ACCESSIBILITY TO FINANCE FOR NON TRADITIONAL EXPORTS IN GHANA

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A Thesis submitted to the Institute of Distance Learning, Kwame Nkrumah University of Science and Technology in partial fulfilment of the requirements for the degree of

COMMONWEALTH EXECUTIVE MASTERS OF BUSINESS ADMINISTRATION

SEPTEMBER, 2012

DECLARATION

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

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ABSTRACT

Access to finance has been identified as a dominant constraint facing Ghanaian exporters, especially in Non Traditional Exports (NTEs). Available evidence indicate that commercial banks in developing economies would rather invest their funds in less risky ventures than to place such funds in the development of the export sector (Asiedu-Appiah, E. 2005).

This qualitative study seeks to find out the difficulties NTEs sector encounter in accessing export finance to support their businesses. The study is a non-experimental research using primary and secondary data. Using convenience sampling, 60 exporters were selected for the study. Their responses to questionnaire and interviews were compiled, analysed and evaluated using techniques such as tabulation and appropriate statistical graphs.

Results from the study suggest that collateral, financial statement and cash flow are critical for financial institutions in extending credit to small non-traditional exporters. The study reveal high risk (real or perceived) associated with bank lending to NTEs likewise constrain access to finance. Banks lack the appropriate instruments for managing loans to NTEs. Most important, banks typically lack the know-how to reach the NTEs market segment.

The study also examines the operating characteristics and key concerns of credit guarantee schemes. Credit guarantee schemes promote the flow of finance to NTEs by acknowledging their limited ability to provide acceptable collaterals, and by mitigating risks caused by the poor credit analysis and pricing skills of banks whose loans are to be guaranteed. Some thoughts on how to make Ghana's credit guarantee schemes sustainable are also provided.

DEDICATION

I dedicate this work to my dear wife Juliet Onny and our two children, Lloyd Nana Yaw Onny and Laurel Nana Ama Onny who supported me to study and complete this thesis.

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ABBREVIATIONS

ADB TFP	Asian Development Bank Trade Finance Program
BAF	Business Assistance Fund
DANIDA	Danish International Development Assistance
DFID	Department for International Development
EBRD	European Bank for Reconstruction and Development
EDIF	Export Development and Investment Fund
EGF	EMPRETEC Ghana Foundation
GEPC	Ghana Export Promotion Council
GIF	Ghana Investment Fund
GPSDF	Ghana Private Sector Development Fund
GTZ	Deutsche Gesellschaft Fuer Technische Zusammenarbeit
ICC	International Chamber of Commerce
IFC	International Finance Company
JICA	Japan International Cooperation Agency
LCs	Letters of Credit
MSME	Micro, Small and Medium Enterprises
NTEs	Non-Traditional Exports
PEED	Private Enterprise and Export Development Fund
SBCS	Small Business Credit Scoring
SME	Small and Medium Enterprises
SPEED	Support for Private Enterprise Expansion and Devt
TFP	Trade Facilitation Program
TIP	Trade and Investment Programme
USAID	United States Agency for International Development

CHAPTER ONE

INTRODUCTION

1.1. BACKGROUND TO THE STUDY

Available evidence indicate that commercial banks in developing economies would rather invest their funds in less risky ventures than to place such funds in the development of the export sector (Asiedu-Appiah, E. 2005).

Surveys show that small enterprises to a very large extent are dependent on bank loans for their external financing and that they practically have very few alternatives. The European Commission survey reveals that 30% of companies are using bank loans and 40% bank credit line or overdraft facilities. For 63% of small enterprises, bank loans are also the most preferable external financing solution to realise firms' growth ambitions (ECB and European Commission, 2011).

Poor access to finance has been identified as an important negative factor affecting Non-Traditional Exports (NTEs) in developing countries. According to Kirby and Watson (2003:191) just 8-10% of Small and Medium scale Enterprises (SMEs) in Bulgaria had access to bank loans in 1998. The rigid requirement of the commercial banks for serving the loans (eg. collateral and terms) impedes access to export finance as well as the high cost of debt.

This study focuses on the barriers to obtaining trade finance in NTEs business sector. A number of studies using enterprise level survey data have shown that micro and small enterprises, more so than large firms, perceive access to finance and the cost of credit as being the key obstacles to doing business (Beck, et al. 2008). Mitigwe (2005) lists barriers to export in order of their importance to African Small and Micro Enterprises and found that

lack of finance is the most important barrier. According to Gumede and Rasmussen (2002), 25% of small exporting enterprises in South Africa find it difficult to obtain finance. Insufficient export finance was also identified as a major barrier to the success of Ghana's growth strategy and is ranked as the number one barrier to exporting in Ghana (Buatsi, 2002).

The risk-management policies and systems of banks and non-bank financial institutions have come under more intense scrutiny in recent years. This follows from International Monetary Fund (IMF) recommendations for tighter supervision, in an effort to anticipate and react to potential threats in a timely manner. The reaction by most of the banks in Ghana to the increased oversight has been to focus on their traditional target market clients and not assume incremental risks with micro and small enterprises operating in non traditional markets.

During the course of a trade finance survey undertaken in 2010 (Turner et al 2010), senior product managers at Citibank, BNP, Standard Chartered Bank and HSBC all indicated that their exposure to African export finance had grown rapidly from 2004 to 2007. This study suggests that export finance was being granted, but, to larger firms with big capital bases rather than small and micro enterprises.

Governments in Ghana since 1992 have recognized the implications of export finance for the health of the Ghanaian economy and are promoting an export-led growth strategy (GEPC). The Export Development and Investment Act (2000) was enacted to provide greater access to export finance for exporters. However, twelve years on, Ghanaian NTEs sector still complain about the lack of export finance for their businesses. The export-led growth strategies being promoted since 1992 were aimed at transforming Ghana's economy and diversify it from the traditional cocoa, gold and timber exports. According to Nsiah (2010), the non-traditional

exports sector, after a stable performance from 1998 to 2000, which averaged about US$400 million in revenues annually, grew at an average rate of about 14% from 2001 to 2008, registering US$1.340 billion in 2008. In 2009, however, total non-traditional export earnings amounted to US$1.215 billion, a decline of 9.28% from the previous year. This decline is now making the ambitious dream of raking in revenues of US$5.00 billion by 2015 an even more daunting challenge. Exporters have blamed this decline on lack of access to finance among others.

Increasing globalization has created intense competition for export markets and exporters are looking for any competitive advantage that would help them to increase their incomes. Flexible export financing terms has therefore become a fundamental part of their business. Most Commercial banks in the country are also looking to collaborate with exporters to unlock the export financing industry as evidenced in the establishment of export trade desks at several commercial banks in the country.

Ghana Export Promotion Council (GEPC) sources reveal that majority of small non traditional export businesses started in Ghana eventually fail. It has also become necessary for the Government and other development agencies to adopt specific economic and social policies to stimulate non traditional exports development as an essential part of the economic and social development of the entire country. It is important for these small exporters to help themselves and find ways to improve the organisations of their businesses. They also have to find adequate means to adapt to the market requirements if they are to survive (Orford et al 2003:180).

Available data from the Ghana Registrar General indicate that 90% of companies registered as at December 2009 are micro, small and medium enterprises (Mensah, S. (2010). This study targets the micro and small exporters that have been identified as the catalyst for the economic growth of the country as they are a major source of income and employment. They require finance for obtaining products from their suppliers and for running their businesses.

1.2. STATEMENT OF THE PROBLEM

Access to trade credit is critical to the successful operation of Ghanaian NTEs sector. These exporters are of great socio-economic significance although their long-term growth and competitiveness has been compromised by the chronic and often acute constraints on their access to formal-sector finance. The perception is that financial institutions are generally not responsive to their needs. The financial institutions complain that they incur high risk and cost of providing financial products and services to non traditional exporters. They prefer investing in government treasury bills and bonds rather than lending to the NTEs sector. It appears that domestic and multilateral interventions to provide trade credit guarantees for these exporters have not been as successful as originally intended. It is therefore necessary to identify what issues hinder the access of NTEs finance from the perceptual view of the exporter and the lending institution.

1.3. OBJECTIVES OF THE STUDY

The research seeks to identify the problems faced by Ghanaian NTEs businesses in accessing export finance and the various challenges inhibiting banks from extending export loan facilities to these businesses.

The study will therefore seek to:

1 Identify the impediments, if any, to the non-traditional exports sector in accessing export finance from financial institutions in Ghana.

2 Identify barriers restraining banks from extending export loan facilities to small non-traditional enterprises.

3 Find out whether the NTEs sector benefit from guaranteed finance schemes.

1.4. RESEARCH QUESTIONS

Research questions that will be addressed are:

1. Do Ghanaian NTEs businesses perceive obstacles in accessing finance from financial institutions?
2. Why do banks seem reluctant to offer export financing to the NTEs sector?
3. To what extent do NTEs benefit from guaranteed credit schemes?
4. What measures can be put in place to improve access to finance for exporters?

1.5. SIGNIFICANCE OF THE STUDY

The Non traditional export sector has been identified as the catalyst for the economic growth of the country. They are a major source of income and employment and can generate more innovations per worker than large firms. The non traditional export sector's role in job creation and economic growth can therefore not be underestimated. This study focuses on a critical issue pertaining to access to finance, as an obstacle to survival and growth. Once the

obstacles in accessing finance have been identified, recommendations will be provided, which if considered, could help the exporters, governments and funding institutions. Once finance is accessible, the success rate of Ghanaian NTEs could increase and contribute to socio-economic development.

This study is expected to contribute to knowledge in export financing for non traditional exports. It is also anticipated that the study will strengthen stakeholders to advocate for financial sector deepening and increased competition in the sector, which in turn will lead to greater access to finance and lower cost of providing financing to NTEs.

1.6. SCOPE AND LIMITATIONS

This study was limited to one bank in the country. Although the bank has an export finance desk and sub regional presence, it cannot be representative of facilities and conditions at the other twenty five banks in the country (Ghana Banking Survey 2011). The research was also limited to 40 small non traditional exporters that are clients of the bank so the results may not necessarily reflect the situation in the country. There has not been much research into the issues of accessing non traditional export finance in Ghana. The lack of research on a secondary level puts a strain on the literature review. Another limitation is that the study used information within the period January 2010 to December 2011 and as such results hold true for that period and may not be totally accurate for other times as circumstances may have changed. Therefore, further research is needed with a relatively representative sample of both exporters across industries and more banks to uncover many unidentified reasons for lack of export finance.

CHAPTER TWO

LITERATURE REVIEW

2. INTRODUCTION

This chapter looks at export finance and the various models associated with export financing. The chapter also examines literature on various sources of finance available to small businesses and what goes into the lending decision.

The literature review also looks at the studies conducted in other regions about the challenges exporters face in obtaining finance. Studies on the various interventions from Governments and other development agencies to tackle these challenges in order to improve access to finance for the exporters are examined and compared to the situation in Ghana.

