Terms and Access to Credit :Perceptions of SME /Entrepreneurs in Ghana

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Abstract

1. BACKGROUND TO STUDY

This research reports on the impact of financial sector liberalization program on the access to funding by Small and Medium Enterprises (SME's) in seven regions in Ghana. Especially, it examines the extent to which differences in the development of the seven regions can cause access to funding.

Small and Medium Enterprises (SME's) in Ghana. in constitute a greater percentage of the economy of Ghana. There are, however, several constraints to the development of SME's. Especially, the lack of access to resources and financial markets (Aryeetey et al 1994). Other constraints to SME development include difficulty in finding skilled labour to employ. There is also a problem of having access to modern technology. Many firms use old machinery, and have problems with finding replacements parts to purchase (Andrea 1981)

In general, the Financial Sector and the Structural Adjustment Programme (FINSAP) addressed the structural and institutional weaknesses of the financial sector in Ghana. It sought to ensure that businesses have access to institutional credits and deposit mobilization, and also reduced excess liquidity in the country in a regulated environment. It held the view that a strong and competitive financial sector could make significant contributions towards increasing mobilization of domestic savings currently, held in the form of non-financial assets (Antwi-Asare/Addison 2000).

Prior to the financial sector reform, the financial system like the other sectors of the Ghanaian economy was badly affected by the deteriorating economy and high inflation during most of the 1970s and the early 1980s. The government controlled interest rates and played a major role in directing the allocation of credit. Some of the banking system problems that were identified at the time were typically related to the following; inadequate capitalization, high risk concentration, over exposure to a few clients, non performing loans, weak accounting and internal controls deficient regulations, poor supervision, weak recovery efforts and undeveloped skill and systems (Sowah 1991).

Furthermore, the financial sector in Ghana, like most developing countries, was fragmented in terms of different institutions using different methods to serve different clients (Steel 1998). The fragmentation of the financial sectors created different barriers between the two segments of the market. For instance, funds did not flow between one institution and another. Fragmentation also implies that the different market segments approach problems of poor information, high transaction costs, and risk management, mobilization of funds, grants and capitalization differently (Steel 1998)

Research Questions and Key Objectives

Our discussions above suggest that one of the key objectives of the financial sector liberalization was to provide access to funding for SME's. Most studies consider the access problem as a creation of the financial institutions through their lending policies. For instance, Schmidt and Crop (1987) have indicated that the type of financial institution and its credit policy will determine the access problem. Where credit duration, terms of payment required security and the provision of supplementary services do not fit the needs of target group, potential group, potential borrowers will not apply for credit even where it exists and when they do, they will be denied access.

A considerable number of studies have been done on the impact of financial sector liberalization on firms (See for example Antwi-Asare/Addison 2000, Helmsing/Closter 1993 Duncan/Howell1989). These studies have generally assessed the consequences of FINSAP on SME's in terms of the links between informal and formal sectors of the economy.

However, evidence suggests that regional differences in the Ghanaian economy can also affect access to funding by SME's (Andrea 1981). Webster (1996) has also argued that the cost of reaching clients may restrict the operations of Micro finance institutions to urban areas. It is also believed that there is a limit to the "in Depth targeting" of the poorest Webster (1996). According to this approach, Financial institutions do not reach the very poor and there is a trade off between sustainability and reaching the poorest of the poor. (See for example Johnson/Rogaly 1997).

Major Objectives of the Study

A major question for the study, therefore, is the extent to which regional imbalances act as constraint to access to funds in both the formal banking system and Non Bank Financial institutions. Do constraints to access to funding differ in terms of the different regions in Ghana? Do the financial institutions develop different lending policies to suit the circumstances of different regions? An answer to this would involve an examination of the variations in regional development in Ghana and SME's success in obtaining finance from various financial institutions in the various regions in Ghana.

This paper therefore reports on the perceptions of Small and medium scale entrepreneurs on the terms and access to seven regions in Ghana.

