

**AKENTEN APPIAH-MENKA UNIVERSITY OF SKILL TRAINING AND  
ENTREPRENEURIAL DEVELOPMENT**

**EXPLORING CHALLENGES TO ACCESSING FINANCE BY SMALL AND  
MEDIUM SCALE ENTERPRISES IN GHANA**

**KWAKU OWUSU ANSAH**

**MASTER OF BUSINESS ADMINISTRATION (ACCOUNTING)**

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**KWAKU OWUSU ANSAH**

**(7211320008)**

**Thesis submitted to the Department of Accounting Studies Education, Faculty of  
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partial fulfillment of the requirements for the award of Master of Business  
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**SEPTEMBER, 2023**

## **DECLARATION**

### **CANDIDATE'S DECLARATION**

I, **KWAKU OWUSU ANSAH**, the undersigned do hereby declare that this research work is the result of my own original research and that no part of it has been presented for another Degree in any University. However, all sources of borrowed materials have been duly acknowledged.

SIGNATURE:.....

DATE:.....

### **SUPERVISORS' DECLARATION**

I hereby declare that the preparation and presentation of this thesis is in accordance with the guidelines on supervision of thesis laid down by the Akenten Appiah-Menka University of Skills Training and Entrepreneurial Development.

SUPERVISOR'S NAME: **MR ERIC EFFAH SARKODIE**

SIGNATURE:.....

DATE:.....

## **DEDICATION**

I dedicate this work to my family for their prayers and support, my friends, colleagues at the Akenten Appiah-Menka University of Skills Training and Entrepreneurial Development and to all my loved ones.

## **ACKNOWLEDGEMENTS**

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# TABLE OF CONTENT

<b>CONTENT</b>	<b>PAGE</b>
DECLARATION .....	iii
DEDICATION .....	iv
ACKNOWLEDGEMENTS .....	v
TABLE OF CONTENT .....	vi
LIST OF TABLES .....	ix
LIST OF FIGURES .....	x
ABSTRACT.....	xi
<b>CHAPTER ONE: INTRODUCTION.....</b>	<b>1</b>
1.1 Background of the Study .....	1
1.2 Statement of the Problem.....	2
1.3 Objectives of the Study.....	4
1.4 Research Questions .....	4
1.5 Significance of the Research.....	4
1.6 Limitation on the Study .....	5
1.7 Delimitations.....	5
1.8 Organization of the Study .....	5
<b>CHAPTER TWO: A REVIEW OF LITERATURE .....</b>	<b>7</b>
2.1 Overview.....	7
2.2 Review of Theory .....	7
2.2.1 The Theory of Pecking Order .....	7
2.2 Theory of Finance Growth.....	8

2.3 Review of Concepts .....	9
2.3.1 The idea behind SMEs .....	9
2.3.2 SMEs in Ghana .....	11
2.4 SMEs: Their Significance and Importance .....	12
2.4.1 Ghanaian Small and Medium-Sized Enterprise Financing .....	13
2.4.2 Elements Impacting SMEs' Financing Access .....	17
2.4.3 The Challenges Financial Institutions Face While Lending to SMEs .....	30
2.5 Review of Empirical Literature .....	34
<b>CHAPTER THREE: METHODOLOGY.....</b>	<b>42</b>
3.1 Summary .....	42
3.2 The Research Design .....	42
3.3 Population .....	42
3.4 Sampling Procedures .....	43
3.5 Number of Samples.....	43
3.6 Data Collection Instrument.....	43
3.6.1 Research Instrument Validity and Reliability .....	44
3.7 Data Collection Technique.....	44
3.8 Data Processing Method .....	45
3.9 Moral Perspective .....	45
3.10 Summary .....	45
<b>CHAPTER FOUR: RESULTS AND DISCUSSION.....</b>	<b>47</b>
4.1 Synopsis .....	47
4.2 Findings.....	47
4.3 Talking Points .....	60

<b>CHAPTER FIVE: OVERVIEW, END AND SUGGESTIONS .....</b>	<b>63</b>
5.1 Overview .....	63
5.2 Recap of Results .....	63
5.3 Summarization .....	64
5.4 Suggested Actions .....	65
5.5 Restrictions on the Research .....	67
5.6 Ideas for Additional Research .....	67
<b>REFERENCES.....</b>	<b>68</b>
<b>APPENDIX.....</b>	<b>76</b>

## LIST OF TABLES

Table 4.1: Respondents' Gender Distribution .....	48
Table 4.2: Age Distribution of Respondents.....	48
Table 4.3: Highest Educational Qualification of Respondents .....	49
Table 4.4: Nature of Business .....	50
Table 4.5: Number of Years in Business .....	50

## LIST OF FIGURES

Figure 4.1: Primary Financing Source for SMEs.....	51
Figure 4.2: Alternative Sources for SME Funding .....	52
Figure 4.3: Have You Ever Used a Bank to Get Credit or Financing?.....	53
Figure 4.4: Bank Loan Application Approved .....	54
Figure 4.5: The Bank's Reasons for Denying Loan Approval.....	54
Figure 4.6: Difficulties SMEs Face in Obtaining Bank Financing.....	55
Figure 4.7: Types of Barriers SMEs Face to Bank Financing .....	56
Figure 4.8: SMEs in the Sekyere East District are Affected by Difficulties in Obtaining Finance .....	57
Figure 4.9: The impact of financing access constraints on small firms in the Sekyere East District .....	58
Figure 4.10: Solutions for Overcoming Obstacles in SMEs' Financing Availability .....	59

## **ABSTRACT**

The purpose of the study was to explore the challenges to accessing finance by small business operators in Sekyere East District of Ashanti Region, Ghana. The specific objectives of the study were to; assess the sources of funding for small businesses in Sekyere East District, examine the challenges faced by small businesses in Sekyere East District in accessing funds from Banks and assess the effect of barriers to access to finance on small businesses in Sekyere East District. The researcher adopted a descriptive design for the study. The target population of this study comprised ten (10) different SMEs engaged in different types of business in Sekyere East District. A simple random sampling technique was used to select one-hundred (100) respondents for the study. The study adopted the questionnaires as the main research instruments used in collecting primary data. Findings revealed that revealed the owners of SMEs themselves, friends, family, business partners, financial institutions, credit unions and the various religious institutions as the main source of finance for SMEs in the Sekyere East District. Findings also revealed high lending rates, the collateral requirements of the Bank, the bureaucratic or sometimes cumbersome processes involved in loan application as the challenges faced by SME operators in the Sekyere East District in accessing finance from the Banks. Further findings revealed that barriers to access to finance of small business in Sekyere East District tends to limit the number of people to be employed by these SMEs. It further limits the business expansion potentials of small business operators in Sekyere East District. It was therefore recommended that financial institutions like the Banks reduce their interest rates for loans to SMEs, make procedures for loan application for SMEs less cumbersome and also make collateral security requirement flexible for SMEs.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Globally, the small and medium-sized enterprise (SMEs) sector is commonly credited with driving economic growth and creating jobs. SMEs, or small and medium-sized businesses, are essential to the generation of revenue and jobs. Strong small enterprises, or SMEs, are essential to the expansion of any economy and hold the key to alleviating many of society's problems, including unemployment (Marfo-Yiadom & Agyei, 2011). It is impossible to exaggerate the importance of SMEs to the Ghanaian economy; they are the primary source of income for the majority of households, which helps to lower poverty.

According to Donkor (2015), the government of Ghana being aware of the tremendous contributions of the SMEs to the economy, has put in various efforts to improve the sector and help reduce the various challenges that face them and be able to tap into its numerous potentials. Despite support provided by the Ghana government, SMEs still face challenges. The SME sector continues to be plagued with a myriad of challenges such as unstable government policies, gross under capitalization, high operating costs, lack of clear cut government support and assistance, and difficulty in assessing credit from financial institutions and banks (Boateng, 2015). The situation is even dire in developing countries like Ghana, where access to and cost of credit is so prohibitive. The thrust of this study therefore was to find out how SMEs are able to finance their activities and stay in business and also explore the challenges faced by SMEs with regards to the issue of financial accessibility in Ghana.

## **1.2 Statement of the Problem**

It has been observed that approximately 85% of manufacturing jobs in Ghana are created by small businesses, which are considered a defining aspect of the country's production landscape (Amoah and Amoah, 2018). Additionally, it is estimated that SMEs make up 92% of all businesses in Ghana and produce around 70% of the GDP (Boateng, 2015). Given their economic importance in African nations, SMEs must thus play a critical role in promoting growth, creating jobs, and assisting in the reduction of poverty. SMEs own around 90% of businesses and more than 50% of jobs worldwide (Boating, 2015). In developing nations, formal SMEs can account for as much as 40% of GDP (World Bank data, 2022).

That being said, SMEs face numerous obstacles that make them inefficient and unsuccessful. For instance, Banaeianjahromi & Smolander (2016) found that the majority of Ghanaian SMEs lament the absence of financing facilities, citing it as a hindrance to their business operations. A few SMEs also lament the lengthy banking processes and challenges they face when applying for bank loans. Other people also voiced complaints over the banks' exorbitant interest rates. Approximately 38% of Ghanaian SMEs surveyed by Kusi (2015) stated that credit was a restriction. Furthermore, according to Aryeetey (2010), roughly two thirds of micro enterprise loans in Ghana are likely to be denied, and only half of SMEs' applications for formal financing, such as bank loans, have any chance of being accepted. Most SMEs also lack formal training in their business lines.

According to UNCTAD experts, banks view small and medium-sized enterprises (SMEs) as high-risk borrowers because of their low capitalization, lack of assets, susceptibility to market swings, and high fold-up rates. High information asymmetry

resulting from SMEs' incomplete financial statements and absence of accounting records, which makes it challenging for lenders and investors to assess the creditworthiness of possible SME proposals, is another major issue among them. Technology advancements also play a significant role in this. The study is conducted on some of SMEs in Sekyere East District in Ashanti region.

These issues are still present. For a while now, banks in Ghana have been under pressure to set up SME departments in order to provide services that cater for the needs of the SME sector and address the difficulties these businesses face. However, concerns have been raised regarding the quality of support these banks provide to these businesses, raising the question of what the impact of SME banking in Ghana is. The goal of this study is to determine the relative effects of the funding choices that SMEs in Ghana have access to and how much these options help or hinder the expansion of these businesses. In particular, by employing business level data on Ghana to investigate financing choices and how they may affect firm growth, this study contributes to the growing body of research on microfinance and the rise of indigenous entrepreneurship. By focusing just on SMEs enterprises, we expand on the literature. The significance of SMEs to the growth of developing nations (de Soto, 1989; Charnes, 2000) serves as the driving force behind this, particularly in Ghana, where the present industrial policy aims to encourage indigenous entrepreneurship among other things. Our findings demonstrate through a variety of methods that bank financing fosters business expansion. Even when we account for other company characteristics, our results remain strong. Additionally, we note that large businesses are more affected by bank financing than are smaller businesses. Due to their higher

likelihood of formalizing their operations, these sizable SMEs considerably increase government revenue (de Soto, 1989).

### **1.3 Objectives of the Study**

This study's main objective was to investigate the obstacles faced by small business owners in Ghana's Ashanti region's Sekyere East district when trying to obtain financing.

The study aimed to specifically:

Evaluate the funding sources available to small enterprises in the Sekyere East District.

Look at the difficulties small companies in the Sekyere East District have getting bank financing.

Evaluate how Sekyere East District small enterprises are affected by financing access obstacles.

### **1.4 Research Questions**

The following research questions were addressed in the study:

Where can small enterprises in Sekyere East District get funding?

What obstacles must small companies in Sekyere East District overcome in order to obtain bank financing?

How do the obstacles to financing affect small enterprises in the Sekyere East District?

### **1.5 Significance of the Research**

The results of this study will help Ghana's small business sector grow by identifying barriers to financing small enterprises and helping to adopt appropriate solutions that will increase their chances of success. First off, the government might use the study's

findings to develop policies aimed at removing funding barriers for SMEs, particularly those related to financing access. Lending institutions will also use the study's conclusions as a guide when it comes to addressing the financial needs of SMEs in Ghana. The study will also provide guidance to SMEs regarding elements that will increase their likelihood of obtaining outside finance from financial institutions. As such, the research will add to the body of knowledge already available on the financial accessibility of SMEs in Ghana. The study holds significant value for scholars and investigators, since it offers pertinent metrics that may direct future investigations and serve as a foundation for further research.

### **1.6 Limitation on the Study**

The study's purview was limited to small businesses in the Sekyere East District with five to nineteen employees. As a result, the results could not be broadly applied; rather, they were to be interpreted in light of the specific context of the SMEs in the study area.

### **1.7 Delimitations**

The study was delimited to small business enterprise having from 5 to 19 employees in the Sekyere East District. Hence, the results were not generalized but its findings would be placed in the relevant context of the SMEs within the geographical location studied.

### **1.8 Organization of the Study**

The study is organized into five chapters. Chapter one is the introduction of the study and it includes the background description, problem definition, objectives of the study, research questions, significance of the study, limitations and delimitations of

the study. Chapter two is the literature review of the study. This reviews relevant literatures of authors and other researchers relating to SMEs. Chapter three deals with the research mythology which looks at methods adapted in carrying out the study. Chapter four focuses on data presentation and analysis while chapter five present a summary of the study, findings and conclusions drawn from the findings and recommendation of the study.

