KWAME NKRUMAH UNIVEVRSITY OF SCIENCE AND TECHNOLOGY

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THE FINANCIAL CHALLENGES FACING SMALL AND MEDIUM ENTERPRISES (SMES) IN THE ASHANTI REGION (A CASE STUDY OF KWABRE DISTRICT)

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BY

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DECLARATION

I hereby declare that, except for specific references which have been duly acknowledged, this project is the result of my own field research and it has not been submitted either in part or whole for any other degree elsewhere.

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DEDICATION

This dissertation is dedicated to my family. I will ever remember them for their care and love. Of course, my Supervisor, who has devoted much of his time, ensured that I have done a good work. Also Madam Lydia who see to the typing and printing of the researcher right from the beginning to the end. My immediate boss Lt. R. O. Sewornoo of 4 Garrison Education Centre, 4BN.

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ABSTRACT

There is growing recognition of the important role Small and Medium Enterprises (SMEs) play in economic development. More generally, the development of SMEs is seen as accelerating the achievement of wider economic and socio-economic objectives, including poverty alleviation. However, SMEs are entangled with myriad problems mitigating their growth in Ghana; notable among them are, lack of access to credit. This stems from the fact that SMEs have limited access to capital markets, both locally and internationally, due to perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms. As a result, SMEs often cannot obtain long-term finance in the form of debt and equity mostly from the formal financial institutions, particularly the commercial banks. This study therefore is to assess the financial challenges facing the financing of SMEs within the Kwabre District of the Ashanti. The study used both primary and secondary sources of data gathered through questionnaires and interviews.

The study found that the financial services mostly offered to SME managers and owners were business advice and SME Banking. The main banking services rendered to SMEs are overdraft, trade credit, cash management, and business Advice. The major financial challenges identified included unwillingness of the financial institutions to give credit to the SMEs due to high default rate, poor proper book keeping, attitude of management and monitoring that militate against the SME Banking Unit of the banks were identified. The study recommends that banks should identify the constraints of the SMEs on one-on-one basis and put in strategies to surmount not only financial challenges but technical as well. Also SMEs are advised to be shareholders of the banks so as to push their course through. It is also recommended that a special common fund be constituted for the SMEs by government. A national policy for financing should be instituted, implemented and monitored. It is expected that the government should provide resources to create an incentive scheme for financial institutions to make flexible loans to SMEs in Ghana.

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CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

In this chapter, the background to the study is given, a statement of the research problem is made, the objectives of the study are spelt out, research questions are posed; the significance of the study captured, followed by the scope and limitations of the study; a brief research methodology is provided and the disposition/structure of the study outlined.

1.1 Background of the study

Organization of European Commission Development OECD (2006) stressed that virtually all countries at all income levels have set a policy objective of assuring that Small and Medium Enterprises(SME) have access to adequate financing. This high priority stems from the perception among policy makers that i) SMEs are of critical economic importance, and ii) the lack of finance in appropriate forms may be a serious barrier to the development of this sector. An environment, supportive of entrepreneurship and a vigorous SME sector, is seen as manifestations of dynamism and flexibility throughout the economy. Moreover, in many advanced industrial countries, larger well-established companies only produce limited gains in employment. Therefore, the ability to generate employment depends to a large extent upon the prospects of smaller companies.

In emerging economies, the need to stimulate SME growth is even more urgent due to the need to generate employment for expanding labour forces. Moreover, a sizeable share of the population already works in Micro or Smaller Enterprises, often at very low wages. Frequently, these enterprises have only limited access to external finance, which might enable them to increase investment per worker. Thus, a crucial element in the effort to reduce poverty hinges on the capacity of SMEs to gain access to external finance (OECD, 2006).

Abor and Quartey, (2010) further intimated that, there is growing recognition of the important role Small and Medium Enterprises (SMEs) play in economic development. They are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines. Even in the developed industrial economies, it is the SME sector rather than the multinationals that is the largest employer of workers (Mullineux, 1997). Interest in the role of SMEs in the development process continues to be in the forefront of policy debates in most countries. Governments at all levels have undertaken initiatives to promote the growth of SMEs (Feeney and Riding, 1997). SME development can encourage the process of both inter and intra-regional decentralization; and, they may well become a countervailing force against the economic power of larger enterprises.

More generally, the development of SMEs is seen as accelerating the achievement of wider economic and socio-economic objectives, including poverty alleviation (Cook and Nixson, 2000). According to an OECD report, SMEs produce about 25% of OECD exports and 35% of Asia's exports (OECD, 1997). SMEs represent over 90% of private business and contribute to more than 50% of employment and of GDP in most African countries (UNIDO, 1999). Small Enterprises in Ghana are said to be a characteristic feature of the production landscape and have been noted to provide about 85% of manufacturing employment of Ghana (Steel and Webster, 1991; Aryeetey, 2001). SMEs are also believed to contribute about 70% to Ghana's GDP and account for about 92% of businesses in Ghana. Similarly, in the Republic of South Africa, it is estimated that, 91% of the formal business entities are Small, Medium and Micro Enterprises (SMMEs) (Hassbroeck, 1996; Berry *et al.*, 2002). They also contribute between 52 and 57% to GDP and provide about 61% of employment (CSS, 1998; Ntsika, 1999; Gumede, 2000; Berry *et al.*, 2002).

Evaluating the efficiency of schemes for promoting SME finance, an effectual SME financing scheme should provide opportunities for SMEs to meet their financing needs and must maintain the profitability of the enterprise, or on the eventual sale of investments or collection of loans that would provide cash for later investments. It is worth noting that among the resources needed for the production of goods and services, there are many things that set capital (finance) apart from the other inputs. Fixed Assets such as machinery and equipments, land and buildings, just to mention a few, provide benefits that derive from their physical characteristics. Unfortunately, the same thing cannot be said about the financial resources used to run a business. The acquisition of financial resources leads to contractual obligations. Small Enterprises in developing countries typically cite lack of access to finance as an important constraint on their operations. This lack of access is often associated with financial policies and bank practices that make it hard for banks to cover the high costs and risks involved in lending to small firms.

In view of the role played by the SMEs as a key source of dynamism, innovation and flexibility in advanced industrialized countries, as well as in emerging and developing economies. The strategic role of Small and Medium Scale Enterprises (SMEs) in the developmental agenda of developing countries such as Ghana and for that matter the Kwabre District could not be overemphasized. The business populace of the Kwabre District is noted to have 41% in agriculture, 7% for industry (whose activities are agro-processing, wood-based, textile-based, and quarrying and construction which are mainly located at Ahwiaa, Ntonso and Kenyase) and 52% for services; most of which are SMEs. SMEs over the period are reported of encountering challenges in the finance of their business; the SMEs of the Kwabre District are no exception.

1.2 Statement of the Problem

According to OECD (2006) the difficulties that SMEs experience can stem from several sources. The domestic financial market may contain an incomplete range of financial products and services. SMEs' difficulty in obtaining financing are compounded when the business environment lacks transparency, when the legal system is weak, and when monopolies are present. As well, loan originators avoid providing financing to certain types of SMEs, in particular, start ups and very young firms that typically lack sufficient collateral, or firms whose activities offer the possibilities of high returns, but at a substantial risk of loss.

Boapeah (1993) in the article entitled *"Developing Small-Scale Industries in Rural Regions: Business Behavior and Appropriate Promotion Strategies with Reference To Ahanta West District of Ghana",* indicated that SMEs are entangled with myriad problems mitigating their growth in Ghana; notable among them are, lack of access to credit, competition from large-scale industries, the over liberalization of the economy and difficulty in accessing advisory services and research findings.

Nonetheless, access to finance remained a dominant constraint to SMEs in Ghana. Parker et al (1995) cited credit constraints pertaining to working capital and raw materials as a major concern in the industry. Aryeetey et al (1994) reported that 38% of the SMEs surveyed mentioned credit as a constraint. This stems from the fact that SMEs have limited access to capital markets, locally and internationally, in part because of the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms. As a result, SMEs often cannot obtain long-term finance in the form of debt and equity mostly from the formal financial institutions, particularly the commercial banks.

The statement of the problem is that due to the inadequate or lack of financing to the Small – Scale Industries, the Ghanaian small – scale industries are stagnant, unable to expand to enjoy economies of scale necessary to serve their potential of being an engine of national growth and are thus collapsing. It therefore becomes imperative for all stakeholders to find appropriate and workable means of financing are small – scale industries. The effect of inadequate financing is low economic growth, high unemployment rate, loss of much needed foreign exchange earnings, low per capital income and under – utilization of national resources. To ensure rapid economic growth, it is imperative that the financial sector grants credit facilities to the private sector at Kwabre District to help them develop the needed capacity for their survival and growth. This research is determined to identify the challenges of SMEs in accessing credit from bank for their business operations.

About 90% of small firms are refused loans when applied for from the formal financial intermediaries, due to inability to fulfill conditions such as collateral requirement (Bigsten et al., 1999). Several owners of SMEs for reasons such as too difficult processes and fear that their requests would be declined do not apply for formal loans. This has therefore led to most SMEs resorting to sources of finance such as retained earnings, personal savings, borrowing from friends and relatives, supplier credit, borrowing from moneylenders at very high rates. It is therefore opportune to assess the financing challenges of SMEs within the Kwabre District of the Ashanti Region by the commercial banks.

1.3 Research Objectives

The main purpose of the study is to evaluate the mode and the extent of financing of SMEs within the Kwabre District by financial institutions.

The specific objectives of this study are:

1. To determine the effect of financing on the development of SMEs within the Kwabre District.
2. To verify the factors that influences the financing SMEs by financial institutions
3. To identify the barriers that financial institutions face in the financing of SMEs.
4. To suggest the best procedures of financing SMEs in the District.

1.4 Research Questions

In order to attain the above stated objectives the study seeks to answer the following questions:

1. What is the positive and/or negative impact of financing on the business development of SMEs in Ghana?
2. What factors influence the financing of SMEs by financial institution?
3. What barriers do financial institutions face in the financing of SMEs?
4. What are the best procedures of financing SMEs in the Kwabre District?

1.5 Significance of the Study

Investments in SMEs are crucial for economic growth and development of the society; thereby benefiting from improvement in the standards of living especially if the government can assist them to grow by implementing complementary and growth-enhancing monetary and fiscal policies. It is expected that there research would benefit the institutions in SMEs financing, especially the commercial banks, management of the SME industry, academia and the general public.

Government and District Assembly

This research seeks to provide the needed information that would guide the Central government and Local District Assemblies to assess the challenges faced by the private sector in accessing finance to improve the SMEs in the country in order to ensure growth and development of the sector. The study enables Small-Scale Businesses to know how to strategize to mobilize finance for their operations.

Employments are created by SMEs to the majority of people in Ghana. This is because SMEs are labor intensive and make better use of numerous youth unemployed in the country. They account for nearly 93% of the businesses registered in the country. Hall berg (2000), developing countries should be interested in SMEs because they account for a larger share of firms and employment in these countries. Young (1994) also said 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. Government also generates tax revenue from Small and Medium Scale Enterprises for the economy, accounting for about 40% of the total revenue generated in Ghana (Daily Graphic, 2007).

Management of SMEs

The study would help management of SMEs to identify the current financial challenges so as to map up appropriate strategies to meet their needs and expectations. The findings and results also provides a more reliable scientific measure and perspective for describing and evaluating the level of efficiency of the new system and its effect on corporate performance and managements' satisfaction. It also serves as a source of information that brings to the fore the the empirical support for management strategic decisions in several critical areas of their operations, and above all, provide a justifiably valid and reliable guide to designing workable strategic financial packages for creating and delivering and achieving sustainable growth in the private sector and beyond.

Academia

In the case of academia, the output of this study contributes to knowledge and literature in the subject is under investigation. It is useful as a source of reference to researchers, academics, students, policy makers, Human resource experts and other stakeholders interested in bridging the financing gap of SMEs.

1.6 Research Methodology

1.6.1 Data Collection

The sources of materials for the study were both primary and secondary. Primary data was be collected by the use of a structured questionnaire which would be designed and administered to SME employees and customers, for information on the general perception of SME financing by the financial institutions within the Kwabre District. Scheduled Interviews was another medium through which primary data was obtained. Stakeholders like SME customers, management executives and staff of financial were interviewed for input on this study.

Secondary materials were extracted from relevant textbooks, newspapers, reports/articles, journals, bulletins and documents presented by corporate financial analysts and policy planners.

1.6.2 Sample Design

The purposive simple random sampling method was used in attaining the sample size, by basically concentrating on selected financial institutions in Kumasi directly involved with SME financing in Kwabre District and their respective SME customers for the study. Due to time and limited resources constraints, a proportion SME customers and staff would be sampled for input for this work. It is estimated that, 70 customer, 20 employees of selected SMEs at Kwabre District and 10 Mangers of their respective financial institutions would be contacted for data input.

1.7 Scope of the Study

The study covers the following SMEs of the Ghanaian economy, food processing, bakery, wood products, furniture works, metal works, kente weavies, and auto and machinery works. The study was conducted within the framework of evaluating SME financing by financial institutions, specifically those within the Kumasi Metropolis due their proximity the Kwabre District and their capacity to assist. It is a case study approach of one particular district (Kwabre) and will not cover other SMEs outside Kwabre to reflect the entire industry approach to financing SMEs. Hence the result will not be generalized but its findings would be placed in the relevant context of the individual company studied.

1.8 Limitation of the Study

The study is limited to the operations of SME customers of the selected financial institutions in around Kwabre District in the Ashanti Region. This location is chosen due to cost and time considerations and also because it is acknowledged that most SMEs are concentrated in the regional capital. This research has identified among others the following limitations that the study encountered would be:

- The unwillingness of management of both SMEs and financial institutions to release information which will help enriches the study and also establishes a strong validity and reliability.
- Even though SME financing nationwide study would have been more appropriate, there are constraints of financial resources and unavailability of data as well as materials which will not make it possible to undertake nationwide study.
- Costs in terms of printing, photocopying, binding as well as opportunity cost would be incurred without the requisite bursary from government which would be provided at a much later date.