2.1. NON TRADITIONAL EXPORTS (NTES)

For the purposes of this study, the researcher will define NTEs business as a heterogeneous group, ranging from the lone artisan producing beads to a carver or apparel maker employing about thirty artisans. They are small businesses that engage in the export of products other than cocoa, gold and timber which are regarded as traditional Ghanaian products. These small businesses are managed mainly by their owners and have limited access to finance from formal financial markets. They are typically informal and form part of the general sector known as Small, Micro and Medium Enterprises (SMMEs). Mensah, S. (2004) defines Small enterprises in Ghana as those that employ between 6 and 30 employees with fixed assets of $100,000, and Micro enterprises to be those employing up to 5 employees with fixed assets (excluding Realty) not exceeding the value of $10,000.

2.2. DEFINITION OF EXPORT FINANCE

Export financing is the provision of any form of financing that enables an export activity to take place and which may be made directly to the supplier, to facilitate procurement of items for immediate sale and/or for storage for future activities, or it could be provided to the buyer, to enable him meet contract obligations (Asiedu-Appiah, E. 2005).

Export Financing is a range of financing products (loans, guarantees, letters of credit, insurance) in support of a variety of activities which help firms expand into new export markets. Export in simple words means selling goods abroad. Shipping goods internationally is risky and takes time. To allocate risk and to finance the time gap between production and sale, a range of payment contracts is utilized. These can be broadly classified into Open Account, Importer finance (Cash in Advance) and bank finance (Letter of Credit). All three payment contracts are popular among Ghanaian non traditional exporters. Large importers normally arranged Letters of Credit for Ghanaian exporters. Payment in Advance is popular with first time and unknown importers. Open Account payment contracts are risky for exporters because they may not receive payment for goods shipped. This is becoming very popular as exporters are beginning to trade in larger quantities and importers are only willing to make payment upon onward sale of the goods. This has led to an increase in demand for export credit facilities to fund working capital.

The expansion of trade depends on reliable, adequate, and cost-effective sources of financing, both long-term (for capital investment needed to produce tradable goods and services) and short-term, in particular trade finance. The latter is the basis on which the large majority of world trade operates, as there is generally a time-lag between when goods are

produced, then shipped and finally when payment is received. Export-finance can provide credit, generally up to 180-days, to enterprises to fill this gap.

2.3. TYPES OF EXPORT FINANCING

Export Finance may be classified from two viewpoints, namely, the stage at which the financing is provided and its duration. Classification from the stage viewpoint is broken down into Pre-shipment Finance and Post-shipment Finance. Pre-shipment Finance may be defined as any loan or advance granted, or any other credit provided by a financial institution to an exporter for financing the purchase, processing or packing of goods, on the basis of a confirmed export order received in the exporter's favour from an overseas importer (Asiedu-Appiah, E. 2005).

Pre shipment Finance is issued by a financial institution when the exporter wants the payment of the goods before shipment. The main objectives behind pre-shipment finance or pre export finance are to enable the exporter to:

- Procure raw materials.
- Carry out manufacturing process.
- Provide a secure warehouse for goods and raw materials.
- Process and pack the goods.
- Ship the goods to the buyers, and
- Meet other financial cost of the business.

Post-shipment financing refers to the provision of finance for export goods from the stage of shipment to the date of realisation of the export proceeds. It is a kind of loan provided by a

financial institution to an exporter or seller against a shipment that has already been made. This type of export finance is granted from the date of extending the credit after shipment of the goods to the realization date of the exporter proceeds (Asiedu-Appiah, E. 2005).

Exporters who sell goods abroad usually have to wait for some time before payment is received from overseas buyers. The period of waiting will depend upon the terms of payment, and the need for post-shipment finance to strengthen the financial position of the exporter varies accordingly. Post-shipment finance can take different forms but principally involves factoring or discounting of receivables.

Post shipment finance can be short term or long term, depending on the payment terms offered by the exporter to the overseas importer. In case of cash exports, the maximum period allowed for realization of exports proceeds is six months from the date of shipment. Concessive rate of interest is available for a highest period of 180 days, opening from the date of surrender of documents. Usually, the documents need to be submitted within 21days from the date of shipment.

According to Asiedu-Appiah, (2005), post shipment finance can be provided for three types of export:

- Physical exports: Finance is provided to the actual exporter or to the exporter in whose name the trade documents are transferred.
- Deemed export: Finance is provided to the supplier of the goods which are supplied to the designated agencies.

- Capital goods and project exports: Finance is sometimes extended in the name of overseas buyer. The disbursal of money is directly made to the domestic exporter.

Another form of export pre-shipment finance is Development Finance. This refers to finance that is provided towards the development of exportable products and the addition of value to these products. This form of financing is long-term in nature. Commercial banks hardly extend development finance to exporters.

With respect to duration, export financing can be defined in terms of short-term, medium-term and long-term. Short-term facilities are credits that are extended with a maximum duration of up to one- year; usually such credits are given for specific periods of 90 days or 180 days to meet specific export durations. Both pre-shipment and post-shipment finance fall under short-term financing (Asiedu-Appiah, E. 2005).

Medium-term facilities are given from 13 months to a period of up to three years. While the short-term facilities are usually specific in nature, the medium-term facilities are usually of a general nature and are mostly utilised for working capital purposes.

Long-term financing has to do with the provision of credit for development purposes. Such facilities are usually given with duration of more than three years. They are given for the setting up of factories/workshops, establishments of farms and such other long-term objectives that go to increase the production and processing of export commodities. This facility is usually not available to small non traditional exporters in Ghana.

In all instances, whether long-term, medium-term or short-term, such facilities are given on very advantageous terms at the various stages of the export cycle. Specifically, concessionary

access to credit is especially important in periods of high interest rates, and so is the timeliness of delivery, without which export contracts cannot be executed.

2.4. EXPORT FINANCE INSTRUMENTS

Banks play a central role in facilitating export trade, both through the provision of finance and bonding facilities and through the establishment and management of payment mechanisms. The use of efficient settlement instruments which reduce payment and commercial risk for both parties is deemed indispensable. Using the same payment techniques in the case of domestic transactions for an overseas transaction is not feasible or at least not practical. The most popular instruments are: SWIFT, telegraphic transfers and documentary letters of credit (LCs) (Beck, 2008).

Among the export finance products, the most commonly used for financing transactions is LCs, whereby the exporter and importer essentially entrust the exchange process (that is, payment against agreed delivery) to their respective banks in order to mitigate counterparty risk. The exporter's bank may make a loan (by advancing funds) to the exporter on the basis of the export contract. The function of this mechanism is both to provide finance and provide assurances about payment to the exporting company. If an irrevocable LC is issued, the exporter receives payment when it provides the specified documents to the advising/confirming bank (Buatsi, S. N. (2002). By issuing a letter of credit, a buyer's bank obligates itself to pay a supplier's bank on behalf of a buyer, as long as the intermediate goods are shipped. From the bank's perspective, the letter of credit issuance essentially amounts to providing a loan to the buyer

because the reimbursement is made to the buyer's bank only if the buyer and the supplier operate successfully in the market.

The other two forms of trade finance are extensions of credit facilities that operate in domestic economies. Companies may use domestic bank lending to finance both capital investment and working capital. Such lending can be used to facilitate trade. Similarly, inter-firm (trade) credit is widely used (Beck, 2008). When contracts specify, for example, that buyers have a period in which to pay invoices for goods received, typically, 30, 60 or 90 days, the supplier is, in effect, extending credit for that period. Firms that have well-developed trading relationships may adopt the same practice. To the extent that sophisticated global value chains linking together firms in different countries often involve repeat transactions and long-term relationships, it is not uncommon for trade to be conducted on these terms.

Additionally, certain instruments are preferred in some geographical zones, which stems from many reasons, such as tradition, need to minimize risk or transfer time, legal regulations, or foreign exchange restrictions.

2.5. EXPORT FINANCE MODEL

The availability of export finance for small and micro enterprises is a topic of significant research interest to academics and an issue of great importance to policy makers around the world. The conceptual framework to which most of the current research literature adheres has proven to be quite helpful to advancing our understanding of the markets for providing funds to small and micro enterprises in developing nations. This framework has helped in our understanding of the effects of policies that both facilitate and hinder the access to funding by creditworthy small non traditional exporters in these nations.

2.5.1. EXPORT FINANCE RISKIER THAN DOMESTIC FINANCE

This model explains why export finance is riskier than domestic trade finance loans, and why a letter of credit is used exclusively for international trade. The mechanics of the model are very straightforward. International trade is more costly than domestic trade; hence the volume of international transactions will be smaller than domestic transactions. Enterprises normally borrow from local banks. Banks need to gather information about whether loans will be repaid. They need not only worry about the enterprises they loan to, but also any other enterprise on whose solvency repayment depends. Banks invest more in learning about enterprises with which they have a larger volume of transactions, which in turn makes them more knowledgeable about these enterprises. Since banks are involved in larger transactions with domestic than foreign enterprises, they will also be more knowledgeable about them. This makes international trade finance loans riskier than domestic finance loans. Having accumulated less information, banks become disproportionately more uncertain about foreign than domestic enterprises. This translates to the costs of export financing, and as a result, the relative price of export to domestic goods will rise.

The basic model incorporates payment systems used for business transactions. When payment is made by a buyer after delivery (i.e., open account system), a supplier is exposed to non-payment risk from the buyer. As a result, if the supplier borrowed working capital from a bank, the loan performance depends not only on the supplier's credit risk but also on the buyer's credit risk. Likewise, when a buyer makes advance payment to a supplier (i.e., cash-in-advance system), the buyer is subject to non-delivery risk from the supplier. If a bank provided the advance payment, the loan repayment is contingent on the successful performance of both the supplier and the buyer. From the banks' perspective, therefore, it

becomes a serious concern to evaluate such creditworthiness of both borrowers and their trading partners to ensure loan repayment. Therefore, costs of financing international transactions will be higher, i.e., export finance premium.

Under a letter of credit system, both a buyer's bank and a supplier's bank participate in the transaction as intermediaries. The buyer's bank promises to pay the supplier's bank on behalf of the buyer as long as the goods are delivered from the supplier, and the supplier's bank guarantees to pay the supplier whether the buyer's bank actually pays or not. From the view of the supplier's bank, this essentially switches the non-payment risk from the buyer to the buyer's bank. This is the gain from using a letter of credit system for international transactions. At the same time, however, since the supplier's bank has only limited, imperfect information on the credit risk of the buyer's bank, it incurs additional inter-bank informational friction. As long as the gains from a letter of credit outweigh the costs, a letter of credit would be chosen as the optimal payment system for the international transaction. On the other hand, this will not be true for domestic transactions because it only incurs additional costs without any gains.

The model can explain the role of export finance in the recent trade collapse based on two results: first, the relative riskiness of international transactions to domestic transactions increases during economic decline, and second, the exclusive use of a letter of credit in international transactions aggravates trade collapse especially when a recession is triggered by a banking crisis.

2.5.2. LIMITATIONS OF THE MODEL

One can argue that the current framework presents an oversimplified model that overlooks some important distinctions across national financial institution structures and lending infrastructures and the way in which these elements of the financial system affect micro enterprise credit availability. By financial institution structure, I mean the market presence of different types of financial institutions that provide credit, as well as the competition among these institutions. The lending infrastructure refers to the rules and conditions set up mostly by governments that affect financial institutions and their abilities to lend to different potential borrowers. It is quite obvious that differences in the financial institution structure and lending infrastructure may significantly affect the availability of funds to exporting small and micro enterprises.