## **CHAPTER TWO**

### **A REVIEW OF LITERATURE**

#### **2.1 Overview**

The relevant literature and theoretical ideas on the financial accessibility of SMEs are covered in this chapter. The section is divided into three (3) sections: the theoretical review, the conceptual review, and the empirical literature review. The ideas of financial access are the main topic of the theoretical review. While the empirical literature analysis examines the work of other researchers on the financial accessibility of SMEs in different jurisdictions, the conceptual review focuses on the study's main ideas. Background information on the research issue and insights were gained from the review of related literature.

#### **2.2 Review of Theory**

The paper examines the theoretical underpinnings of financial access. Pecking order theory and financial growth theory are these theories.

##### **2.2.1 The Theory of Pecking Order**

The corporate finance theory serves as the theoretical foundation for studies on the financing of SMEs. The information asymmetries problem (Only the firm manager is aware of the true value of the company; the market is not aware of the firm's true income distribution) and the pecking order theory of finance hypothesis. Given that investors anticipate management will only issue shares in situations in which they deem it to be excessively valued, this suggests that the markets will see a fresh stock offering as a negative signal, which will cause the share price to drop. Extending this theory, Myers (1984) claims that companies will prioritize internal funds first,

external debt second, and external equity last when meeting their investment and finance needs.

Many supply-side and demand-side arguments for why businesses favor debt over equity and internal finance sources over external ones are found in the literature. According to Stiglitz and Weiss (1981), undercapitalization occurs when SMEs are unable to secure the loan financing they need at market interest rates, hence creating a supply side constraint. This is believed to be the result of underinvestment because equity clears the market. The basis of demand-side methods is the well-established fact that Small and medium-sized business (SMEs) owners are averse to giving up ownership of their companies. Small and medium-sized business owners prioritize funding their needs through preferred funds, short-term borrowing, long-term debt, retained earnings, and personal savings, according to Ciaran Macan and Lucey (2006).

The issue of funding shortage has been brought up often in studies on small business finance (Peer & Wilson, 1996, Laitinen, 1992). Additionally, it is noted that restricted access to financial markets seems to constrain small firm financing to internally produced money (Gopinath, 1992). Nonetheless, the amount of internally generated capital that may support the expansion of SMEs that highlight issues has a limit. The requirement for alternate funding sources to support these businesses' growth.

## **2.2 Theory of Finance Growth**

According to Berder and Udell's (1998) financial growth hypothesis, when a small business expands, its financial options and needs change as it gains experience and becomes less opaque. Additionally, they propose that enterprises are positioned along smaller, younger, and more opaque companies are located closer to the left end of the

size, age, and information continuum, suggesting that they are reliant on insiders, trade credit, and/or angel investors for their early funding. The growth cycle model states that when a business grows, it will probably be able to secure long-term funding or public equity because it will be older, more established, and more open with its information. It is also probable that it will have access to venture money as it progresses through various growth phases.

Financing-related issues predominate in the literature on small businesses. According to a number of empirical research, insufficient funding is the main reason why SMEs fail (Owilalah, 2007). According to empirical study, SMEs fail primarily due to a lack of funding (Owilalah, 2007). Since small businesses rely more on the unofficial financial sector, which limits the kind of funding available to them, their capital structures differ significantly from those of large businesses. Due to their restricted funding choices, small businesses are in a unique position where decisions about capital structure are made. According to Berger and Udell (1998), small businesses are generally acknowledged to have distinct ideal capital structures and to be financed by a range of sources at different phases of their organizational lifetimes. Studies have discovered that specific characteristics of small businesses affect the kinds of funding available to support the operations of the businesses (Romano, 2001).

## **2.3 Review of Concepts**

### **2.3.1 The idea behind SMEs**

There has always been disagreement over how to define a SME. The term "capital" has been defined differently by various organizations and nations based on factors such as headcount, sales, financial resources, labor skill, rate of turnover, size of the company, status legally and the method of manufacturing (Mylenko, Ardic, & Saltane,

2012; Abor & Quartey, 2010; Lopez-Gracia & Aybar-Arias, 2000). Since SMEs vary widely in terms of employment, sales, and capitalization, they make up a vibrant and varied set of businesses across the globe. Three standards were put forth by the Bolton Committee in 1971 to categorize small businesses: their market share is comparatively modest; they are run without a formal management structure by the owner or a portion of the owner; they are independent and not a part of any major corporation, and they are run by the owner or a co-owner without the need for a formal management structure (Bolton & Firms, 1971).

The definition based on staff count is the most appropriate (Ayyagari, Demirguc-Kunt and Maksimovic, 2007). A number of thresholds have been proposed by organizations like the European Commission (EC), UNIDO, and OECD to classify SMEs based on employment or employee count. Furthermore, the World Bank and the Inter-American Development Bank frequently classify SMEs based on assets, average yearly sales, and the number of employees; the criteria vary by country and depending on the size of the business and economic groups.

It is clear that different industries and countries define small and medium-sized enterprises (SMEs) differently, and that different national statistical systems have varying figures. Ogboru (2007) asserts that classifying a business as large, medium, or tiny is a qualitative and subjective decision. Thus, it seems that researchers' operational definitions depending on national contexts are typically the rule.

### **2.3.2 SMEs in Ghana**

The term "small-scale business" has been defined in a number of ways in Ghana, but the number of employees is the most widely recognized definition. The Ghana Statistical Service (GSS) categorizes businesses with fewer than ten employees as small-scale organizations in its industrial statistics, and businesses with ten or more employees as medium- and large-sized enterprises. The Regional Project for Enterprise Development the Ghana Manufacturing Survey Paper, cited in (Abor & Quartey, 2010), offers a more recent classification which categorizes Ghanaian businesses as follows:

Small business with 5–29 workers

Medium-sized business with 30–99 workers

Large company with at least 100 workers.

Alternatively, the National Board for Small Scale Industries (NBSSI), an entity entrusted with promoting the growth and development of SMEs in Ghana, applies both the fixed asset and the employee criteria. As per the NBSSI, a small firm has employees between six and 29 and fixed assets of \$100,000; on the other hand, a medium-sized business has employees between thirty and ninety-nine and fixed assets of \$1 million or more (Mensah, 2004 cited in Quainoo, 2011).

It is clear that SMEs, especially microbusinesses, make up the majority of businesses in Ghana, regardless of the criterion used. This study uses the World Bank's enterprise survey's conventional definition of SMEs, which is divided into three categories: small businesses with five to 19 people, large companies with more than 99 employees, and medium-sized companies with 20 to 99 employees.

## **2.4 SMEs: Their Significance and Importance**

Ghana's social and economic development is significantly influenced by small and medium-sized enterprises. The following are only a few advantages that SMEs have for the country's economy and for society at large:

SMEs are seen as the key players in helping emerging nations accomplish their growth goals. They have the ability to provide jobs and revenue in many developing countries (OECD, 1997). Approximately 70–80% of Ghana's working population is employed, with nearly all of them working in the country's rural agriculture industry.

SMEs seem to have an advantage over their large-scale competitors in that they can more easily adapt to market situations thanks to their widely skilled technologies. They are adaptable, which allows them to endure challenging economic times.

According to Kayanula and Quartey (2000), they also enhance the effectiveness of domestic markets and efficiently utilize limited resources, which promotes long-term economic growth.

SMEs have lower capital costs related to employment creation since they employ more people than larger companies.

SMEs either manufacture valuable things or provide services to other businesses and/or consumers, which adds to the nation's output. This includes supplying goods and, to a lesser degree, services to overseas customers, which boosts overall export performance.

SMEs reduce social discontent and disturbances, particularly among young people, by creating employment opportunities for the local population, particularly the youth.

Smaller cities and rural areas are more likely to witness the success of SMEs. This contributes to slowing the migration wave toward big cities. A start-up's financing need should consider four crucial areas: setup expenses (expenses incurred prior to the

business commencing operations). launching a capacity investment (the fixed assets required by the company in order to start trading). Working capital is the stock that a business needs, including raw supplies and a contingency fund for payments from customers after sales begin. growth and development (such higher investments in capacity).

#### **2.4.1 Ghanaian Small and Medium-Sized Enterprise Financing**

Small and medium-sized businesses (SMEs) often bemoan the challenges they have in securing capital and the high cost of borrowing, which impedes their growth and competitiveness. Recent events in East Asia and Latin America lend credence to the idea that SMEs are more likely than larger businesses to be denied new loans during a financial crisis (World Bank, 2000). Due to the lack of competition in Ghana's banking sector, there isn't much pressure on banks to lend more money to their smaller clients. SMEs' access to the formal financial system is further restricted by the high risks and real or perceived processing costs linked to commercial lending to that market group. Lenders encounter several obstacles, such as inadequate legal protections and inefficient judicial systems, a dearth of reliable borrower data, trouble enforcing contracts, and an absence of appropriate risk management instruments (Hallberg, 1999).

Regulations pertaining to capital adequacy and supervision that penalize banks for lending to companies without traditional collateral sometimes exacerbate the problem. Small and medium-sized businesses (SMEs) have historically benefited from government support through the use of first-tier development banks, second-tier lending facilities facilitated by banks and other financial institutions, and portfolio

requirements on banks that are regularly raised through credit guarantee programs. In the past and even now, guarantees and subsidized interest rates are common. This partly stems from an assumption that SMEs are primarily hindered by the high cost of credit, despite data showing that SMEs are more concerned with loan availability than cost (Sakai & Takada, 2000).

The significance of state-owned banks in Ghana's financial markets may possibly have been reflected in the conventional strategy of subsidized credit. Expanding small businesses' access to financial services should be the primary goal of direct and subsidized lending programs, but thus far, this has not been the case. Rather, they impede the growth of long-term financial institutions and frequently encourage an attitude of "non-repayment" among businesses. Low rates of loan recovery force ex-post subsidies in lending programs to be even larger than planned. Credit subsidies also cause inefficiencies in the financial markets since they discourage companies from obtaining non-credit sources of capital. The old approach has not sufficiently addressed the major risks and transaction costs (real or perceived) involved with commercial lending to the small-scale segment of the market, leading to higher credit costs and banks' reluctance to serve SMEs (Sacerdoti, 2005).

The primary goals of a market-oriented strategy for improving SMEs' access to funding are lowering market risks and transaction costs, strengthening financial institutions' capacity to serve smaller clients, and increasing competition in the financial markets. The objective is to increase the number of financial institutions that think lending to SMEs can be profitable and, consequently, sustainable. Among the elements of this proposal would be lowering entry barriers through the evaluation of

prudential regulations and capital adequacy standards, which may not be appropriate for financial institutions catering to a smaller clientele. lowering the risks involved in providing loans to small enterprises, with particular attention to the regulations controlling contract fulfillment, collateral forfeiture and collection, and the use of mobile assets as security.

Enact the laws, regulations, and regulatory frameworks required to facilitate the development of innovative financial institutions and products, including venture capital, small equity investments, and leasing. promoting the creation of cutting-edge tailored lending solutions that reduce the costs associated with credit application, monitoring, and settlement. improving the ability of financial institutions to evaluate the creditworthiness of small and medium-sized businesses (SMEs) in an affordable manner, for example, by using credit scoring techniques; providing credit bureaus with information on the creditworthiness of potential borrowers; and helping SMEs create business plans and financial projections.

According to Okraku and Croffie (1997), the main sources of funding for SMEs in Ghana include the owners' personal savings, company income, and connections with family or friends. Their access to external credit is limited or nonexistent. Inadequate working and fixed capital are the results of this. These lead to an extremely low growth rate and a high rate of small business bankruptcies. The issues with regulations at the regulatory level include the high interest rates that banks charge, which make borrowing money from banks highly costly. Currently, Ghana's loan rate is at 29.5 percent. Banks were not sufficiently driven institutionally to lend to small businesses. Additionally, there aren't many loanable funds available to lend to the

industry. Concrete owners' equity and collateral are required by banks to serve as loan security. At the corporate level, SMEs lack a banking culture and procedures, are unable to provide adequate collateral security to back loans, and find it difficult to mobilize owner equity to meet bank lending requirements.

The application of a logical framework that connects activities and inputs to results and impact and precisely specifies the program's purpose might be beneficial for assessing the effect of intervention on the performance of SMEs. On the other hand, there is scant empirical support for many of the frequently cited arguments in favor of scale-based corporate support. Regardless of whether their activities stem from fact or fiction, governments in both developed and developing nations do step in to support SMEs. Their SMEs aid techniques frequently aim to combine efficiency objectives, such as increasing the productivity and profitability of the business or enterprises, with equity objectives, such as tackling social, ethnic, and gender inequality and reducing poverty. Governments frequently over-subsidize services that the market might offer due to the confusion generated by multiple aims (Hallberg, 1999). Furthermore, rather than addressing the root causes of market underdevelopment, direct lending and non-financial assistance to SMEs frequently serves as a stand-in for markets.

Therefore, provided their effects on market development balance their effects on market distortion, SMEs can be effectively supported by building markets for both financial and non-financial services. Consequently, this relies on whether the assistance fixes the fundamental issues limiting the market evolution. This emphasizes how important it is to start with a solid grasp of the composition and

operation of the current markets and to expand on the organizations and already-existing commercial or interfirm networks.

