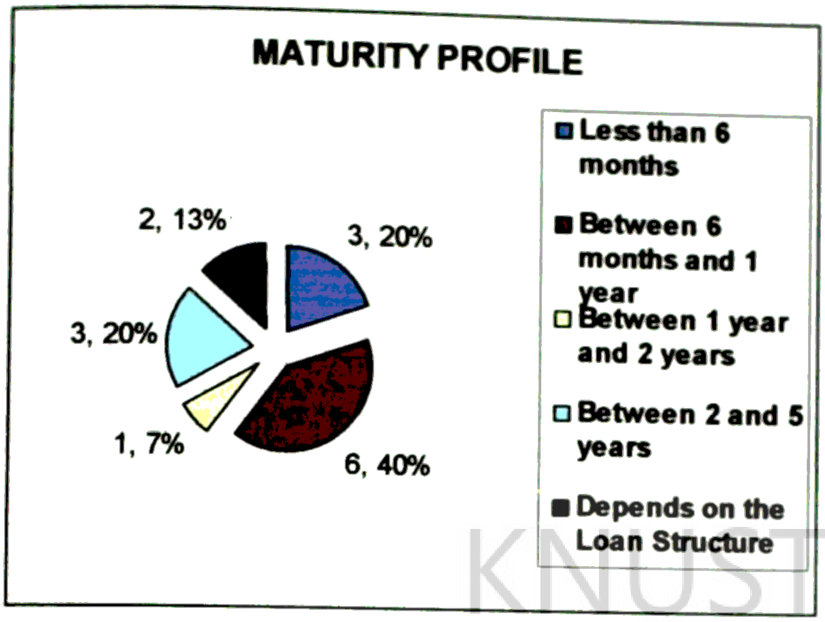
ADOPTION OF MEASURE	FREQUENCY	PERCENTAGE
Credit Rationing	5	18.5
Collateral	9	33.3
Small loan Size	1	3.7
Shorter Term Loans	5	18.5
Lending to Certain Sectors	7	25.9
TOTAL	**27**	**100.0**

Source: Authors Field Survey, 2009

As indicated from table 4.11, a series of measures have been outlined to reducing credit risk. Notable among them is the taking of collateral before granting of loan. Moreso, the bank has devised the adoption of credit rationing and short term loans which collectively assume 18.5% each. It thus lend to sectors of which it thinks is credit worthy to repay at the right time.

The maturity profile of loans was also studied. The bank has its own maturity period for loans and to a larger extent depends on the amount of loan accessed. The bank has its maturity profile between 6 months and one year. This was agreed by eight (6) out of the overall respondents representing 40.0%. The maturity profile for long term loans fell between two and five years whiles some of the respondents indicated that sometimes the maturity profile of the loan depends on the loan structure. Figure 4.4 below gives a reflection of the distribution:

Figure 4.4: Maturity Profile



Source: Authors Field Survey, 2009

It became significant to recognize the number of loans application received in a year from SMEs and the percentage of loan applications which are successful. This was studied to ascertain the intense competitive nature for loans. It was interesting to note that some banks receive between 201-500 loan application forms but another revelation indicated of a bank which receives as much as 501-1000 loan application forms.

Table 4.10: Number of loan application and successful loan applications

NO. OF LOANS APPLICATION	FREQUENCY	%	% OF SUCCESSFUL APPLICATION	FREQUENCY	%
1-50	3	37.5	1-50%	2	25.0
101-200	1	12.5	51-60%	1	12.5
201-500	3	37.5	61-70%	3	37.5
501-1000	1	12.5	71-80%	2	25.0
TOTAL	**8**	**100.0**	**TOTAL**	**8**	**100.0**

Source: Authors Field Survey, 2009

Whiles some banks approve about 71%-80%, some banks approve only 1%-50% of applications received. The successful applications are those which have been subjected to proper checks and the business have fulfilled all necessary requirement standards set by their respective banks.

The banks were asked about their ways of collecting deposits from customers (SMEs) and the results revealed two ways. The two ways are collection services and the system where depositors come to premise. Both ways were confirmed by nine (9) respondents each. The collection service is where bank staff collects deposits right at the door steps of clients (SMEs). They move from house to house and from work places to work places.

The persistent interest rates affect the repayment abilities of borrowers. The astronomical increases in interest rates deter SMEs access to loans and for those who have already received the loan are unable to repay. This was agreed by 83.3% whiles two (2) respondents representing 16.7% declined.

Some of the factors making up the interest lending rates identified were transaction and administrative cost, risk premium, cost of funds and profit margin. Additional factors are inflation, duration of loan and the lending rates at other banks.