The model looks at only one type of payment contract. Exporters looking for trade finance will obviously consider the optimal choice between the three types of payment contracts, consider one shot transactions, repeated transactions and their implications for trade. The equilibrium contract is determined by financial market characteristics and contracting environments in the source and the destination country. A transaction should, in general, be financed by the firm in the country with the lower financing costs and the weaker contract enforcement. This minimizes interest rate costs and the probability that the trading partner which did not pre-finance the transaction defaults on its contractual obligations. When two firms in countries with weak contract enforcement trade with each other, bank finance (Letter of Credit) is most useful as it resolves the moral hazard problem of defaulting. Repeated transactions are an alternative way to reduce trade risk as the continuation value of a trading relationship gives firms an additional incentive to fulfil contracts. Therefore, they make

exporter finance (Open Account) and importer finance (Cash in Advance) relatively more attractive compared to bank finance (Letter of Credit).

Also, when financing costs change, firms can react by switching payment contracts to optimally substitute between financial conditions at home and abroad.

2.5.3. SMALL BUSINESS CREDIT SCORING LENDING

The key innovation which made possible the application of credit scoring to the small business credit market was the realization that data on the business owner could be used as a valuable input to determine business risk. Small business credit scoring is a concept of using consumer information about the principal owners of a small business, combined with data about the business itself, including financial and application data, to produce robust, highly predictive models of small business risk. Since the behavior of the business owner in his or her personal finances is correlated with the behavior of the firm and ample information is available from credit bureaus on consumers, this approach was feasible and added significantly to predict small business risk. Mester (1997) discusses how data on business owners such as their monthly income, outstanding debt, financial assets, home ownership and previous payment history can all be used in small business credit scoring to improve the predictive power of the models.

Generally speaking, most credit scoring models are developed and designed to help credit grantors predict the outcome of making a loan to a business. The model is composed of several questions (characteristics) about the applicant. Different answers (attributes) are rated on a point system and assigned score weights. An applicant’s score is the sum of all of his or

her attribute points. The higher the score, the lower the risk. If the score is equal to or higher than the score an organization has established as the "cutoff," the applicant presents an acceptable level of risk and the bank may decide to extend credit to that applicant. In an automated system, scoring takes place instantaneously, allowing lenders to assess risk and make account origination decisions more quickly, accurately, and objectively.

The method of assigning the questions' weights is designed during model development. For instance, analysts will take data, such as the number of delinquencies an applicant has on record from past loans, and evaluate its predictive power against many other characteristics. There may be several characteristics evaluated, but the challenge is to find the unique combination of 8-15 characteristics which can be combined to best determine risk. For example, if the characteristics "number of times delinquent with other lenders" and "number of times delinquent with (the lender in question)" are both predictive of risk, they could potentially define the same risky individuals and may not both be used in a model.

Of particular interest are findings by Frame, Srinivasan and Woosley (2001) that small business credit scoring is associated with an increase in lending volumes to small businesses of 8.4% which translates to an average of $4 billion dollars in additional lending per financial institution. Berger, Frame and Miller (2002) build on these results and find that the increased lending volumes associated with adoption of small business credit scoring serve to increase access to credit by marginal or riskier borrowers who would otherwise be rationed.

Unfortunately, in developing countries such as Ghana there have been only limited inroads of small business credit scoring technologies. One reason may be the high concentration levels in the country's banking sector and the reluctance of dominant lenders to lose their

information advantage. Recent research by Beck, Demirguc-Kunt and Maksimovic (2004) shows that credit reporting can reduce financing obstacles faced by firms in concentrated financial systems. One could conjecture that decision tools which make credit reporting data more valuable, such as small business credit scoring, would further reduce the market power of large lenders and increase access to finance.

Credit scoring technologies help to simplify the credit origination process by using statistical models to estimate probabilities of default for risk classes of borrowers. For each application, a credit scoring model generates a credit score. Portfolio managers benefit by maintaining more control over the risk they are willing to accept and more closely matching lending processes to portfolio objectives. By systematically quantifying and ranking the risk of each application, credit scoring speeds the decision process while simultaneously bringing greater accuracy and fairness to each decision.

The concept of combining data on business owners with firm data in small business credit scoring has been applied to models developed for many developed and emerging markets.

Despite the benefits and positive market response to small business credit scoring, this approach is still uncommon Ghana. There are several reasons for this, beginning with the fact that small business credit scoring is still a fairly new lending technology. Second, credit scoring models require access to local data, in this case on SMEs and their owners. The investment required to develop SME scoring tools may not be justified in smaller economies and credit markets where lending volumes are low.

2.5.4. RELATIONSHIP LENDING

A significant body of research exists on how the relationship between loan officers and small business owners affects the loan decision and characteristics of the loan market. Petersen & Rajan (1994), Berger and Udell (1995), Miller (1995) and others discussed the importance of a firm's proximity to the bank and other aspects of the bank-borrower relationship (such as number of years of the relationship) in obtaining credit. Other authors focused on the negative relationship between bank size and SME lending in the United States. For example, Peek and Rosengren (1995) proposed that smaller financial institutions enjoyed an advantage in relationship lending to small firms and that this explained the larger share of SME loans in their portfolios.

More recently, researchers have been revisiting the role of relationship lending in the small business credit market. New empirical evidence suggests that the importance of relationship lending may be diminishing, due in part to the adoption of new lending technologies such as small business credit scoring (SBCS). Petersen and Rajan (2002) revisited their earlier work on the relationship between a firm's distance to its bank and access to credit and found distances increasing. They suggest that expanding access to credit information from credit reports and the adoption of technologies based on this information, such as credit scoring tools, are behind these findings. Dell'Ariccia and Marquez (2003), Hauswald and Marquez (2002) and Brevoort and Hannan (2004) further analyze the evolving nature of relationship lending in the U.S. small business credit market and find that lending markets are becoming segmented with large, nationally active lenders employing new technologies such as SBCS to evaluate applicants while local lenders continue to rely on relationship lending. This model explains Community and Rural Bank lending in Ghana.

2.6. CHALLENGES IN EXPORT FINANCING

As routine as export finance may be, as for other forms of credit, there is an element of risk to be borne. Commercial risk stems essentially from the inability of one of the parties involved to fulfil its part of the contract: for example an exporter not being able to secure payment for his merchandise in case of rejection by the importer or in case of bankruptcy or insolvency of the importer.

Alternatively, the importer bears the risk of a delayed delivery of goods. Traders further have to deal with exchange rate fluctuation risk, transportation risk and political risk. A rapid unexpected change in the exchange rate between countries of the traders could destroy the profitability of the trade, while the imposition of a currency conversion or transfer retraction could be even more damaging.

The global financial crisis which started in mid-2007 placed obstacles to access to export finance for micro and small enterprises in Africa. According to an International Monetary Fund (IMF) report on the situation, policymakers in Africa have generally made an effort to heed the IMF's recommendations for tighter supervision of financial institutions to avoid the chain reaction effect of the crisis (International Monetary Fund, 2010). Consequently, most banks' reaction to the increased oversight has been to focus on their traditional target market clients and not assume incremental risks with small enterprises operating in non traditional markets.

In the current crisis, it is clear that access to affordable trade finance has been constrained. A number of banks, global buyers, and firms surveyed by the World Bank are reporting to be constrained by lack of trade finance and other forms of finance, such as working capital and

Pre-export financing. In addition, the costs of trade finance are substantially higher than they were pre-crisis, raising the problem of affordability for exporters. Small enterprise exporters in developing countries appear to be facing the greatest difficulties in accessing affordable credit.

In a World Bank survey of 60 global buyers and suppliers in early 2009, 40 percent of companies indicated that foreign sales have been delayed or cancelled due to drops in new orders, and 30 percent due to difficulties in obtaining trade finance (Arvis and Shakya, 2009). Findings from two other World Bank surveys of 400 firms and some 80 banks in 14 developing countries across five regions indicate that although a drop in demand played a central role in explaining the decrease in trade finance flows, 30 percent of firms, especially micro and small enterprises, stated that lack of finance explain the decline in exports (Malouche, 2009).

Trade finance instruments can, to some extent, mitigate commercial risk, by providing an exporter assurance that the importer will pay through the use of a letter-of-credit (L/C) issued by the importer's bank and confirmed by the exporter's bank, or by advancing to the exporter the amount owed under the contract, thereby partly bearing the exchange rate risk. But these instruments do not offer total security for the parties involved in the transaction. To protect

exporters against the risk of non payment by the importer when the transaction is on open account, or the confirming bank when a L/C is used, export or trade credit insurance schemes provided by official export credit agencies (ECAs) or private sector insurance companies fill the gap in developed countries and in some developing countries. Export or trade credit insurance can cover the commercial risk, which is generally provided and priced on a

commercial basis. Export or trade credit insurance can also cover political risk, which can include currency non convertibility and transfer restrictions, confiscation or expropriation, import license cancellation, breach of contract by a government buyer, and political violence which cause the non-payment by an importer.

Some of the key differences of export trade and the financial challenges they raise are:

- longer cash flow cycle—it takes more time for an overseas buyer to receive the exporter’s products and therefore longer for the exporter to get paid. The later the exporter receives payment, the higher the risk of non-payment and the greater the strain on the exporter’s cash flow and working capital.
- physical distance from buyer—combined with the longer time for payment, means greater non-payment risk and more difficulty in collecting debts. This means protecting against non-payment is a key concern for exporters.
- getting paid in other currencies—if the exporter agrees to receive payment in a foreign currency, movements in exchange rates can adversely affect the value of his receivables, reducing his profit margin.

2.7. INTERVENTIONS BY DEVELOPMENT BANKS AND GOVERNMENTS

Whilst the current economic crisis is still unfolding, a number of domestic and multilateral interventions have been launched. National authorities started to intervene to provide blanket liquidity to banks, and targeted trade credit lines and guarantees for exporters that have been cut from trade finance. Governments have also increased their support of export ready

companies to reflect substantial increases in demand in the wake of the drying up of credit from traditional sources.

Development institutions have taken actions to help ease access to export finance for SMEs. For example, in response to the financial crisis, the International Finance Corporation (IFC) has, among other actions, doubled its Global Trade Finance Program to $3 billion to facilitate trade by providing guarantees that cover the payment risk in trade transactions with local banks in emerging markets. To deal with the liquidity constraint, the IFC has also introduced a Global Trade Liquidity Program, which, in collaboration with official and private partners, is expected to provide up to $50 billion of trade liquidity support over the next three years. Regional development banks such as the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), and the Inter-American Development Bank (IDB) have also launched or expanded their trade finance programs.

2.7.1. EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

The EBRD Trade Facilitation Program (TFP) aims to promote foreign trade to, from and within central and eastern Europe and the Commonwealth of Independent States. Through the program, the EBRD provides guarantees to confirming banks in order to take the political and commercial payment risk of transactions undertaken by participating issuing banks in the countries where the EBRD operates. Since its inception in 1999, the TFP has closed almost 9000 trade transactions for a total value of almost €5 billion. As of September 2010, the

EBRD works with 116 issuing banks in 20 member countries. EBRD has relationships with at least 500 confirming banks.