#### **2.4.2 Elements Impacting SMEs' Financing Access**

Many factors have been shown to affect SMEs' capacity to secure bank and other financial institution loans (Pandula, 2011). These factors include the company's size, age, location, and ease of access to reliable financial records.

##### ***Age of the company***

Several research have indicated a relationship between credit availability and firm age (Pandula, 2011). Long-term operation indicates that the companies are, at the very least, generally competitive. One could claim that reduced informational opacity corresponds with an older firm. The rationale is that because these companies have a well-established reputation or track record, the information needed by the lenders to review and process applications is easily accessible. However, because they haven't amassed enough assets, the new businesses are unlikely to match the banks' standards for collateral. In addition, this leaves their financial records devoid of information, which makes it challenging for lenders to evaluate the loan offers that new businesses have submitted.

Previous studies have shown that startups and relatively young organizations (those three years old or less) face particularly severe financial limitations. For example, (Aryeetey et al., 1994) assessed 133 enterprises in Ghana's diverse industries at the beginning of the 1990s, and 76 of them employed fewer than ten people. They found that whereas only 10% of new businesses in Ghana were successful in getting bank loans, older and medium-sized companies were three times more likely to get

financing than smaller companies. Levy (1993) conducted similar surveys in Tanzania and Sri Lanka and discovered that 80% of companies with 16 or more employees and In contrast to smaller companies with six to fifteen workers of a comparable age, which have a about fifty-five percent success rate, and companies with 5 or less employees, regardless of age, which have a success rate of less than 10 percent, companies with six or more years in existence are able to obtain bank loans.

### *Company size*

One of the most significant factors in the literature on credit availability is firm size. This applied to both developed and developing nations. Numerous studies have examined the fact that small and medium-sized businesses face greater financial constraints than do larger corporations. For instance, (Calomiris & Hubbard, 1990) observed that loan constraints are higher in smaller businesses. Earlier research has identified a number of reasons why small businesses have limited access to credit. First of all, small businesses struggle with information opacity, making it difficult for them to offer financial data (Binks & Ennew, 1996). Small businesses are typically owned and run by entrepreneurs, and many do not have audited financial statements. There is also no legal duty for small businesses to submit financial information on a regular basis. Smaller businesses also have fewer assets available for collateral.

One method banks employ to reduce perceived risk and moral hazard associated with lending is collateral. Collateral ensures that the borrower will repay the loan and that the bank will be protected in the case of a default. Younger and smaller enterprises are more likely to be required to provide collateral and to incur greater financing expenses, according to research by (Berger and Udell, 1998). Smaller companies carry a higher degree of risk since they fail more frequently than larger ones. For example, (Schiffer and Weder, 2001) looked at companies in several countries and

found that a company's size and the risk it could present to a lender were negatively correlated. On the other hand, (Lopez-Gracia & Aybar Arias, 2000) made the case that smaller businesses might restrict their own financial structure in order to prevent having to cede control of the company to others.

### ***Type of Ownership and Legal Position***

Due to the selection effect—which favors companies with ownership structures—and to guarantee sufficient funding, entrepreneurs mostly chose ownership arrangements for their businesses (Pandula, 2011). The ownership arrangements within the companies may affect the firms' capacity to obtain financing. For instance, prior studies have revealed that foreign-owned and listed companies have less financial hardship (Beck et al, 2006). (Storey, 1994) discovered that bank lending is influenced by legal status. He continues, saying that a company's starting status seems to be linked to a higher chance of receiving bank financing.

The nature of the business is one factor impacting the capital structure decisions made by Ghanaian SMEs, according per Abor (2008). The article discovered that financing was significantly influenced by the kind of company and its ownership structure. Regarding legal form, (Cassar, 2004) pointed out that incorporation may be interpreted by banks and other lenders as an indication of the formality and legitimacy of the company. Consequently, incorporated businesses appear to have a major edge over unincorporated businesses when it comes to obtaining outside funding. Restricted private firms are more likely to rely on bank financing, per Storey's (1994) research.

### *Sector of Industry*

One might also mention the industry sector as a factor influencing financing availability. Growing industry sectors may be given priority by lending banks (Pandula, 2011). Depending on the size of the project and cash flows, some industries are more likely than others to rely on outside funding (Pandula, 2011). Companies in some industrial sectors will require more funding to invest in buildings, machinery, manpower, equipment, and raw materials than enterprises in other industry sectors. Financial choices and capital structure are also explained by aspects of the industry sector in which a company works (MacKay & Phillips, 2005).

Abor (2007) looked at the impact of industry classification on the capital structure of Ghanaian SMEs and found some variations in the SMEs' funding preferences among industries. Abor (2007) went on to say that the construction, hotel and hospitality, and mining industries seem to rely more on long-term financing and less on short-term debt, whereas the wholesale and retail trade sectors employ more short-term credit when compared to manufacturing SMEs. Abor and Biekpe (2007) also discovered that Ghanaian businesses in the manufacturing or agricultural sectors are more bankable due to their larger capital and asset structures compared to their wholesale and retail counterparts.

Pandula (2011) makes the case that there is geographical variation in the cost and accessibility of finance, especially for small enterprises. Due to a variety of variables, bank funding options for small enterprises in rural locations may differ geographically. To begin with, there may be no banking institutions in these remote areas. There could not be many bank branches for small firms, and sometimes there might be just one, giving it monopolistic control in the neighborhood.

They might therefore be required to pay high interest rates on bank loans or adhere to covenants that include requirements for collateral and other things (Pandula, 2011).

Second, there's a chance that the bank branch managers working in these remote locations have less authority delegation. Loan rejection rates may be high or loan approval delays may occur for rural firms requesting loans since bank loans are reviewed and approved by head office staff who are not directly familiar with clients or projects located in rural areas. Thirdly, because small businesses in rural areas may offer less valuable assets as security and may have difficulty realizing these assets in the event of default, banks may be hesitant to lend to them (Pandula, 2011).

Nonetheless, there are conflicting opinions in the earlier research on this subject. Keeble (1990) looked into the growth barriers faced by rural and urban businesses in the UK and found that, with the exception of funding, the issues that both types of businesses face are largely the same. According to their analysis, the only noteworthy distinction between rural and urban enterprises is that the former feel more financial constraints. Based on studies conducted in Nova Scotia, Canada, According to OFarrel (1990). banks appear to be less eager to lend money to small enterprises in rural areas because they think it will be harder to sell the assets if the company fails.

According to Kumar and Francisco (2005), there is a significant variation in branch density between Brazilian regions. They contended that regions with high branch densities should facilitate physical access and reduce information asymmetry issues because they have a higher ratio of banks per firm. Additionally, these regions should provide easy access to credit for their constituent firms. Perry (1988) did not discover any concrete proof, though, that small businesses in New Zealand's rural areas have difficulties when trying to secure debt financing.

Tucker and Lean (2001) separated the firms into two groups, one comprising businesses in the north of England and the other grouping businesses in the south, in order to investigate the relationship between firm location and success in obtaining external finance. Although there is some indication that businesses in the south of England are more successful in obtaining term loans guaranteed by the Small Business Loan Guarantee Scheme, they concluded that there are no notable differences. But (Rand, 2007) found a difference of opinion.

He claims that credit is more likely to be obtained in rural areas than in metropolitan ones. He claims that most government bank loans is allocated to rural areas, suggesting that local governments usually have a vested interest in safeguarding these types of enterprises. These companies can bypass some of the financing constraints that exist in larger, possibly more global marketplaces because they are usually more focused on serving their local customers (Rand, 2007).

Some academics also make the contradicting claim that financing small enterprises is unaffected by the distance between lenders and borrowers. One theory that suggests a firm's capacity to secure external financing may also be influenced by its location in relation to banks (Berger & Udell, 2006). When it comes to obtaining external financing, particularly long-term debt, SMEs outside of big cities encounter more challenges than their urban counterparts. Similar to this, SMEs near their banks offer advantages in terms of relationships over their equivalent SMEs elsewhere (Fatoki & Asah, 2011; Abor, 2008).

### *Possessing an Audited Balance Sheet*

Bass and Schrooten (2005) came to the conclusion that even in cases when there is a long-term relationship between the borrower and the bank, comparable high interest rates result from a lack of trustworthy information. Having audited financial accounts is crucial in a circumstance such as this. A study conducted in 2008 by Tagoe, Anuwa-Amarh, and Nyarko looked at the connection between small and medium-sized businesses' information management procedures and their ability to obtain bank financing. Non-parametric correlation tests were used to evaluate the data, which were gathered using questionnaires that were given out by researchers. It was discovered that SMEs had easier access to bank financing when they maintain records and provide specific kinds of information.

For the purpose of obtaining loans from financial institutions, audited financial accounts are highly helpful. Before extending credit, banks frequently demand audited financial statements. For instance, Berry et al. (2002) discovered that when processing loan applications from small businesses, UK lenders give careful consideration to the risk associated with accounting information. Lending institutions might also provide cheap interest rates since audited financial statements lessen information risk. Put differently, lenders bear less risk when they see improved borrower trustworthiness as a result of audited financial accounts. However, due to a lack of appropriate financial documentation, the majority of SMEs in South Asia struggle to obtain financing from official financial institutions. The majority of companies in these nations frequently maintain multiple sets of books and do lack audited financial statements that adhere to trustworthy accounting guidelines.

However, because banks view these businesses as high risk borrowers, they ultimately wind up receiving loans at higher interest rates. As the foregoing explanation makes evident, a small and medium-sized enterprise's (SMEs) financial situation is generally better when it is audited by an external entity. Since the majority of SMEs develop in the unofficial sector, they are typically unable to provide banks with the basic data that banks need, such as contact information, legal documentation, and financial statements. Furthermore, for SMEs expanding in the formal sector, the quality of financial information transmitted to banks is impacted by the absence of accounting standards—or, conversely, the excessive amount of information mandated by the organization for the Harmonization of Business Law in Africa (OHADA) standards in the case of West and Central Africa—as well as the dearth of independent, trustworthy, and competent accounting firms (Kauffmann, 2005; IMF, 2006).

Furthermore, entrepreneurs may have an incentive to spread incredibly incomplete or even false information in order to avoid paying taxes. Lastly, banks typically lack the resources necessary to find out about the payment habits of their new customers. Credit bureaus are ineffectual or nonexistent. In this situation, the lack of formal lines of contact must be compensated for by informal channels of communication between banks and enterprises.

### ***Tangibility of Assets***

According to earlier studies, bank financing will be contingent on the availability of collateral for the loan (Storey, 1994; Berger & Udell, 1998). According to Johnsen and McMahon (2005), businesses with more intangible assets than tangible assets require less borrowing due to collateral facts, even when all other factors remain

constant. Compared to large enterprises, SMEs have less eligible collateral assets. This might have something to do with the stage of development the company is in.

### ***Firm performance***

Compared to larger organizations with a longer history, smaller firms may find it more difficult to purchase fixed assets in the early phases of their business due to lower retained profits. The capital constraints that small enterprises encounter are another factor contributing to their lower proportion of fixed assets. It is difficult for them to buy a big number of fixed assets due to the requirement to obtain large quantities of capital. Therefore, it is reasonable to anticipate a positive correlation between having access to credit and possessing suitable collateral assets.

Smaller businesses may find it more challenging to acquire fixed assets in the early stages of their business due to lesser retained profits than larger companies with a longer history. Another factor influencing small businesses' lower percentage of fixed assets is the capital constraints they face. Their inability to purchase a large number of fixed assets stems from the need to raise substantial sums of money. As a result, it makes sense to assume that having appropriate collateral assets and being able to obtain credit will positively correlate.

### ***Entrepreneur's Educational Background***

Higher educational attainment and corporate growth have been positively correlated in the past, according to study (Kozan, Oksoy & Ozsoy, 2006). Motivation among entrepreneurs is influenced by education (Smallbone & Wyer, 2000). Additionally, education strengthens one's capacity for communication, forethought, and exploration

(Dobbs & Hamilton, 2007). The ability to convince a banker during a customer interview and make a strong case for a loan while writing a loan proposal are positively correlated with these improved skills.

In particular, the impact of managerial education on loan availability has been studied in the past. For instance, a significant education effect was observed by Kumar and Francisco (2005) to explain Brazilians' access to financial services. The financial institution participants were questioned as part of the 600 SMEs in Britain, France, and West Germany that Watkins and Morton studied in 1982. They found that the participants were far more concerned with the owner's managing ability—which was ranked first in France and second in Britain and West Germany—than they were with the difficulty of adhering to new laws and regulations was ranked first in France and second in Britain and West Germany—than they were with the difficulty of adhering to new laws and regulations. On the other hand, compared to those without a formal academic background, entrepreneurs with college degrees are more likely to face financial constraints (Han, 2008).

Han (2008) explains that the reason behind this is that entrepreneurs with higher levels of education typically run and control larger companies, which are more likely to be subject to financial constraints. The other counterargument posits that persons with higher levels of education are inclined to view traditional loan concepts as high-risk, which in turn increases the likelihood of borrowing from formal financial institutions. It is also reasonable to believe that entrepreneurs with higher levels of education will possess superior managerial abilities and be better prepared to navigate the complex administrative processes of the credit system, so improving their status in the eyes of lenders.