Specifically the objectives of this research were to:

1. 1. Assess the rate of success in acquiring loans in the different regions by SME's
2. 2. Determine whether Lending policies of the banks differ in the regions

3. 3. Major constraints to access to Credit in the Regions as perceived by SME entrepreneurs

2. Regional Imbalances and SME's access to Credit

The major argument of this proposal suggests that the assessment of impact of financial sector liberalization should consider the region in which the SME's operate. Our concern for the regional origins of SME' comes from the existing regional imbalances in development in Ghana. These imbalances come from a number of factors including: size of regional population, quality of public services, geographic dispersion, rates of illiteracy, availability of banking services and the level of social infrastructure available.

The country is characterized by small pockets of highly developed regions and vast areas of poverty and underdevelopment. (Andrea 1981) These features are widely considered as unfavourable to development. For our study, a better insight into the complicated technical, economic and the socio-political development mechanisms involved in producing these imbalances are of no doubt important if we are to understand the regional differences of the impact of the financial sector liberalization programme.

The pattern of regional development and inequality Ghana is as a result of the historic process of the country's incorporation into the world market. This resulted in the creation of regional and economic structures and led to varying degrees of centralization and integration (Andrea 1981). This process entailed the superimposition of a formally organized modern economy and organizations largely based on high level technology and market principles on a traditionally and highly locally oriented structure based on artisan and peasant skills. (Thomi/Yankson 1985). It also led to great restructuring and spatial transformations that produced a high concentration of cities in the south central area in Ghana.

The uneven spatial production structure has led to uneven accessibility of the population to goods, services and jobs and an uneven economic development over space. For instance, a low level of development of the communication structure between the regions further meant that physical distance became a real barrier to interaction and underlined the spatial differences in conditions for production and in access of the population to the fruits of production: employment, goods and services. Again, mobility of capital and labour are restricted by social factors leading to inefficiency and waste (Andrea 1981).

The pattern of regional development and inequality clearly shows inadequate linkages between the formal economy and the informal one. Hence difficulties in access to funds should be considered in terms of regional framework and constraints they impose on development. As Johnson (See Thomi/Yankson 1985) pointed out, "underdeveloped countries as a whole lack a spatial system that promotes equitable growth …and that the central places in developing countries rarely constitute a functional hierarchy. For this reason, they fail to provide the requisite incentives for increased application of labour, capital and human skills"

3. Research Methodology

The objectives of this study suggest that the impact of the financial sector liberalization on SME's and the poor is contingent upon their location. It therefore seeks to relate access to finance by SME's to the nature of the region in which they operate. This has certain implications for the design of the study. It suggests a comparative analysis of firms in different locations in terms of their access to funding (See for example Grossman 1994, Smith 1980).

To capture the differences in regions and the types of SME's the survey approach was adopted. This involved a cross-sectional study of small scale firms or individual entrepreneurs firms in Ghana. The method of sampling was based on convenience sampling. The purpose is to select firms based on their availability for the study.

The data was be collected from 112 SME's located in seven regions in Ghana, namely; Volta, Greater Accra, Central Ashanti, Brong Ahafo Upper West, Western and Eastern regions . The regions have been selected owing to the great disparities in their development. Greater Accra with the nation's capital exhibits considerable levels of development whereas the other regions are comparable in terms of the predominant rural economy and low levels of social infrastructure, especially Upper West Region in northern part of Ghana. Furthermore, a greater number of studies have sought to document the structure of industry in these regions. (See for example, Thomi/Yankson 1985, Andrea 1981).

The regional breakdown of the firms and their industry groups are shown in Appendix1. The Table 1 shows the following distribution of firms according to regions.

Table 1 Regional distribution of the Sample

Region	**No**	**Percent of Total Sample.**
Volta region	15	13.4
Ashanti region	13	11.6
Brong Ahafo region	16	14.3
Greater Accra	19	16.9
Western Region	15	13.4
Central Region	22	19.6
Upper West region	12	10.7
Total	112	100.0

A further distribution of the sample according to size is shown in Appendix 2. Following Aryeetey et al (1994), the SME's were defined as follows;

- Micro enterprises (1-9 workers)
- Small enterprises (10-29 workers)
- Medium enterprises (30-140 workers)

The sample of SME's therefore included ninety micro enterprises (81%). This is followed by 13 (11.7%) small scale firms and eight (7.2%) medium scale enterprises.

Type of Data and Sources

Three types of data were collected. They included data on the characteristics of SME's, responses of the SME's to the financial sector liberalization and the characteristics of the regions in which they operate.