1.9 Organization of the Study

This study is in five chapters. Chapter one is the general introduction. It looks at the background to the study, the objectives of the study and the statement of the problem. It also briefly looks at the research questions, scope and limitations and organization of the study. Chapter two is the literature review. Literature is reviewed according to the research questions used in the study. The conceptual framework for the study is also outlined. Chapter three is the methodology. It explains the research design. It also gives details about the population, sample and sampling procedures used in the study. It explains the research instruments, methods of data collection, data analysis plan. Chapter four is the data presentation, analysis and discussion. Chapter five presents the summary of conclusions and recommendations for the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter elucidates the review of literature. Literature has been reviewed on the definition of SMEs, evolution, rational for its promotion and analytical framework, sources of finance for SMEs, the financial development and role of SMEs in the economic development of Ghana. Lack of access to finance is consistently cited in surveys as principal constraints for the development of SMEs in African countries. Yet few studies have been thoroughly done on the effective ways by which the SMEs can have access to finance for their operations.

2.1 The concept and definition of SMEs

Several authors have usually given different definitions to this category of business. SMEs have indeed not been spared with the definition problem that is usually associated with concepts which have many components. The definition of firms by size varies among researchers. Some attempt to use the capital assets while others use skill of labour and turnover level. Others define SMEs in terms of their legal status and method of production (Abor and Quartey, 2010).

Storey (1994) tries to sum up the danger of using size to define the status of a firm by stating that in some sectors all firms may be regarded as small, whilst in other sectors there are possibly no firms which are small. The Bolton Committee (1971) first formulated an “economic” and “statistical” definition of a small firm. Under the “economic” definition, a firm is said to be small if it meets the following three criteria: it has a relatively small share of their market place; it is managed by owners or part owners in a personalized way, and not through the medium of a formalized management structure; it is independent, in the sense of not forming part of a large enterprise. Under the “statistical” definition, the Committee proposed the following criteria: the size of the small firm sector and its contribution to GDP, employment, exports, etc.; the extent to which the small firm sector’s economic contribution has changed over time; applying the statistical definition in a cross-country comparison of the small firms’ economic contribution.

The Bolton Committee applied different definitions of the small firm to different sectors. Whereas firms in manufacturing, construction and mining were defined in terms of number of employees (in which case, 200 or less qualified the firm to be a small firm), those in the retail, services, wholesale, etc. were defined in terms of monetary turnover (in which case the range is 50,000-200,000 British Pounds to be classified as small firm). Firms in the road transport industry are classified as small if they have 5 or fewer vehicles. There have been criticisms of the Bolton definitions. These centre mainly on the apparent inconsistencies between defining characteristics based on number of employees and those based on managerial approach. The European Commission (EC) defined SMEs largely in term of the number of employees as follows: firms with 0 to 9 employees - micro enterprises; 10 to 99 employees - small enterprises; 100 to 499 employees - medium enterprises. Thus, the SME sector is comprised of enterprises (except agriculture, hunting, forestry and fishing) which employ less than 500 workers. In effect, the EC definitions are based solely on employment rather than a multiplicity of criteria. Secondly, the use of 100 employees as the small firm’s upper limit is more appropriate, given the increase in productivity over the last two decades (Storey, 1994).

Finally, the EC definition did not assume the SME group is homogenous; that is, the definition makes a distinction between micro, small, and medium-sized enterprises.

However, the EC definition is too embracing to be applied to a number of countries. Researchers would have to use definitions for small firms which are more appropriate to their particular "target" group (an operational definition). It must be emphasized that debates on definitions turn out to be sterile, unless size is a factor which influences performance. For instance, the relationship between size and performance matters when assessing the impact of a credit programme on a target group (Storey, 1994).

Weston and Copeland (1998) hold that definitions of size of enterprises suffer from a lack of universal applicability. In their view, this is because enterprises may be conceived of in varying terms. Size has been defined in different contexts, in terms of the number of employees, annual turnover, industry of enterprise, ownership of enterprise, and value of fixed assets. Van der Wijst (1989) considers small and medium businesses as privately held firms with 1 – 9 and 10 – 99 people employed, respectively.

Jordan *et al* (1998) define SMEs as firms with fewer than 100 employees and less than €15 million turnover. Michaelas *et al* (1999) consider small independent private limited companies with fewer than 200 employees and López and Aybar (2000) considered companies with sales below €15 million as small. According to the British Department of Trade and Industry, the best description of a small firm remains that used by the Bolton Committee in its 1971 Report on Small Firms. This stated that a small firm is an independent business, managed by its owner or part-owners and having a small market share (Department of Trade and Industry, 2001).

The UNIDO also defines SMEs in terms of number of employees by giving different classifications for industrialized and developing countries (Elaian, 1996). The definition for industrialized countries is given as follows: Large - firms with 500 or more workers; Medium - firms with 100-499 workers; and Small - firms with 99 or less workers.

The classification given for developing countries are: Large - firms with 100 or more workers; Medium - firms with 20-99 workers; Small - firms with 5-19 workers; Micro - firms with less than 5 workers.

It is clear from the various definitions that there is not a general consensus over what constitutes an SME. Definitions vary across industries and also across countries. It is important now to examine definitions of SMEs given in the context of Ghana.

2.2 Characteristics of SMEs in Developing Countries

Fisher and Reuber (2000) enumerate a number of characteristics of SMEs in developing countries under the broad headings: labour characteristics, sectors of activity, gender of owner and efficiency. Given that most SMEs are one-person businesses, the largest employment category is working proprietors. This group makes up more than half the SME workforce in most developing countries; their families, who tend to be unpaid but active in the enterprise, make up roughly another quarter. The remaining portion of the workforce is split between hired workers and trainees or apprentices. SMEs are more labour intensive than larger firms and therefore have lower capital costs associated with job creation (Anheier and Seibel, 1987; Liedholm and Mead, 1987; Schmitz, 1995).

In terms of activity, they are mostly engaged in retailing, trading, or manufacturing (Fisher and Reuber, 2000). While it is a common perception that the majority of SMEs will fall into the first category, the proportion of SME activity that takes place in the retail sector varies considerably between countries, and between rural and urban regions within countries. Retailing is mostly found in urban regions, while manufacturing can be found in either rural or urban centers. However, the extent of involvement of a country in manufacturing will depend on a number of factors, including, availability of raw materials, taste and consumption patterns of domestic consumers, and the level of development of the export markets.

In Ghana, SMEs can be categorized into urban and rural enterprises. The former can be subdivided into "organized" and "unorganized" enterprises. The organized ones mostly have paid employees with a registered office, whereas the unorganized category is mainly made up of artisans who work in open spaces, temporary wooden structures, or at home, and employ few or in some cases no salaried workers (Kayanula and Quartey, 2000). They rely mostly on family members or apprentices. Rural enterprises are largely made up of family groups, individual artisans, women engaged in food production from local crops. The major activities within this sector include:- soap and detergents, fabrics, clothing and tailoring, textile and leather, village blacksmiths, tin-smithing, ceramics, timber and mining, bricks and cement, beverages, food processing, bakeries, wood furniture, electronic assembly, agro processing, chemical-based products and mechanics (Osei *et al.*, 1993; Kayanula and Quartey, 2000).

Majority of SMEs are female-owned businesses, which more often than not are home-based compared to those owned by males; they are operated from home and are mostly not considered in official statistics. This clearly affects their chances of gaining access to financing schemes, since such programmes are designed without sufficient consideration of the needs of businesses owned by females. These female entrepreneurs often get the impression that they are not capable of taking advantage of these credit schemes, because the administrative costs associated with the schemes often outweigh the benefits. Prior empirical studies in Ghana have shown that female-owned SMEs often have difficulty accessing finance. Females are mostly involved in sole-proprietorship businesses which are mainly microenterprises and as such may lack the necessary collateral to qualify for loans (Aryeetey *et al*, 1994; Abor and Biekpe, 2006).

Measures of enterprise efficiency (e.g. labour productivity or total factor productivity) vary greatly both within and across industries. Firm size may be associated with some other factors that are correlated with efficiency, such as managerial skill and technology, and the effects of the policy environment. Most studies in developing countries indicate that the smallest firms are the least efficient, and there is some evidence that both small and large firms are relatively inefficient compared to medium-scale enterprises (Little *et al.*, 1987). It is often argued that SMEs are more innovative than larger firms. Many small firms bring innovations to the market place, but the contribution of innovations to productivity often takes time, and larger firms may have more resources to adopt and implement them (Acs *et al.*, 1999).

2.3 The Contribution of SMEs to Economic Development

2.3.1 Employment creation

The contributions of SMEs towards employment creation are undoubtedly manifested through their reliance on labour-intensive approach in the conduct of their business activities. This has led to the creation of jobs opportunities for the employment of the members of the various communities in the Kwabre district. Bosworth (1986) confirmed by the discoveries made on SMEs as contributing more to employment generation than the large industries in Indonesia; as in the fact that, the Large Enterprises are capital intensive industries require an investment of US $50,000 to employ an additional worker; and that SMEs require an investment of US$ 500 for an additional worker to be employed in any form of economic activities, (Soon, 1984).

The United Kingdom for example, at one time encouraged small enterprises to employ more manpower and the Government provided subsidy to the employer for each additional worker employed. With the relative ease of starting of small enterprises as compare to that of starting a large enterprise, there is a potential of job creation in the small business sector. For countries, it is a solution to generate more jobs for employment (Soon, 2009).

2.3.2 Regional and Rural Development

According to Soon (1984), SMEs require relatively little amount of capital and a low level of technology. They can be easily established in the less developed areas of a country, and help in spreading economic activities from urban to rural areas. In this way, small enterprises not only provide the country flakes with employment opportunities, but also help to reduce the flow of migration from the rural to the already overpopulated cities. In addition to this, SMEs in the Ashanti Region particularly those in the Kwabre district have been advised to cultivate the habit of saving with banks to benefit from loan facilities to improve their businesses, by so doing the SMEs would be in business in order to effectively carry out this contribution towards the development of Kwabre (GNA, 2011).

Many researchers conclude that SMEs, being less mobile than large corporations, are more likely to have ties of dependence and familiarity to their communities, which will ensure they protect their reputation and relationships among neighbors and customers. One study of European SMEs notes that on average, 67.5% of them report practicing some form of external socially responsible activity on a regular basis, such as supporting a local charity (European Commission, 2002). The main reasons cited for these efforts were "improvement of the loyalty of customers" and "better relations with the community" (European Commission, 2002).

Recent bodies of research, including a report produced by the United Nations Industrial Development Organization (UNIDO), support these findings, showing that there is widespread consensus that SMEs have: Are labor-intensive, providing more opportunities for low-skilled workers; Are correlated with lower income distribution inequality; Are an important part of the supply chain for large MNCs (Luetkenhorst, 2004); Are necessary for agriculture-dependent nations transitioning to an industrial- and service-oriented economy; Are excellent "beta-sites" for innovation and sustainable initiatives due to their inherent flexibility and risk-taking ability (Raynard and Forstater, 2002)--examples include Verdant Power or Energia Global; and provide all of these crucial benefits in developing countries despite their relatively smaller presence (Patricoff and Sunderland, 2005).

2.3.3 Provision of Services to Local community

Soon (1984) again suggested that, SMEs play a very important role in many countries in providing daily services. Indeed SMEs are responsible for the supply of food, transportation, and daily necessities. Services are all provided batter by small business than State-large enterprises. Small retailers make it possible for the customers to purchase many different items in one shop. As a matter of fact, without the services of SMEs, our life will be hampered and very inconvenient.

2.3.4 Supporting the Large Enterprises (LEs)

The concentration of many SMEs sited closely to larger enterprises contributes to each of the SMEs benefiting from the advantage of economies of scale. Some business activities require larger amount of capital and a high level of technology, which are beyond the capability of small businesses. Hence, large enterprises are also important to the national economy in terms of providing employment and training of skills. Beesley et al (1994) have argued that, in Japan, large enterprises cannot survive on their owned. They require the supporting services of small enterprises in terms of supply of material, parts and components, semi-finished goods and distribution of finished products. Some foreign investment also looks at the sufficiency and efficiency of locally supporting services. Some products or components and accessories do not require high precision work and can be outsource to allow companies to concentrate upon more important areas such as marketing, quality control, product design and research and development.

2.4 General Constraints to SME Development

Despite the potential role of SMEs to accelerated growth and job creation in developing countries, a number of bottlenecks affect their ability to realize their full potential. SME development is hampered by a number of factors, including finance, lack of managerial skills, equipment and technology, regulatory issues, and access to international markets (Anheier and Seibel, 1987; Steel and Webster, 1991; Aryeetey *et al*, 1994; Gockel and Akoena, 2002). The lack of managerial know-how places significant constraints on SME development. Even though SMEs tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, prevalent in most countries in the region, has a magnified impact on SMEs. The lack of support services or their relatively higher unit cost can hamper SMEs' efforts to improve their management, because consulting firms are often not equipped with appropriate cost-effective management solutions for SMEs. Besides, despite the numerous institutions providing training and advisory services, there is still a skills gap in the SME sector as a whole (Kayanula and Quartey, 2000). This is because entrepreneurs cannot afford the high cost of training and advisory services while others do not see the need to upgrade their skills due to complacency. In terms of technology, SMEs often have difficulties in gaining access to appropriate technologies and information on available techniques (Aryeetey *et al.*, 1994). In most cases, SMEs utilize foreign technology with a scarce percentage of shared ownership or leasing. They usually acquire foreign licenses, because local patents are difficult to obtain.