### *Experience of Entrepreneurs*

Prior studies have discovered a favorable correlation between prior managerial experience and company expansion (Dahlquist, Davidsson & Wiklund, 1999). Storey (1994) went on to say that this was because the owner manager wanted to make more money than they did when they become independent contractors. Dobbs and Hamilton (2007) highlighted the beneficial impact of prior experience on the expansion of small businesses by putting forth the theory that owner managers with prior experience are more likely to steer clear of costly errors than those without it.

In a different study, Okurut, Olalekan, and Mangadi (2009) examine the variables that affect the way banks restrict credit to small and medium-sized enterprises (SMEs). They do this by utilizing data from the Central Statistics Office's 2007 Informal Sector Survey, which we supplement with our own survey of SMEs in Botswana's major cities and towns for the demand side and key informant interviews with the banks for the supply side. The Heckman Probit Model with sample selection was employed to calculate the factors that influence the likelihood that banks will restrict credit to SMEs. According to the study's findings, SMEs with more expertise are less likely to have banks restrict their access to financing.

The ability of SMEs to maintain accurate financial records, the performance of their bank accounts, and their capacity for profit-making are the factors that the banks consider when evaluating SMEs' experience. Banks must increase their efficiency in order to lower borrowing costs (i.e., interest rates) and loan processing times from the standpoint of SMEs. As a result, there will be more options for SMEs to grow and obtain bank financing, which will boost economic diversity, job creation, and household earnings.

Networking: Previous studies have highlighted the potential of networks to address issues related to market and resource scarcity. For instance, Curran et al. (1993) contend that networks assist in giving small businesses finance, knowledge, and guidance.

Using this theory to the banking industry, one could also contend that membership in trade, professional, or social organizations like societies, clubs, or chambers of commerce increases one's eligibility for bank loans. To help members improve a variety of skills and information, certain associations, like the Chamber of Commerce, host seminars, conferences, and industry visits. Workshops on project proposal preparation for banks and corporate financial management are occasionally held. Occasionally, managers and loan officers at local banks would be introduced to another member by an experienced and well-known association member; this might be the most efficient method for the bank loan officers to interview candidates and gauge the borrower's moral character. Additionally, members of these societies receive information about the many credit schemes that banks and other organizations provide. Occasionally, a member may be asked to serve as a guarantor by another member in order to support their application for a bank loan. Talavera, Xiong, and Xiong (2010) looked at the relationship between social capital and the financial roadblocks faced by entrepreneurs using aggregated data from over 270 small businesses. To the best of our knowledge, this issue has only been studied in one study based on the literature. The researchers' results show that the likelihood of getting a loan increases by 14.8% when a person is a member of a business organization.

Networking—also called external relations—of companies within trade associations, industry, and other associations, according to Levitt & March (1998), promotes information sharing and provides firms with an opportunity to gain from the

experiences of others in the sector. It follows that networking is a tool used by small business owner managers to access or enhance their awareness of funding sources, as well as to gather critical information, problems, and learning opportunities. Consequently, companies who have networks have an easier time obtaining bank loans than those that don't. A number of factors, including the volume impact that raises unit costs, the risks associated with these counterparties, the banks' lack of long-term resources, and the information asymmetry between bankers and entrepreneurs, can be blamed for the excessive caution with which banks have treated SMEs (Lefilleur, 2008). Development of more locally oriented financial institutions should reduce risks associated with information asymmetry and securitization challenges, even though most of the other challenges are basic to SSA markets and might be hard to solve. Banks and businesses don't know enough about each other because of a number of variables unique to the SSA scenario.

### ***SME Loan Conditions***

Although the financial assessment is the most crucial factor in all nations, research by Beck, Kunt Demirguc, and Martinez Peria (2009) shows that in developed nations, loan size is the second most important factor, and in developing nations, a firm's credit history and owner characteristics are important factors. According to Beck, Demirguc-Kunt, and Martinez Peria (2009), the company's financial assessment is the most crucial factor in small business funding. This holds true for 50% of banks in developed nations and 49% of banks in developing nations. After the characteristics of the company's owner and collateral, a company's credit history with the bank is considered the second most important consideration in developing countries. Although 87% of banks in developing countries need collateral, it is not a determining factor in loan decisions.

### **2.4.3 The Challenges Financial Institutions Face While Lending to SMEs**

The expansion and development of any country's economy are contingent upon the health of its financial system. Lemuel (2009) claims that when there isn't a big gap between the banks' supply capacities and the demanding needs of SMEs, traditional commercial banks—which play a significant role in the financial systems of practically every economy—have the capacity to pool resources to provide credit. Many barriers prevent Ghanaian financial institutions from lending to small and medium-sized enterprises. A few of the financial institutions' restrictions are as follows:

#### ***High Costs of Transactions***

Like any other business, banks have running costs. These costs are a result of loan processing, loan monitoring, and credit evaluation. Transaction costs were positively connected with profitability. As the cost of processing transactions rises, the return falls. It usually takes time to assess, monitor, and manage lending to SMEs. (Zavatta, 2008) claims that, independent of risk profile criteria, managing the financing of SMEs is a costly endeavor.

Many bankers believe that small firms require significantly more advisory support than their giant corporate clients. Every one of these has a cost.

#### ***Lack of Reliable Information***

Small business owners don't make themselves transparent or welcome outsiders into their establishments. They withhold information from tax collectors, their employees, and outsiders about their genuine assets, liabilities, profits, and other details for a variety of reasons. An open exchange of information between the donor and the recipient of the funding is necessary for access to outside financing. If SMEs and financial institutions communicated more openly and effectively, some of the

challenges they face in getting loans may be overcome. Determining the creditworthiness of small business owners and granting loans becomes difficult when they decline to give accurate information about their company to outside parties. Accurate and high-quality information would make it easier for banks and other financial institutions to evaluate a company's creditworthiness and reduce default risk. Additionally, this would enable banking institutions to provide small firms with advantageous terms of payment. (Ricupero, 2012) claims that one reason banks are hesitant to lend to SMEs is because they lack reliable financial data, which makes it difficult for them to evaluate risks.

#### ***A lackluster set of financial statements***

Most SMEs don't prepare financial statements. The creation of financial statements by SMEs is not required by law. Even in highly developed economies such as those found in the European Unions, SMEs are excused from providing standardized financial performance reports as long as they do not exceed a significant threshold with respect to total assets, turnover, and/or personnel size.

This suggests that a significant portion of SMEs in both developed and developing countries are unable to produce reliable financial data that creditors or investors could find helpful (Ricupero, 2012). According to Bass and Schrooten (2005), even in cases when a borrower and bank have a long-standing connection, comparable high interest rates are the result of a lack of trustworthy information. Having audited financial accounts is crucial in a circumstance such as this.

For the purpose of obtaining loans from financial institutions, audited financial accounts are highly helpful. Before extending credit, banks frequently demand audited financial statements. For instance, Berry and Ben (1994) discovered that when

processing loan applications from small businesses, UK lenders give careful consideration to accounting data. Lending institutions might also provide cheap interest rates since audited financial statements lessen information risk. Put differently, lenders bear less risk when they see improved borrower trustworthiness as a result of audited financial accounts (Sacerdoti, 2005). In order to stimulate credit development, foster competition in the banking systems, and ultimately reduce the cost of credit to borrowers, borrowers must be able to provide suitable financial statements, and reliable credit bureaus and financial data bases must be established. Banks are hesitant to lend to SMEs in many nations because they usually lack the resources necessary to generate official financial statements and audited accounts.

Therefore, expanding SMEs' bank access requires strengthening accounting and auditing. Thus, the very variable quality of accounts and the loosely regulated accounting industry hinder transparency in many countries.

### ***Small businesses' opaqueness***

The two main issues that banks deal with are small transaction sizes and the opaqueness of small businesses. They individually want to take charge of every part of their firm and do not want to cede power to others. According to (Zavatta, 2008), one of the issues financial institutions face when lending money is small businesses' reluctance to give up ownership of the business to outsiders. Among SMEs, it's rather common. Most SMEs don't maintain accurate accounting records.

### ***Rating organization for debt***

One challenge facing financial institutions when lending to SMEs is accurately analyzing the risk of loan applications without having to pay exorbitant fees for each one. One source of data on loan risk is credit rating companies, also referred to as

credit bureaus. (2005) Acerodoti in industrialized countries, the private sector often builds databases that centralize information about borrowers; but, in many continental European countries, like France and Italy, central banks are in charge of setting them up and maintaining them. The credit rating agencies provide extensive financial data about many companies in addition to a credit rating. They can also produce a customized assessment on a company's creditworthiness if fees are involved.

### ***Organization that Rates Debt***

Accurately assessing loan applications' risk without having to pay hefty costs for each one is a problem financial institutions face when lending to SMEs. Credit rating agencies, sometimes known as credit bureaus, are one source of information about loan risk. Acerodontoti (2005) while the private sector frequently creates databases in industrialized nations to centralize borrower data, central banks are in charge of establishing and managing such databases in many continental European nations, such as France and Italy. In addition to a credit rating, the credit rating organizations offer comprehensive financial information about several businesses. If there are costs associated, they can also create a personalized evaluation of a business's creditworthiness.

In the absence of credit rating organizations, it is now more difficult to evaluate a customer's creditworthiness and more expensive to learn about the repaymental consumers. The rating agencies' information aids in lowering the default risk. In Africa, this kind of information infrastructure is uncommon. Zavatta (2008) asserts that the "information infrastructure" is still mostly in its infancy. There are no established systems for gathering and sharing data on payment performance, such as

credit bureaus. This will unavoidably make the knowledge gaps between businesses and lenders/investors worse. GatherMF Working Paper "Access to Bank Credit in Sub-Saharan Africa: Key Issues and Reform Strategies," Sacerdoti (2005) argued that cultivating a credit-conscious culture necessitates the advancement of credit information technology.

## **2.5 Review of Empirical Literature**

Adomako-Ansah (2012) carried out research to find out what factors influence financial institutions in Ghana to finance small and medium-sized enterprises (SME). In the Tema metropolitan, information was gathered by means of interviews with five nonfinancial organizations and ten banks. The study's conclusions showed that the bank and non-bank financial institutions' lists of lending requirements differed in a few ways. Collateral, however, is the most crucial lending requirement for financial organizations, bank and non-bank alike. Other typical loan requirements included an audited account, if applicable, a recognized firm and associated documentation, and at least six months of account operation, even though their relative importance varied.

The survey discovered that the financial institutions included in the study did not use the age of the company or guarantor tax documents as lending criteria when granting credit to SMEs. Criteria like credit history, business registration, and risk managers' recommendations were shown to be less important. Major factors including collateral, guarantors, bank statements, audited accounts, advice from risk managers, and credit history are of importance to non-bank financial institutions. Non-bank finance firms give slightly more weight to factors like the age of the company and tax records. As a result, the study suggested creating credit bureaus to evaluate the unique characteristics of SMEs.

Cofie (2012) assessed the difficulties and scope of SMEs' financing in Ghana's Ashanti Region, keeping in mind the part and contributions of Stanbic Bank Ghana Limited. Structured questionnaires were used to gather primary data, and both company workers and SME clients were given access to them. Interviews were performed for this study with a variety of stakeholders, including management executives, workers of Stanbic Bank, and SME clients. All of the respondents to the study have worked for SME Banking for two to four years, most of them for three. The findings led to several recommendations, including the creation of a government-funded common fund, a dedicated department for SMEs in banks, and a national policy on SMEs by the government that would fund, among other things, the provision of financial education to help SMEs become more financially capable of expanding into larger industries in the near future. According to the survey, SMEs have extremely little access to the lending and deposit options offered by reputable financial institutions. The study also showed that young people own the majority of SMEs in the Ashanti Region.

This can be attributed to the fact that 68% of the respondents were in their youth, specifically between the ages of 18 and 40 (18–40), 25% were in their middle age range (41–50), and only 7% were beyond 50. According to the study's findings, savings and loan firms should provide SMEs with relatively flexible products, and SMEs should have access to other credit sources where obtaining collateral security won't pose a significant obstacle or demand.

Kinyua (2014) went on to investigate the impact of microfinance availability on the financial performance of small and medium-sized businesses in Nairobi County's Gikomba Market. The research design used in the study was descriptive. 75 out of the

125 respondents who made up the study's sample replied. The study's conclusions showed that the local entrepreneurs obtained varying levels of credit, and that microfinance accessibility had a significant impact on SMEs' performance. The study found that savings gave business owners an opportunity to borrow money from banks and also assessed their ability to generate income. Savings and deposits also had an impact on the financial performance of SMEs. The study also proved that the performance of SMEs was significantly influenced by entrepreneurial development.

According to the study's findings, several of the SMEs who trade at the Gikomba market have been able to save money through their separate MFIs, while others have not, and that the availability of credit from credit facilities has a significant impact on the financial performance of the SMEs. The survey also found that the entrepreneurs in Gikomba now had better record-keeping, financial management, and company management abilities thanks to the training. Therefore, in order to guarantee that the majority of traders can more easily obtain credit, this study advised MFI management to review its lending rules and conditions. The majority of MFIs may not have huge tracts of land or the necessary physical collateral, so the research also suggested that the MFIs use traders' funds as part of their collateral. The report also suggested expanding the number of training hours provided for investment monitoring, given that it had been discovered that the traders' proficiency in this area had not increased. In his research, Fuseni (2015) looked at the variables that affect financial access as well as the obstacles that SMEs in Ghana face when trying to obtain financing.