The SME Enterprise level

Following Aryeetey et al (1994), data was first collected on firm characteristics such as:

- Size of labour
- Age of the firm
- Use of infrastructure (power and water) and services(banking)
- Form of ownership
- Products/ Services
- Location
- Turnover
- Goods and service linkages in industry sector and spatial incidence of output and input linkages
- Assets

These characteristics were chosen because they describe the circumstances inn which the firms operate.

Access to funding

To find out how access to loan might be hindered, we looked at three major areas, namely: Application for Loans and their Success rate, Banking Methodologies and Constraints to Access to Loans.

- • Application for Loans and their Success rate: this was measured by the ratio of the number of loan application and the number of approved loans.
- • Methodologies describe the financial institutions' approach to the problems of poor information, high transaction costs, repayment (when legal contracts enforcement mechanisms are lacking, how to give incentives to repay) risk management and sources of funds (savings mobilization, grants, credit lines and capitalization).

The information on methodologies was categorized into formal bank methodologies and informal methodologies. **Formal Bank Methodologies:** Banks use several techniques to pre-screen clients and concentrate on relatively few large transactions. They include; feasibility studies, collateral, track record and minimum deposits. **Informal Methodologies** include: personal relations, family connections or knowledge of business relations

Furthermore, we sought explanations for failure to apply for loans, in the case of application and rejection, what the explanation for their rejection was. In the case of acceptance, respondents were asked whether they had received the loans amount they requested or wanted.

Respondents were grouped into three response categories (see Braham et al 1996). The categories and responses which led to classifications in each category are:

a. a. Fully constrained: either applied and were rejected or did not apply due to:

   i. Insufficient collateral or the ability to document sufficient asset holdings to secure the loan

   ii. High transaction costs, i.e., the costs of obtaining property titles, compiling enterprise projects or paying other loan fees made the effective cost of the loan prohibitive: and,

   iii. Fear of risk, specifically the loss of their wealth prevented them from pursuing a loan

b. Partially constrained: Received a loan but for less than requested or wanted given the loan terms

c. Unconstrained: Either received full loan amount or had no interest in a loan

The regional sector

This level of analysis provides the context in which SME's operate. To establish regional differences variables such as:

- • Regional population
- • quality of public services,
- • geographic dispersion,
- • rates of illiteracy
- • Availability of banking services as measured by the number of banking services per population in a region.
- • And level of social infrastructure was used.
- • Degree of urban/rural dichotomy

Information was mainly obtained from published official documents such as census.

4. Infrastructure and business environment

This section presents relevant data to facilitate a good understanding and appreciation of the infrastructural facilities and the socio-economic differences between the seven regions understudy.

4.1 4.1 Description of the Regions

The table below which was adopted from the 2000 population census shows the extent of the regional disparities in terms of population size among the regions.

Table 2: Regional Distribution of Population in Ghana

Region	Total Population	Share of Population	Proportion Urban	Population Density	Percentage Increase Over 1994	Growth Rate
All Regions	18912079	100.0	43.8	79.3	53.8	2.7
Western	1924577	10.2	36.3	80.5	66.2	3.2
Central	1593823	8.4	37.5	162.2	39.5	2.1
Gr.Accra	2905726	15.4	87.5	895.5	103.0	4.4
Volta	1635421	8.6	27.0	79.5	34.9	1.9
*Eastern	2106696	11.1	34.6	109.0	25.3	1.4
Ashanti	3612950	19.1	51.3	148.1	72.9	3.4
Brong Ahafo	1815408	9.6	37.4	45.9	50.4	2.5
*Northern	1820806	9.6	26.6	25.9	56.3	2.8
*Upper East	920089	4.9	15.7	104.1	19.0	1.1
Upper West	576583	3.0	17.5	31.2	31.6	1.7

Source: Adapted from 2000 National Census, Ghana Statistical Services

*not part of the sample

Description of the Central Regions

The total population of the region is estimated at about 1593823 constituting 8.4% of the country's total population. The region boasts of a number of tourist attractions. Trading, catering and hotel businesses are therefore important economic activity. In addition to this the fishing and agriculture are the other dominant sources of economic activity.