4.2.10 Factors Constituting Transaction Cost

The banks on their part incur cost which is normally passed to customers. These costs are incurred on the daily administration of the banks. It is thus called transaction cost. The factors making up the transaction cost were identified and are presented in table 4.13:

Table 4.11: Factors Constituting Transaction Cost

FACTORS	FREQUENCY	PERCENTAGE
Cost of Appraising the Loan	7	28.0
Processing Cost	8	32.0
Cost of Monitoring Loan Usage	6	24.0
Cost of Enforcing Payment	4	16.0
TOTAL	**25**	**100.0**

Source: Authors Field Survey, 2009

These transaction cost involve processing cost of loans, cost of appraising the loan, cost of monitoring loan usage as well as cost of enforcing payment. The proportion of distribution are 8, 7, 6 and 4 respectively representing 32.0%, 28.0%, 24.0% and 16.0%.

The banks from all indication feel they are contributing to the development of SMEs as almost all the respondents (11) confirmed to the situation whilst one (1) person decline to the issue. The respondent feels the banks could do much to improve the situation of SMEs before all of them collapse entirely.

4.2.11 Ways of contributing to SMEs Development

In other to achieve the focus of the research in accessing the challenges in financing p of SMEs, the banking industries are major stakeholders to the realization of the goal and objectives of this study. They were therefore asked to outline their ways of contributing to the development of SMEs. Table 4.14 below describes clearly the results:

Table 4.12: Ways of Contributing to SMEs Development

WAYS OF CONTRIBUTION	FREQUENCY	PERCENTAGE
Advisory services to the SMEs	2	11.8
Easy access to loan, some without a collateral	2	11.8
Financial advice to SMEs	1	5.9
Financial management seminars for SMEs	2	11.8
Inject monies into the financial system thereby creating jobs and growth opportunities	1	5.9
Through financing credible business	2	11.8
Through seminars, workshops all gearing towards educating the businessmen to be abreast with modern trends	5	29.4
Training entrepreneurs and directors of SMEs	2	11.8
TOTAL	**17**	**100.0**

Source: Authors Field Survey, 2009

The contribution ranged from advisory services through training of entrepreneurs and directors of SMEs. This is done to build their capacity to be abreast with the challenges of their institutions. They also help in financing credible businesses whiles in some instances they provide easy access to loans.

4.3 RESULTS AND DISCUSSIONS OF OPINIONS FROM CUSTOMERS (SMEs)

4.3.1 Introduction

This section of the research assesses the opinion of SMEs in terms of their saving culture, relationships with their bankers, their rating of the general performance of the bank, their major sources of funds for the administration of their business. In all, fifty (50) customers were selected and their responses are presented

4.3.1 Years of Business Existence

The number of years in business operation is a great requirement for most banks in terms of loan approval. The number of years of business engagement enables most banks to assess whether the business in particular is progressing or retrogressing. Table 4.15 provides the vivid picture of the situation:

Table 4.13: Years of Business Existence

NUMBER OF YEARS	FREQUENCY	PERCENTAGE
Less than one year	3	6.3
1-5 years	28	56.3
5-10 years	13	25.0
10+ years	6	12.5
TOTAL	**50**	**100.0**

Source: Authors Field Survey, 2009

In response to how long the respondents have been in business, majority (56.3%) had been in operation between 1-5 years, whiles twenty (25%) and (12.5%) had also been in existence for 5-10 years and above ten (10+) years respectively. This confirms to the fact that most Ghanaian businesses have not matured to the extent to enjoy the economies of scale as compared with the advanced countries. One of the reasons for lack of growth is inadequate sources of credit for entrepreneurs and this tends to be one of the focal points for this study.

4.3.2 Type of Business

In reference to table 4.3, it was realized that the bank target some specific sectors of businesses. This aspect of the study sought to identify the type of businesses engaged by SMEs. The categories captured all the aspect of occupation in the country. As the name goes, Small and Medium Scale Enterprises, the initial capital requirement is small so most of them start form retail trading. Close to fifty six percent (56%) are into retail trading. The rest of the distribution is below:

Table 4.14: Type of Business

TYPE OF BUSINESS	FREQUENCY	PERCENTAGE
Retail Trading	10	55.6
Export	1	5.6
Manufacturing	1	5.6
Service	1	5.6
Farming	2	11.1
Import	3	16.7
TOTAL	**18**	**100.0**

Source: Authors Field Survey, 2009

Apart from the retail trading which is widely carried out by respondents, others were into export and import ventures whiles some were into manufacturing and service.

The size of the enterprise depends on the number of employees to be employed. A tabular presentation of the labour force in shown below:

Table 4.15: Number of Employees

NUMBER OF EMPLOYEES	FREQUENCY	PERCENTAGE
2	6	12.5
3	9	18.8
4	17	31.3
5	9	18.8
10	6	12.5
40	3	6.3
TOTAL	**50**	**100.0**

Source: Authors Field Survey, 2009

The table confirms how small the sizes of the business are. They are indeed medium scale enterprise. There was only one sector which was employing forty (40) people. The rest of the enterprises were able to just absorb a minimum of two (2) and a maximum of ten (10). Their inability to expand as a result of capital injection deters them form increasing the size of the labour force.