The World Bank performed a firm-level survey in Ghana in 2013 with 720 enterprises, which was utilized in the study. The Heckman Probit regression with sample selection model was used in the study to evaluate the factors influencing the supply and

demand for business loans. This is due to the theory that businesses may choose to request for financing based on a self-selection process, which could skew sample selection. The conventional probit regression was also estimated for credit availability, as there was no indication of selection bias.

The study discovered evidence in favor of the claim that credit limits affect all Ghanaian businesses, SMEs in particular. The majority of the businesses that asked for credit received access to financing, despite the fact that businesses rank it as the largest barrier to the business environment. Although most businesses did not ask for financing because they were not in need of a loan, some businesses were significantly discouraged by the loan's features, which included a long application process, expensive collateral requirements, and a short loan maturity period.

The study also found that certain firm attributes, such as innovation, location, registration, bank account ownership, and the availability of audited financial records, have the biggest effects on credit availability. There is little indication that Ghanaian businesses self-select when it comes to whether they want to engage in the credit market or look for outside capital. In addition, a company's innovativeness, location, ownership of property, accessibility to audited financial reports, and expansion plans all influence its capacity to secure funding.

The study concluded that, in light of the data, it was necessary to identify and address supply-side as well as demand-side constraints through legislative and regulatory changes. More specifically, training SMEs' owners and managers in areas like financial account preparation will not only encourage their desire for credit but also

make credit more accessible to them. Furthermore, SMEs ought to be urged to formalize and register their companies. Adopting new ideas and technologies should also be encouraged for small business owners because it would improve their chances of getting loans.

In addition, Nakhaima (2016) carried out research to identify the variables influencing the financial performance of Kenyan small and medium-sized businesses (SMEs). For this study, a descriptive research strategy was chosen. The 4560 SMEs in Nairobi County were included in the study's target population. Data from the Ministry of Trade and Ministry of Industrialization in 2013 showed that 2500 SMEs were in the manufacturing industry, 1500 SMEs were in the trading sector, and 560 SMEs were in the service sector. Using the stratified selection technique, a sample size of one hundred individuals was selected from the entire population. Data for this study were gathered using structured questionnaires that were based on the research topics.

While inferential statistics analysis employed correlation and percentages, descriptive statistics contained frequencies distribution, mean.

In addition, Nakhaima (2016) carried out research to identify the variables influencing the financial performance of Kenyan small and medium-sized businesses (SMEs). For this study, a descriptive research strategy was chosen. The 4560 SMEs in Nairobi County were included in the study's target population. 2500 SMEs were in the manufacturing sector, 1500 SMEs were in the trading sector, and 560 SMEs were in the service sector, according to data from the Ministry of Trade and Ministry of Industrialization in 2013. A sample size of 100 people was chosen from the entire population using the stratified sampling technique. Structured questionnaires based on the research questions were used to collect data for this study.

While inferential statistics analysis employed correlation and percentages, descriptive statistics contained frequencies distribution, mean, and backwardness. According to the study's findings, the majority of respondents (81.6%) agreed that corporate governance has an impact on financial performance. Similarly, the results of the study showed that corporate governance and financial performance had a positive link ( $r=0.491$ )  $p<0.05$ . The majority of respondents (89.5) to the findings also agreed that the HR department makes sure that staff members are knowledgeable about newly adopted market trends in technology. The results of additional research showed a statistically significant, substantial positive link ( $r(0.414)$   $p<0.05$ ) between financial success and human resources. According to the study, most respondents (81.6%) thought that financial access was crucial for SMEs to grow ( $r=0.612$ ;  $p<0.05$ ). Consequently, the connection was statistically significant. Finally, it was shown that the factors that statistically significantly explained financial performance were corporate governance, human resources, and financial access.

The conclusion drawn from the data was that corporate governance plays a significant role in determining financial performance. The findings also indicated that the SMEs had adopted and implemented corporate governance frameworks, and that this had been beneficial to them... The study unequivocally showed how crucial human resource capacity is and how it affects financial success. SMEs made sure that their employees received quality training in order to improve the businesses. This dy concluded that one important factor influencing financial performance was access to financing. SMEs' financial standing was improved by quickly obtaining bank loans, which company, quently decreased the financing cost, which included increased interest rates, fees for applications, loan insurance premiums, and legal expenses.

SMEs were able to grow since it became easier and less expensive for them to get funding as a result.

Nakhaima (2016) suggested that, the Kenyan government assist small and medium-sized enterprises (SMEs) by offering incentives to facilitate the adoption of corporate governance principles. In order to improve their financial performance, SMEs were also urged to fully embrace corporate governance. It was also advised that SMEs think about having the board, management, and board subcommittees oversee their finances. It was also necessary to educate the managers and board on the value of corporate governance. The study suggested that SMEs support staff training, pay, and involvement in performance reviews, all of which were important factors in SMEs' ability to function.

In their 2017 study, Onyiego et al. looked at how SMEs in Kenya's Mombasa hotel sector performed financially in relation to their ability to obtain financing. The goal of the study was to determine how Mombasa County's and the surrounding areas' hotel industry was impacted by financial access. The study used a mixed research design with descriptive and quantitative methods to determine the connection between SMEs' financial performance and their ability to obtain financing. The sample size was 320, and the target population was 1881. Primary and secondary data were employed. Primarily, questionnaires were utilized to gather data. The report generation software used was SPSS Version 20. ANOVA, regression analysis, correlation coefficient, and chi-square were among the tools and equipment employed. Positive regression coefficient and significant p-value of -0.003, beta of 0.191, and  $t=2.954$ . The study's hypothesis was that the financial performance of SMEs in Kenya's hotel industry is

not significantly impacted by their access to financing. According to the study's findings, the null hypothesis—which holds that there is no discernible relationship between financial performance of SMEs in Mombasa County, Kenya, and access to financing—is rejected because the p-value for the study, which is less than 0.05. Additional chi-square analysis was done, and the alternative analysis was accepted and the null hypothesis was rejected with a p-value of 0.000.

Additionally, (Sibanda et al., 2018) looked into how SMEs in Harare, Zimbabwe, performed as a firm and how they exported in their study. A cross-sectional investigation was conducted using quantitative techniques. Using the Small Partial Least Squares program (version 2.0), a structural equation modeling technique was used to examine the acquired data. The main conclusions show that there is a substantial positive correlation between SMEs' exporting behavior and their ability to obtain financing.

The study's results also cast doubt on the idea that a company's performance significantly influences its exporting practices and demonstrate the detrimental effects of financing availability on the performance of SMEs. Systems must be implemented in Zimbabwe to: (1) prioritize giving SMEs a direct route to market and increasing awareness among SMEs' proprietors; and (2) help SMEs overcome the substantial costs associated with exporting goods and services.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Summary**

In this chapter, the methods and approaches utilized to conduct the research are discussed. These are covered in the sections on sample technique, data collection tools, data processing and analysis, research design and population, and chapter summary.

#### **3.2 The Research Design**

A research design as Kothari (2014), has to do with decision regarding what, where, when, how much and by what by means concerning an inquiry or a research study. A descriptive survey design was adopted by the researcher for this study. With regard to the research approach, the study adopted a mixed approach which is a combination of both qualitative and quantitative methods. This strategy was chosen with the intention of assisting in broadening the study's scope. According to (Koul, 2010), the purpose of descriptive survey research is to gather pertinent and accurate data from participants so that appropriate generalizations and inferences can be made based on the information gathered. Using a descriptive design made sense because it would aid in describing and exploring the financial issues that SMEs in Ghana face.

#### **3.3 Population**

In essence, the population of a research study is the whole set of potential subjects, items, or measurements that the study is interested in. According to Mugenda and Mugenda (2003), the target group must possess certain observable traits in order for the researcher to generalize the study's findings to them. The employees and managers of ten (10) distinct SMEs operating in various industries within the Sekyere East District made up the study's target group.

### **3.4 Sampling Procedures**

While sampling procedure refers to the method/techniques used to obtain a sample from the target population, sampling includes choosing a subset of the population under study to represent the complete population. Purposeful sampling was the method used in the study to choose the respondents. Patterson (2002) states that purposeful sampling is a type of non-probability sampling in which the researcher chooses participants for the sample based on a range of factors, such as their aptitude and willingness to participate in the study or their particular familiarity with the research question. Selecting participants who are most likely to provide comprehensive and relevant data for a particular research design may require researchers to make decisions. The public was particularly targeted using a purposeful sampling technique to find out what they thought about the obstacles facing SMEs in terms of financial accessibility.

### **3.5 Number of Samples**

A sample is a constrained subset of a statistical population, the features of which are analyzed to gain additional insights into the population's characteristics. In terms of people, it can be defined as a collection of responders, or people, selected from a larger community for the purpose of a survey. A sample size of one hundred (100) employees was intended for the study.

### **3.6 Data Collection Instrument**

In this study, questionnaires were utilized as the primary means of data collection, which essentially means that the researcher collected data from participants using these tools. The benefits of using questionnaires were cited as the following: a large

sample size can be used to increase the reliability of the results; it is convenient to contact respondents who may not be easily approachable; respondents have enough time to provide thoughtful answers; there is no interviewer bias because the respondents' own words are used in the answers; and it remains affordable even in cases where the population is sizable and geographically spread. The data was analyzed using both descriptive and analytical approaches. The results from the analysis were presented in frequency tables, bar graphs and pie charts.

### **3.6.1 Research Instrument Validity and Reliability**

The degree to which variations detected by a measuring instrument faithfully represent actual differences among test-takers is known as validity.

The goal of the study's validity is to locate relevant data to bolster the results made from the measurement instrument, which is the crux of the issue.

The study supervisor provided helpful feedback on the design and substance of the surveys, ensuring the validity of the tools. Any errors found were fixed and enhanced in accordance with the supervisors' recommendations and guidance. Reliability also refers to a measurement procedure's accuracy and precision. Pre-testing helped to ensure the instrument's dependability. Pre-testing includes relying on coworkers, respondents' surrogates, or actual respondents in order to increase measuring equipment dependability. It was done in order to ensure consistency.

### **3.7 Data Collection Technique**

Before beginning data collection, the researcher went to the locations of the SMEs to discuss their everyday operations with the staff and to outline the purpose of the study.

We worked with them to set a time and date for the gathering of data. Nonetheless, the respondents were informed of the goal of the study and given the assurance of

anonymity prior to the questionnaire being administered. They were forced to complete the surveys at their various places of employment with their approval and cooperation.

### **3.8 Data Processing Method**

The raw data from a study is useless unless it is transformed into decision-making knowledge. The data analysis procedure included summarizing the raw data, making statistical inferences, and reducing the amount of data to a manageable level. To aid in the analysis, the data was arranged using the Excel program into tables and figures. The findings were then presented as discussions in relation to the goals of the study.

### **3.9 Moral Perspective**

The researcher obtained the needed consent to conduct the study in accordance with the ethical requirements of research. The respondents were told of the purpose of the study and were required to give their consent. The participants were informed that their participation in the study was entirely voluntary and that their information would be treated in a secret and anonymous manner. Filling out the form did not require a name.

### **3.10 Summary**

The researcher requested information from a few chosen owners of SMEs in Ghana's Ashanti region's Sekyere East District in order to make sure the study fulfills its intended objective. The researcher's questionnaires were distributed in order to collect the data needed to accomplish these goals. The study's aims guided the structure of the questionnaires. There are both closed-ended and open-ended questions on these

surveys. The researcher will personally deliver the questionnaires to the responders in the places of employment. The goal of the data collection will be explained to the respondents, and they will be guaranteed anonymity and confidentiality. To guarantee that participants have no trouble completing the questionnaires, the questions will be written in a straightforward and clear manner.

## **CHAPTER FOUR**

### **RESULTS AND DISCUSSION**

#### **4.1 Synopsis**

This study's chapter provides findings from the data acquired and analyzes the findings through discussions. According to the respondents' opinions and in accordance with the study's goals, this chapter describes the data that was gathered from the field. Data collected from the field was displayed using tables and figures. One hundred (100) respondents who were chosen from SMEs operating in various business categories in the Sekyere East District were given questionnaires. Consequently, the completed and returned questionnaires totaling one hundred (100) form the basis for the study's presentation, analysis, and conclusion.

#### **4.2 Findings**

The comments provided by the sampled population regarding the difficulties small company owners in the Ashanti Region's Sekyere East District have in obtaining financing served as the basis for the analysis and discussions in this section. Through the use of questionnaires, biographical information and opinions regarding the difficulties small business owners in Sekyere East District face in obtaining financing were obtained from the respondents. The responses provided by the respondents to the researcher's different inquiries regarding the topic matter, together with their opinions, are displayed in the tables and figures below.

The demographic details of the study participants, including gender, age, highest level of education attained, kind of business, and length of time in business, are displayed in Tables 1 through 5 below.