According to the International Chamber of Commerce (ICC), over the course of 2009 and early 2010 foreign exporters and foreign commercial banks were declining new business, even with 100% EBRD risk cover under TFP guarantee facilities because they did not have sufficient liquidity to finance these transactions particularly in cases of larger amounts and longer tenors.

As a result, the EBRD offers, not only up to 100% risk cover for letters of credit issued by TFP client banks, but also provides issuing banks with the necessary liquidity for pre-export finance, post-import finance and financing for the local distribution of imported goods.

2.7.2. ASIAN DEVELOPMENT BANK TRADE FINANCE PROGRAM (ADB TFP)

The Asian Development Bank Trade Finance Program provides guarantees and loans to 180 partner banks in order to increase financial support to companies engaged in import and export activities in Asia's most challenging markets.

The ADB TFP supported $2 billion in transactions in 2009. According to the ADB, the average tenor of their guarantees is less than 180 days. ADB provides credit guarantees of up to 100% risk protection against non payment by approved participating banks, in support of export trade transactions.

The ADB also provides revolving loans to eligible banks for on-lending to exporters to finance trade-related transactions. This product is most frequently used for pre-export financing. The ADB TFP report that about 50% of their transactions are with SMEs.

2.7.3. THE INTERNATIONAL FINANCE CORPORATION (IFC)

The IFC has set up the Global Trade Finance Programme (GTFP) to provide partial or full guarantees covering payments risk on banks in developing countries for trade-related transactions. These guarantees are transaction-specific and involve a variety of underlying instruments: letters of credit, trade-related promissory notes, accepted drafts, bills of exchange, guarantees, bid and performance bonds and advance payment guarantees. Through the GTFP bank network, local financial institutions can establish working partnerships with the many major international banks participating in the programme, thus broadening access to finance and reducing cash collateral requirements. Export finance training is also offered, and the IFC may place experienced export finance bankers with issuing banks to help them develop export finance and other banking skills.

2.8. GOVERNMENT INTERVENTIONS IN GHANA

Local governments have also responded to alleviate the risks in export finance. In 1994 the Bank of Ghana promoted and established the Eximguaranty Company (Ghana) Limited purposely to provide the banking sector with guarantees and insurance cover for the export sector. The Ghana Export Promotion Council (GEPC) has the sole responsibility to develop and promote exports of non-traditional products. These involve the provision of technical assistance at the enterprise level in production, marketing and training and general advisory services as well as participation in export finance committees and other forums aimed at creating an enabling environment for non-traditional export expansion.

The Ghana government was operating lending schemes for micro and small enterprises by way of the Export Development and Investment Fund (EDIF): Under this scheme, companies with export programmes can borrow up to $500,000 over a five-year period at a subsidized cedi interest rate of 15%. The scheme is administered through banks but the EDI board maintains tight control and approves all the credit recommendations of the participating banks. Eximguarantee and EDIF in Ghana are underfunded and quite bureaucratic such that they have become unresponsive to the needs of exporting micro enterprises.

Contrasting the case in Ghana to that of the Republic of Cote d'Ivoire, the country has maintained a consistent policy in providing state support for the development of that country's export sector. This policy has helped the country achieve a comparative advantage in the development of their traditional and non-traditional export commodities compared to Ghana. In Cote d'Ivoire the Export Promotion Agency known as APEX-CI has another fund for exports that it manages called FAMEX. These funds are literally interest free since they are given out as reimbursable grants of up to 85% of export expenditures incurred by exporters and other companies and institutions providing export related services.

The case may be clear and strong and the needed institutions are all in place to assist with the export development process, but the challenges for micro and small enterprises in securing export finance still exist today.

2.9. OFFICIAL SME CREDIT SCHEMES IN GHANA

Official schemes are schemes introduced by government, either alone, or with the support of donor agencies to increase the flow of export financing to micro and small enterprises.

Government has in the past attempted to implement a number of such direct lending schemes to exporters either out of government funds or with funds contracted from donor agencies. These funds were usually managed by the Aid and Debt Management Unit of the Ministry of Finance and Economic Planning. Most of the on-lent facilities were obtained under specific programs with bilateral organizations in support of the Government of Ghana's Economic Recovery Program and Structural Adjustment Program.

In addition to donor-supported schemes for direct lending, government has attempted at various times to operate lending schemes for micro and small exporting enterprises. The schemes have included the following:

Business Assistance Fund: The Business Assistance Fund was operated in the 1990s to provide direct government lending to the micro and small enterprise sector. The program was widely seen to have been abused politically, with most of the loans going to perceived government supporters.

Ghana Investment Fund: In 2002, the Ghana Investment Fund Act (Act 616) was passed to establish a fund to provide for the grant of credit facilities by designated financial institutions to small and medium export ready companies. However, the scheme was never implemented.

Export Development and Investment Fund (EDIF): Under this scheme, companies with export programs can borrow up to $500,000 over a five-year period at a subsidized cedi interest rate of 15%. While the scheme is administered through banks, the EDIF board maintains tight control, approving all the credit recommendations of the participating banks.

2.9.1. GUARANTEE FACILITIES

Section 13 of the Loans Act of 1970 (Act 335) empowers the Government of Ghana (GoG) to provide government guarantee to any external financiers who wish to advance funds to any Ghanaian organization and the terms of such facility require the provision of guarantee from the Government. Guarantee facilities are contingent liabilities of the Government. The onus for repaying the facility lies with the borrower and not the Government. The facility crystallizes and becomes liability due from GoG if the borrower is unable to honour his/her loan obligation and the Government is called upon to settle the facility as a guarantor. In that case the borrower is required to subsequently reimburse the Government for the amount involved.

Although GoG in exercise of the relevant provisions in the Loans Act, has provided guarantees to a number of bilateral and multilateral organizations in the past on behalf of selected Ghanaian organizations in both the private and public sectors of the economy, no targeted SME guarantee facilities has been introduced. A Loan Guarantee Scheme was announced by the Ministry of Trade and Industries in 2001 but was not implemented.

Public intervention in export financing in the form of guarantees to financing offered by individual central banks focus, for efficiency reasons, on the largest exporters of the most strategic products. These often happen to be inherently the most solvent enterprises dealing in the more traditional goods, leaving out the small and micro exporters who deal in non traditional goods.

Currently, the only government-supported loan guarantee scheme in operation is operated by Eximguaranty Company which is majority-owned by the Bank of Ghana. However, the company's operations are limited by the size of its guarantee fund. Although ¢10 billion was

voted in the 2004 budget to augment the guarantee fund, it is small relative to the needs of the SME sector.

2.10. DIRECT INTERVENTIONS FROM DEVELOPMENT PARTNERS

Many donor activities concentrate on various export credit schemes through the local banks Perhaps, as a result of the unpleasant experience of direct lending by government in the recent past, more recent donor interventions in export finance have used existing financial institutions to channel funds to micro and small enterprises. A number of lending programs undertaken as partnerships between government and donors are listed such as:

- Trade and Investment Program (TIP), operated by USAID and the Ministry of Finance
- Private Enterprise and Export Development Fund (PEED) managed by Bank of Ghana but administered through banks.

Increasingly, however, donors have implemented lending programs directly with financial institutions. Examples of such schemes are:

- Small Business Loan Portfolio Guarantee (USAID)
- European Investment Bank Facility
- Care-Technoserve Fund for Small Scale Enterprises
- DANIDA SME Fund
- GTZ Fund for the Promotion of Micro and Small Enterprises
- SECO SME Financing Scheme
- FMO SME Financing Scheme

In addition, Oikocredit, an international NGO operates micro and small enterprise lending programs through a local office and lends directly to the target group.

2.11. EXPORT FINANCING FROM FINANCIAL INSTITUTIONS

The formal financial sector in Ghana comprises commercial banks, rural and community banks, savings and loan companies and non-bank financial institutions. Recently, as banks and other financial institutions have sought to broaden their loan portfolio, micro and small enterprises have become an increasingly attractive customer group. Traditionally, however, financial institutions in Ghana have been cautious with lending to micro and small enterprise groups because of high default rates and risks associated with the sector. Few banks have therefore developed an explicit policy for micro and small enterprises export requirements. Few banking institutions have non traditional export finance desks. For the others, lending to non traditional exporters is simply transacted by credit officers from corporate finance departments of the bank who generally apply the same appraisal and lending principles to SMEs. None of the commercial banks have any specialised training for credit officers in proven micro and small enterprise lending techniques.

2.12. SUMMARY

Non traditional exporters are small businesses that engage in the export of products other than cocoa, gold and timber which are regarded as traditional Ghanaian exports. Export Finance may be classified from two viewpoints, namely, the stage at which the financing is provided and its duration. Pre-shipment and post-shipment finance are both short-term financing, which is the preferred loan term extended to non traditional exporters.

This chapter focused on some models used in financing exports and a review of literature on access to finance for small businesses. Three export finance models are introduced. The first model explains why export finance is riskier than domestic trade finance loans, and why a

letter of credit is used exclusively for international trade. The Small Business Credit Scoring model is a concept of using consumer information about the principal owners of a small business, combined with data about the business itself, including financial and application data, to produce robust, highly predictive models of small business risk. Credit scoring models are developed and designed to help credit grantors predict the outcome of making a loan to a small business. The third model looked at how the relationship between loan officers and small business owners affects the loan decision and characteristics of the loan market. New empirical evidence however suggests that the importance of relationship lending may be diminishing, due in part to the adoption of new lending technologies such as small business credit scoring.

Access to affordable trade finance was constrained by the global financial crisis as reported in a World Bank survey. In addition, the costs of trade finance are substantially higher than they were pre-crisis, raising the problem of affordability for exporters. Small enterprise exporters in developing countries appear to be facing the greatest difficulties in accessing affordable credit. Financial institutions in Ghana have been cautious with lending to micro and small enterprise groups because of high default rates and risks associated with the sector.

Whilst the current economic crisis is still unfolding, a number of domestic and multilateral interventions were launched. National authorities started to intervene to provide blanket liquidity to banks, and targeted trade credit lines and guarantees for exporters that have been cut from trade finance. In Ghana, government had in the past attempted to implement a number of such direct lending schemes to exporters either out of government funds or with funds contracted from donor agencies. Currently, the only government-supported loan

guarantee scheme in operation is operated by Eximguaranty Company which is majority-owned by the Bank of Ghana.

CHAPTER THREE

METHODOLOGY

3.1. INTRODUCTION

This chapter explains the procedure, methods and techniques used in carrying out the research. It deals with the population and sampling techniques used, data collection procedure, research design and data analysis.

3.2. POPULATION AND SAMPLING TECHNIQUES

A database including all export loans made to the non-traditional exports sector during the period under study was obtained after requesting the information from the bank. This data included the name and address of the exporter, the size of the credit facility, the country the export was destined for, and the type of transaction. Four non-traditional export sectors were identified from the list of the bank's clients made up of Handcrafts, Apparel, Cashew, and Shea. Using convenience sampling, 25% of the exporting companies from each of the four non-traditional sectors identified were then selected, giving a total of 60 exporters across the sectors.