Regulatory constraints also pose serious challenges to SME development and although wide ranging structural reforms have led to some improvements, prospects for enterprise development remain to be addressed at the firm-level. The high start-up costs for firms, including licensing and registration requirements, can impose excessive and unnecessary burdens on SMEs. The high cost of settling legal claims, and excessive delays in court proceedings adversely affect SME operations. In the case of Ghana, the cumbersome procedure for registering and commencing business are key issues often cited. The World Bank Doing Business Report (2006) indicated that it takes 127 days to deal with licensing issues and there are 16 procedures involved in licensing a business in Ghana. Meanwhile, the absence of antitrust legislation favours larger firms, while the lack of protection for property rights limits SMEs' access to foreign technologies (Kayanula and Quartey, 2000).

Previously insulated from international competition, many SMEs are now faced with greater external competition and the need to expand market share. However, their limited international marketing experience, poor quality control and product standardization, and little access to international partners, continue to impede SMEs' expansion into international markets (Aryeetey *et al.*, 1994). They also lack the necessary information about foreign markets. One important problem that SMEs often face is access to capital (Lader, 1996). Lack of adequate financial resources places significant constraints on SME development. Cook and Nixson (2000) observe that, notwithstanding the recognition of the role of SMEs in the development process in many developing countries, SMEs development is always constrained by the limited availability of financial resources to meet a variety of operational and investment needs. A World Bank study found that about 90% of small enterprises surveyed stated that credit was a major constraint to new investment (Parker *et al.*, 1995). Levy (1993) also found that there is limited access to financial resources available to smaller enterprises compared to larger organisations and the consequences for their growth and development. The role of finance has been viewed as a critical element for the development of SMEs (Cook and Nixson, 2000). A large portion of the SME sector does not have access to adequate and appropriate forms of credit and equity, or indeed to financial services more generally (Parker *et al.*, 1995). In competing for the corporate market, formal financial institutions have structured their products to serve the needs of large corporate.

A cursory analysis of survey and research results of SMEs in South Africa, for instance, reveals common reactions from SME owners interviewed. When asked what they perceive as constraints in their businesses and especially in establishing or expanding their businesses, they answered that access to funds is a major constraint.

This is reflected in perception questions answered by SME owners in many surveys (see BEES, 1995; Graham and Quattara, 1996; Rwingema and Karungu, 1999). This situation is not different in the case of Ghana (see Sowa *et al.*, 1992; Aryeetey, 1998; Bigsten *et al.*, 2000, Abor and Biekpe 2006, 2007; Quartey, 2002). *A priori*, it might seem surprising that finance should be so important. Requirements such as identifying a product and a market, acquiring any necessary property rights or licenses, and keeping proper records are all in some sense more fundamental to running a small enterprise than is finance (Green *et al.*, 2002). Some studies have consequently shown that a large number of small enterprises fail because of non-financial reasons. Other constraints SMEs face include: lack of access to appropriate technology; the existence of laws, regulations and rules that impede the development of the sector; weak institutional capacity and lack of management skills and training (see Sowa *et al.*, 1992; Aryeetey *et al.*, 1994**;** Parker *et al.*, 1995; Kayanula and Quartey, 2000). However, potential providers of finance, whether formal or informal, are unlikely to commit funds to a business which they view as not being on a sound footing, irrespective of the exact nature of the unsoundness. Lack of funds may be the immediate reason for a business failing to start or to progress, even when the more fundamental reason lies elsewhere. Finance is said to be the "glue" that holds together all the diverse aspects involved in small business start-up and development (Green *et al.,* 2002).

2.5 The Financing Gap: Is the concept of a financing gap meaningful?

On a theoretical level, there is some controversy as to whether it is meaningful to speak of a "financing gap". Clearly, there can be such a gap if the authorities intervene in the market and maintain interest rates below the equilibrium rate, which would inevitably lead to excess demand for loanable funds. In the past, some analysts argued that it was not meaningful to speak of a funding gap unless the authorities actually kept interest rates below market clearing levels. It was held that as risks rise, providers of financial resources would sufficiently increase interest rates charged to all borrowers to bring the supply and demand for credit into balance. This view was contested in a groundbreaking article by Stiglitz and Weiss (1981) who argued that in a market in equilibrium but with problems that are commonly found in financial markets, it could be rational for banks to engage in "credit rationing". Due to problems of asymmetric information and agency problems, banks have difficulties distinguishing good risks from bad risks and in monitoring borrowers once funds have been advanced. Moreover, banks will hesitate to use interest rate changes to compensate for risk in the belief that by driving out lower-risk borrowers, high interest rates may lead to a riskier loan portfolio, thus setting in motion a process of adverse credit selection.

Banks could maximize their return by setting an interest rate that left large numbers of potential borrowers without credit. In the Stiglitz-Weiss formulation, credit rationing is said to occur if

i) among loan applicants who appear to be identical some receive credit while others do not; or

ii) there are identifiable groups in the population that are unable to obtain credit at any price.

The issues raised in this article have generated a debate that has been part of the literature on development finance for more than two decades. Furthermore, the initial theoretical argument has been elaborated in succeeding years and applied in a number of different cases. Leaving aside the theoretical details, the core of the argument is that suppliers of finance may choose (due to the problems of dealing with uncertainties such as agency problems, asymmetric information, adverse credit selection and monitoring problems) to offer an array of interest rates that would leave significant numbers of potential borrowers without access to credit. The argument was not specifically aimed at SMEs, but, as will be made clear below, the specific characteristics of SMEs is such that these problems are more severe in SMEs than larger companies.

The distinctive challenges of SME finance

Any potential provider of external debt or equity finance will want to monitor the company to determine whether it is acting in accord with the initial contract, to follow the progression of the firm and to have the means to oblige the user of funds to respect the interests of the provider of funds. There are numerous reasons why doing this effectively is more problematic for SMEs than for larger firms. Hence, banks are more likely to engage in credit rationing (*i.e.* not extending the full amount of credit demanded, even when the borrower is willing to pay higher rates) to SMEs than to larger companies (Stiglitz and Weiss, 1981; Hoff and Stiglitz,).

In the first place, the SME sector is characterized by wider variance of profitability and growth than larger enterprises. SMEs also exhibit greater year-to-year volatility in earnings. The survival rate of SMEs is considerably lower than that of larger firms. Thus, one analyst found that manufacturing firms with fewer than 20 employees were five times more likely to fail in a given year than larger firms (Storey, 1995).

In the case of SMEs, it is very difficult to distinguish the financial situation of the firm from that of its owners. The use of company cars and home accommodations for both private and business purposes are clear cases in point. Furthermore, estate tax and intergenerational succession are important issues in SMEs but usually unimportant for larger companies.

Relations between the firm and its stakeholders are likely to reflect personal relationships to a much higher degree than in larger firms where such relationships are formalized. Whereas large firms are expected to observe recognized standards of corporate governance in which actors such as executives, auditors, and boards of directors are expected to conform to transparent norms, SMEs tend to reflect much more closely the personalities of their owners.

The linkage between SMEs and financial markets is looser than in the case of larger companies. SMEs often obtain funds from informal sources and, thus, may be less linked to trends in the formal fixed-income or equity markets. SMEs often use internally generated funds or loans from family and friends in "quasi-equity form". Funds from close acquaintances may be obtained at sub-market rates while borrowing from formal markets may be at rates higher than those available to larger companies.

Trade credit, *i.e.* credit supplied by non-financial entities, has always been an important component of SME finance and many analysts argue that the development of trade credit is an important element in assuring adequate finance for SMEs in emerging markets. There are also potential principal/agent problems. The provider of credit will seek to require the borrower to act so as to maximize the probability that the loan is repaid, while the borrower may seek higher risk/higher return solutions. Once financing is received, the entrepreneur may be motivated to undertake excessively risky projects, since all of the upside of the project belongs to the entrepreneur, while the lender prefers a less risky project that increases the probability that the loan will be repaid. This problem, which is potentially present in all lending, is more serious for smaller firms than for larger firms because of the blurring of the line between the firm and the entrepreneur, and due to information asymmetries.

Asymmetric information is a more serious problem in SMEs than in larger firms. The entrepreneur has access to better information concerning the operation of the business and has considerable leeway in sharing such information with outsiders. However, the entrepreneur is also likely to have less training/experience in business than those in a larger company, although more adapted to operating in an uncertain environment. Hence, it may be difficult for the outside provider of financing to determine whether the entrepreneur is making erroneous decisions or for the outsider to understand the business adequately. In addition, the entrepreneur may have incentives to remain opaque, not only in dealings with financiers, but also with other outsiders such as regulators and tax authorities.

The analysis of credit rationing is believed to provide special insights into problems of finance in developing and emerging markets. Thus, this argument has become part of the analysis generally applied to problems of finance in emerging markets.

Structural rigidities and distortions will worsen the funding gap

The argument elaborated in the preceding section held that even in financial markets that have no distortion stemming from official intervention and major private monopolies, SMEs will often be more difficult to assess than established companies. Therefore, the possibility that large numbers of small firms will be excluded from the credit market, already present to some extent in a fully competitive and transparent market, becomes greater as market imperfections grow. This initial disadvantage of SMEs can worsen if the business environment and the financial system have certain characteristics.

1) **The domestic savings investment balance**.

National savings may be at low levels and may result in a chronic insufficiency of domestic savings with respect to domestic investment or lead to excess demand for available domestic savings. In addition, government policy may favour industrialization and/or import substitutions, which effectively give large domestic firms, privileged access to finance. The hesitancy to lend to SMEs and the resulting credit rationing will become more acute in times of monetary stringency and disinflation.

2) Legal, institutional and regulatory framework.

Banks will only seek to develop the SME market as a source of profit if the economic and business framework is calibrated to transmit reliable economic signals and the legal regulatory institutional setting enables banks to lend with confidence. The legal system should have a strong regime to protect property rights, including creditor rights and be relatively efficient in resolving cases of delinquent payments and bankruptcy. Additionally, the tax and regulatory framework should encourage firms to operate in a transparent manner. If these conditions are absent, the tendency to exclude SMEs from lending will be more pronounced.

3) Structure of the financial system.

On a global level, a model of market-based bank governance has gained acceptance. Under this model, supervisors are expected to hold bank managers accountable for adequacy of earnings and for the prudential quality of their institutions while bank management and boards act to produce high returns to shareholders and maintain high prudential standards. This model has proven to produce significant efficiency gains. As this model is applied and as the business environment becomes more competitive, banks have strong incentives to find means to overcome the difficulties in SME lending. However some countries have been comparatively slow in implementing this model.

Emerging markets are particularly vulnerable to marginalization of SMEs

The analysis of credit rationing was believed to provide special insights into problems of finance in developing and emerging markets. SMEs and informal enterprises are the largest providers of output and jobs in the developing world. Although reliable data on the size of the SME sector are lacking, not least because of widespread informal activity, the World Bank estimates that SMEs and informal enterprises account for over 60% of GDP and over 70% of total employment in low-income countries, while they contribute over 95% of total employment and about 70% of GDP in middle-income countries (Ayyagari, Beck and Demirgüc-Kunt, 2003).

A large body of research documents the existence of a skewed firm size distribution: a small number of large firms co-exists (even within the same sector) with many micro and small enterprises (Tybout, 2000; OECD, 2005). This 'missing middle' in the firm size distribution and the prominence of micro and small-sized enterprises would stem from a combination of cumbersome regulation – it never pays to be just large enough to attract enforcement – and structural characteristics related to a low level of development, such as underdeveloped markets, unsophisticated demand, and poor business environments.

Structural rigidities that create conditions under which large numbers of economically significant SMEs cannot obtain financing are more likely to be found in emerging markets than in more highly advanced economies. Emerging markets are more likely to have macroeconomic imbalances that lead to excess demand for available domestic savings as well as institutional weaknesses that encourage large numbers of individuals to engage in low productivity, informal activity. Furthermore, financial systems in emerging markets are often characterized by less deregulation, openness and reform of ownership governance and supervision. There are persuasive reasons to believe that when the institutional and financial framework is weak, SMEs will be adversely affected to a much larger degree than larger firms.

In many emerging markets, there is a clear trend for SMEs to shun the formal financial system and operate in the informal economy, aggravating their lack of access to financial markets. Schneider (2002) estimates that, in the average developing country, the informal economy accounts for 41% of official gross national income (GNI). In European OECD countries, the average is 18%. The ILO (2002) estimates that the informal workforce share of non-agricultural employment is as high as 78% in Africa, 57% in Latin America and the Caribbean, while it displays a high variation in Asia (between 45% and 85%) and much lower rates in OECD countries. This tendency to operate in informal markets frequently reflects both positive and negative forces. For instance, the formal banking system may show little interest in lending to SMEs and hence there is little incentive for firms to produce credible accounts and operate transparently. When entrepreneurs perceive a lack of willingness on the part of financial institutions to deal with SMEs, one of the key incentives for firms to move into the formal economy will be absent. The small firm will have additional incentives to remain involved in the informal economy if more transparent operating and disclosure practices would expose the firm to more official scrutiny, tighter regulation and/or higher taxation. As a result, many entrepreneurs conclude that their interests are better served by remaining in the informal system. A recent World Bank *Doing Business* report suggests that the burden of regulation in developing countries is considerably higher than in developed countries, and this may well be a cause for the unsatisfactory private sector performance and informality.

While the avoidance of formal channels for finance may to some degree reflect excessive taxation or bureaucratic rigidity as well as the disinclination of banks to lend to SMEs, it may also reflect the lack of institutional capability on the part of the authorities to enforce laws and regulations. When the informal economy reaches a substantial size and the accepted practice becomes to avoid taxes and regulations, the authorities may confront a problem of enforcement and compliance with laws and regulations.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the methodology used for the study. It explains the research design. It also gives details about the population, sample and sampling techniques and the research instruments used in collecting data for the study. It also discusses the data collection methods and data analysis plan.