The study revealed that all the SMEs have formally registered their businesses with the Registrar General which is a statutory requirement. All the fifty (50) respondents had complied with the requirement. This registration would guarantee them to secure loans from the banks

The culture of savings is practiced by these SMEs. The entire respondents have been operating with their respective banks. Some have been operation as much as three banks though most of them at least have been dealing with one bank.

Respondents consider several factors before saving with a particular bank. To some they consider proximity and to some they consider those who have adopted good customer services. A true reflection of the situation is indicated in table 4.18:

Table 4.16: Reason for Saving with the Bank

REASON FOR SAVING	FREQUENCY	PERCENTAGE
Proximity	6	23.1
Recommendation	4	15.4
Easy access to Loans	9	34.6
SME finance Services	4	15.4
Attractive Rates	2	7.7
Good Customer Service	1	3.8
TOTAL	**26**	**100.0**

Source: Authors Field Survey, 2009

In order to secure a loan from a bank, one has to be a customer. This reason orchestrates many SMEs to operate with the bank. These people constitute 34.6 of the overall respondents thus from the views of nine (9) people. Again Proximity was considered to be a crucial factor in the choice for saving with the bank confirmed by six (6) respondents accounting for 23.1%. Colleagues who have operated with the bank upon recommendation entice people to join the bank.

The number of years for saving with the bank was also assessed. It enables the bank to trace customer's savings ability and records thereby serving as a basis for assistance in times of need. Table 4.19 reveals the number of years SMEs have saved with the bank.

Table 4.17: Number of Years for Saving with Bank

NUMBER OF YEARS	FREQUENCY	PERCENTAGE
Less than one year	6	12.5
Between one and two years	22	43.8
Between two and five years	13	25
More than five years	9	18.8
TOTAL	**50**	**100.0**

Source: Authors Field Survey, 2009

From the table 4.19 above, the majority group has been with their bank for a minimum of one year and a maximum of two years. This constituted 43.8% of the distribution from twenty-two (22) sample respondents. Nine (9) from the overall respondents had been with the bank for over five years.

Most respondents confirmed of having an excellent relationship with their banks. This was rated by eight people representing 50.0%. Five of them rated the extent of relationship as good whilst nine (9) respondents accounting of 18.8% also rated the extent of relationship as average

4.3.3 Perception of Borrowing from the Bank

Because of the increasing refusal of loan applications, SMEs are finding it difficult to face the financial challenges they are confronted with. Their perception towards borrowing from the bank was assessed and the table 4.20 below provides the information:

Table 4.18: Perception of Borrowing from the Bank

PERCEPTION OF BORROWING	FREQUENCY	PERCENTAGE
Very Easy	13	25
Fairly Easy	6	12.5

Fairly Difficult	13	25
Very Difficult	18	37.5
TOTAL	**50**	**100.0**

Source: Authors Field Survey, 2009

The aim and focus of this research "Challenges of financing SMEs would be meaningless if SMEs would still encounter difficulties in accessing loans. From the study, (37.5%) of SMEs have serious difficulties borrowing from the bank. This was expressed by eighteen (18) respondents out of the overall respondents. Though other groups of the SMEs indicated they find it very easy (25%) borrowing from the bank whiles the same number of respondents taught the situation is fairly difficult. Regardless of SMEs inability to provide all required documents, they feel that the bank is not doing much to ensure the expansion and growth of SMEs.

Opinions of respondents were sought to know whether accessibility to banking finance currently is easier than before. This question was necessary to help the cause of the study because of the increasing number of banks in the country. This has increased competition among the various banks with each introducing services which would entice prospective clients. With this competition, access to finance nowadays is relatively easier than before provided one has the required documents. More than half of the respondents (62.5%) from thirty-one (10) people confirmed the easy nature of accessing bank finance than before. On the contrary, thirteen (13) respondents accounting for 25% said no to the situation. Additionally, two respondents could not explicitly provide their opinion. They were vacillating from the options provided. .

A probing question was asked to elicit information on why respondents felt access to bank finance was better than nowadays, four reasons were assigned which constituted 25% each and these reasons are provided below:

1. Loan granting procedure is too long.
2. Interest rates are too high.
3. Too much documentation.
4. Bank request too much Information