3.3. DATA COLLECTION PROCEDURE

Data for this research was collected through both primary and secondary sources. Secondary data was collected through previous research on access to finance in the country and in the sub-region. The study also relied on publications in journals, books, online publications, etc. to ensure that a comprehensive overview of the issues is considered. The primary data comprises evidence obtained through structured questionnaires which are quantitative and

qualitative in nature so as to gain an insight and understanding into the operations of the non-traditional exporters and the bank surveyed. The questionnaire is designed based on open and closed ended questions. Sixty questionnaires were sent out to non-traditional exporters and 40 answered questionnaires were returned with a response rate of 67%. The resulting response rate is high for a survey of this type considering that empirical studies involving small and micro enterprises have been known to generate far lesser percentage response rates.

Interviews were carried out so as to take care of those instances where the exporter selected did not understand the survey as a result of linguistic barrier. The study was carried out between May and July 2012 and covered the period between January 2009 and December 2011.

A copy of this questionnaire can be found in Appendix 2. In addition to this, a checklist was used to interview the bank's key person responsible for export finance in order to gain extensive information on the issues. His assistant was also interviewed separately to corroborate responses obtained. A copy of the interview guide used can be found in Appendix 1.

3.4. RESEARCH DESIGN

This study is a non-experimental research using primary and secondary data. Kerlinger (1986) defines non experimental research as a systematic, empirical enquiry in which the scientist does not have direct control of the independent variable because their manifestation has already occurred or because they inherently cannot be manipulated. It is noted that the variable under study does not lend itself to manipulation and the aim of the research is to

describe the phenomenon, which is, financing difficulties experienced by small non traditional exporters. The main research approaches used follows Yin (1994) exploratory, descriptive and explanatory classification. The descriptive research aims to present a complete description of a subject within its context. This research approach answers the questions: what, who, where, when and how. Descriptive researches are often used when an amount of knowledge about the subject already exists; this knowledge can then be used to categorize into models and frameworks (Lind et al, 2005).

Yin (1994) defines the exploratory research as aiming to define the questions and hypothesis of a subsequent study or determine the feasibility of a desired research procedure. The main purpose is to collect as much data as possible in a specified area of research and enlighten it in a versatile approach. The explanatory research presents data relevant for cause-effect relationships. It is therefore the best approach to adopt in explaining how events occur (Yin, 1994).

The study is also exploratory as it sought to evaluate the performance of the banks' export finance drive. The study also sought to uncover the impact of these drives using an explanatory approach, and to propose alternative means of improving outcomes.

3.5. DATA ANALYSIS

In the questionnaire, the exporters selected were asked to indicate to what extent they considered various factors to be obstacles to their quest to procure export finance. Five-point Likert scale was used for this purpose, with responses ranging from "not an obstacle" to

"major obstacle". Data was compiled, analysed and evaluated using techniques such as tabulation and appropriate statistical graphs.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF RESULTS

4.1. INTRODUCTION

This chapter presents the analysis and discussion of data collected from exporters in the non traditional exports sector and bank officials in a way required to answer the research questions of the study.

4.2. EXPORTERS BUSINESS PROFILE

Forty questionnaires were returned, made up of 16 handcraft, 6 shea, 4 cashew, and 14 apparel exporters. As can be seen from Table 4.1, 5% of the exporters interviewed had spent less than 4 years in the export business, 22% had spent 4-8 years, and 73% had spent more than 8 years. The average small business exporter employs 19 staff, and has annual turnover of GHC 262,500 and the average micro business exporter employs 7 staff, and has annual turnover of GHC46, 250.

Table 4.1: Classification of respondents

Sector	Percentage of representation	Size	Number of employees	Annual turnover GHC' 000	Years in export business
Apparel	35	**Small** **Micro**	16 5	300 60	9 5
Cashew	10	**Small** **Micro**	25 10	250 20	3 4
Shea	15	**Small** **Micro**	15 6	80 15	4 9
Handcraft	40	**Small** **Micro**	20 6	420 90	15 10

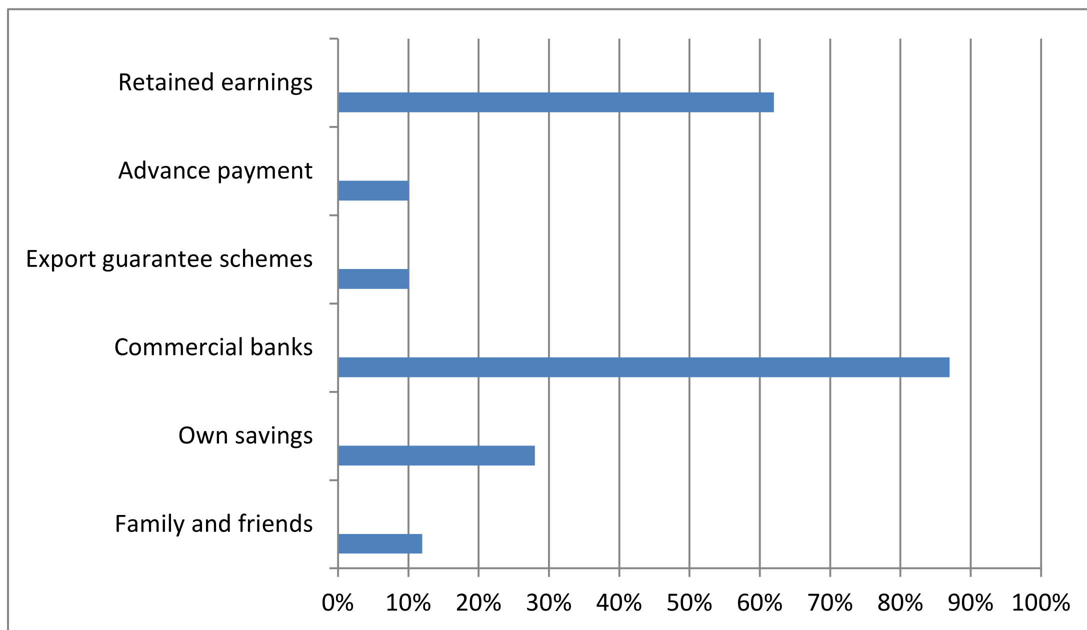
Source: Field data, 2012

The Micro NTEs businesses surveyed had between 5 to 10 employees and the Small exporters had between 15 to 25 employees including the business owners.

4.3. METHOD OF OBTAINING BUSINESS FINANCE

While respondents could indicate more than one method, the most overlap among the methods was retained earnings and commercial banks. Seventy two percent of exporters used a combination of these to obtain export finance.

Figure 4.1: Methods of raising finance (multiple answers possible)



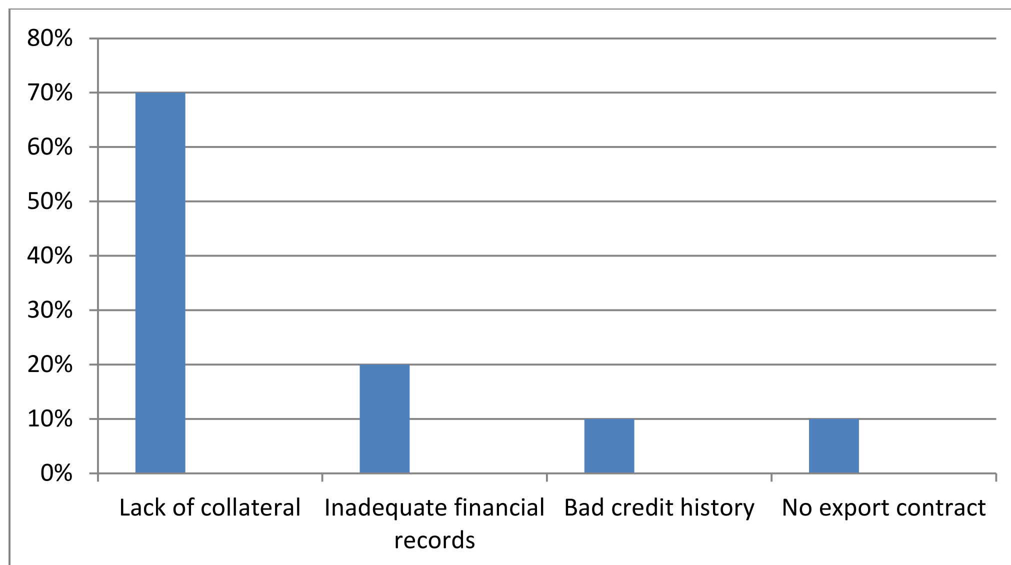
Source: Field data, 2012

In summary, the majority of financing for non traditional exporters comes mainly from bank loans and overdrafts. However, 62% are able to plough back some retained earnings to finance business operations. It shows that non traditional exporters are obtaining finance but it is not adequate to meet their entire business operations.

4.4. REASONS FOR LOAN REJECTION

Ten exporters had their loan applications rejected by the bank. Twenty five percent rejection rate is high when majority of the exporters rely on bank loans to finance their business. Seven applications (70% of rejected applications) were rejected for lack of collateral. This shows that lack of collateral is a serious impediment to export finance. Twenty percent of the exporters who had requested for working capital loans did not have financial records to back their applications and the transactions eventually fell through.

Figure 4.2: Reasons for rejection of export finance



Source: Field data, 2012

One exporter approached the bank with a firm order worth $60,000 but was told to leave his documents and that he would be contacted when the bank got interested. The exporter left so disappointed that he did not bother to follow up on it; needless to say, he did not hear back from the bank. This exporter however obtained funding for the order from another local bank. Ecobank explained that the exporter had an outstanding debt from a previous business

venture as a result of which the bank could not make any further loans to him. One other exporter was rejected because he had no export contract. He wanted the credit facility to enable him produce beads to stock a friend's shop in the United States of America.

4.4.1. FACILITIES GRANTED AND REPAYMENTS

The bank granted $1,900,000 in pre-shipment export facilities during the period, representing 54% of approved facilities to non-traditional exporters. The pre-shipment export facility was repayable between 90 days to one year at the bank's going rates which was 32% per annum.