3.1 Research Design

The research design of this project was a non-experimental or a survey, one which determined the perceived level of involvement of selected financial institutions in the financing of SMEs in at Kwabre District.

The researcher gathered extensive data from the owners and managers of SMEs operating from the district. Due to the vastness of the district, one particular SME was chosen from the list of groups and associations of the private sector in the district. The eight main associations from which one SME was selected are 1) Kente Weavers and Sellers Association; 2) Royal Kente Weavers Association; 3) Adinkra Makers Association; 4) Ahwiaa Wood Workers Association; 5) Soap Makers Association; 6) Kwabre District Coallition for physically challenged; 7) Tailors and Dressmakers Association; and 8)Hairdressers Association.

The researcher used a cross-sectional design to collect data on relevant variables, one time only, from a variety of people. To this end, questionnaire covering the objectives of the research was prepared and used to collect data from the owners or managers of all the sampled SMEs.

3.2 Pretest of the Interview Schedule and Questionnaire

Before the main fieldwork, a pretest of the questionnaire and the interview schedule was conducted in some of the selected SMEs by the researcher. The main reason for this activity was to ensure that the questionnaire and interview schedules are meaningful, easily understood and appropriate for the main fieldwork. It also enabled the researcher and the field assistants to become familiar with the interview schedules and the questionnaire and to prepare them for the main fieldwork.

3.3 Population

The population is the complete set of individuals (subjects), objects or events having common observable characteristics in which the researcher is interested (Agyedu et *al*., 1999). The targeted population of the study consisted of managers of Business Banking/SME Banking of selected banks in the Kumasi Metropolis namely GCB Adum branch, Stanbic Bank, Harper Road, Standard Chartered Adum, ADB, Prempeh II branch, First Allied Savings and Loans, and Sinapi Aba Savings and Loans Asafo Market branch and the Sekyere Rural Bank.

Basically, SME owners, managers and workers who worked in kente, soap, wood products, furniture works, textile, cosmetic, metal works, and machinery works were used as the population for the study.

3.4 Sample

In designing the research study, the researcher took into consideration the need to make inferences from the sample of the population in order to answer the research questions and also meet the research objectives. One (1) manager each of SME Banking of the selected financial institutions and owners, managers and workers who worked in the eight named SMEs in the Kwabre District were sampled. A total of

Fifty owners/managers and workers and ten SME Banking executives were chosen for the study.

Table 3.1 Guide: sample size and technique for selecting respondents

	Sample Method Required		
Target Group	**Estimated Number**	**Sample Selected**	**Research technique used**
SME Banking Managers			
Manager	20	10	Interview
Customers			
Business Owners of SMEs	65	50	Questionnaire
Total	**70**	**60**	

Source: Field Survey, January, 2012

3.5 Sampling Technique

In order to get very accurate result for this study, people who were directly involved in the activities of the SMEs as far as financing and management of the businesses were concerned were thus selected. The purposive sampling method was used to select the sample from the population. This method is a non-random sampling where the researcher establishes a criterion devoid of randomness for selecting the sample. In the purposive sampling, the sample is chosen to suit the purposes of the study. This method was chosen because the sample was able to answer the questions and respond to the interviews as objectively as was possible.

3.6 Method of Data Collection

Data collection means gathering information to address the critical questions that had been identified earlier in the study. Many methods available to gather information, and a wide variety of information sources were identified. The most important issue related to data collection is selecting the most appropriate information or evidence to answer questions raised in the study (Brinkerhoff et *al.*, 1983; Archer, 1988; Leeds, 1992).

Data was collected from both primary and secondary sources. Primary data were captured through the use of questionnaires and personal interviews. Secondary data was collected using journals, textbooks, handbooks and manuals, review articles and editorials, literature review, informal discussions with experts, colleagues, seminars and conferences as well as published guides.

The tools used for the research were questionnaires and informal interviews. The questionnaires were used to collect both quantitative and qualitative data. This instrument was designed used for data collection because it has a quick way of collecting data if properly structured. Again items on the questionnaire formed the basis of generating research questions.

3.6.1 Questionnaires

Questionnaires were predominantly used to collecting data from the respondents. They were printed in English language for respondents to provide their responses. The researcher aided respondents who could not read or understand the English language. Questionnaires were used in cases where personal interview was impossible to carry out. Officials and owners of those businesses were given questionnaires to answer which were collected at a later date. This reduced inconveniences caused by unfavorable interview times and busy schedules. Before questionnaires were administered they were subjected to thorough testing and amendments before they were dispatched to respondents. There were two sets of questionnaires designed for respondents of the research: one for owners and/or managers and the other for employees. The questionnaire for owners and/or managers contained fifty five questions in all and that for employees contained thirty five questions. Some of these questions were open-ended whiles others were pre-coded (multiples choice and Yes/No).

The open-ended questions were given to respondents to solicit views which they believe are vital for the progress and development of SMEs with such questions, spaces were provided for respondents to write their views. This was important because it gives the respondent the freedom to express his view without any restriction of feeling on the issue under investigation. It also provides the bases for recommendation to be suggested on the findings. This is because the results that may be gathered would represent the true nature of the contributions of SMEs in the Kwabre district, the challenges and the facilities available to them. The length of questionnaires was influenced primarily by the scope of the study and the depth of information desired.

3.7 Data Analysis Plan

The data gathered from the field of study was edited by the researcher to ensure that all questionnaires were completed and contained accurate information. Statistics including simple tables, pie charts, bar charts, frequencies and percentage distributions, were used to analyze data that was collected.

3.8 Limitations of the Methodology

The researcher recognized that the sampling from the target population might not be totally free from errors and as such, efforts were made to minimize such errors. The population of the study consists of owners/managers of SMEs within the catchment area (Kweabre district) and Business Banking/SME staff of GCB Adum branch, Stanbic Bank, Harper Road, Standard Chartered Adum, ADB, Prempeh II, First Allied Savings and Loans, and Sinapi Aba Savings and Loans Asafo Market branches and the Sekyere Rural Bank. Care must therefore be taken in generalizing findings.

Finally, it is pertinent to reiterate the limitations to the study which is beyond the control of the researcher in the area of questionnaire administration and retrieval. Concerted efforts were made to ensure better response and retrieval of questionnaires from the respondents.

3.9 Profile of Kwabre District

3.9.1 Location and Size

The District shares common boundaries with Sekyere South District to the North; Kumasi Metropolitan Assembly to the south; Ejisu Juaben District to the East and Afigya Kwabre District to the West. The District has a total land area of 148sq km constituting 0.6% of the total land area of Ashanti Region. The District capital, Mamponteng, is approximately 14.5km from Kumasi to the north east. There are 42 settlements, 1 parliamentary constituency, 2 town councils, 4 area councils and 27 Electoral Areas.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.0 Introduction

The chapter presents the data gathered from the field. The data were represented by graphs, charts and tables. Data were also presented in relation to the literature review and compared to the data collected from the field.

4.1 Data Analysis of Administered Questionnaire

A study of the response obtained from the administered questionnaire is as follows: A total of sixty (60) copies of the questionnaires were distributed to officials of the selected banks rendering services to the Kwabre district and the owners/managers of the SMEs. Fifty-five (55) questionnaires were received; however, 50 were accepted (which obviously represents 83.33 percent of the response); thereby indicating that ten (10) questionnaires were rejected because the respective respondents failed to answer them correctly and in two instances, they were returned completely blank.

Table 4.1 : Respondents reaction to the questionnaire

Respondents	Questionnaires Administered	Questionnaires Received	Questionnaires Accepted
Bank Officials	15	10	10
SME Owners/Managers	45	43	40
Total	**60**	**53**	**50**

Source: Field Survey, January, 2012

Using the non-probability sampling method of random sampling, specifically the purposive sampling technique the researcher selected the sample based on targeted units. This method ensured that representative samples of all the known elements of the population were covered in the sample.

A sample size of fifty (50), comprising ten (10) bank officials (representing 20 percent) and forty (40) SMEs owners/managers (representing 80 percent) of the targeted population responded to the administered questionnaire as shown in Table 4.2.

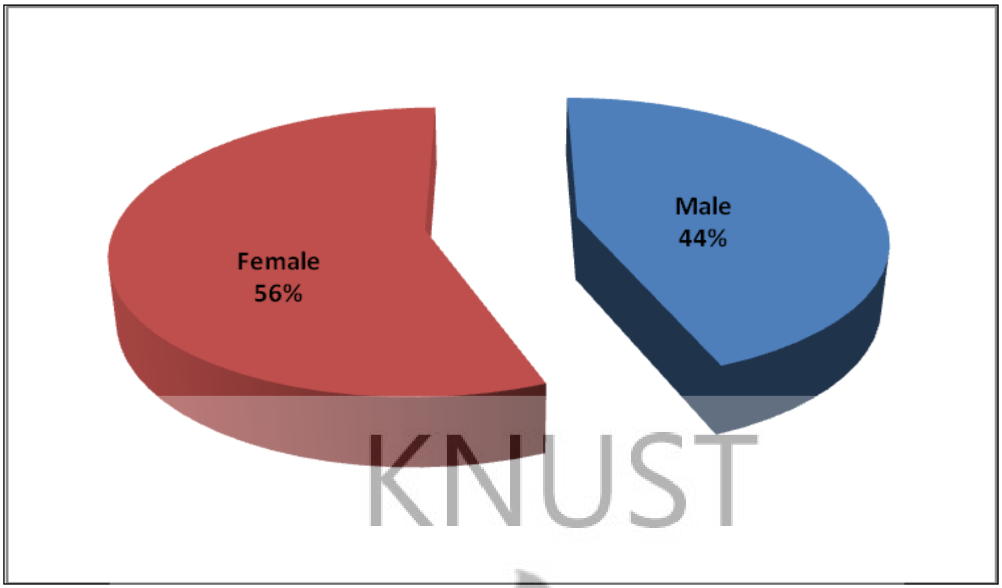
Table 4.2: Respondents Distribution

Details	Male		Female		Total	
	Freq	**Percent (%)**	**Freq**	**Percent (%)**	**Freq**	**Percent (%)**
Bank Officials	5	10.00%	5	10.00%	10	20.00%
SME Owners/Managers	17	34.00%	23	46.00%	40	80.00%
Total	**22**	**44.00%**	**28**	**56.00%**	**50**	**100.00%**

Source: Field Survey, January, 2012

The research revealed an overall ratio of 1:1.3 with regard to male and female distribution in terms of gender representation as demonstrated in Figure 1. The ratio is an indication of the dominance of females in the Kwabre district showing significant interest in entrepreneurship, most of them involved in the manufacturing and sale of soap, cosmetics and poultry farming while the male have dominated the kente, woodworks and metal works. The female dominance could also be attributed to the fact that until recently, the Kwabre district has been a rural community whereby most of the male population had migrated to Kumasi and Accra for greener pastures.

Figure 1: Gender Ratio



Source: Field Survey, January, 2012

4.2 Educational Level of SME owners/managers

Table 4.3: Educational Level of SME owners/managers

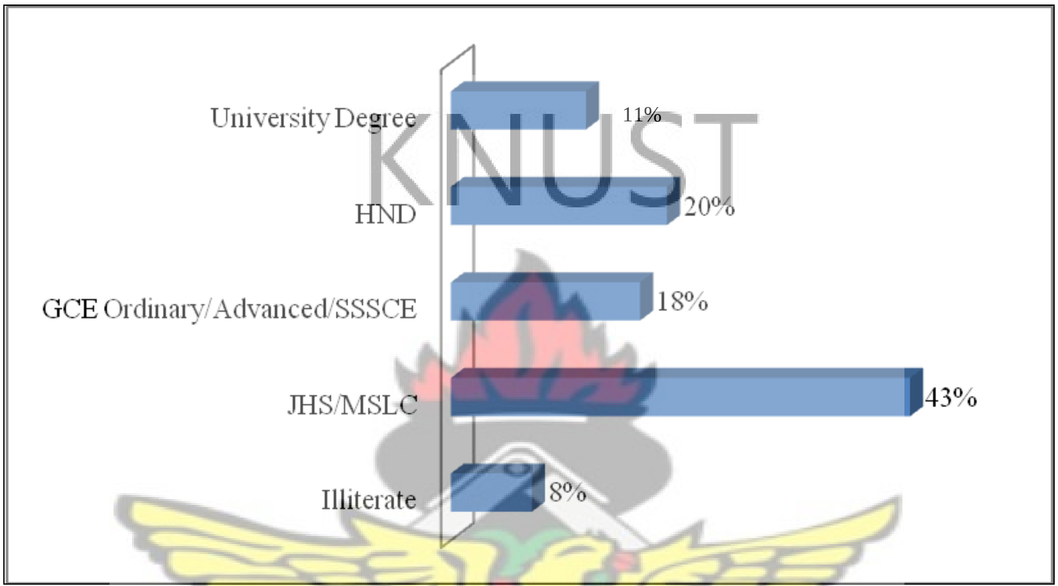
Level	**Freq**	**Percent (%)**
Illiterate	3	8%
JHS/MSLC	17	43%
GCE Ordinary/Advanced/SSSCE	7	18%
HND	8	20%
University Degree	5	11%
Total	**40**	**100%**

Source: Field Survey, January, 2012

As indicated by Table 4.3 and picturesquely demonstrated by Figure 2, the study showed that 8 percent of SME owners/managers are illiterates, 11 percent were university degree holders, 18 percent held GCE ‘O’/‘A’ level and SSS certificates. Majority (43 percent) of the respondents have attained JHS/MSLC; while 20 percent were holders of HND certificate.