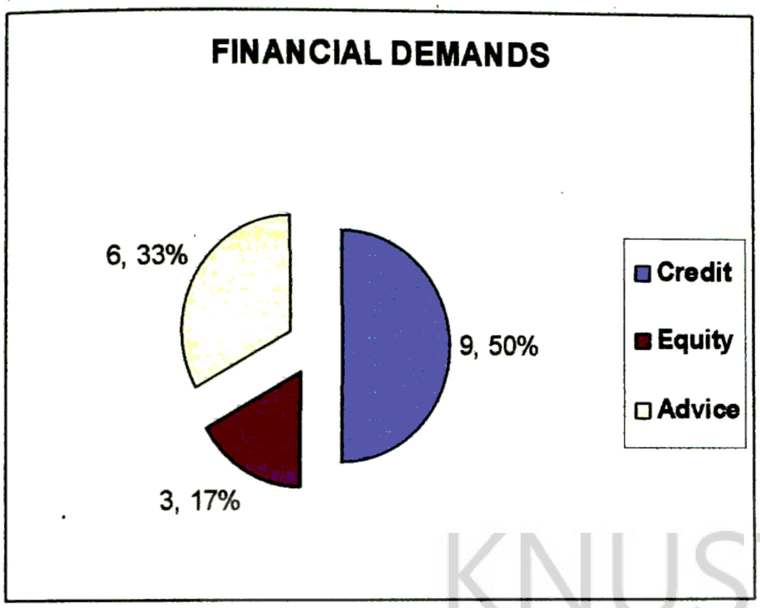
The above difficulties were sources of worry for the potential applicants to access credit from the bank to finance their business in Ghana.

Among those who taught access to banking finance is easier nowadays than before assigned various reasons. Provision of better services was the main reasons expressed by respondents and this accounted for 50.0% from twenty-five (25) people whiles (30.0%) taught the procedure for granting loans takes shorter time than before. About 20.0% from the views of ten (10) respondents taught intense competition among banks have resulted in easy accessibility to finance.

All the fifty (50) respondents confirmed that the bank is financially supportive to the cause of their operation.

The need for credit constitutes immensely to the financial demands of SMEs followed by advice and then equity. These are the three key financial demands of SMEs.

Figure 4.5: **Financial Demands**



Source: Authors Field Survey, 2009

4.3.4 Application for Loan from the Bank

The need for financial assistance is crucial for the development of SMEs. Lack of the required capital hinders the total expansion of the business. The entire respondents agreed they have applied for loans from their banks before. Below is table 4.21 showing the information required from the bank when customers (SMEs want to access loans.

Table 4.19: Information Requirement

INFORMATION REQUIREMENT	FREQUENCY	PERCENTAGE
Collateral	10	28.6
Cash flow (past and present)	5	14.3
Total assets	6	17.1
Audited financial statements (accounts)	3	8.6
Turnover	8	22.9
Business plan	3	8.6
TOTAL	**35**	**100.0**

Source: Authors Field Survey, 2009

Table 4.21 above shows reference to the basic information requirement that is to be provided by loan applicants. The most demanded information centres on collateral followed by turnover of the applicant. The bank has to be content with the trend of sales so as to be rest assured of their payment abilities.

A follow up question was asked to ascertain whether the loan applications were approved. Forty-four respondents (44) provided opinions for this question. More than half (71.4%) from thirty-two (32) respondents had their loans approved by the bank. The other twelve (28.6%) who had their applications disapproved were probed to know the reasons why banks refused their applications.

1. Lack of Collateral
2. Managerial Incompetence
3. Unfavorable Track Record
4. Poor business Plan
5. Inadequate Information

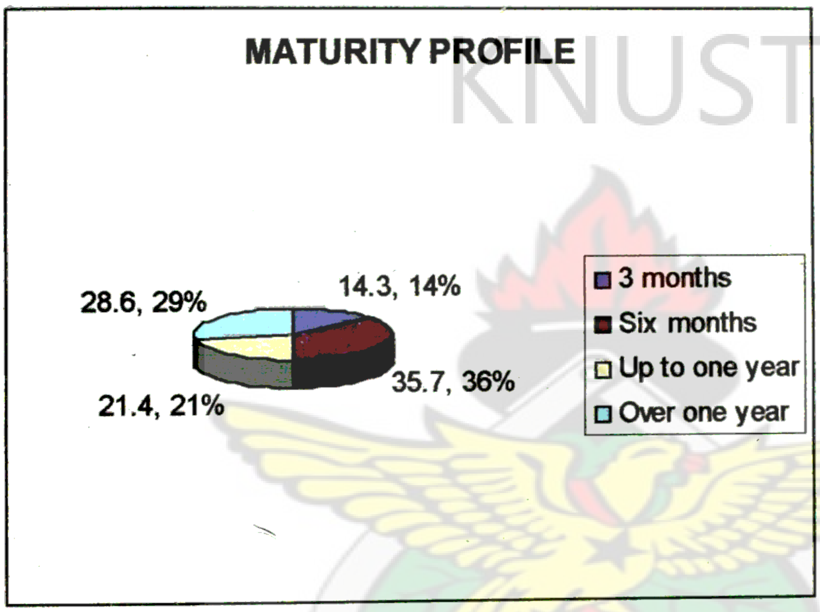
There were two primary reasons assigned for the purpose of the loans. Majority applied the loan for business expansion with this accounting for 66% from the views of thirty-three (33) respondents whiles seventeen (17) respondents representing 34% applied for the loan for working capital.