Table 4.2: Amounts granted to the NTEs sector by the bank

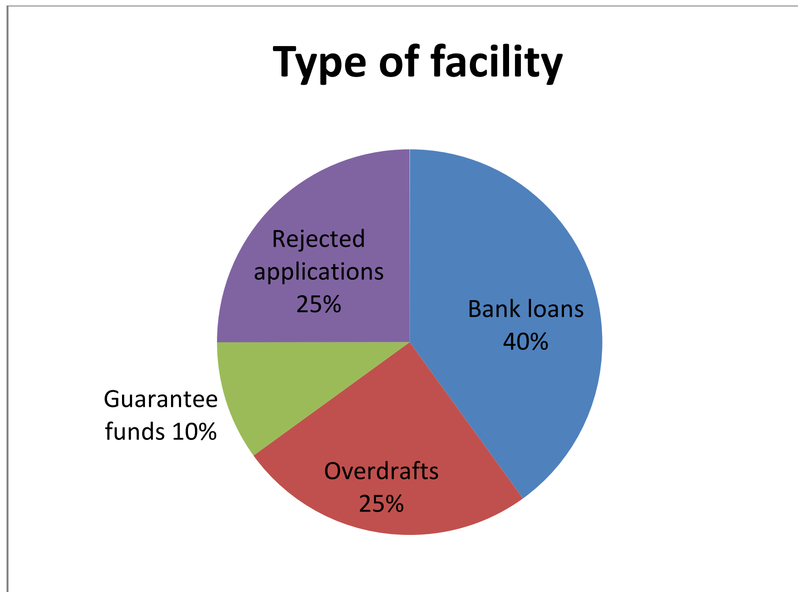
	Bank loans	**Overdrafts**	**Guaranteed facilities**
	USD$	USD$	USD$
2009	370,000	250,000	80,000
2010	680,000	300,000	300,000
2011	850,000	520,000	200,000
Totals	1,900,000	1,070,000	580,000
Percentage	54%	30%	16%

Source: Field data, 2012

Ten exporters (25%) were also granted overdraft facilities. The overdraft facility was 30% of the total facilities granted by the bank over the study period. An additional 4 loans amounting to $580,000 was granted under the Export Development and Investment Fund (EDIF) financing scheme. This is an institution that guarantees 100% loans to small and micro

exporters. Initial interest rate for all facilities under the EDIF was 8% repayable over 12 months with bank charges of 3%. This facility represented only 16% of all approved facilities for the NTEs sector during the study period.

Figure 4.3: Types of credit facilities granted



Source: Field data, 2012

The majority of facilities granted were bank loans at high interest rates. Results show that although EDIF funds had no risk of repayment because they were 100% guaranteed, only 10% of exporters actually applied for the facility with 100% approval rate. Three exporters who received $420,000 under the EDIF guarantee said that the funds became available to them only after they had received payment for their exports. The delay was due to approvals that had to be sought from the bank and other export guarantee agencies. This shows that although the export guarantee funds are available, they are not delivered effectively and efficiently so majority of exporters avoid it. They would rather go for the higher interest bank loans. All 4 exporters (100%) who received the guaranteed facility defaulted in repayment.

The interest rate on the EDIF facility increased to 11% as a result of the default and subsequent restructuring. The bank believes that the non-payment of the full amount and the restructuring it occasioned is due to exporter's knowledge of the existence of the EDIF guarantee on the facility.

Out of the 16 exporters who received bank loans at commercial rates, 62.5% made repayments on schedule but 6 exporters (37.5%) defaulted so the bank had to restructure payments. Four of the defaulters were as a result of a collapse on export prices of the commodities which are the borrower's main business, after the facility was granted. Results show that the rate of loan repayment default was higher with those who obtained funds under the guaranteed scheme than those who received other types of funding.

4.5. NTEs PERCEPTION OF IMPEDIMENTS TO EXPORT FINANCE

Results from Figure 4.2 above indicate that 70% of loan applications were rejected due to lack of collateral. Table 4.3 below shows that 67.5% of exporters rated, on a five-point scale (five being very important and one being not important at all), the lack of collateral as the most significant factor limiting their access to export finance**.** Those who rated high interest rates to be the next most important impediment to access to export finance were 62.5%. The collateral is typically immovable property such as land or building. The export desk manager at the bank claims that even when they take property, they assign it no value in the credit-risk process. This assertion was corroborated by his assistant in a separate interview. The risk assessment is based on the assumption of clean lending. The bank staff were however not

able to give a good reason why they still ask for collateral in lending to the non traditional exports sector.

Forty percent of the non-traditional exporters presented land and buildings as collateral. It must be noted that 13.3% of the exporters received export finance under the guaranteed scheme and as such did not require collateral. They admitted that they would not have obtained finance if collateral was required. Another 25% of exporters received cash-secured overdrafts secured by the borrowers upon presentation of fixed deposit or treasury bills. A maximum of 95% of their value was granted, with a lien placed on them, to minimize the risk of default.

Table 4.3: Reasons for not obtaining export finance

Variables	Mean	Numbers	Percentage	Rank
Bank's collateral requirements	14	27	67.5	1
High bank interest rates	13	25	62.5	2
Cumbersome loan application procedures	6	11	27.5	3
Inability of bank staff to inform and assist exporters	4	7	17.5	4
Lack of knowledge about available export assistance	3	5	12.5	5

Source: Field data, 2012

Almost without exception, the financial institution attempts to service micro exporters with a package modified from their existing SME corporate clientele. As a result, there is strong emphasis on collateral and financial reports. These are analysed basically in the same format as corporate applications.

4.5.1. HIGH LENDING RATES

According to the two bank staff interviewed, the bank's lending rates to the non traditional exports sector is the base rate plus a margin based on the individual exporter's risk profile. The margin ranges to 10%. A flat service fee ranging from 1.25% to 2% of the loan value is collected at the point of draw-down. These rates produced a total lending rate of approximately 32% per annum.

There is less variation in lending rates to the non traditional export sector than to general lending rates. However, the average lending rate to the non traditional exports sector is higher than the average general lending rates. General lending rates offered to larger SMEs ranges between 22%-28%. The prohibitive interest rate is confirmed by the exporters (62.5% in Table 4.2) rating high interest rates to be the second most important impediment to their access to export finance. Bank staff interviewed confirmed that the high cost of borrowing is to compensate for credit risks. Little effort is made to carefully control and manage individual lending risks in ways that would justify a lower case-by-case lending rate.

4.6. NTEs STILL NEED EXPORT FINANCE

Results from the research revealed that 37 exporters (93%) interviewed receive payment in an export contract typically after delivery. Only three exporters took 50% payment in advance from importers during the research period. The three are well established handcraft exporters who are in a good position to request for advance payment from importers with whom they have not yet established long business contacts. It was evident from interviews with exporters that well established overseas importers are reluctant to make payments in advance. Since the period from starting work to getting paid is usually long and leaves a gap

in exporters' cash flow, more than 90% of them still require substantial funds upfront to pay for production costs in order to fulfil an export contract.

4.6.1. USES OF EXPORT FINANCE

Non-traditional exports businesses require financing to meet both pre-shipment and post-shipment expenses as seen in Table 4.4 below. Respondents were allowed multiple answers to this question. About 33% of exporters require credit facilities to finance raw materials in the production of export goods. Cashew and shea exporters need money to purchase the products while handcraft exporters need credit to finance wood materials. Twenty five percent of exporters need financing to meet salaries of their workers and another 22.4% need credit to finance everyday business expenditure.

Table 4.4: Uses of finance for NTEs

Activities	Frequency	Percentage
Buying raw materials or components	38	32.8
Buying or hiring equipment	15	12.9
Paying salaries	30	25.9
Packing and shipping	7	6
Day to day business expenses	26	22.4

Source: Field data, 2012

About 13% of exporters need finance to buy or hire equipment to aid in production of exportable products. This percentage is not that high, but considering that all those who applied for equipment finance were rejected, it is of concern to non traditional exporters.

4.7. INCONSISTENT NTEs FINANCIAL STATEMENTS AND AUDITS.

Small and micro businesses are not required to adopt international accounting standards when preparing their financial statements so there are large discrepancies in the ways they report their financial positions. Seventy five percent of the exporters had inadequate accounting systems. Ninety percent do not prepare financial reports for audit. Even the 10% who prepare financial statements for audit do so only when the reports are needed for credit facilities. This undermines the accessibility and reliability of information concerning profitability and repayment capacity. Bank staff interviewed complained that exporters conduct their business on a cash basis. Majority lack proper accounting procedures and owners frequently mix their business and personal finances, so any attempt to verify their turnover is virtually impossible. The Bank cannot be expected to extend long-term loans to borrowers who lack adequate proof of financial continuity or viability.

4.8. BANKS FAIL TO PERFORM DUE DILIGENCE ON MICRO ENTERPRISES

Four exporters (10%) produced audited financial reports as part of their application for export finance, but bank staff stated that they failed to use them in their risk analysis because the thoroughness of such audits were questionable. The study also found out that the bank fails to assess whether exporters can perform on their contracts. A thorough performance risk assessment will prove the exporter’s ability to deliver on a contract, and can help bring down interest rates and also significantly reduce loan defaults.

4.9. BANK FACILITIES AVAILABLE TO EXPORTERS AND THEIR DURATION

Working capital is financed through overdraft or term loans. The export desk official explained that accepting and confirming Letters of Credit (LCs) and discounting Export Documents are other facilities available to exporters but the research revealed that these facilities were not given during the period of the survey.

As noted in Table 4.5., export financing is mostly short term, for 90 or 180 days, and may extend to at most 12 months after delivery, depending on the types of goods to be exported and the terms of payment offered to overseas buyer. The survey shows that 100% of the loans were for terms of one year or less. It is accurate to conclude that there is inadequate medium- and long-term financing for the small non traditional exports sector.

Table 4.5: Facilities granted and duration

Facilities	Number of exporters	Percentage of total loans	Duration	Number of rollovers and extension of repayment period.
Bank loans	16	40	3-12 months	10
Overdrafts	10	25	180 days	0
Guaranteed funds	4	10	12 months	4
Rejected Applications	10	25		
	40	100		

Source: Field data, 2012

An indicator of exporters' reasonably strong demand for medium- and long-term loans is the notably high frequency of roll-overs and extensions of short-term loans. Forty seven percent of loans were extended, usually for further 6-month terms.

4.10. BANK'S RELATIONSHIPS WITH EXPORTERS

The bank surveyed has a separate MSE desk that is also responsible for the export desk. MSE lending below a certain threshold are initiated and processed by the bank's marketing department since MSEs are targeted primarily with a view to attracting their deposits with small loans granted only to establish initial client contact.

Big lending is transacted by credit officers from corporate department of the bank. The export desk official at the bank admitted they have little knowledge about non traditional goods but felt that they are gaining experience in the sector, although they are mixed. He admitted that they cannot lend large amounts for long periods of time to non traditional exporters.

Export lending is facilitated by a good long standing relationship with the bank as well as with importers.

4.11. LENDING POLICIES OF THE BANK

Generally, a bank's lending policy should reflect the bank's perception of the lending risks, ability to manage risks, and the acceptable return for risks taken (risk/reward ratio). The bank surveyed will simply not extend loans with terms greater than 12 months to the exporters. Short term loans are sometimes extended by another 90 to 180 days at higher interest rates when exporters default in payment. The bank will only finance working capital. There is a strong preference to finance borrowers' working capital needs rather than fixed capital financing needs. Although 37.5% of exporters reported they require equipment finance facilities, only 7.5% of them applied for such loans during the study period but their applications were denied. There was no special policy for the non traditional exports sector

and the lending policies used for the larger sized SMEs were applied to these smaller enterprises. However, bank staff confirmed that there was more scrutiny towards these smaller enterprises due to the perceived inherent risks in their business.

4.12. PERCEPTION OF RISK IN LENDING TO NTEs

The bank maintained during interview that by definition, dealing with small non traditional businesses was very risky business with high related costs, but also very profitable. Payment risk is normally covered by LCs from well known foreign banks. However, all the non traditional businesses interviewed did not use LCs during the period under investigation. Forty percent of them have however used LCs in the past and believe the financial turmoil had contributed to importers discontinuing their use.