In summary, 92 percent of the respondents were educated and could therefore make the requisite in-depth contributions on the subject matter. Even in the case of the illiterates, they had their questionnaire explained in the Asante Twi language and their respective answers were appropriately incorporated.

Figure 2: Educational Level of SME Owners/Managers



Source: Field Survey, January, 2012

4.3 Analysis of Responses of Bank Staff

The study showed that seven (7) financial institutions deals with SMEs in the Kwabre District, and ten (10) respondents whose responses were collated are thus analyzed in Table 5 and further discussions taken care of in the subsequent paragraphs.

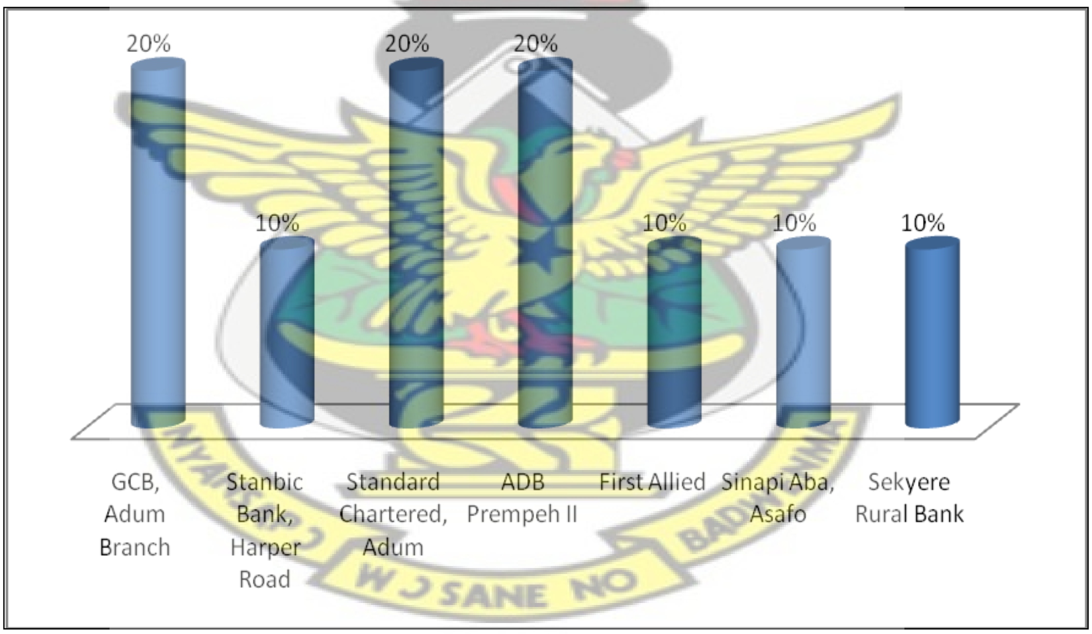
Two (2) respondents each from GCB, Adum Branch; Standard Chartered, Adum; and ADB Prempeh II; while the rest had one each who availed themselves for the interview scheduled with bank officials.

Table 4.4: Financial Institutions

Financial Institutions	Freq	Percent (%)
GCB, Adum Branch	2	20%
Stanbic Bank, Harper Road	1	10%
Standard Chartered, Adum	2	20%
ADB Prempeh II	2	20%
First Allied, Roman Ridge	1	10%
Sinapi Aba, Asafo	1	10%
Sekyere Rural Bank	1	10%
Total	**10**	**100%**

Source: Field Survey, January, 2012

Figure 3: Financial Institutions

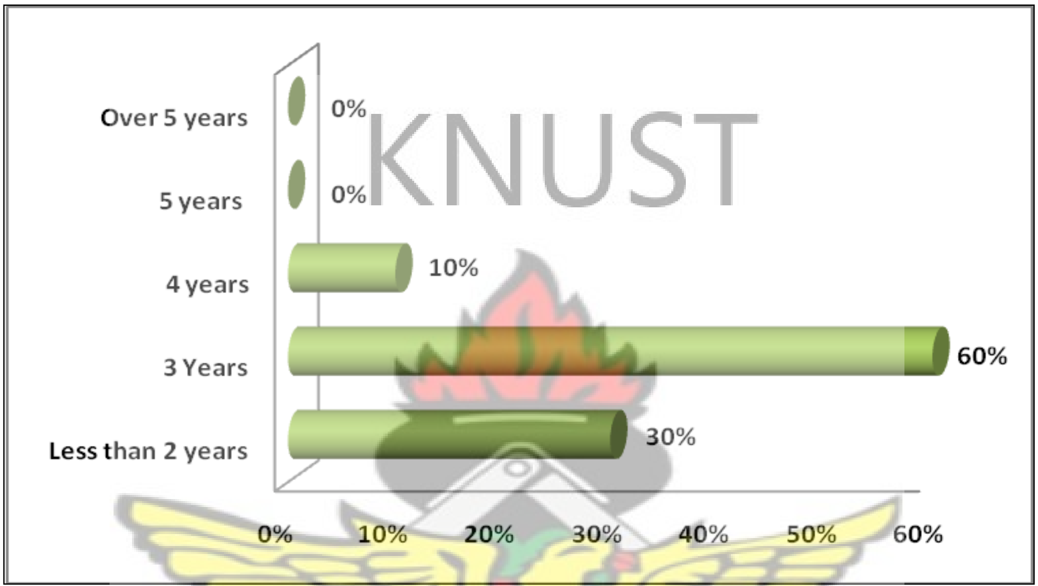


Source: Field Survey, January, 2012

4.3.1 SME Banking Period

The study showed that all the staff respondents have been on the SME Banking between the period of less than 2 years and four (4) years with the three (3) years class attaining the highest response of 60 percent. Nevertheless, the ‘less than 2 years' class was the next on the echelon, recording 30 percent; there was no representation for 5 years and 'over 5 years, athough the 4 years class attained 10 percent. It could be deduced that various Financial Institutions probably by policy do not permit an official stay on one schedule for more four years.

Figure 4: SME Banking Period



Source: Field Survey, January, 2012

4.3.2 Financial Services offered to SME Owners/Managers

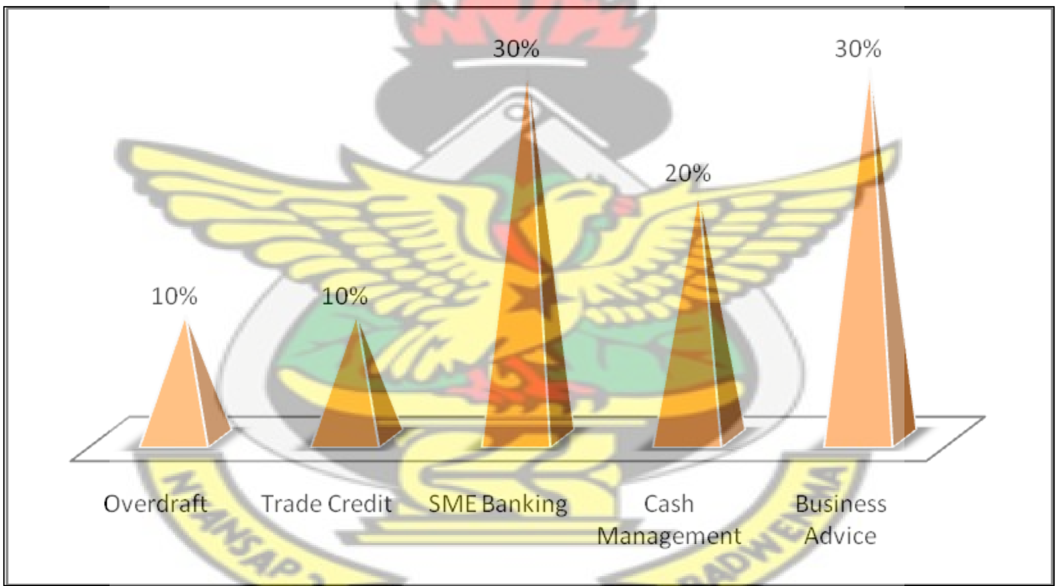
The study identified five main financial services rendered to SMEs by the selected banks include Overdraft, Trade Credit, SME Banking, Cash Management, and Business Advice. It was discovered that the financial services mostly offered to SME managers and owners were Business Advice and SME Banking; evidenced by the 30 percent each representation recorded in the afore mentioned services, illustrated in Table 4.5 and graphically represented by Figure 5. Cash Management also featured strongly as next most patronized services offered by the bank, as shown by the 20 percent representation; while overdraft and trade credit were the least rendered, evidence by the 10 percent representation each.

Table 4.5: Financial Services offered to SME Owners/Managers

Services	Frequency	Percent (%)
Overdraft	1	10%
Trade Credit	1	10%
SME Banking	3	30%
Cash Management	2	20%
Business Advice	3	30%
Total	**10**	**100%**

Source: Field Survey, January, 2012

Figure 5: Financial Services offered to SME Owners/Managers



Source: Field Survey, January, 2012

4.3.3 Relationship Ratings with SME

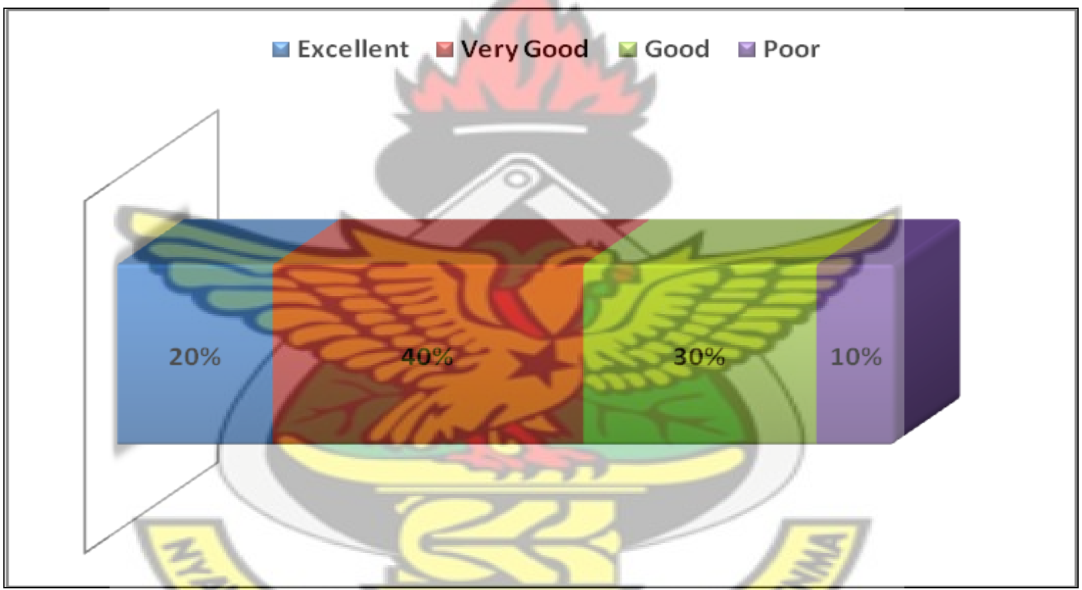
The research indicated that the relationship between the bankers and their respective SMEs is generally very good, supported by the 40 percent showings; followed closely 'Good', registering 30 percent and 20 percent believed it was 'excellent'. Conversely, 10 percent insisted that it was poor, and therefore more needed to be done. Details are shown in Table 4.6 and Figure 6 below.

Table 4.6: Relationship Ratings with SME

Rating	Frequency	Percent (%)
Excellent	2	20%
Very Good	4	40%
Good	3	30%
Poor	1	10%
Total	**10**	**100%**

Source: Field Survey, January, 2012

Figure 6: Relationship Ratings with SME



Source: Field Survey, January, 2012

4.3.4 Conditions for extending credit facilities

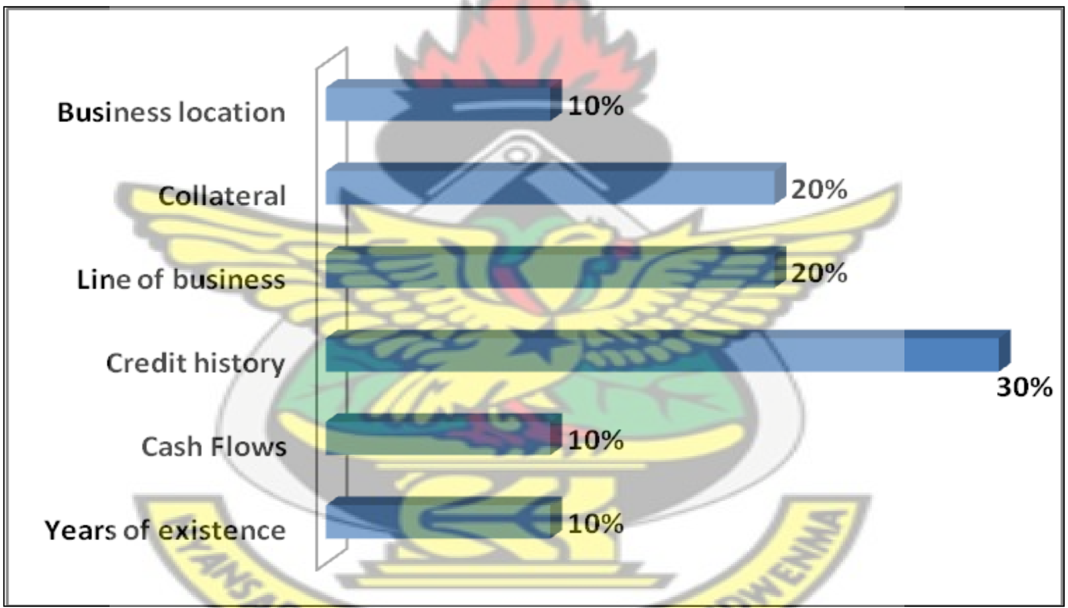
The study identified six major conditions or criteria considered when the bank is extending credit to SME customers. These conditions are ‘years of existence’, ‘past and projected cash flow’, ‘credit history’, ‘ lines of business’, ‘collateral’ and business location. Table 4.7 illustrated the conditions or criteria which shows the qualification of SMEs credit.