Subsequent questions were to find out if the loans are delivered to clients on time. The study revealed from thirty-three respondents (66%) that they receive the approved loans on time whereas seventeen respondents (34%) denied the fact that loans were timely delivered.

4.3.5 Maturity Profile of the Loan

The maturity profile of loans was considered however, it depended on the amount of loan requested. A diagrammatic presentation is indicated below:

Figure 4.6: Maturity Profile



Source: Authors Field Survey, 2009

The minimum maturity profile for a loan according to the study is 3 months and the maximum time is over one year. This is the total period upon which loan has to be settled. However, most of them were given up to six months whiles thirteen respondents (28.6) had their maturity profile to be over one year.

Table 4.20: Maturity Profile of the Loan

MATURITY PROFILE	FREQUENCY	PERCENTAGE
3 months	6	14.3
Six months	15	35.7
Up to one year	9	21.4
Over one year	13	28.6
TOTAL	**44**	**100.0**

Source: Authors Field Survey, 2009

They however confirmed that lending rate was too high which affects their operations. All profits accrued are used in settling debts at the bank which leaves them virtually with nothing. This was confirmed by (85.7%) from the views of thirty-eight (38) SMEs respondents. Some respondents felt the lending rate was acceptable. This was from the views of six (6) respondents

Because of these reasons, the study sought to know whether SMEs who accessed loans form these banks were discouraged by the lending rates. Ten respondents (71.4%) affirmed to this situation that they were discouraged by the lending rates but on the reverse, thirteen respondents (28.6%) declined to the issue.

In view of the above identified problem, few of the respondents sought credit from other sources than their personal banks. These SMEs then access Venture Capital as an alternative way to finance their business ventures when banks cannot help, and particularly when stringent requirements cannot be met. These people represented (21.4%) thus from nine respondents out of the overall of forty-four. According to them, they even prefer the operations of Venture Capital to the bank loans because of the easy nature of accessing credit. However, majority of them (78.6%) from thirty-five respondents do not seek opportunities elsewhere.

4.3.6 Major Sources of Fund for Business

Since finance is a major need for SME development and business operations these funds must be sourced from various places. According to table 4.24, SMEs major source of funding is from their own personal savings (30.3%), followed by retained profits and bank loans. A small percentage relied on funds from family/friends and Susu whiles 21.2% depended on bank finance. Detail information is provided in table 4.24 below:

Table 4.21: Major Sources of Fund for Business

MAJOR SOURCES	FREQUENCY	PERCENTAGE
Bank Loan	7	21.2
Personal savings	10	30.3
Retained profits	8	24.2
Trade credit	4	12.1
Susu	1	3.0
Family/ friends	3	9.1
TOTAL	**33**	**100.0**

Source: Authors Field Survey, 2009

SMEs have complained for years that they are faced with constraints that thwart the development of their companies. Lack of finance continues to be a major constraint to most SMEs followed by high imposition of taxes by authorities. High interest rates charged as a result of borrowing from banks have been one of the major constraints hindering the growth of numerous SMEs. The rest are indicated in table 4.25 below:

Table 4.22: Major Constraints to the Growth of Company

MAJOR CONSTRAINTS	FREQUENCY	PERCENTAGE
Lack of finance	12	44.4
Inadequate demand for products	2	7.4
High interest rates	4	14.8
Taxes	6	22.2
Competition	3	11.1
TOTAL	**27**	**100.0**

Source: Authors Field Survey, 2009

Arguably, regardless of the numerous challenges faced by SMEs in the country in relation to the need for financial assistance from bank, they feel that the banks are equally helping them to develop. According to the study, 75% from thirty-eight (38) respondents appreciated the contribution of the bank. Certainly in opposition are twelve (12) respondents who felt that the bank is not helping much to the sustenance of these SMEs. They believe the bank could do much better to assist them to develop. There were however, three reasons why respondents felt the bank was not helping SMEs and these are disturbing nature of collateral demand, bureaucratic nature of accessing loans and failure on the part of the bank to honour its promises.

CHAPTER FIVE

5.0 SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 Introduction

In summarizing the study based on the data collected from the field, certain revelations were identified. These revelations are entails in this chapter and in some instances recommendations are made to help in developing approaches or strategies which will inform policy decision.

5.2 MAJOR FINDINGS

The key findings is been structured to capture the views of the financial institutions and owners or management of SMEs.

It was revealed that, the Trust Bank usually assist SMEs by granting them overdraft and loans. The study identified a number of factors that are taken into considerations by the bank before granting them with credit facility. The under listed are the factors in order of preponderance

1. Years in Existence
2. Cash flow (Past and Projected)
3. Collateral
4. Business Location
5. Credit History with the Bank.
6. Audited Financials
7. Total Asset Base
8. Line of Economic Activity

It appears that interest rates are hindering the extension of credit to SMEs and may need to be adjusted further in order to increase the flow of capital to this sector. It was also identified that, the bank was reluctant to lend to the SMEs due to reasons such as:

a) High Default Rate

b) Lack of Collateral

c) Lack of Information

d) Lack of Credit Worthiness

From the survey, the bank requires collateral from almost all the customers before a loan could be accessed. This situation was indicated by 83.3% of the respondents who agreed to the requirement of collateral.