The bank indicated that Basel II's capital allocation requirements related to non-rated transactions significantly increase the cost of financing trade with SMEs. The small and micro enterprise sector is considered higher risk because of a generalized lack of credit history, performance track record and lack of adequate collateral. The opportunity to earn relatively low-risk returns in treasury bills is more appealing to the bank than lending to small and micro exporters who may default in loan repayment.

4.13. BANK LACKS TECHNIQUE TO DEAL WITH NTEs

It was observed during the study that the bank lacks techniques in dealing with the NTEs sector.

Non traditional exports businesses typically require relatively small loans compared with large firms. The transaction costs associated with processing and administering loans are, however, fixed, and the bank found out that processing small NTEs loans is inefficient. They lack the technique, such as credit scoring, to increase volume and lower costs. The bank also faced a difficulty in adopting new lending technologies. Experience from the microfinance industry shows that one way to successfully bridge the gap between the demand for and supply of credit is through innovative lending methodologies.

Financial information on NTEs is hard to obtain, so it is difficult to ascertain if they have the capacity to pay and/or the willingness to pay. This informational difficulty undermines lending from the bank, which requires transparent information, and proper accounting records. In the past, the bank officers have been trained and equipped to manage large borrowers with proper records. Applying the same techniques used for large borrower evaluation will result in many NTEs not being able to meet bank lending requirements.

4.14. BANK LACKS UNDERSTANDING OF NTEs SECTOR

The bank admitted gaining some experience in the NTEs sector lately. However, it was obvious that the bank still lacks understanding in the sector. For example, on an apparel export transaction, the bank proposed to provide a year's facility to cover working capital but did not consider the production of samples and trial runs for that particular order. Therefore they withdrew the facility fearing that the apparel company would be unable to repay. It is not surprising that 24 exporters (60%) perceive that the bank does not understand their business sector.

4.15. PATRONAGE OF DEVELOPMENT FINANCE GUARANTEE SCHEMES

Ecobank participates in the disbursement of funds guaranteed by development finance institutions. Only 4 exporters in the study applied for export finance from such funds which were 100% guaranteed. All 4 were approved but 3 (75%) of them received their funds well after the period they intended to use the money. 100% of the exporters complained about the long process involved in obtaining approvals for guaranteed loans to be disbursed. It is therefore accurate to state that the guaranteed finance schemes have not been operated efficiently and have failed to increase the flow of export financing to small enterprises.

Table 4.6: Awareness and use of the various Financing Schemes

Financing Scheme	**Awareness**		**Use**	
	Frequency	Percentage	Frequency	Percentage
Export Development and Investment Fund (EDIF)	40	100	6	15
Support for Private Enterprise Expansion and Devt. (SPEED)	36	90	5	12.50
Danish International Devt. Assistance (DANIDA)	36	90	4	10
Deutsche Gesellschaft Fuer Technische Zusammenarbeit (GTZ)	36	90	4	10
Japan International Cooperation Agency (JICA)	28	70	2	5
EMPRETEC Ghana Foundation (EGF)	20	50	1	2.50
Ghana Private Sector Devt. Fund (GPSDF)	16	40	0	0
Department for International Development (DFID)	12	30	0	0
Business Sector Programme Support (BSPS)	10	25	0	0
Ghana Investment Fund (GIF)	6	15	0	0

Source: Field data, 2012

Table 4.6 indicates the awareness of the various financing schemes among the sampled exporters. The results generally show an appreciable level of awareness but the problem is with the use of the financing schemes. The results show a very low dependence on these sources of financing. Only 15% (6) of the exporters interviewed will borrow guaranteed funds from development finance institutions. The other 85% perceive the delays involved in loan processing to be too much of an impediment and they will rather go to the commercial banks to pay higher interest rates.

These exporters also perceive that the bank is deliberately frustrating the scheme by delaying the disbursement of funds. They think that the bank wants to promote their own loan facilities rather than low interest funds from other institutions.

The study also revealed that export guarantee schemes encourage advance repayment default because the exporters know that the funds advanced to them have been insured. The bank is also less attentive to credit risk and to monitoring borrowers due to the guarantee. The resulting high default rates raise issues of the sustainability of such schemes.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1. INTRODUCTION

This chapter summarises highlights from the discussion, conclusions from the findings and recommendations by the researcher to improve access to finance for non traditional exports sector.

5.2. SUMMARY OF FINDINGS

The results obtained from the respondents concerning the impediments they face in obtaining export finance are discussed along the lines of the research objectives stated in Chapter 1.

5.2.1. LACK OF COLLATERAL HINDERS EXPORT FINANCE

On a 5-point scale (Table 4.3), 35% of exporters rated the lack of collateral as the most significant factor limiting their access to export finance. The financial institution services the NTEs sector with a package modified from their existing SMEs corporate clientele. As a result, micro exporters have to present collateral in land and buildings to access credit. Most of these small exporters do not have land and buildings to pledge as collateral for loans. Some of them (about 25%) have to settle for cash-secured overdrafts that come with higher interest rates.

5.2.2. HIGH LENDING RATES

The bank's lending rates to micro exporters is about 32% per annum. This is about the highest rates in the market during the period of the study. This rate was found to be higher than what the bank charges other larger SMEs (about 22-28%) as revealed during the interview with bank staff. It is not surprising that the exporters in this study viewed high lending rates to be the second most important factor hindering their access to finance. The bank charges non traditional exporters high interest to absorb losses on loan repayment default. Not much effort is made to manage individual lending risks to ensure a lower case-by-case lending rate. High interest rates discourage micro exporters from borrowing. It can also lead to high loan repayment defaults.

5.2.3. EXPORTERS LACK CREDIT HISTORY

The exporters do not have credit profiles and histories. This is partly because they apply for loans from different banks depending on the banks going rates of interest, and the banks do not share information on the creditworthiness of potential borrowers. Also, no private entity or government agency had established a credit bureau or database to compile information on customers' debts or liabilities, especially on their bank borrowings. This absence of information and data on a borrower's debts and liabilities renders the monitoring of term loans highly problematic.

Banks are reluctant to offer credit facilities to exporters who do not have credit history with them. Lack of credit history also restrains banks from developing rating systems to differentiate risks across enterprises.

5.2.4. EXPORTERS LACK ADEQUATE FINANCIAL RECORDS

As small and micro enterprises are not required by law to report their financial positions, majority of them have inadequate accounting systems and fail to prepare financial statements. Banks therefore find it difficult to establish their profitability and repayment capacity. They are therefore reluctant to extend credit facilities to especially small enterprise borrowers who lack adequate proof of financial continuity or viability.

5.2.5. BANK PROCEDURES ARE PERCEIVED TO BE COMPLICATED

The bank's credit assessment processes typically require NTEs borrowers to provide documentation such as business plans, forecasts, industry and competitor information just like what is required of the larger SMEs. About 28% of the non-traditional exporters who operate on a cash basis undoubtedly find these requirements burdensome when applying for a loan.

5.2.6. EXPORTERS DO NOT HAVE ACCESS TO LONG TERM FACILITIES

The bank does not lend to micro exporters for more than one year duration. The study confirms that the bank prefers to give short term loans and then extend the loan repayment period upon default. The high frequency of roll-overs and extensions of short-term loans is an indication of exporters' reasonably strong demand for medium- and long-term loans. Long term loans are not approved because the interest rates would be too high to accept. Lack of access to long term loans prevents micro exporters from investing in machinery for business expansion.

5.2.7. BANK HAS NO SPECIAL LENDING POLICIES FOR NTEs

The bank has no special lending policy for the small non traditional exports sector. The lending policies used for the larger sized SMEs were applied to these smaller enterprises. Moreover, the bank took a more critical look at loan applications from these smaller enterprises because of the perceived inherent risks in their business.

5.2.8. PERCEPTION OF RISK IN LENDING TO NTEs

The bank perceives lending to micro enterprises to be high risk business with high related costs. The NTEs sector is considered high risk because of a generalized lack of credit history, performance track record and lack of adequate collateral. This perception ultimately discourages lenders from lending to micro enterprises.

5.2.9. BANK LACKS TECHNIQUE TO DEAL WITH NTEs

The bank faces a difficulty in adopting new and innovative lending technologies to meet the needs of micro exporters. Also, the bank does not have dedicated staff knowledgeable in NTEs and as such have no tailored programmes for that sector.

5.2.10. PERFORMANCE RISK ASSESSMENT IS NOT DONE ON EXPORT CONTRACTS

The bank does not assess whether exporters can execute their export contracts (performance risk assessment). They rely on their existing lending policy, which is basically about lending on collateral, to make loan approval decisions. A positive performance risk assessment on an export contract can improve loan acceptance rates to non traditional exporters.

5.2.11. EXPORT FINANCE SCHEMES HAVE FAILED TO SUPPORT NTEs

Export finance schemes have failed to support micro exporters mainly because of delays in processing export guarantee funds and the fact that banks prefer to lend their own funds instead of export guarantee funds.

Majority of non traditional exporters are approved for export finance from export guarantee schemes but the funds are not disbursed timely. This is due to the long process involved in obtaining all approvals for loans to be disbursed. Guaranteed loans have to be approved by the bank and then the board of the guaranteeing institution.

5.3. CONCLUSIONS

From the key findings, the following conclusions are drawn:

The study has demonstrated that small non traditional exports sector's quest to access export finance is not trouble free but is faced by many obstacles. Some of these obstacles are associated with the exporters' own internal weaknesses, while others relate to external factors.

Lack of collateral is the most significant factor limiting NTEs access to export finance. The financial institution requires collateral in land and buildings to extend credit. However, majority of these exporters do not have land and buildings to pledge as collateral for loans.

Results show that high cost of borrowing is the second most important issue limiting access to export finance. The bank fails to perform individual lending risk analysis and adopts a portfolio approach for all SMEs.

The internal challenges facing the non traditional exports sector's access to finance apart from lack of collateral are a lack of credit profiles and histories, and inadequate financial records. Exporters also fail to take advantage of much cheaper guarantee funds from government and other development institutions.

The study uncovered a number of issues and shortcomings of the bank that limits access to finance for exporters. Results suggest that;

The bank perceives lending to non traditional exporters to be high risk business with high related costs. This perception influences the bank to extend only short term facilities to them.

The bank has no special lending policy for the non traditional exports sector. Banks in Ghana need to adopt new and innovative lending technologies to meet the needs of micro exporters.

The study also reveals that guarantee finance schemes have failed to increase the flow of export financing to the non traditional exports sector mainly because the processing of export guarantee funds takes too long and funds are often disbursed when the monies are no longer needed.

There is a perception that banks prefer to lend their own funds instead of export guarantee funds. The study also reveals appreciable awareness but low usage levels of the various financing initiatives among non traditional exporters.

5.4. RECOMMENDATIONS

Based on the conclusions of findings of the study, the following recommendations are made to improve access to finance for micro exporters, enhance the Bank's delivery of credit facilities to exporters, and to address the problem of low usage of export guarantee schemes.