**Table 4.1: Respondents' Gender Distribution**

<b>Gender</b>	<b>No.</b>	<b>%</b>
Male	69	69.0
Female	31	31.0
<b>Total</b>	<b>100</b>	<b>100</b>

Tables 1 through 5 below present the study participants' demographic information, which includes gender, age, kind of business, highest level of education acquired, and duration of operation. The gender distribution of the sampled respondents, who were selected from SMEs in the Sekyere East District operating in various business categories, is shown in Table 4.1. Thirty-one (31) of the respondents accounted for 31.0% of the population, and sixty-nine (69) for 69.0% of the male population in the sample. The gender distribution of the selected SMEs in the Sekyere East District shows that there are more male than female employees.

**Table 4.2: Age Distribution of Respondents**

<b>Age</b>	<b>No.</b>	<b>%</b>
18-30	10	10.0
31-40	27	27.0
41-50	32	32.0
Above 50	31	31.0
<b>Total</b>	<b>100</b>	<b>100</b>

*Source: Field data (2023)*

In Table 4.2, the ages of the participants are displayed. Out of the total sampled population, ten (10) respondents, or 10.0%, were in the 18–30 age range. Of the responders, twenty-seven (27) were between the ages of thirty and forty (27.0% of the population). 32 out of the population, or thirty-two (32) respondents, were between the ages of 41 and 50, while 31 out of the population, or thirty-one (31) respondents,

were above 50. The majority of SMEs in the Sekyere East District were run by people over the age of thirty, according to the respondents' age distribution.

**Table 4.3: Highest Educational Qualification of Respondents**

<b>Highest Educational Qualification</b>	<b>No.</b>	<b>%</b>
Basic	7	7.0
Secondary	20	20.0
Vocational/Technical	29	29.0
Tertiary	32	32.0
Illiterate	12	12.0
<b>Total</b>	<b>100</b>	<b>100</b>

*Source: Field data (2023)*

Regarding the study's sample of respondents, Table 4.3 also reveals the highest degree of education. The highest level of education seven (7) respondents, or 7.0% of the population sampled, had acquired was basic education. Twenty (20) respondents, or 20% of the sampled population, met the qualification criteria with secondary education as their highest level of education. Vocational/technical education was the most common type of education possessed by twenty-nine (29) respondents, or 29.0% of the population sampled. Thirty-two (32) respondents, or 32.0% of the sampled population, claimed that their maximum level of education was a postsecondary degree, whereas twelve (12) respondents, or 12.0% of the sampled population, said they were illiterate or had never attended any kind of formal education. When asked about their maximum level of education, the answers indicated that most of the sampled SME operators in the Sekyere East District had some formal education, despite the fact that there were a small number of illiterates.

**Table 4.4: Nature of Business**

<b>Nature of Business</b>	<b>No.</b>	<b>%</b>
Manufacturing	19	19.0
Wholesale	22	22.0
Retail	40	40.0
Service	19	19.0
<b>Total</b>	<b>100</b>	<b>100</b>

*Source: Field data (2023)*

Table 4 displays the kind of business that the sampled SME operators in the Sekyere East District are involved in. Nineteen (19) respondents, or 19.0% of the population under study, indicated they were employed in the manufacturing sector. Twenty-two (22) respondents in all, or 22.0% of the population, stated they were employed in the wholesale industry. Of the sampled population, 19 (19) respondents, or 19.0%, said they worked in the service sector, while 40 (40) respondents, or 40.0% of the population, said they worked in retail. The replies indicate that the Sekyere East District's sampled SME operators work in a range of economic sectors, such as manufacturing, services, retail, wholesale, and retail.

**Table 4.5: Number of Years in Business**

<b>Number of Years</b>	<b>No.</b>	<b>%</b>
Less than a year	6	6.0
1-5 years	19	19.0
6-10 years	25	25.0
Above 10 years	50	50.0
<b>Total</b>	<b>100</b>	<b>100</b>

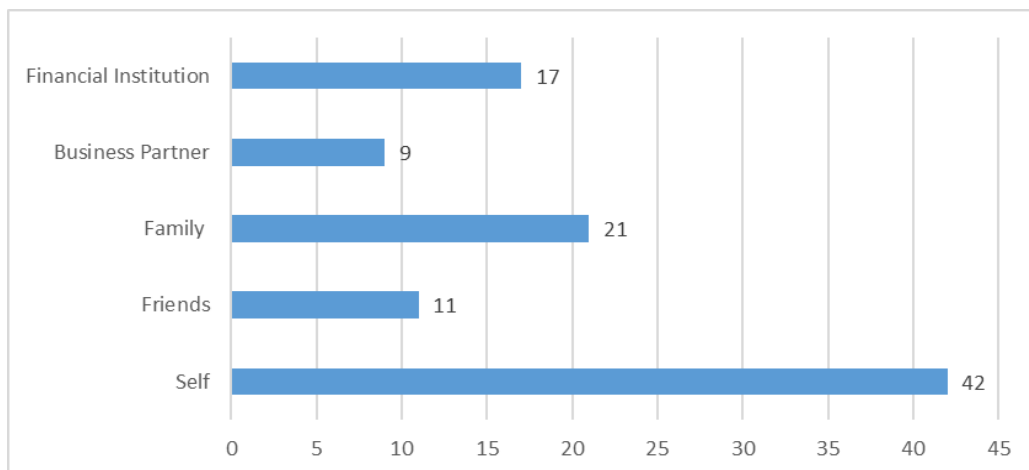
*Source: Field data (2023)*

The duration of the respondents' involvement in their firm is shown in Table 4.5. Six (6) respondents, or 6.0% of the studied population, said they had only been in business for a year or less. Nineteen (19) participants, accounting for 19.0% of the

sample, stated that they have operated their firm for one to five years. A total of fifty (50) respondents, or 25.0% of the population, stated that they had been in company for more than ten years, while twenty-five (25) respondents, or 25.0% of the population, said they had been in business for six to ten years. The majority of the sampled SME operators in the Sekyere East District had been in business for a sizable amount of time, according to the responses.

The questionnaire's second portion (portion B) was created expressly to gauge respondents' general opinions on a range of topics concerning the difficulties SME operators encounter in obtaining financing. The following numbers show the respondents' answers to the questions the researcher posed.

The respondents were questioned regarding the main source of finance for their company in the first question of this section. The responses they provided to this question are shown in figure 4.1.

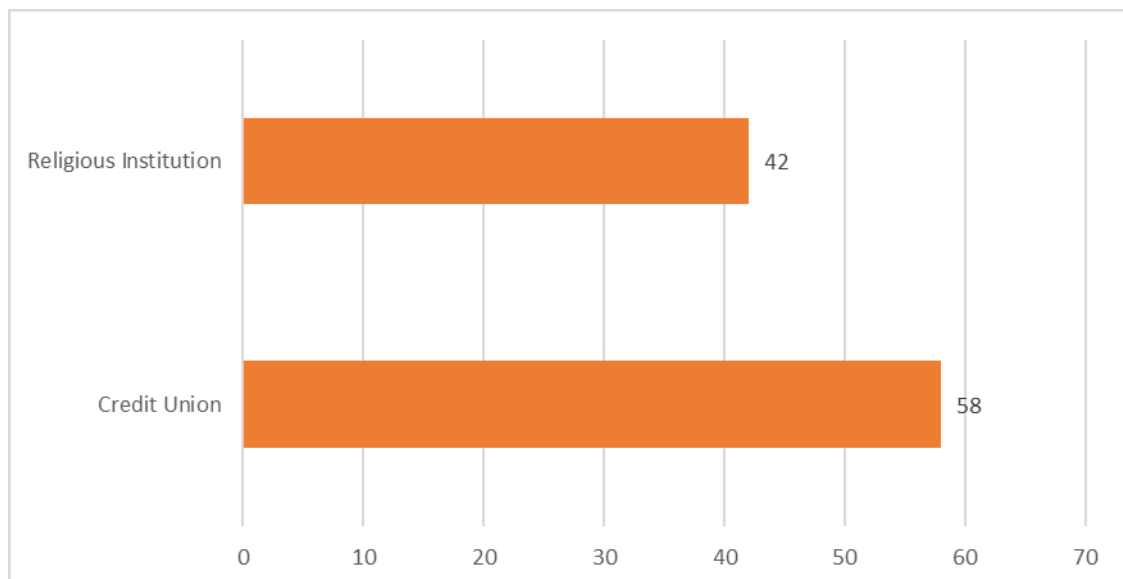


**Figure 4.1: Primary Financing Source for SMEs**

Figure 4.1 displays the responses from the SME operators on the main source of capital for their business. 42 respondents, or 42.0% of the sample, stated that they were the main source of finance for their company. Eleven (11) respondents, or 11.0%

of the sampled population, indicated in their response that their main source of money is friends. Twenty-one (21) respondents, or 21.0% of the sample, indicated that their family was the main source of finance for their business. Nine (9) respondents, or 9.0% of the studied population, stated that business partners provided the majority of the capital for their company, However, seventeen (17) respondents, or 17.0% of the sampled population, stated that financial institutions were their main source of funding. The responses of the respondents revealed that internal sources constituted the primary source of funding for most SME operators.

The purpose of the second question in this part was to inquire about the respondents' other sources of funding besides official financial institutions such as the Bank. Figure 4.2 also includes answers to this question.

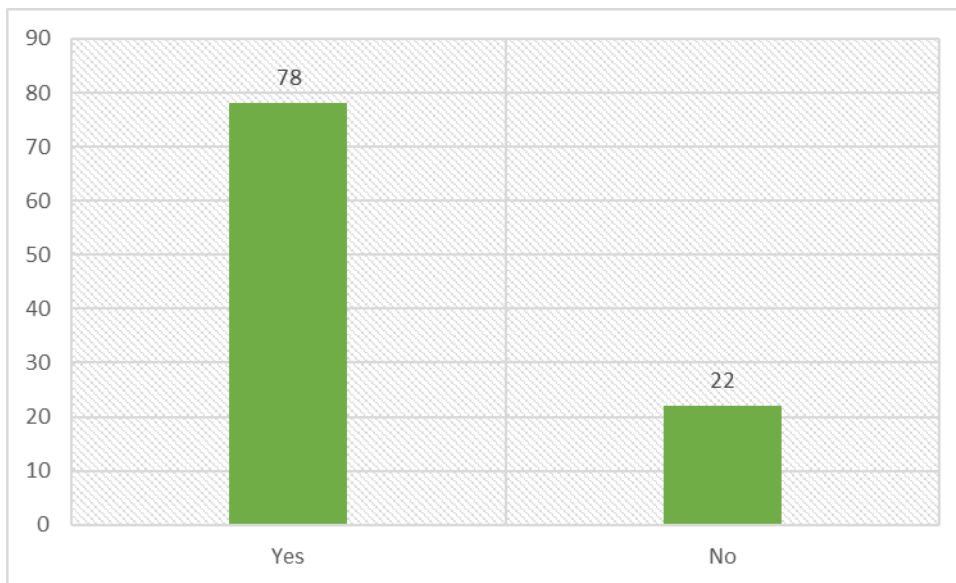


**Figure 4.2: Alternative Sources for SME Funding**

Figure 2 displays the respondents' responses on their alternative funding sources that aren't associated with recognized financial institutions like the Bank. Fifty-eight (58) respondents, or 58.0% of the sampled population, stated that their credit union memberships are their other alternative sources of money. Forty-two (42) respondents,

or 42.0% of the studied population, stated that their various religious institutions, such as the church, are their other alternative sources of funding. Most of the remarks made by the respondents imply that SMEs don't have many alternative options for funding other than formal financial institutions like the Bank.

Participants were asked if they had ever received finance or credit from a bank in the third sectional question. Responses to this question are given in figure 4.3.

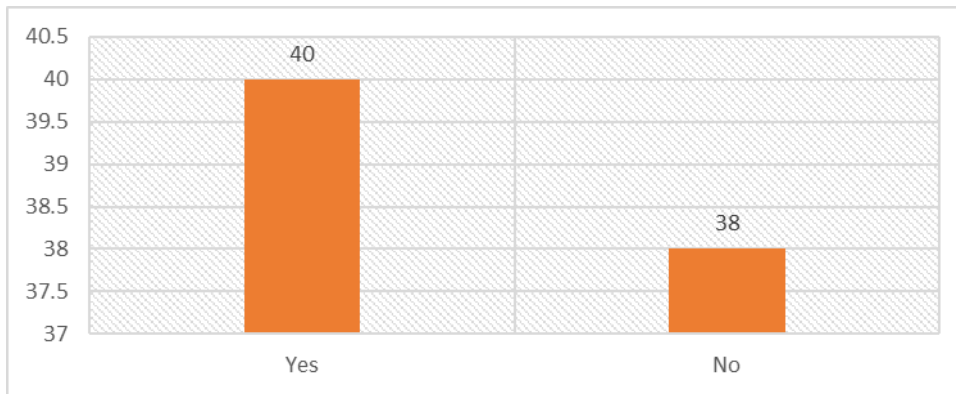


**Figure 4.3: Have You Ever Used a Bank to Get Credit or Financing?**

Figure 4.3 displays the respondents' responses regarding their experiences obtaining funding or credit from banks. In response to this inquiry, twenty-two (22) respondents—or 22.0% of the population sampled—said they had never obtained credit or financing from a bank, whereas seventy-eight (78) respondents—or 78.0% of the population—said they had definitely done so.