The under listed are the reasons that were assigned by SMEs as an inhibiting factors in accessing credit in Ghana

a) Loan granting procedure is too long

b) Interest rates are too high

c) Too much documentation

d) Bank request too much Information

The study revealed that, SMEs do financed their business through their own personal savings and has to rely on their retained profit to run their businesses

5.3 RECOMMENDATIONS

Throughout this report many observations, opinions and revelations were identified. The following are summary of recommendations that were established from the study.

5.3.1 Legal and Regulatory Framework

Supportive laws to protect investors and lenders must be enacted or strengthened, and new laws to allow greater flexibility must be in place if the financial system wants to attract non-governmental sources of financing. In particular, emphasis should be placed on:

1. Laws dealing with corporate formation and operation;
2. Laws relating to the organization and operation of investment funds; and
3. Laws affecting the right of the financial institution to retrieve their loans in situation of default payment on the part of the management of SMEs.

5.3.2 Interest Rates

There should be a review of the interest rate policies for loans supporting SMEs. Although recent changes have been made, existing SMEs should be surveyed on their thoughts as to why loans are not being made available to them.

5.3.3 Prudent Credit Standards

Both the lenders and the guarantor should rely on careful lending practices, including such requirements as: sound character of SME borrower, personal guarantees by the SME owners with the primary lender continuing to take part of the risk of loss if the loan or interest is not paid.

5.3.4 Marketing and Outreach

As the country expands its goal of privatization, it is important to deliver a message to the general public of the attributes of business ownership, the contribution that SMEs make in the growing economy and the importance placed on this sector. Public announcements and media campaigns should be developed that will promote the formation of enterprises.

5.3.5 Training – SMEs

Training of the SME owners or management is critical. It is recommended that a Central Training center for SME administrators be established that would design and implement training programs for SMEs. These training programs would include accounting, business management, preparation of business plans, financial statement analysis, personnel management, marketing and other subjects as well as one-on-one counseling of business owners. The lack of such training is adversely affecting the ability of SMEs to acquire financing and raises the risk being taken by the SMEs and lenders by entering business without the benefit of such training.

5.4 Conclusion

A few years ago, the bank was not interested in lending to SMEs because the sector contributed the most to bad debt, even though SMEs deposits constitute the bulk of the money that the bank needs to transact business on a daily basis. Many are of the opinion that the Ghanaian economy is performing well which has resulted in more business opportunities being available in the country, including for SMEs.

Credit-scoring tools should be developed by the bank to calculate and compare risks against an average benchmark. This will introduce a degree of objectivity in the analysis and it can assist credit officers with limited experience. A credit rating agency would be beneficial to the bank to help them capture information on businesses at low costs.

This study has delved extensively in the operational activities of the bank and has thus identified several issues of concerns which affect the growth and development of SMEs. The adoption and implementation of the policy recommendations of this study would in no doubt enhance the activities of the bank and the SMEs at large.

5.5 Suggestion for Further Research

It is my ardent hope that the recommendations of the study will go a long way to improve SME financing by The Trust Bank to the development of SME sector.

Again, it is expected that this study will serve as a springboard for further research in other related areas.

Further research can be conducted on how E-banking can facilitate SMEs access which can result in lower operational costs of the bank so that gains can be realized without increasing interest rates.

In any further research, the sample size should be expanded to cover all the branches of the Bank for effective generalization.

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LIST OF APPENDICES

Appendix A: LIST OF ABBREVIATIONS

ADF	African Development Fund
BOG	Bank of Ghana
ERP	Economic Recovery Programme
FUSMED	Fund for Small and Medium Enterprise Development
GEDC	Ghana Enterprise Development Commission
GDP	Gross Domestic Product
GRATIS	Ghana Resource Appropriate Technology and Industrial Service
ITTUS	Intermediate Technology Transfer Unit Service
MPSD	Ministry of Private Sector Development
MOTI	Ministry of Trade and Industry
NBSSI	National Board for Small Scale Industries
NGOs	Non-Government Organisations
SMEs	Small and Medium-Sized Enterprises
SSNIT	Social Security & National Insurance Trust

Appendix B: Bank Questionnaire

Dear Respondent,

This questionnaire is part of a research project that is a partial requirement for the award of a MBA (Banking and Finance) degree at the Kwame Nkrumah University of Science and Technology, Kumasi. The paper is titled '**The Challenges of financing SMEs, a case study of The Trust Bank Limited**'. You are important to this research paper because the information you provide will provide me with answers needed to complete this research. Please take time to answer the questions freely. All the information you provide will be treated in the strictest of confidence. The information that you provide will be analysed and discussed in the research paper. Your answers are essential in finding out challenges the Bank encounter in financing SMEs.