Description of the Eastern Region

The total population of the region is estimated at about 2,106,696 constituting 11.1% of the country's total population. The region is one of the five forest zone areas in which agriculture is a dominant economic activity. The region has about 67.6% of its gainfully employed persons engaged in agriculture which provides a major source of income.

Mining and manufacturing are also important economic activities in the region. There are also several individual small-scale diamond winners, all located within the region. Employment in mining and quarrying constitutes about 8.5% of the national mining and quarrying labour force and also 1.7%. of the region's labour force. Besides diamond mining, there is also gold mining companies operation in the region. Manufacturing employment, on the other hand, constitutes about 9.0% of the region's labour force, and is also 11.7% of the manufacturing labour force in the country.

Description of the Upper West region

Agriculture is the leading source of employment in the region and livestock, cotton and shea butter. The total population of the region is estimated at about 576583 and is 3% of the country's total population.

Description of the Greater Accra Region

Greater Accra is the smallest of the ten regions of Ghana, covering an area of 3,245sq.km (approximately 1.4% of the size of Ghana). The region's capital is Accra, which is also the national capital. The population of Greater Accra region was about 2905,726, representing 15.4% of Ghana's population.

Manufacturing, trading, catering and hotel business, construction, utilities and social services and fishing and livestock farming are the major economic activities in the region. Crop farming is relatively not important in the region's economy as it is in the other regions. However, other agricultural activities such as fishing, poultry and livestock farming are prominent.

The largest concentration of utilities and social services is also in the Greater Accra region, where the sector employs about 21.6% of the region's labour force and which accounts for 26.4% of the total national labour force in the sector.

Description of the Ashanti Region

The Ashanti region covers an area of 24,389 sq.km. which is approximately 10.2% of the size of Ghana. Kumasi, the regional capital, is the second largest city in Ghana.

Ashanti region in 1984 had a total population of 3,612,950 persons which represented 19.1% of Ghana's population. The region is rich in natural resources such as timber, minerals, particularly gold, and arable land suitable for the cultivation of most of the important industrial crops grown in Ghana. Ashanti region is the second most industrialized region after the Greater Accra and controls about 25% of Ghana's manufacturing industries.

An analysis of the region's occupation distribution shows that about 62% of the employed persons were engaged in agriculture and forestry. Further, 9.2% of the region's employed labour was in manufacturing, 1.2% in mining and quarrying and 14% in the service industries of trade, catering and hotel. (National Census 2000)

Description of the Volta Region

The population of the Volta Region is estimated at 1,635,421 persons representing 8.6% of the country's population of the region's population. Table 15 overleaf presents gross domestic product (GDP) by kind of economic activity for 1991/92. Agriculture, a predominant economic activity in the region, accounted for 48.6% of the nation's gross domestic product in 1992, services 34.9% and industry 16.2%.

Description of the Brong Ahafo

The 2000 population census estimated the region's population at 1,815,408, representing roughly 9.6 of the country's population. Agriculture is the predominant occupation in the region employing about 79.5% of the labour force. About 6.7% of the labour force is also engaged in the service industries of trade catering and hotel business, 5.3% in manufacturing, and 6.5% in the utilities industry, health, education, community and personal services sector.

4.3. FINANCIAL SERVICES

In the previous section, we sought to determine the existing differences between the seven regions from which we drew our sample for the study. This was to provide an understanding of nature of the regions and extent of dissimilarity and similarity between them. In order to assess the impact of regional differences on assess to SME funding, it is first essential to examine the financial industry in the regions.

Financial intermediation in the Ghanaian economy is provided by a number of bank and nonblank bank financial institutions which make up the financial system. There are two major sectors; namely the formal and informal systems. The financial industry in Ghana consists of the Central bank, commercial banks, merchant banks and 115 rural banks. Eleven investment and brokerage firms in the semiformal sector are the Savings and loans companies and credit unions and private money lenders and Susuclubs.

The pattern of banking is largely branch and mixed banking involving the provision of commercial, merchant and developing banking services of varying degrees. Most of the banks are also engaged in international business and, therefore, maintain correspondent relationships with foreign banks.