Table 4.7: Credit criteria to qualify SME

Criteria	Frequency	Percent (%)
Years of existence	1	10%
Cash Flows	1	10%
Credit history	3	30%
Line of business	2	20%
Collateral	2	20%
Business location	1	10%
Total	**10**	**100%**

Source: Field Survey, January, 2012

Figure 7: Credit criteria to qualify SME



Source: Field Survey, January, 2012

Out of all the afore mentioned criteria the banks use as benchmark for assessing the credibility of SMEs, credit history stood tall among the rest with 30 percent; closely followed by collateral and line of business, each of which registered 20 percent while the rest attained just 10 percent each.

4.3.5 Major challenges of SME Banking

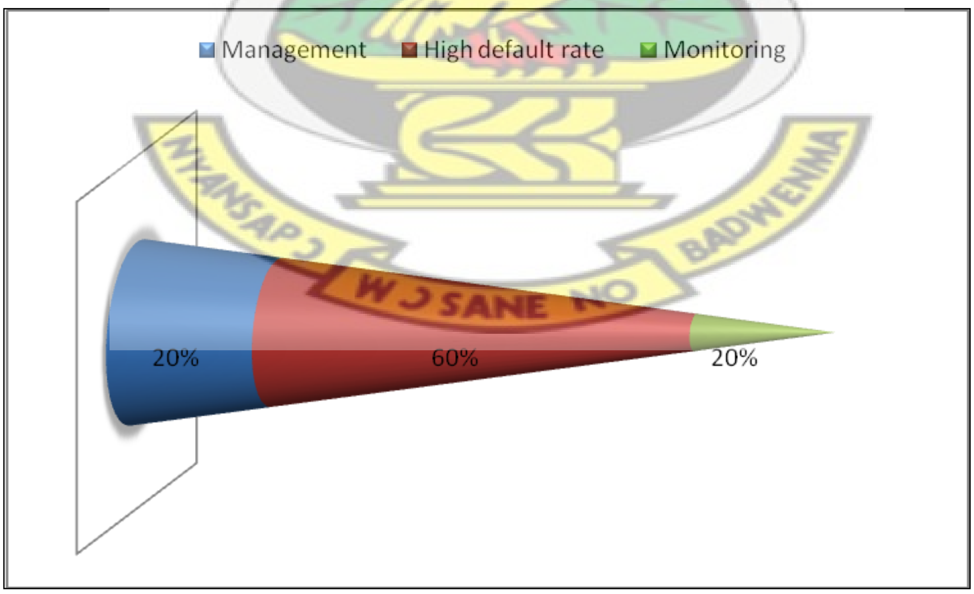
The study recognized three (3) major challenges (management, high default rate and monitoring) that militate against the SME Banking Unit of the seven selected banks. As indicated in Table 9 and picturesquely represented by Figure 8 High default rate on the part of SMEs has been that bane for the SME Banking Unit of the selected branch. Table 4.8 showed the major Banking challenges faced by SMEs.

Table 4.8: Major challenges of SME Banking

Challenges	**Frequency**	**Percent (%)**
Management	2	20%
High default rate	6	60%
Monitoring	2	20%
Total	**10**	**100%**

Source: Field Survey, January, 2012

Figure 8: Major challenges of SME Banking



Source: Field Survey, January, 2012

4.3.6 Major SMEs financed

The study indicated that among the forty (40) SMEs selected from the Kwabre District the banks have extended assistance from their respective start-up stage to the current state are: Agya Adu Motors; Ekoba Gyasi Co Ltd.; Afritete Kente Weavers; and Sekyereman Hotel.

4.3.7 Other assistance aside financial to SMEs

The study showed that apart from the provision of financial assistance to the SMEs, the banks rendered services which could generally be classified as business and financial consultancy and customer relationship management

4.4 Analysis of Responses of SME owners and managers

4.4.1 Main sector of SME activity

Seven main industry from which SME financed by the selected banks are operating from were noticed by the researcher. They are eight main associations from which one SME was selected are 1) Kente Weavers and Sellers Association; 2) Royal Kente Weavers Association; 3) Adinkra Makers Association; 4) Ahwiaa Wood Workers Association; 5) Soap Makers Association; 6) Kwabre District Correlation for physically challenged; 7) Tailors and Dressmakers Association; and 8) Hairdressers Association; which are categorized as Wood products, metal works, tailors and dressmakers, beautician and hairdressers, soap, kente and Adinkra industries.

The study showed that Kente weaving and sales sector has the modal class of 30 percent; followed by Adinkra processing and sales, which recorded 25 percent; Soap manufacturing attained 15 percent representation, Tailor and Dressmakers registered

13 percent; 10 percent for wood products and the least being metal works (8 percent).Table 4.9 illustrated the main sectors.

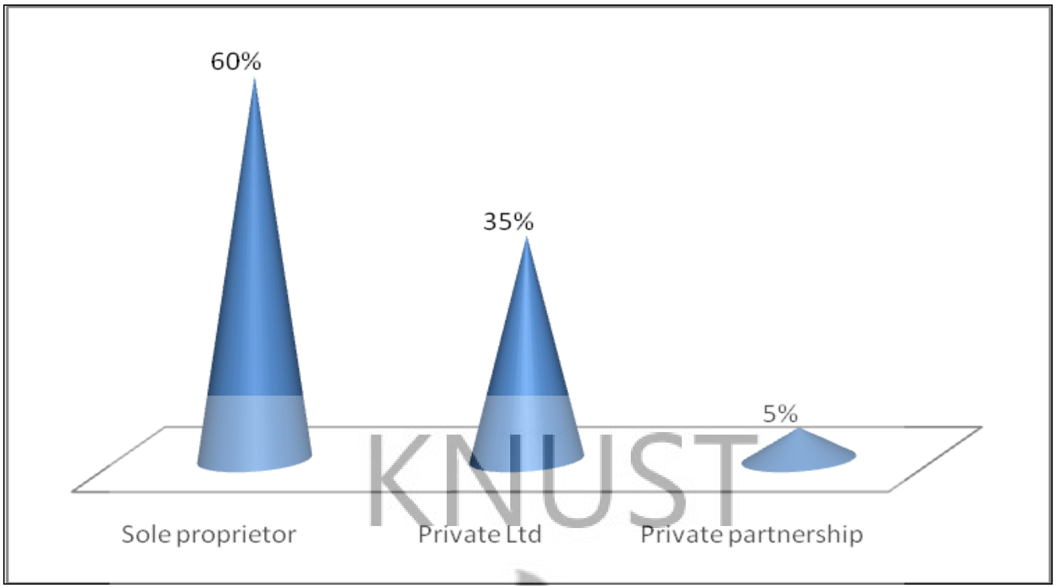
Table 4.9: Main sector of SME activity

Industry	Freq	Percent (%)
Tailors and Dressmakers	5	13%
Soap Manufacturing	6	15%
Wood products	4	10%
Kente products	12	30%
Metal works	3	8%
Adinkra products	10	25%
Total	**40**	100%

Source: Field Survey, January, 2012

The research further showed that majority (64 percent) of SMEs registered with the Registrar General and the remaining 36 percent unregistered business operators. For those registered, majority (60 percent) did so as sole proprietor, 35 percent for private ltd and 5 percent chose private partnership as illustrated by Figure 9 below.

Figure 9: Registered SMEs



Source: Field Survey, January, 2012

4.4.2 Period of existence of SME

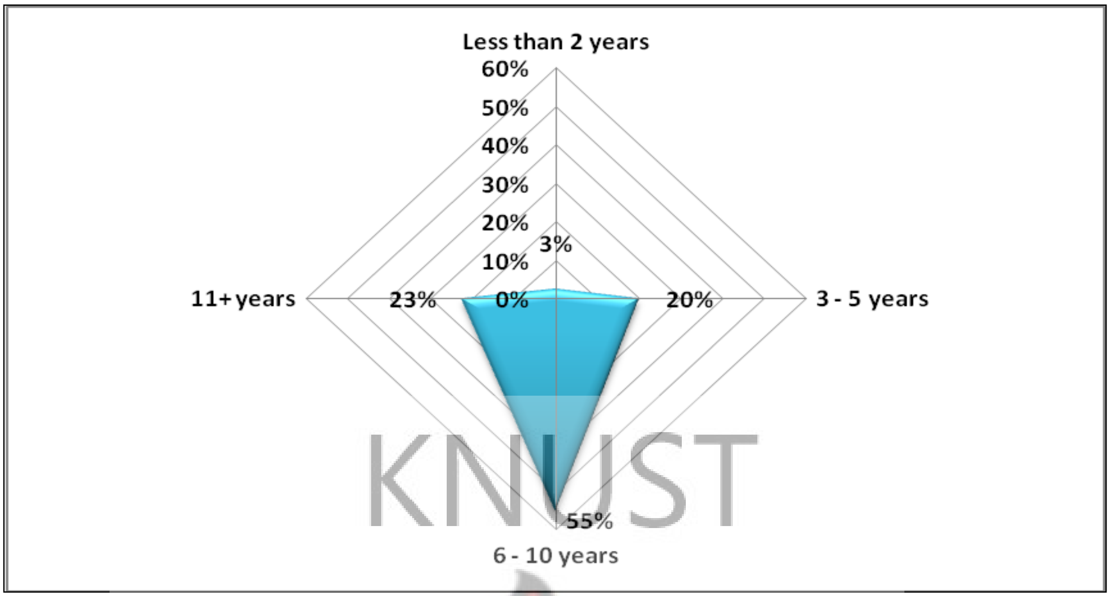
On the issue of the period of existence of SMEs it came out that majority (55 percent) have been operating between the period of 6 and 10 years in their respective sectors. Again, it was noticed that 20 percent of respondents had been operating between 3 and 5 years; 23 percent over 11years and the least recorded 3 percent for less than two years, Table 4.10 shows the year of existence of SMEs.

Table 4.10: Period of existence of SME

Period	Frequency	Percent (%)
Less than 2 years	1	3%
3 - 5 years	8	20%
6 - 10 years	22	55%
11+ years	9	23%
Total	**40**	**100%**

Source: Field Survey, January, 2012

Figure 10: Period of existence of SME



Source: Field Survey, January, 2012

It could be deduced that by the number of years operation, at least above three years, SMEs are in the best position to give an account of the financial challenges the industry faces.

4.4.3 Period of doing business with the bank

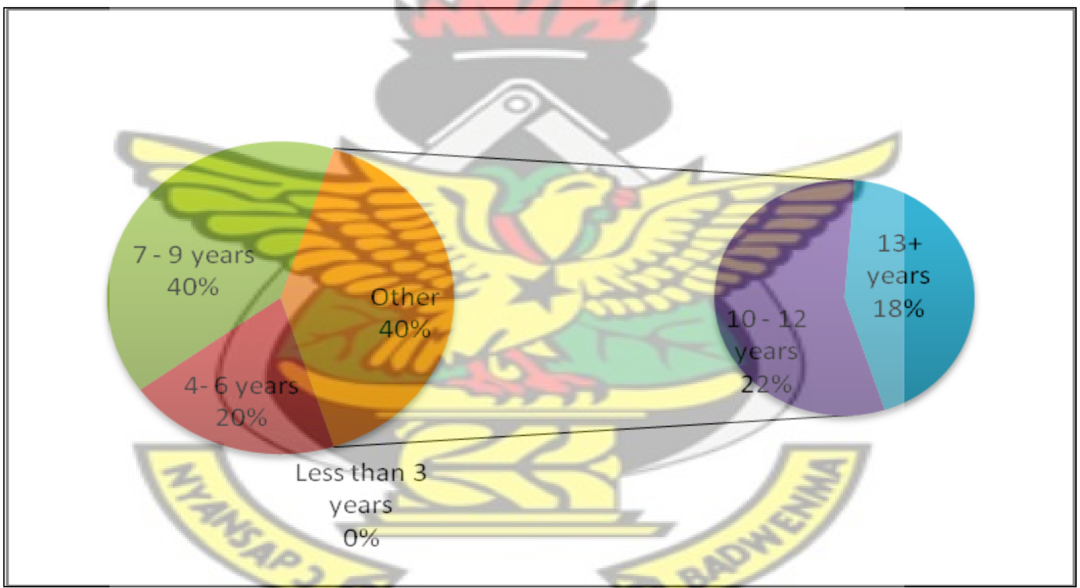
The study indicated that all the respondents have been doing business with the selected banks for more than 4 years; 40 percent have had the bank for a period of 7 to 9 years; 10 -12 years recorded 22.5 percent; 4 to 6 years attained 20 percent and 13 years plus registered 17.5 percent. Table 4.11 and Figure 11 provide details. This is an indication that all the (business owners and managers) respondents have a clear assessment of the challenges facing SMEs and would be in the position to address issues raised in that area.

Table 4.11: Period of being with the bank

Period	Frequency	Percent (%)
Less than 3 years	0	0%
4- 6 years	8	20.0%
7 - 9 years	16	40.0%
10 - 12 years	9	22.5%
13+ years	7	17.5%
Total	**40**	**100.0%**

Source: Field Survey, January, 2012

Figure 11: Period of being with the bank



Source: Field Survey, January, 2012

4.4.4 First Financing Request

There was an overwhelming (100%) response to the fact that SMEs first request for financing from the banks was ‘application filled in at the branch’. Consequently, four assertions through which the SMEs chose the banks to request for the first time or make additional credit requests were identified. These are: that was the regular financial institution for the business, that was the only financial institution in my area, thought other financial institutions would reject the application' and, thought this financial institution would offer the best terms'

It was noticed that majority (65 percent) preferred the assertion, 'Thought this financial institution would offer the best terms' to 'This was the regular financial institution for the business', which attained 25 percent; 'Thought other financial institutions would reject the application', registering 16 percent; and 'This was the only financial institution in my area' (4 percent).