These responses unambiguously demonstrate that most SMEs have needed bank financing at some point during the course of their operations.

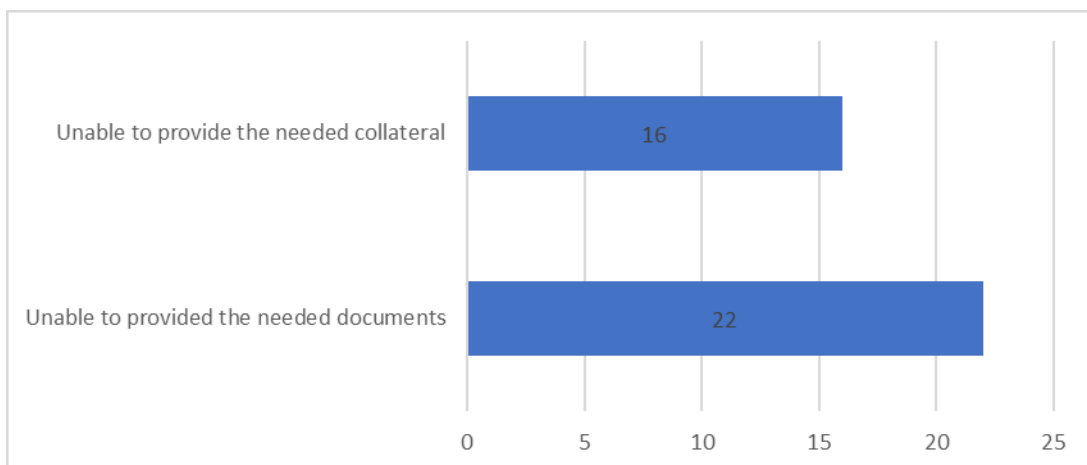
If the respondents received the loan for which they applied, they were questioned further. The following figure shows their responses.



**Figure 4.4: Bank Loan Application Approved**

Figure 4.4 displays the responses from individuals who requested loans from the Bank regarding whether the Bank approved their loans. Of the seventy-eight (78) respondents who applied for loans, thirty-eight (38) indicated that their application was denied by the bank, and forty (40) indicated that their loans were approved. This represents 51.3% of the seventy-eight (78) respondents who applied for loans.

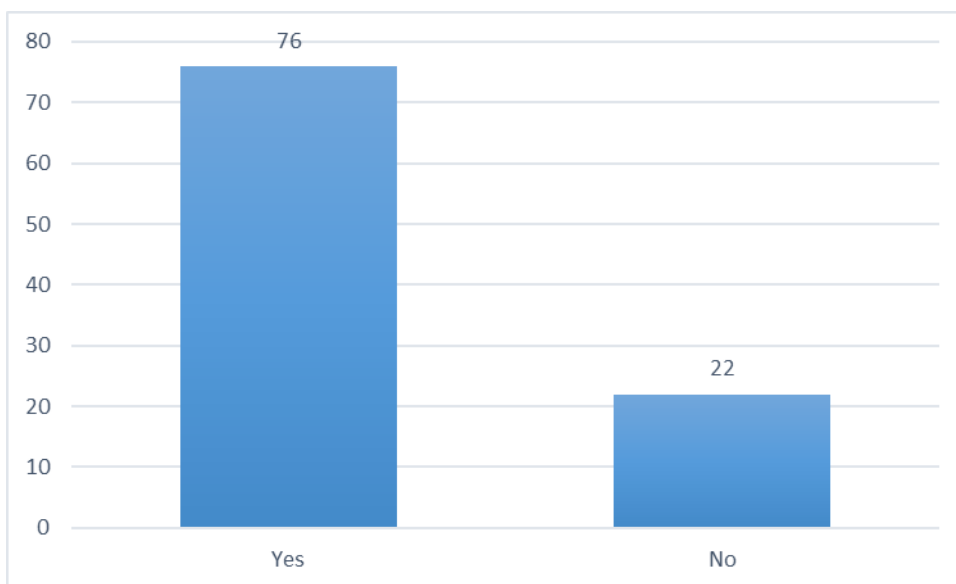
The researcher probed further to find out the reasons why a majority of the respondents did not get their loans approved by the Banks. Their responses to this are seen in figure 5.



**Figure 4.5: The Bank's Reasons for Denying Loan Approval**

Figure 4.5 displays the responses of the thirty-eight (38) respondents whose loan request or application was turned down by the bank. This number included sixteen (16) respondents, or 42.1% of the respondents whose loan application was denied, who claimed that their loan request was denied for a lack of collateral, and twenty-two (22) respondents, or 57.9% of the respondents whose loan applications were denied by the bank, who claimed that their loan applications were denied because they did not provide all of the documents the bank requested.

The purpose of the following question in this section was to ascertain whether the respondents had any difficulties obtaining bank financing. Responses to this question are highlighted in figure 4.6.



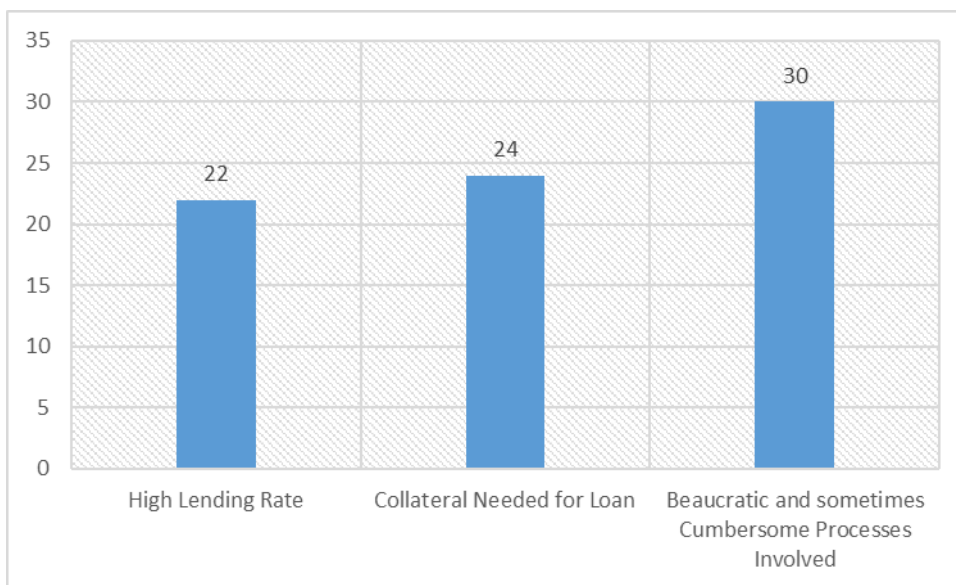
**Figure 4.6: Difficulties SMEs Face in Obtaining Bank Financing.**

Figure 4.6 displays the respondents' answers about any problems they could be having getting bank financing. In response to this question, twenty-two (22) respondents—or 22.0% of the studied population—answered negatively, stating that they had no trouble getting bank finance. while asked this question, seventy-six (76) respondents, or 76.0% of the studied population, gave a positive response, suggesting that they

have some challenges while trying to get bank financing. According to the remarks made by the respondents, it seems that SME owners had a variety of challenges when attempting to secure bank financing.

The respondents who selected "yes" for their response were then asked to list the difficulties they have in obtaining bank financing. Figure 4.7 shows the responses that the respondents provided.

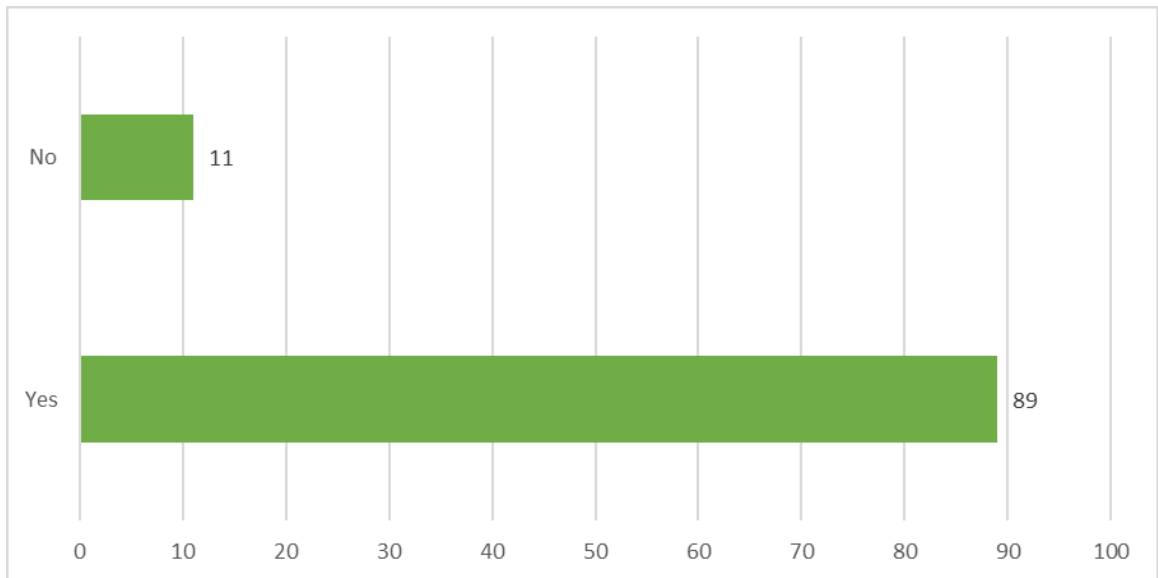
Types of Barriers SMEs Face to Bank Financing, as Illustrated in Figure 4.7.



**Figure 4.7: Types of Barriers SMEs Face to Bank Financing**

Figure 4.7 displays the responses of the seventy-six (76) respondents who said they face specific challenges while trying to get bank financing. High loan rates were cited by twenty-two (22) respondents—or 29.0% of those who had difficulties—as the primary barrier to getting bank funding. Thirty (30) respondents, or 39.5% of those who reported difficulties, identified their barrier as the bureaucratic or occasionally time-consuming procedures associated with loan applications. Twenty-four (24) respondents, or 31.6% of those who reported difficulties, mentioned that their inability to obtain bank financing is due to the collateral requirements of the banks.

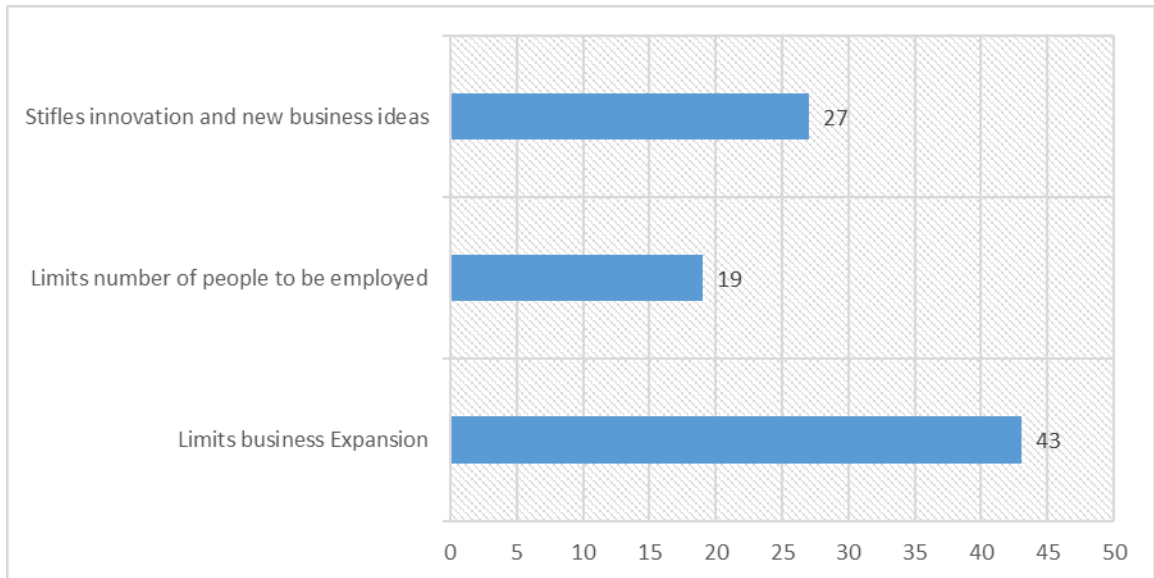
The researcher next asked the respondents what they thought about whether SMEs in the Sekyere East District were impacted in any way by the difficulties small firms face in obtaining financing. The responses provided by the participants to this inquiry are depicted in figure 4.8.



**Figure 4.8: SMEs in the Sekyere East District are Affected by Difficulties in Obtaining Finance**

Figure 4.8 displays the respondents' responses regarding the impact of financing challenges on small businesses in the Sekyere East District. Ninety-nine (89) respondents, or 89.0% of the total sampled population, said that SMEs in the Sekyere East District are somewhat impacted by the challenges small enterprises have in securing funding. Eleven (11) respondents—or 11.0% of the total sampled population—said in the negative that SMEs in the Sekyere East District are unaffected by the challenges small firms encounter in securing finance. The responses provided by the participants indicate that small businesses in the Sekyere East District are generally affected to some degree by the challenges they face in securing funding.