Current Management Characteristics

1. Which financial service do you offer your SME customers? (Circle all that apply)
   i. Overdraft
   ii. Advances
   iii. Trade Finance
   iv. Business Advisory (includes training)
   v. SME Banking
   vi. Cash Management
   vii. Agriculture Loans
   viii. Other (specify) ______________________________

2. Does the bank target a specific sector(s)? [ ] Yes [ ] No

3. If yes to the above, what sector(s) does the bank target?

   ____

4. How long has the bank been offering SME banking services?
   i. Since Inception
   ii. Less than a year

iii. Between one and five years
iv. Other (specify) ________

5. Can this service be accessed at all your branches? [ ] Yes [ ] No

6. How experienced is the staffing SME management?
   i. Very experienced
   ii. Moderately experienced
   iii. Not experienced

7. How is your relationship with your clients?
   i. Good
   ii. Very good
   iii.

8. What percentage of the banks deposits comes from SMEs? (over the past 5 Years from 2003 - 2008) ______________________________

9. What factors do you consider when making a loan to SME borrowers? (Circle all that apply)
   i. Years in existence
   ii. Cash flow (past and projected)
   iii. Total asset base
   iv. Board resolution
   v. Line of economic activity
   vi. Audited financials
   vii. Credit history
   viii. Collateral
   ix. Performance trends in relevant sector
   x. Business Location
   xi. Business plan
   xii. Other (specify) ______________________________

10. What constitutes the calculation of risk associated with lending to SMEs?
____
____
____
____

11. What are your concerns for lending to SMEs? (Circle all that apply)
   i. High default rate
   ii. Lack of collateral
   iii. Lack of information
   iv. Lack of creditworthiness
   v. Others (specify) ______________________________

12. Do you require collateral for a loan? [ ] Yes [ ] No

13. If yes, what type of collateral do you require? (Circle all that apply)
    i. Land
    ii. Insurance
    iii. Stock certificate
    iv. Treasury Bills
    v. Buildings
    vi. Bank deposits
    vii. Other (specify) ______________________________

14. Do you make unsecured loans to SMEs? [ ] Yes [ ] No

15. If no, why? ______________________________

16. What are your reasons for refusing bank loans? (Circle all that apply)
    i. Lack of acceptable collateral
    ii. Lack of Information
    iii. Poor business plan
    iv. Poor financial performance
    v. Managerial incompetence
    vi. Poor track record
    vii. Inability to repay loan
    viii. Suspicion
    ix. Business location
    x. Other (specify) ______________________________

17. What is the average processing time between loan application and disbursement?
    i. One day
    ii. Up to three days
    iii. One week
    iv. More than one week

18. What are the reasons for default on loan repayment? (Circle all that apply)
    i. Refusal to meet loan obligations
    ii. Poor performance of borrower company
    iii. Lack of judgement in loan approval
    iv. Unwillingness of bank to enforce compliance
    v. Excessive interest charges
    vi. Other (specify) ______________________________

19. What mechanisms are in place to ensure loan repayment? (Circle all that apply)
    i. Stringent loan approval process

ii. Periodic visits to company site
iii. Threat of legal action
iv. Other (specify) ____________________

20. Does the bank acquaint itself with the business interest of their potential borrowers? [ ] Yes [ ] No

21. Which do you adopt to reduce credit risk? (Circle all that apply)
    i. Credit rationing
    ii. Collateral
    iii. Small loan sizes
    iv. Shorter term loans
    v. Lending to certain sectors
    vi. Other (specify) ____________________

22. What is the maturity profile of loans made?
    i. Less than 6 months
    ii. Between 6 months and a year
    iii. Between one year and 2 years
    iv. Between 2 and 5 years
    v. Other (specify) ____________________

23. Approximately how many loan applications are received in a year from SMEs?
____

24. What percentage of this is successful? ____________________

25. How do you collect deposits from customers? (Circle all that apply)
    i. Collection services
    ii. Depositors come to premise
    iii. Other (specify) ____________________

26. What factors make up the interest lending rates? (Circle all that apply)
    i. Transaction and administrative costs
    ii. Risk Premium
    iii. Cost of funds
    iv. Profit margin
    v. Lending rates at other banks
    vi. Inflation
    vii. Duration of loan
    viii. Other (specify) ____________________

27. Do you think interest rates affect the repayment abilities of borrowers? [ ] Yes [ ] No

28. What constitutes transaction cost? (Circle all that apply)
    i. Cost of appraising the loan
    ii. Processing cost
    iii. Cost of monitoring loan usage
    iv. Cost of enforcing payment
    v. Other (specify) ______________________________

29. Does the bank feel that it is contributing to SME Development? [ ] Yes [ ] No

30. If yes, how is the bank doing this?

____
____
____
____

31. Has the increasing strength of the macro economy been benefiting the SME banking service? [ ] Yes [ ] No
Please explain.