4.4.5 Types of financing

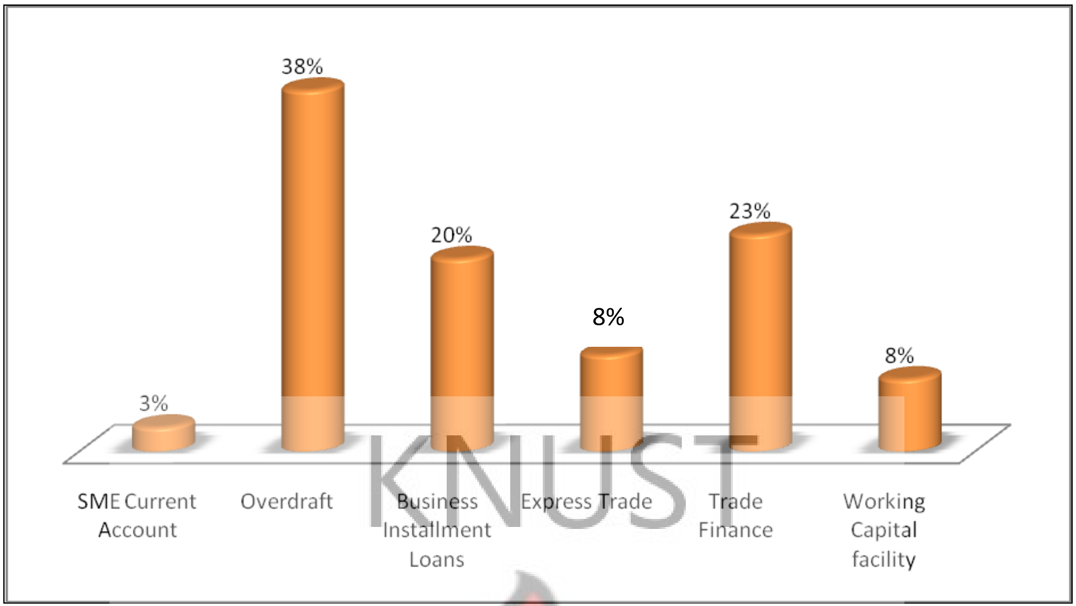
As many as six (6) types of financing were noticed as products requested by SMEs from the selected banks. Overdraft registered 38 percent as the modal class; 23 percent for Trade Finance; 20 percent for business installment loans; Trade Express attained 8 percent; working capital recorded 8 percent and 3 percent for SME Current Account as illustrated by Table 4.12 and Figure 12 below.

Table 4.12: Types of Financing

Type of Financing	**Frequency**	**Percent (%)**
SME Current Account	1	3%
Overdraft	15	38%
Business Installment Loans	8	20%
Express Trade	4	8%
Trade Finance	9	23%
Working Capital facility	3	8%
Total	**40**	**100%**

Source: Field Survey, January 2012

Figure 12: Types of financing



Source: Field Survey, January 2012

4.4.6 Use of Financing

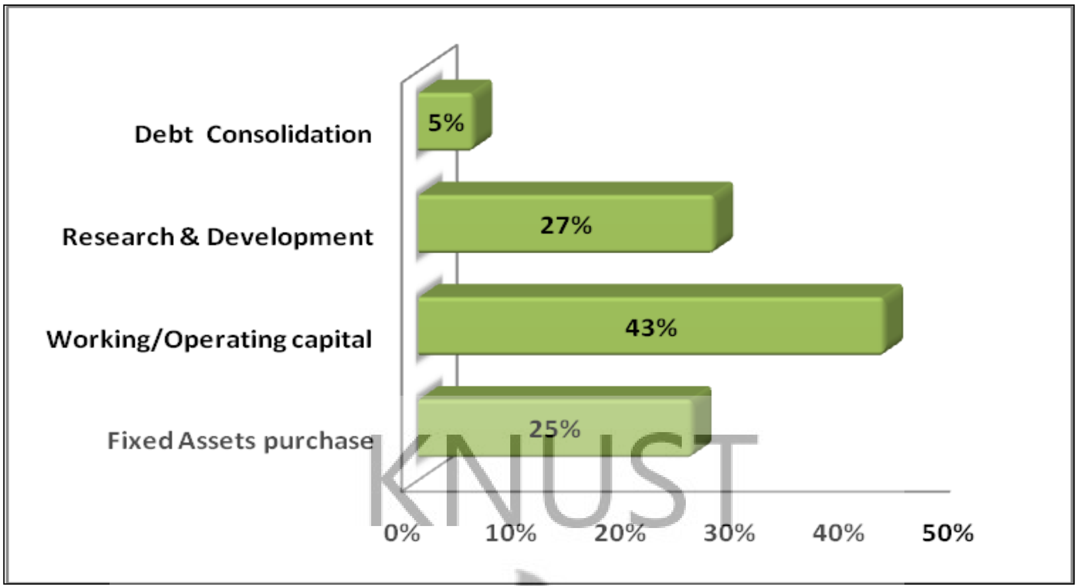
The study exhibited that SMEs uses the requested financial facilities for 'working/operating capital' (43 percent) and Research and Development (27 percent); 25 percent for fixed assets purchase; and 5 percent in respect of Debt Consolidation. The details are tabulated and graphically represented. Table 4.13 shows the uses of financing by SMEs.

Table 4.13 Use of Financing

Usage	Frequency	Percent (%)
Fixed Assets purchase	10	25%
Working/Operating capital	17	43%
Research & Development	11	27%
Debt Consolidation	2	5%
Total	**40**	**100%**

Source: Field Survey, January 2012

Figure 13: Use of Financing



Source: Field Survey, January 2012

4.4.7 Documentation-Application process

Besides the application process the study showed that certain documentations are requested by the bank. These are: Formal application for financing, Business certificates of registration, Business financial statements, Business plan, Appraisals of assets to be financed and Cash flow projection.

Furthermore, it was detected that 73 percent of respondents have had their loan application rejected before and the remaining 27 percent had theirs accepted. The reasons assigned to the rejection of the loan applications or in other words major problems faced by SMEs in securing funds are: Lack of collateral/guarantees, inadequate compiled financial records and accounts, Poor credit experience or history; inexperienced management team or lack of professionalism; inadequate technologies; and Limited knowledge of business opportunities.

Again, the study brought to the fore the fact that almost 80 percent of SMEs were not satisfied with the reasons and explanation put forward for the rejection of loans. Also, majority (75 percent) indicated that SMEs were not required to provide personal assets as collateral by the bank to guarantee of loans; while the remaining 25 percent affirmed that they were asked to provide collateral as loan guarantee.

4.5 Impact of financing on SME

The research identified the impact of financing SMEs are enlisted as 1)To grow and develop the business; 2) To provide employment; 3) To empower the private sector; and 4) Contribute to the GDP of the economy of Ghana.

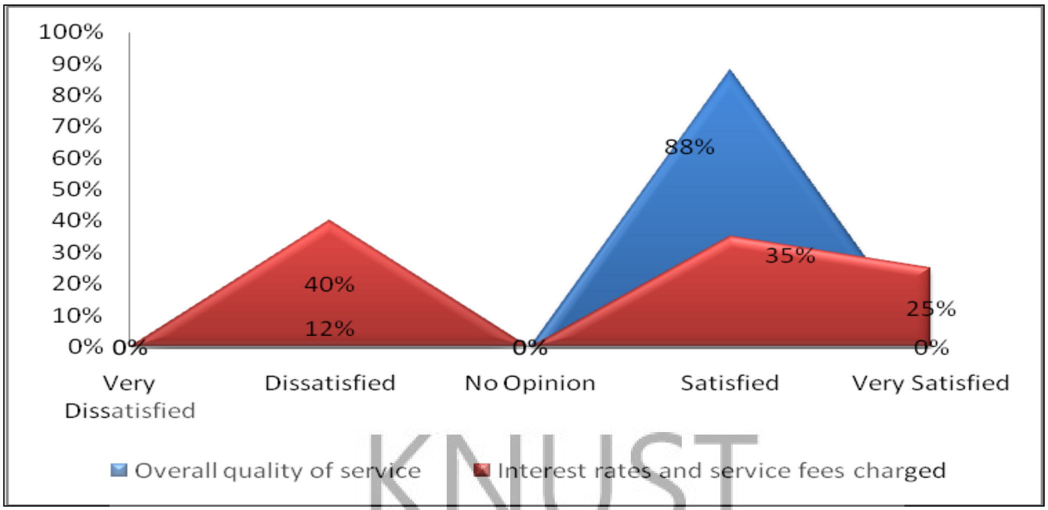
4.6 Assessment of SME Banking

The researcher used seven (7) variables as tools of measurement to assess the selected banks' SME Banking to its valuable SME owners/managers as shown in Table 4.14 and picturesquely represented by Figure 13, Figure 14 and Figure 15 below.

4.6.1 Overall Quality & Interest Rate

The overall quality of the SME Banking of all the selected banks exhibited an overwhelming satisfaction of 88 percent by the business owners as illustrated by Figure 14. On the contrary, the interest rate and services fee charged met 90 percent dissatisfied response by the study.

Figure 14: Overall Quality & Interest Rate



Source: Field Survey, January 2012

Table 4.14: Assessment of SME Banking

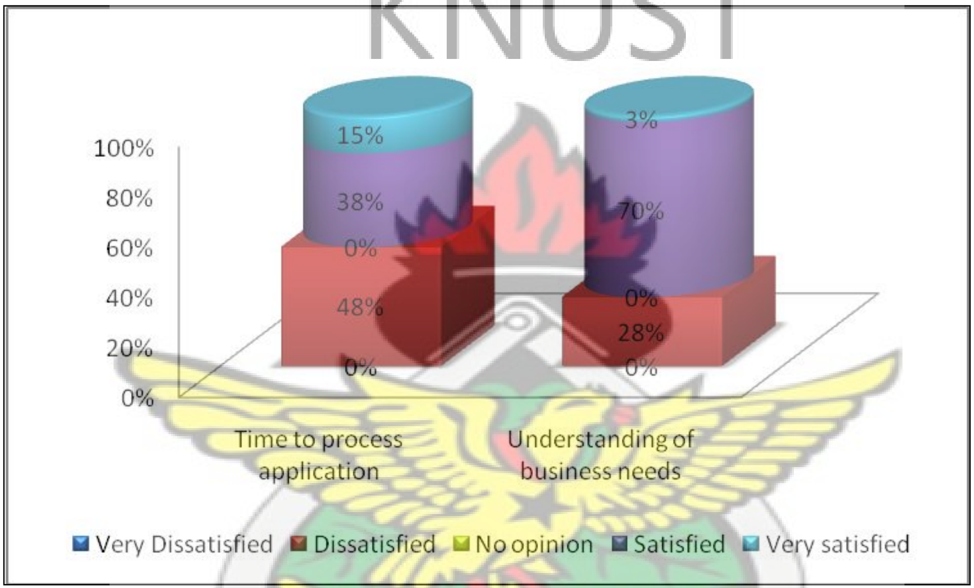
Details	Very Dissatisfied		Dissatisfied		No Opinion		Satisfied		Very Satisfied		Total	
	Freq	(%)	Freq	(%)	Freq	(%)	Freq	(%)	Freq	(%)	Freq	(%)
Overall quality of service	0	0%	5	12%	0	0%	35	88%	0	0%	40	100%
Interest rates and service fees charged	0	0%	16	40%	0	0%	14	35%	10	25%	40	100%
Time to process application	0	0%	19	48%	0	0%	15	38%	6	14%	40	100%
Understanding of business needs	0	0%	11	28%	0	0%	28	70%	1	2%	40	100%
Convenience and accessibility	0	0%	19	48%	0	0%	21	52%	0	0%	40	100%
Relation with account manager	0	0%	10	25%	0	0%	27	68%	3	8%	40	100%
Documentation required	0	0%	15	37%	0	0%	18	45%	7	18%	40	100%

Source: Field Survey, January 2012

4.6.2 Process Time/Understanding Business needs

The time to process application of financing was dissatisfied by SME owners/managers with a 48 percent response; albeit, 38 percent were satisfied and 14 percent very satisfied. Also, on the issue of understanding business needs, the study discovered that 73 percent respondents were collectively satisfied as shown by Figure 15 below.