Next, we asked the eighty-nine (89) respondents who answered in the affirmative on the impact of financing barriers on small businesses in the Sekyere East District. The replies that the respondents gave are displayed in Figure 4.9.



**Figure 4.9: The impact of financing access constraints on small firms in the Sekyere East District**

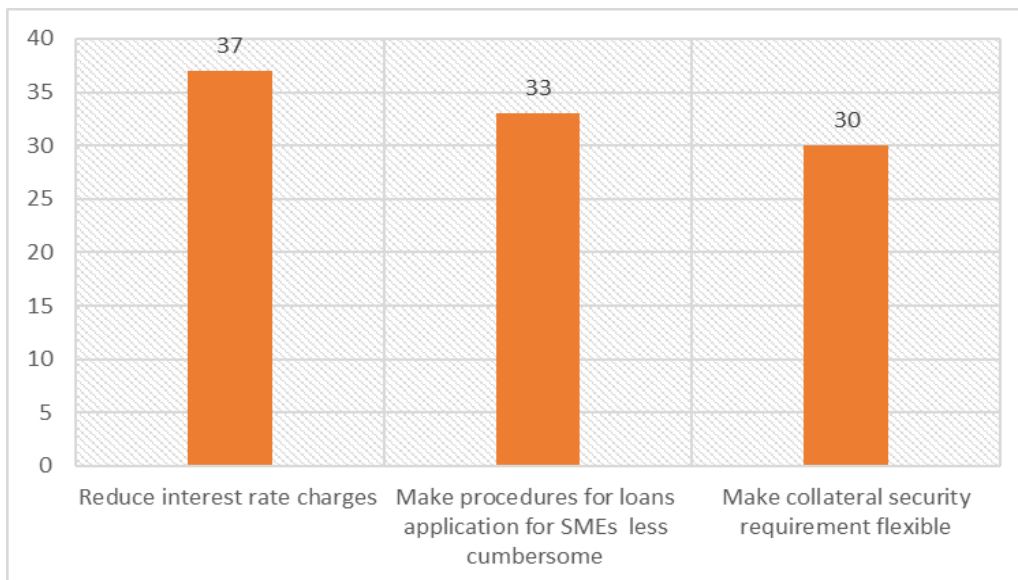
Figure 4.9 shows that 89 respondents indicated that financing restrictions have an impact on small businesses in the Sekyere East District. According to twenty-seven (27) respondents, or 30.3% of the eighty-nine (89) respondents, funding barriers impede small business owners in Sekyere East District from being creative and coming up with new business ideas.

The number of persons employed by small businesses in Sekyere East District is sometimes limited due to obstacles to small business financing, according to nineteen (19) respondents, or 21.3% of the eighty-nine (89) respondents. 43 respondents, or 48.3% of the 89 total respondents, stated that the Sekyere East District's small business owners' ability to grow their operations is constrained by obstacles to obtaining financing. The majority of these replies indicate that the Sekyere East

District's small business prospects and potential are impacted by obstacles to their access to financing.

The final question in the section asked for recommendations from the respondents on how to handle issues related to SMEs' difficulty obtaining financing. The answer to this query is depicted in picture 4.10.

Solutions for Overcoming Obstacles in SMEs' Financing Availability are shown in Figure 4.10.



**Figure 4.10: Solutions for Overcoming Obstacles in SMEs' Financing Availability**

Figure 4.10 presents the responses given by participants about possible remedies for the financial access problems faced by SMEs. The opinion of thirty-seven (37) respondents, or 37.0% of the population surveyed, was that banks and other financial organizations ought to reduce the interest rates on loans given to small and medium-sized enterprises. 33.0% of the sampled population, or thirty-three (33) respondents, thought that banks and other financial institutions should simplify the loan application process for small and medium-sized businesses. Of the people surveyed, thirty-one

(30) people, or 30.0%, said that banks and other financial institutions ought to loosen the standards for collateral security when it comes to SMEs.

### **4.3 Talking Points**

The responses provided by the participants to the researcher's questions in accordance with the study's objectives form the basis for the discussion of the study's findings. The study's goal was to investigate the difficulties small business owners in Ghana face while trying to obtain financing. more especially, the Ashanti Region's Sekyere East District. Examining the funding sources available to small businesses in the Sekyere East District, analyzing the difficulties these businesses encounter in obtaining bank financing, and evaluating the impact of financial access barriers on small businesses in the district were the three main goals of the study. These goals are covered in more detail below:

Goal 1: Evaluate the Funding Sources for Sekyere East District Small Businesses.

Evaluating the funding sources available to small enterprises in the Sekyere East District was the study's primary goal. In order to accomplish this goal, the researcher first learned what the respondents thought was the primary source of funding for their company. Figure 1 illustrates how most SME operators funded their activities internally, with respondents naming financial institutions, friends, family, partners in business, and themselves as their main sources of finance. In addition, the respondents were questioned about any additional funding sources. The primary sources of alternative funding that the SME operators from the Sekyere East District mentioned for their business operations were the credit unions and other religious entities, such as the church. The majority of the respondents' comments suggest that, other than official financial institutions like the Bank, there aren't many other options for SMEs

to obtain funding. they may have outside of official financial organizations like the Bank.

Examine the difficulties small businesses in the Sekyere East District have obtaining bank financing. Examining the difficulties Sekyere East District small enterprises have in obtaining bank financing was the study's second goal. To begin achieving this goal, the researcher asked the respondents if they had ever obtained credit or financing from a bank. The majority of SMEs have required financial support from the Bank at some point in their business operations, according to the replies provided (figure 3).

When asked if they were given the loan they requested, a sizable portion of the small and medium-sized business owners (38) who submitted loan applications said that the bank had denied their request (Figure 4). When asked why the banks had not accepted their loans, the respondents went on to say that it was because they had not provided all the documentation required by the bank and that they had not provided the necessary collateral (figure 5). The majority of respondents said they had some difficulties when trying to obtain bank financing (figure 6), which makes it abundantly evident that SME operators encountered numerous difficulties and obstacles while trying to obtain bank financing. The respondents listed additional obstacles to obtaining financing from banks, such as high lending rates, the collateral required by the bank, and the bureaucratic or occasionally onerous procedures involved in loan applications (figure 7).

Objective 3: Assess the Effects of Financial Accessibility Barriers on Sekyere East District Small Businesses.

The third objective was to assess how financial access limitations affected small businesses in the Sekyere East District. To do this, the researcher first asked the respondents if they thought that SMEs in the Sekyere East District were affected in any way by the challenges small businesses face in securing funding. The majority of respondents (figure 8) said that the challenges small businesses encounter in securing finance have an impact on SMEs in the Sekyere East District.

Regarding the impact of financial barriers on small enterprises in the Sekyere East District, the participants disclosed (figure 9) that financial hurdles inhibit the creativity and novel concepts of small business owners in the district. Additionally, the amount of employees that these SMEs may hire is typically restricted by the obstacles that prevent them from obtaining financing in the Sekyere East District. It also restricts the ability of small company owners in Sekyere East District to grow their enterprises. Their answers generally demonstrate how the Sekyere East District's small business prospects and potential are impacted by the barriers that these companies face in obtaining financing.

## **CHAPTER FIVE**

### **OVERVIEW, END AND SUGGESTIONS**

#### **5.1 Overview**

Based on the data collected, the study's main conclusions are outlined in this chapter. The study's limitations, recommendations for SMEs' owners/managers and operators, and recommendations for additional research on the difficulties small business owners have in obtaining financing are also included in this chapter.

#### **5.2 Recap of Results**

The study's goal was to investigate the difficulties small business owners in Ghana, notably those in the Ashanti Region's Sekyere East District, have while trying to obtain financing. There were certain specific goals made in order to accomplish this. Evaluating the financial sources available to small enterprises in the Sekyere East District was the study's primary goal. Examining the difficulties small companies in Sekyere East District have in obtaining bank financing was the second goal. Evaluating the impact of financial access constraints on small companies in Sekyere East District was the third goal.

Important conclusions from the study supporting the first goal of assessing the funding sources for small businesses in Sekyere East District revealed that banks, friends, family, and the business owners themselves were the main sources of finance for SMEs. The operators did, however, admit that when they needed money for their business operations, they occasionally turned to other, less conventional sources, such as credit unions and the numerous churches and religious organizations to which they

belong. Results also in keeping with the second goal of looking at the difficulties small businesses in Sekyere East District have in getting bank financing include high lending rates, the bank's requirements for collateral, and the bureaucratic or occasionally laborious procedures involved in applying for a loan. Additional research on the third aim, which evaluated how financial barriers affect small enterprises in the Sekyere East District, showed that financial hurdles inhibit small business owners' creativity and fresh ideas. Additionally, the Sekyere East District's small business financing barrier tends to restrict the amount of workers these SMEs can hire. It further restricts small business owners in Sekyere East District's ability to grow their enterprises. The main conclusions drawn from the SME owners' comments were that the prospects and potential of small firms in Sekyere East District are impacted by obstacles to their access to financing.

### **5.3 Summarization**

Despite Ghana's enormous potential for employment and job growth, the majority of SMEs are beset by financial crisis challenges. regarding the years, managers and owners of SMEs have expressed concern regarding money and funding, which has caused some of them to go out of business entirely or to experience growth stagnation. Some of them complain about having insufficient finances, and even those who do receive it from lenders, do not receive the essential help. One crucial strategy for raising the performance of SME enterprises is financing accessibility. Since SMEs are so prevalent and capable of meeting the demands of the general public, they are well acknowledged to be the driving force behind Ghana's economic growth and development. But even with the growth of financial institutions, most SMEs in Ghana still have difficulty obtaining financing. It highlights the necessity for the government

to improve SMEs' access to funding in order to foster an environment that would allow them to operate effectively and efficiently. Furthermore, the government ought to establish financial, legal, and regulatory frameworks that support the growth and operation of SMEs and entrepreneurship. Due to SMEs' enormous contributions to the expansion of the economy's GDP, any governmental support for them is beneficial. In essence, SMEs are Ghana's aggressive growth and development driver. Therefore, every effort needs to be taken to provide them with financial support. It is impossible to overstate the importance of all parties working together to overcome the obstacles SMEs encounter when trying to secure funding for their operations.

#### **5.4 Suggested Actions**

The following suggestions on how to lessen the difficulties SMEs encounter in obtaining financing are directed towards government officials, financial institutions, and SMEs' owners and managers.

It is advised that SME owners and management look into alternative lending options, such as government financing programs, where collateral security is not a significant need.

If SMEs agree to participate, financial organizations should think about offering group lending to reduce risk and loan default from SMEs.

It is also advised that SMEs develop their abilities in business management. Formalizing business procedures, such as registering and using VAT invoices and paying taxes, is essential for small and medium-sized enterprises.

Helping SMEs create financial statements is a good idea. Owners and managers of SMEs must receive training in financial account preparation. This would facilitate their access to credit as well as encourage their desire for credit. Independent external auditors must review SMEs' financial statements.

Furthermore, SMEs ought to be urged to formalize and register their companies. To reduce barriers in this regard, the procedures and expenses related to a company's registration and licensing must be examined. Due to their knowledge of the company's owners and their ownership rights, lending institutions would be more confident when extending loans to SMEs as a result.

Adopting new ideas and technologies should be encouraged for small business owners because it improves their chances of getting loans. To do this, SMEs must be strengthened and developed so they can quickly adopt new innovations and technology.

Small business owners need to consistently invest money in their operations.

accounts and make payments via the bank's transaction methods, like checks. The banks would be better able to understand financial transactions as a result.

It is also advised that banking institutions lower the interest rates they impose on loans to small businesses.

Furthermore, financial institutions should simplify the loan application processes for small and medium-sized enterprises.

Finally, it is advised that banking institutions take collateral security from SMEs in addition to landed property.

### **5.5 Restrictions on the Research**

There is no getting around the fact that all research has some form of constraint. Despite this, scholars constantly work to overcome these restrictions in order to get the most logical and sound conclusion. Although there were limitations, the researcher would have liked to expand the coverage to increase the research's predictability. Time constraints were another drawback because the research was conducted in addition to time-consuming professional and academic responsibilities. Although these restrictions were addressed by lowering the sample size and excluding some demographics from the study's purview, the conclusions nevertheless cannot be broadly applied.

### **5.6 Ideas for Additional Research**

Important conclusions from the study supporting the first goal of assessing the funding sources for small businesses in Sekyere East District revealed that banks, friends, family, and the business owners themselves were the main sources of finance for SMEs.

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7. Aside the formal financial institutions like the Bank, what are your other alternative sources of funding?

.....

8. Have you ever sourced for credit/finance from a Bank?

a. Yes                       b. No

9. If yes, was your application granted?

a. Yes                       b. No

10. If no, what was the reason for non-approval?

a. Unable to provide needed documents

b. Unable to provide needed collateral

c. Other (please specify).....

11. Do you face any challenges in accessing finance from the Banks?

Yes                       b. No

If yes, please enumerate these challenges.....

.....

12. Would you say that challenges associated with access to finance of small businesses has any influence on SMEs in the Sekyere East District

a. Yes                       b. No

13. If yes, what do you think is the effect of barriers to access to finance on small businesses in Sekyere East District.

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14. Please share your suggestions on how challenges associated with access to finance of SMEs can be addressed.

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*Thanks for your cooperation.....*