____
____
____
____

Thank you for completing this questionnaire.

Appendix C: SME Questionnaire

Dear Respondent,

This questionnaire is part of a research project that is a partial requirement for the award of a MBA (Banking and Finance) degree at the Kwame Nkrumah University of Science and Technology, Kumasi. The paper is titled **'The challenges of financing SMEs, a case study of The Trust Bank Limited**. You are important to this research paper because the information you provide will provide me with answers needed to complete this research. Please take time to answer the questions freely. All the information you provide will be treated in the strictest of confidence. The information that you provide will be analysed and discussed in the research paper. Your answers are essential in finding out challenges the Bank encounter in financing SMEs.

1. How many years has the business been in existence?
   - i. Less than one year
   - ii. Between one and five years
   - iii. Between five and ten years
   - iv. More than ten years
2. Type of business
   - i. Retail trading
   - ii. Export
   - iii. Manufacturing
   - iv. Service
   - v. Real Estate
   - vi. Farming
   - vii. Other (specify) ________________________________
3. Number of employees ________________________________
4. Are you formally registered with the Registrar Generals Department? [ ] Yes [ ] No

Banking Information and Savings Behaviour

5. Which other bank do you save with apart from TTB?

____

6. Why do you save with the bank? (Circle all that apply)
   i. Proximity
   ii. Recommendation
   iii. Easy access to loans
   iv. SME finance services
   v. Attractive rates
   vi. Other (specify) ______________________

7. How long have you been saving with the bank?
   i. Less then a year
   ii. Between one and two years
   iii. Between two and five years
   iv. More than five years

8. How is your relationship with your TTB?
   i. Excellent
   ii. Good
   iii. Average
   iv. Poor

9. What do you think of borrowing from the bank?
   i. Very easy
   ii. Fairly easy
   iii. Fairly difficult
   iv. Very difficult

10. Would you say that compared to a few years ago access to bank finance is easier to obtain? [ ] Yes [ ] No

11. If you answered no to 11, what is the reason?
   i. Banks request too much information
   ii. Loan granting procedure is too long
   iii. Interest rates are too high
   iv. Other (specify) ______________________

12. If you answered yes to 11, what is the reason?
   i. Better services
   ii. Loan granting procedure takes a shorter time
   iii. Interest rates are good
   iv. Others (specify) ______________________

13. Is your bank supportive of your company in terms of financing? [ ] Yes [ ] No

14. What are your financial demands?
    i. Credit
    ii. Equity
    iii. Advice
    iv. Others (specify) ____________________

15. Have you applied for a loan from your TTB? [ ] Yes [ ] No

16. If no, why?

____
____
____

17. If yes to 15, what information did the bank require when applying for the loan? (Circle all that apply)
    i. Collateral
    ii. Cash flow (past and present)
    iii. Total assets
    iv. Audited financial statements (accounts)
    v. Turnover
    vi. Business plan
    vii. Other (specify) ____________________

18. If yes to 15, was the loan approved? [ ] Yes [ ] No

19. If no to 18, what was the reason? (Circle all that apply)
    i. Lack of collateral
    ii. Ability to pay back not proven
    iii. Managerial incompetence
    iv. Unfavourable track record
    v. Inadequate information
    vi. Poor business plan
    vii. Business location
    viii. Other (specify) ____________________

20. If yes to 18, what was the purpose of the loan? (Circle one)
    i. Start up capital
    ii. Working capital
    iii. Expansion of business
    iv. Other (specify) ____________________

21. If yes to 18, did you receive the loan at the right time? [ ] Yes [ ] No

22. What was the maturity profile of the loan?

i. Six months
ii. Up to one year
iii. Over one year
iv. Other (specify) ______________________

23. How did you find the lending rates?
    i. Too high
    ii. Acceptable
    iii. Low

24. Do the lending rates discourage you from accessing a loan? [ ] Yes [ ] No

25. Have you accessed credit from sources other than the TTB? [ ] Yes [ ] No
26. If yes, where and why?

____
____
____

27. What were the terms?

____
____
____

28. Do you prefer this option to a bank loan? [ ] Yes [ ] No
Please explain your answer.

____
____
____

29. Are the banks services and products suited to your needs? [ ] Yes [ ] No

30. What are your major sources of fund for the business? (Circle all that apply)
    i. Bank loan
    ii. Personal Savings
    iii. Retained profits
    iv. Private institutions
    v. Trade Credit
    vi. NBFI
    vii. Susu
    viii. Family/ friends
    ix. Other (specify) ______________________

31. What are the major constraints of the growth of your company? (Circle all that apply)
    i. Lack of finance
    ii. Inadequate demand for products

iii. Competition
iv. High interest rates
v. Taxes
vi. Other (Specify) ______________________________

32. Do you feel that TTB is helping SMEs develop? [ ] Yes [ ]
No Please explain your answer.

____
____
______

Thank you for completing this questionnaire.