Figure 15: Process time/Understanding business needs

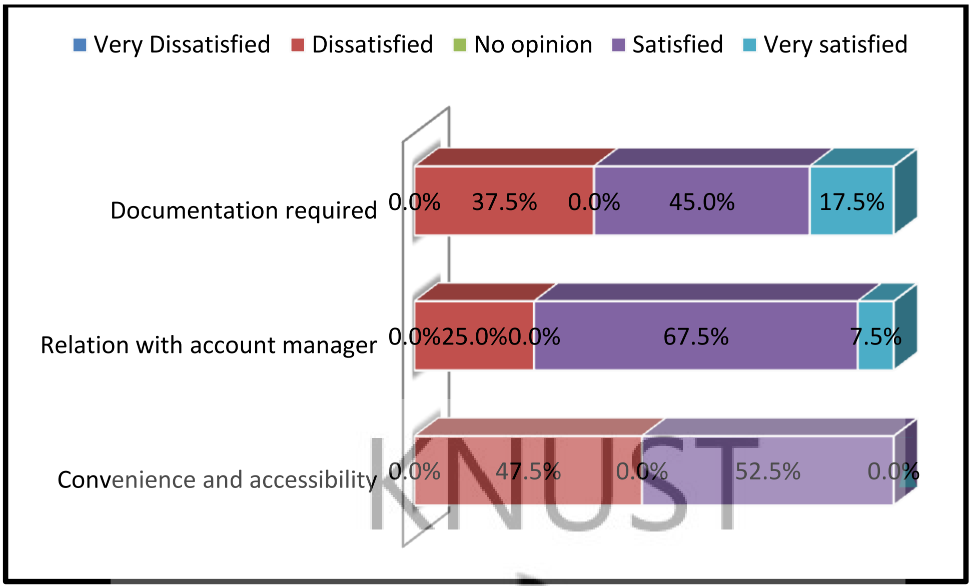


Source: Field Survey, January 2012

4.6.3 Convenience and Accessibility/Account Manager relationship/Documentation

The study showed that 52.5 percent were satisfied with the convenience and accessibility of SME financing, though, 47.5 percent were dissatisfied. There was cumulative 75 percent satisfaction with the relationship SME account manager and the SME owners and managers alike. For required documentation, the study indicated that collective 62.5 percent satisfied as detailed in Figure 16:

Figure 16: Convenience and Accessibility/Account Manager relationship



Source: Field Survey, January 2012

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

The financial requirements of SMEs are urgent and inadequately served to require special financing programmes especially from the financial sectors while grants credited to a large scale enterprises easily than small and medium enterprises. Considering the importance and the benefits to be derived by a well developed SME industries in Ghana, one would have thought that every effort must be made to achieving maximum performance of its sector but unfortunately numerous problems hinder the achievement of these roles, hence, the need for improvement on the short falls in financing SMEs, though difficult as it is considering the Ghanaian circumstances is paramount.

The main purpose of the study is to evaluate the mode and the extent of financing of SMEs within the Kwabre District by financial institutions; specifically looking at the effect of financing on the development of SMEs within the Kwabre District; and identify the barriers that financial institutions face in the financing of SMEs.

Espousing the non-probability sampling method of random sampling, specifically the purposive sampling technique a sample size of fifty (50), comprising ten (10) bank officials (representing 20 percent) and forty (40) SME owners/managers (representing 80 percent) of the targeted population responded to the administered questionnaire; an overall ratio of 1:1.3 with regard to male and female distribution in terms of gender representation was also discovered.

5.1 Summary of Findings

SME Banking Period

The study showed that all the staff respondents of the selected banks have been on the SME Banking schedule between the period of less than 2 years and four (4) years; majority having been with the Unit for three (3) years period.

Financial Services offered to SME customers

The financial services mostly offered to SME managers and owners were Business Advice and SME Banking among the five main services rendered as in Overdraft, Trade Credit, SME Banking, Cash Management, and Business Advice.

Relationship ratings with SME

The research indicated that the relationship between the bankers and their respective SMEs is generally very good.

Conditions for extending credit facilities

The study identified six major conditions or criteria considered when the bank is extending credit to SME customers; which are 'years of existence', 'past and projected cash flow', 'credit history', ' lines of business', 'collateral' and business location. Out of all the afore mentioned criteria the selected banks uses as benchmark for assessing the credibility of SMEs, credit history.

Major challenges of SME Banking

Three (3) major challenges (management, high default rate and monitoring) that militate against the SME Banking Unit of the banks were identified. Besides the provision of financial assistance to the SMEs, the bank rendered services which could generally be classified as 'business and financial consultancy' and 'customer relationship management'

Main sector of SME activity

Seven main industry from which SME financed by the selected banks are operating from were noticed by the researcher. The study showed that Kente weaving and sales sector is the most patronized in the industry; followed by Adinkra processing and sales with the being metal work. The research revealed that majority of SMEs registered with the Registrar General and they further did so as sole proprietor, while the minority percent chose private limited liability and partnership

Period of existence of SME and doing business with the bank

Majority have been operating between the period of 6 and 10 years in their respective sectors. The study indicated that all the SME owners/managers respondents have been doing business with their respective selected banks for over a period of 7 to 9 years. Nonetheless, as many as six (6) types of financing were noticed as products requested by SME owners/managers from financial institutions with Overdraft being most offered.

Use of Financing

The SMEs uses the requested financial facilities for 'working/operating capital' and Research and Development. Several SME s have had their loan application rejected before and the reasons assigned to the rejection of the loan applications or in other words major problems faced by SMEs in securing funds are: Lack of collateral/guarantees, Inadequate compiled financial records and accounts, Poor credit experience or history; Inexperienced management team or lack of professionalism; Inadequate technologies; and Limited knowledge of business opportunities. SMEs were not satisfied with the reasons and explanation put forward for the rejection of loans; and that SMEs were not required to provide personal assets as collateral by the bank to guarantee of loans.

5.2 Conclusion

The financial institutions probably by policy does not permit an official stay on one schedule for more than four years. The impact of financing SMEs is 1) To grow and develop the business; 2) To provide employment; 3) To empower the private sector; and 4) Contribute to the GDP of the economy of Ghana. The overall quality of the SME Banking of the financial institutions exhibited an overwhelming satisfaction by the business owners; albeit dissatisfied with the interest rate and services fee charged. SME owners/managers were dissatisfied with the process of application of financing but were satisfied with the bank exhibiting understanding to their business needs. They were satisfied with the convenience and accessibility of SME financing and there was satisfaction with the relationship between SME account manager and the SME owners.

5.3 Recommendations

In view of the findings of the research the following recommendations are made in order to sustain the SME to grow into much bigger industries in the near future.

SME Banks

It is not enough to have an SME Banking Unit but to ensure that management of the bank identifies the constraints of the SMEs on one-on-one basis and put in strategies to surmount not only financial challenges but technical as well. Also SMEs are advised to be shareholders of the banks so as to push for the course of SMEs.

Common Fund

It is also recommended that a special common fund should be constituted for the SMEs by government. The entrepreneurs of the enterprise are expected to contribute into the fund to be managed by an independent body. Such fund could be a revolving source of flexible credit facility for them.

SME National Policy

Government should take the lead in financing SME, if it believes that over 65% of Ghana's GDP is contributed by the SMEs which are with the private sector if it wants the saying that the private sector is the engine of growth and not one of that political rhetoric. A national policy for SME including financing strategies should be formulated, implemented and monitored. It is expected that the government should provide resources to create an incentive scheme for financial institutions to make flexible loans to SMEs in Ghana.

The government should also make available enough loanable funds to the institutions set up to help finance the small – scale industries. Again the government should take bold initiative to introduce more financial schemes into the system with appropriate policy objectives.

Venture Capital Fund

The establishment of the venture capital fund by government has so far being accessed by the large scale enterprises and placing demand which could not be met by the SMEs. it is recommended that the Venture Capital Fund in conjunction with the NBSSI should work out modalities for easy access of funding by the SMEs.

Insurance Guarantees

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

Financial Management Education

Educational workshops and training should be organized by the bank for the SME operators to ensure efficient and effective management of financial resources. Again lack of knowledge by most industrialists on the activities and requirements of the established institution set up to help finance SME can be eliminated through such education.

5.4 Suggestion for Further Research

The study is a case study of one particular bank, however, every aspect of SME financing could not be studied let alone taking some of the core variables of the SME industry and subjecting them to a more analytical study to determine the extent to which they can withstand competition using quantitative methods. As a result this other appropriate variables such as profit of the SMEs and viability should be taken into consideration to determine the exact effect of the challenges they face. A further study can thus be done in this regard.

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APPENDIX 1

Interview Guide for Bank Staff

Indicate the name of the Financial institution you work for:……………………..

1 .How long have you been in SME banking?

Less than 2 years [ ] 3 years [ ] 4 years [ ] 5 years [ ] Over 5 years. [ ]

2. Which financial services do you offer your SME customers?

Overdraft [ ] Trade credit [ ] SME banking [ ] Cash management [ ]

Business advice [ ] Others (specify)……………………………………

3. How is your relationship with your SMEs?

Good] Poor [ ] Very good [ ] Excellent [ ]

4. What conditions do you consider when extending credit to customers who are SMEs

Years in existence [ ] Past and projected [ ] Cash flows [ ] Credit history [ ]

Line of business [ ] Collateral [ ] Business location [ ]

5. What has been the major challenge for your SMEs banking unit?

Management [ ] High default rate [ ] Monitoring [ ] Other(specify) [ ]

6. Provide the names of at least five major SMEs that your bank has single-handedly extended assistance from its start-up stage to its current state.

1………………………………………….
2………………………………………….
3………………………………………….
4………………………………………….
5………………………………………….

7. Do you have a client SME in the Ghana Club 100? If yes please name them.

8. Apart from the provision of financial assistance to the SMEs, what other service do you render to them?

9. What recommendations would you like give which you believe would be a panacea to surmount the financing challenges facing SMEs.

APPENDIX 2

BUSINESS OWNERS QUESTIONNAIRE

This is a research being conducted in partial fulfillment of the requirement for the award of masters in business administration (MBA). Respondents are assured of confidentiality and anonymity of the information they provide. They are further assured that any information they provide is purely for academic purposes.

Instructions: Please kindly tick in the boxes provided or write in the spaces provided your responses

1. Identify the sector that represents the main activity of your business

Food processing industry [ ]   Bakery industry [ ]   Wood products industry [ ]

Furniture works industry [ ]   Metal works industry [ ] Machinery works industry [ ]

2. Have you registered your business? Yes [ ]   No [ ]

3. If your answer to question 2 is "yes," what is the legal status of your business? (Check one only)

Private limited liability companies [ ] Sole proprietorship [ ] Private Partnership [ ]

4. How old is your firm?

2 years or less [ ]   3 and 5 years [ ] 6 and 10 years [ ] 11 years and above [ ]

5. For how long have your firm transacted business with Stanbic Bank?

3 years or less [ ]   4 - 6 years [ ] 7 - 9 years [ ] 10 -12 years [ ]

13 years and above [ ]

6. Do you have a designated account manager assigned to manage your firm's banking relationship?

Yes [ ]   No [ ]

7. Name the financial institution you deals with……………………………

8. How did the firm first request a financing from the above named financial institution?

[ ] Application filled in at branch
[ ] Application made by phone
[ ] Application over the internet (include electronic mail and website)
[ ] Others (please specify)……………………………………………..

9. Why did the firm choose financial institution for request or additional credit?

[ ] This was the regular financial institution for the business
[ ] This was the only financial institution in my area
[ ] Thought other financial institutions would reject the application
[ ] Thought this financial institution would offer the best terms
[ ] Other reasons (please specify)………………………………………

10. What type of product/financing did the business request from the selected financial institution?

SME current account [ ]
Overdrafts [ ]
Business Installment Loans [ ]
Express Trade [ ]
Trade Finance [ ]
Working Capital facility [ ]
Others (please specify) ……………………………………

10. How did the firm used the financing that was requested from financial institution?

To purchase fixed assets [ ]
Working capital/operating capital [ ]
Research and Development [ ]
Debt Consolidation [ ]
Others (please specify)……………………………………………………

11. What documents were requested by financial institution as part of the application process?

Formal application for financing [ ]
Business certificates of registration [ ]
Business financial statements [ ]
Business plan [ ]
Personal financial statements [ ]
Appraisals of assets to be financed [ ]
Cash flow projection [ ]
Other documentation (please specify)…………………….
No documentation [ ]

12. Have you ever had your application rejected before?

Yes [ ] No [ ]

13. If you answered "yes" to question 13, what are the major problems faced by SMEs in securing funds?

Lack of collateral/guarantees	[ ]
Inadequate compiled financial records and accounts	[ ]
Poor credit experience or history	[ ]
Inexperienced management team or lack of professionalism	[ ]
Inadequate technologies	[ ]
Low rate of return on capital	[ ]
Limited knowledge of business opportunities	[ ]
Other reasons, (please specify)……………………………………..	

14. Were you satisfied with the explanation above?

Yes [ ] No [ ] Don't know [ ]

15. Are you required to provide personal assets as collateral by Stanbic Bank to guarantee the granting of loans? Yes [ ] No [ ]

Don't know [ ]

16. Are business owners required to provide their personal assets as collateral by Stanbic Bank to guarantee the granting of loans?

Yes [ ] No [ ] I refuse to answer [ ] Don't know [ ]

17. What has been the impact of the financing/products received from Stanbic Bank (Ghana) Limited on your business?

………………………………………………………………………………………

18. On a scale of 1 to 5, where "1" stands for "very dissatisfied" and "7" stands for "very satisfied," how would you rate your level of satisfaction with regard to questions 17 to 23:

1-Very dissatisfied, 2-dissatisfied, 3-No Opinion, 4-satisfied, 5-Very satisfied

	1 2 3 4 5
17. Overall quality of service	(......)
18. Interest rates and service fees charged	(......)
19. Time to process application	(......)
20. Understanding of your business needs	(......)
21. Convenience and accessibility	(......)
22. Relation with account manager	(......)
23. Documentation required	(......)

24. Please tick your age group

Less than 20years [ ]
21-30years [ ]
31-40years [ ]
41-50years [ ]
51-60years [ ]
Above 60years [ ]

25. Gender: Male [ ] Female [ ]

26. What is the highest level of education that you have attained?

Illiterate [ ]
JHS/MSLC [ ]
GCE Ordinary/Advanced/SSSCE [ ]
Higher National Diploma (HND) [ ]
University Degree [ ]

27. Did you create or participated in the creation of this enterprise? Yes [ ] No [ ]

28. Is the main owner also the manager of the enterprise? Yes [ ] No [ ]

29. How many years of experience do you have in managing **this** firm?

Less than 5years [ ]
Between 5years and 10years [ ]
More than 10years [ ]

Thank you for your time