The commercial and developing banks are mostly engaged in both domestic and international business. The domestic banking operations include: the provision of demand, time and savings account facilities, export finance, trade finance, working capital finance, agricultural credit finance, project finance, acceptance and guarantee facilities, trust and funds management, draft mail and telegraphic transfers and business development services. The international banking operations comprise the provision of letter of credit facilities for export and imports, collection and negotiation of bills, remittances and other foreign exchange transactions.

The development banks are primarily engaged in the provision of medium and long term credits to specialized sectors including agriculture, industry, housing and construction.

The merchant banks provide commercial banking services to corporate entities in addition to investment management services, capital market activity, stock brokerage services, hire purchase, equipment leasing ad loan syndication.

The rural banks perform a blend of commercial and development banking services directed at rural communities. They are basically commercial banks established in the rural areas to provide banking services and credit cottage industries, farmers, artisans and traders.

The clearing banks together have a total of 309 branches spatially located over the country and when added to the 115 rural banks, brings the total banking retail outlets for the country to 424. This gives the ratio of number of persons to a banking outlet as 44,604.

Table 3 Regional Distribution of Banking Offices 2002

Region	**Prim Ary Secondary Banks**	**Merchant Bank**	**Rural Bank**	**Total**	**Percentage**	**Population**	**No.Of Persons Per Outlet**
Greater Accra	82	13	6	91	22	2,905,726	31,931
Volta	25		9	34	8	1,635,421	48,101
Eastern	29		19	48	12	2,106,696	43,889
Central	19	3	21	43	10	1,593823	37,066
***Western**	37	5	12	54	13	1,924,577	35,640
Ashanti	35	6	22	63	15	3,612,950	57,348
Brong Ahafo	29		18	47	11	1,815,408	38,626
***Northern**	13		3	16	4	1,820,806	113,800
Upper West	5		2	7	2	576,583	82,369
***Upper East**	8		3	11	3	920,089	83,644
Total	282	27	115	424		18,912,079	44,604

*These regions are not part of our sample. They have been included to enable us arrive at the national average.

Banking activity in the Greater Accra region is very vibrant. This is due to the existence of high level commercial and industrial activities in the region. All the banks and non bank financial institutions have their head offices and, in some cases, a number branch offices in the city of Accra thereby making Accra the centre of the country's financial market. The region has the largest number of retail banking offices of 91, representing 22% of the national total. This gives a coverage of 31,931 persons to a bank, which is lower than the national coverage of 44,604 persons to a bank. The banks are, however, concentrated in Accra and Tema. The Central Bank, the Bank of Ghana is also located in Accra. The region has six rural banks located in the region's rural areas.

In addition to the retail banks, the region has a number of non-bank financial institutions which include two discount houses, a stock exchange, eleven stock brokerage companies, a building society, twenty insurance companies, a venture Capital Fund and a Home Finance Company.

The Central region has forty-three banking retail outlets which constitute 10% of the national banking offices. The region, therefore, ranks fourth after Greater Accra, Ashanti and Eastern in terms of the number of banking outlets. Almost every district capital has one or two banking outlets; however, there is a high concentration of banks in the regional capital, Cape Coast. The number of persons to a bank in the Central region is 37,066 which are lower than the national average of 44,604, indicating a relatively better coverage than some of the regions.

A number of insurance companies also operate in the region with offices in the regional and district capitals, providing life, property, education and casualty policy covers.

The Eastern region has sixty-four banking retail outlets which constitute 11.59% of the national banking offices. Almost every district capital has one or two banking outlets; however, there is a high concentration of banks in the regional capital, Koforidua. The number of persons to a bank in the Eastern region is 32,500 which are lower than the national average of 44,604, indicating a relatively poor access to banking facilities.

A number of insurance companies also operate in the region, with offices mainly in the regional capital, providing life, property, education and casualty policy covers.

All the three primary and seven secondary banks are represented in the Brong Ahafo Region. Currently, there are a total of 47 retail banking outlets in the region representing 11% of the national total banking offices. The region has a coverage ratio of 38,626 persons to one banking office. Twenty –nine of the region's 47 banking outlets are branches of the primary and secondary banks with the remaining 18 being rural banks. Ghana Commercial bank has the largest branch network in the region followed by the Agricultural Development Bank.