Where possible, exporters should negotiate prepayment from their buyers so that they can receive some or the entire payment amount upfront.

For the micro exporter, the decision to finance an export contract is something to consider as soon as a firm order is received. Exporters need to consider what their cash flow needs will be throughout the contract, from initial costs to shipping and final delivery. Exporters should be aware of the many financing options open to them so that they choose the most acceptable one.

Converting some or all of the exporters' accounts receivable into cash can also be done through invoice discounting or export factoring. Invoice discounting involves selling unpaid invoices (or accounts receivable) to a bank or other financial institution for immediate cash advances. It is suitable for short-term export sales with payment periods of less than 180 days. Factoring is selling accounts receivable on an ongoing basis to a factor who can be a bank or a specialised factoring firm. The factor then manages your accounts receivable ledger and collects your debts. Factoring is particularly suited to short-term export sales with payment periods of up to 180 days.

Exporters should be able to include their export accounts receivable as security for a secured loan, but this will depend on the bank's assessment of non-payment risk of the transaction.

This can reduce collateral requirements, and provide safeguards for the credit delivery system.

Even when collateral is required, the bank should use more flexible definitions of what constitutes collateral. For instance, individual loans can be backed by guarantees from peer group members. Financial institutions should undertake loan analysis that focuses on NTEs ability to pay (cash flow), with less emphasis on collateral.

Credit analysis should focus on exporters' ability to pay, which is assessed primarily through cash flow analysis. The bank should focus on training loan officers on this aspect of credit analysis, which may include cash flow lending and credit analysis.

One way to overcome the high cost to lenders of directly screening and monitoring clients is through the establishment and use of credit bureaus as third party information providers. Credit bureaus are standard practice in most developed countries and are gradually becoming more common in Ghana. Credit bureaus are proven to decrease the cost of lending to SMEs by providing reports on the exporters' loan repayment histories. This allows lenders to use information on how borrowers have met their past loan obligations. They also provide an incentive for borrowers to repay loans promptly, as late payment to one lender can result in an inability to obtain future loans from other lenders.

Financial institutions should introduce appropriate decision-making and control mechanisms supported by management information systems and information technology to help manage and administer the loan portfolio. Banks should also be encouraged to provide larger loan amounts and longer terms for well-performing borrowers.

Transaction costs are lowered in several ways. Banks can contract loan officers through employment agencies on a temporary basis for the micro non traditional enterprises in order to keep fixed costs low while it experimented with a new “product line”.

Banks can learn the lending and pricing strategies that will allow them to compensate for the high transaction costs of making many small loans and adopt risk management techniques commensurate with the higher risk profiles of the non traditional exports sector. These consist of providing small, uncollateralized working capital loans; promising access to larger amounts for longer terms based on repayment performance; and permitting small savings accounts that are safe, convenient, and flexible in terms of withdrawal. This will also help the exporters to build credit history with the financial institution. All successful microfinance banks apply this basic model, and this is one of the key lending innovations that can be applied to NTEs finance.

With good record keeping and proper financial accounting, NTEs can provide essential information for loan documentation. Information transparency and disclosure can be viewed as evidence of adequate management of NTEs. Given that the data and information required in a loan application is not too extensive, this information disclosure will notably help to broaden credit access.

There is a need to build capacity of non traditional exports through management training, business and strategic planning, marketing, accounting and technology upgrading programmes.

Banks should at least have designated officers for issues of NTEs finance so that the exporters can feel that the bank is interested in their sector and will pay more attention to it. These designated bank officials should be trained to understand NTEs business operations.

Banks should monitor loans through site visits timed to coincide with clients' repayment schedules and provide clients with incentives for timely repayment. Close relationships with NTEs can encourage them to make loan repayments.

Loan officers' incentives should be tied to loan portfolio performance incentive structures. Loan officers should be held accountable for their institution's relationship with a client throughout the life of the loan, including analysis, disbursement, monitoring, and repayment. Loan officers are paid performance-based salaries, with their compensation being a function of productivity and portfolio quality.

Banks should place a premium on realistic assessments and in-depth knowledge of non traditional exporters and their businesses through site visits by loan officers throughout the loan period. This doorstep banking approach can help them to understand their clients risk profiles. Assets pledged as loan security may then become a secondary consideration compared with loan officers' recommendations in terms of credit approval.

Banks should adopt relationship lending to service the non traditional exports sector. The key characteristic cutting across developing country commercial banks applying microfinance principles to MSME finance is that they have focused on relationship-intensive banking rather than more traditional transactions banking, to use Berger and Udell's (2005) terminology. The relationship lending model is based on qualitative information with an emphasis on the character and reliability of MSME owners gathered from informal sources such as suppliers and community leaders. The transactions lending approach is based

primarily on hard quantitative data that can be observed and verified at the time of credit origination: financial ratios calculated from audited financial statements, credit scores assembled from data provided by credit bureaus, or valuation of hard collateral.

Non traditional exporters should be encouraged to source funding from guaranteed finance schemes. Future schemes should consider linking the commercial bank with pools of grant funding so that the banks do not feel like shifting from their original priority and/or comfort areas of operation.

EDIF should be converted into Eximbank Ghana. The funds presently received by EDIF will serve as a continuous source of injection into this bank, which may make losses but should be encouraged to endeavour to cover its costs. The Bank will have at least two divisions, an Export Credit Division and Export Guarantee and Insurance Division.

The use of designated financial institutions should be abolished with the establishment of the Eximbank. The bank through its Credit Guarantee Division should encourage other banks in the country to provide financing to the export sector in designated products and services and at agreed rates of interest and then apply to the Eximbank for refinancing.

The broad goal of NTEs policy is to accelerate economic growth and in so doing alleviate poverty. While there are many developmental constraints on the NTEs sector, bridging the financing gap between NTEs and larger enterprises is considered critical to economic growth. To assess the effectiveness of schemes for promoting NTEs finance, it is assumed that an effective SME financing scheme meets the following criteria:

(a) Provides opportunities for NTEs to meet their financing needs

(b) The scheme is sustainable in the sense that it must maintain the profitability of the enterprise. Schemes that focus on economic development only may find it difficult to resist investments that provide immediate jobs or revenues but are not sustainable in the longer run.

In many cases, government assistance in export financing for small and medium-sized businesses can increase an exporter's options. Governments should therefore seek to work with financial institutions to help alleviate challenges faced by non-traditional exporters in their quest to access finance.

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APPENDICES

Appendix A

Interview guide for bank

1. How do you finance non traditional exporters?

2. Do you always require collateral for export finance?

3. What kind of collateral do you require?

4. Are non traditional exporters able to meet your requirements?

5. Do you perform any risk analysis on individual export loan applications?

6. What kind of facilities do you give non traditional exporters?

7. What is the duration?

8. What are the interest rates?

9. Are these rates different from those given to larger, well established SMEs?

10. How profitable is business with non traditional exporters?

11. Is loan repayment always on schedule?

12. What is the default rate?

13. What do you do when an exporter defaults on repayment?

14. Do you consider their business to be risky? Why?

15. Do you participate in development financial institutions guarantee schemes?

16. Which scheme do you participate in?

17. Do you employ different lending methods for non traditional exporters as compared to bigger companies?

18. Do you have expertise in the non traditional export sector?

19. What in your view are the main factors that will restrain you from lending to non traditional exporters?

Appendix B

Questionnaire for exporters

The objective of this questionnaire is to obtain information on the challenges of export finance facing non traditional exporters in Ghana. It is in partial fulfilment of an award of Commonwealth Executive Masters in Business Administration (CEMBA) at the Kwame Nkrumah University of Science and Technology (KNUST). This research project will assist in trying to gain a better understanding of the problems Ghanaian non traditional exporters experience in their effort to access finance.

Your participation is needed and greatly appreciated. By answering this questionnaire you will be contributing to a better understanding of this intervention. Be assured that all information you provide will be treated in the strictest confidence.

Section A: Background of NTEs businesses

1. How many years have you been in the export business?

(a). Less than 4 years [ ] (b).4-8 years [ ] (c) Over 8 years [ ]

2. In which economic sector will you consider your business?

(a) Apparel.. (b) Shea.................................. (c) Cashew................

(d) Handcraft..................................... (e) other (specify)...

3. How many employees do you have in your establishment? ....

4. Do you keep proper accounting records? Yes............................. No.............................

5. Do you prepare financial statements for audit? Yes....................... No.........................

6. How often? (a).Monthly....(b).Every 6 months.....(c) Yearly......(d) Occasionally...........

7. Do you use the services of an auditors?. Yes............................ No..............................

8. What is your annual gross turnover?

Section B: Accessing finance

9. How do you raise finance for your export business?

(a) Own savings... (b) Family and friends...................................

(c) Commercial banks................................ (d) Retained earnings...................................

(e) Export guarantee schemes...................... (f) Advance payments..................................

10 Did you apply to Ecobank for any credit facility between Jan. 2009 and Dec. 2011?

Yes..................... No...................

If No, why not?...

11. Were you able to meet all of the bank's requirements for the facility?

Yes............................. No..................................

12. Which requirement(s) did you meet?

....

....

....

13. Which requirement(s) were you not able to meet?

....

....

....

14. What purpose will the facility be used for?

(a).To buy raw materials............................ (b).To pay salaries.......................................

(c) To buy equipment................................ (d)other (please specify) ....

15. Were you successful with the application? Yes...................... No............................

If not, why? (a).Lack of collateral..

(b).Lack of adequate financial records....................................

(c) Lack of credit history..

(d) No export contract...

(e) Other...

16. Were bank staff helpful during the application process?

Yes... No...

17. What are some of the difficulties you faced during the application process?

....

....

....

Section C: Constraints in accessing finance

18. What facility did you receive?

(a).Overdraft... (b).Bank loan..

(c).Export guaranteed loan....................... (d) Other...

19. Did you receive the facility on time? Yes....................... No.............................

If No, why do you think the facility delayed?..

20. Did you have any difficulties in repayment? Yes.................. No.......................

If so, why?...

....

21. During your interaction with bank staff, do you think they understand your business?

Yes....................... No...............................

Why? ....

....

22. Is it your first time applying for such a facility with the bank?

Yes...................... No.................................

23. Did you apply to another bank for export credit facility between Jan. 2009 and Dec. 2011?

Yes..................... No.................................

If No, why not?...

....

24. Have you applied to other financial institutions for export finance in the past?

Yes....................... No..................................

25. Were you successful? Yes.................. No.......................

26. Have you heard about export finance guarantees?

Yes..................... No...................................

If Yes, which ones?...

....

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....

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27. Do you find them helpful to your business? Yes................. No.....................

Why? ....

....

....

28. Have you applied for such a facility?

Yes....................... No.............................

Why?...

....

29. Which of the following do you consider to be the main factors hindering you from obtaining export finance? Please list the most important factor first using numbers 1-5.

(a) High bank interest rates. ……………………………………………………

(b)Bank's collateral requirements…………………………………………………

(c) Ability of bank staff to inform and assist you..

(d) Lack of knowledge about available export assistance………………………....

(e) Cumbersome loan application procedures...

30. What in your view can be done to improve access to finance for small exporters like you?

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Thank you for participating in this research intervention.