These banking offices are fairly evenly spread over the region though there is a higher concentration in the regional capital and the cocoa growing areas. Almost every district capital has one or two banking outlets.

The rural banks are mainly located in the rural areas where previously there were no banking facilities. There are also a number of insurance companies operating in the region with offices located in the regional capital and, to a limited extent, in the district capitals. These companies provide insurance services covering life, property and casualty policies.

Table 3 shows that in the Volta region, there are thirty-four banking retail outlets, including eighteen rural banks, constituting 8% of the national banking offices. The table shows the number of persons to a bank indicates that in the Volta region, one banking outlet serves, on the average, 48,101 persons compared to the national figure of 44,604 implying that, on the average, the people in the region have little accessibility to banking facilities. The region ranks sixth in regional accessibility to banking facilities.

Ashanti region has 63 banking retail outlets representing 15% of the total banking offices coming after Greater Accra region which has the greatest number of outlets. The banking offices in the Ashanti region are fairly evenly spread over the region though there is a higher concentration in the regional capital. Almost every district capital has one or two banking outlets. The rural banks are mainly located in the rural areas where previously there were no banking facilities. The number of persons to a bank in Ashanti region is 57,348 which is higher than the national average of 44,604 implying a less than average coverage.

5. Terms and Access to Credit in the Regions

The previous sections examined the extent of differences the infrastructure and business environment among the regions. This section examines the extent to which SME's had access to funding in the regions. To do that we looked at a number of indicators, loans received from financial institutions and existing constraints in accessing funds. To consider these indicators, first it essential to examine the sources of seed money from the entrepreneurs.

5.1 5.1 Sources of Seed Fund

Start up capital is one of the major problems facing SME's in Ghana. Since income levels are low and most people have not been build up savings on their own starting a new economic venture becomes an arduous task. This is where access to funding from financial institutions becomes important. The table below provides us information about the sources of funding by our sample of 113 firms.

Table 5 **Sources of Seed Fund**

Regions	Number (N) of firms and percentages percent	Own personal savings	Support from friends/relatives	Bank loans	NGO support	Loans from relations
Volta region	N percent	15 100%	11 73%	4 26%		6 40%
Ashanti region	N Percent	13 100%	5 38%	6 46%		3 23%
Brong Ahafo region	N percent	16 100%	3 18%	7 43%		1 6%
Greater Accra region	N percent	16 80%	2 10%	8 40%		1 5%
Western region	N percent	11 73%	2 13%	8 53%	1 6%	1 6%
Central region	N Percent	16 72%	6 27%	1 4.5%		2 9%
Upper west region	N percent	9 90%		3 30%	1 10%	
total		**84%**	**18%**	**32%**	**1.7%**	**12%**

Table 5 shows the number of firm responding to the different sources of funding in a region and their corresponding percentages. The table indicates that the majority of firms (84%) obtained their initial investments through their own financial resources. Banks loans were only a second option (32%) and NGO's provided only 1.7% of funds.

The table further suggests that financing of SME's does not come from only one source, but from a combination of other sources. For instance, while in Ashanti, Volta and Greater Accra regions all firms indicated that they depended 100% on their own sources, support from friends and relatives were also important.

In general, the table indicates that banks were not very supportive. For instance, in the central region bank support was as low as 4.5%.The only region in which more than half of the firms reported of support from the banks was the Western region.

5.2 5.2 Bank loans received

Another important indicator of access to funding is the success rate in applying for a loan in a bank. In this section we therefore examine the success rate in accesses to loans, the types of financial institutions granting the loans and methodologies adopted in granting the loans.

Success Rate in Loan Application

Table 6 shows the extent to which respondents applied for loans and how successful they were. The table indicates that only 45% of sample firms have ever applied for loans from a bank since 1995. On the average only 7% were discouraged from applying and 23% never applied. Out of the 45% applications, 31% of the firms were successful. More than half of firms in Ashanti, Brong Ahafo, greater Accra and western region had ever applied. Of these Greater Accra and Ashanti topped with

65% and 61% respectively. Central region and Volta regions showed the lowest level of applicants with 18% and 33% respectively.

Though percentage of the sample firms which had applied for loans were not very many, the success rate of applicants appeared quite high.. In both Western region and upper West region, 100% of applicants were successful while in the Volta region; Ashanti region, Brong Ahafo region and Greater Accra region 60% were successful. The lowest success rate was in the Central Region where only 22% of applicants obtained loans. On the whole there was a success rate of 68.8% for firms applying for loan.

Table 6 Loan Application Success Rate

Regions	No. of application for bank loans	Enquired but discouraged	Never applied	No. of loans granted	Success rate	No. of failures before one successful
Volta region	5 33%			3 20%	60%	1 6%
Ashanti region	8 61%	2 15%	3 23%	5 38%	62%	1 7%
Brong Ahafo region	8 50%	1 6%	3 18%	5 31%	62%	
Greater Accra region	13 65%	2 10%	3 15%	9 45%	69%	3 15%
Western region	8 53%	2 13%		8 53%	100%	1 6%
Central region	4 18%	0 0	16 72%	1 4%	22%	
Upper west region	5 41%	1 8%	1 8%	5 41%	100%	1 8%
Total	**45%**	**7%**	**23%**	**31%**	**67%**	**6%**

The Lending Financial Institutions

Table shows the types of financial institutions which provided the loans to the SME's.

Table 7 The Financial Institutions

Report Region		GCB	NIB	ADB	FIRST ALLIED	MERCHANT BANK	NBSSI	SCB	SSB
Ashanti Region	N	3		6	1	17	1		1
	Percent	23%		46%	7	%	7%		
Brong Ahafo Region	N	2		1				1	
								6%	
	Percent	12%		46%					
Greater Accra Region	N	2		1				1	5
			1						
	Percent	10%	10%	10%				10%	25%
Western Region	N	6	3	1				1	
	Percent	40%	15%	6%				6%	
Central Region	N	2		1				1	
								4%	
	Percent	9%		4%					
Total	N	20	5	10	1	1	1	4	6
	Percent	33%	8%	16%	2%	2%	2%	7%	10%

The table shows that the majority of financial institutions which offered the loans come from the formal banking system offered. Amongst them the Ghana commercial Bank (33%) provided the most loans followed by the Agricultural Development Bank (16%). This was especially in the Volta Region, Ashanti and Western region.

Banking Methodologies

Much of the answer to access hinges on lending practices of formal and informal financial institutions. Following Aryeetey (1996) and Webster (1996), two major indicators were used to assess access the methodologies for providing services to members.

A key constraint in accessing loans from banks comes form the methodologies used by Banks. That is the principles for designing financial services by banks. It is about the financial institutions' approach to dealing with the problems of poor information, high transaction costs, repayment (when legal contracts enforcement mechanisms are lacking, how to give incentives to repay) risk management and sources of funds (savings mobilization, grants, credit lines and capitalization).

In many cases small and medium enterprises' (SME's) are not able to assess loans because of conditions attached to thwe banking methodologies. To find out how access to loan might be hindered, we looked at types of Banking Methodologies adopted by the banks and the entrepreneurs perception of the constraints they posed.

The information on methodologies was categorized into formal bank methodologies and informal methodologies.

Formal Bank Methodologies: Banks use several techniques to pre-screen clients and concentrate on relatively few large transactions. They include; feasibility studies, collateral, track record and minimum deposits. **Informal Methodologies** include: personal relations family connections or knowledge business relations

The findings are shown in the table below.

Table 8. Types of Collateral

Regions	Landed property	Bank savings	Other physical assets e.g store	Guarantor	farm land
Volta region	4 26%	4 26%			
Ashanti region	5 38.6%	8 61.5%	5 38.6%	6 46%	1 7.6%
Brong Ahafo region	5 31%	8 50%	3 18.7%	7 43%	
Greater Accra region	10 50%	8 40%	6 30%	3 15%	6 30%
Western region	9 60%	10 62%	2 12%	2 12%	1 6%
Central region	3 13.6%	4 18%	2 9%	1 4.5%	1 4.5%
Upper west region	2 20%	5 50%	2 20%	3 30%	
Total	**42%**	**17%**	**19%**	**7%**	**12%**

Table eight indicates that, in general bank savings and landed property are the most important collateral. Using guarantors was the least option. While savings and other physical assets like land and guarantors were fairly demanded..

However there were a number of dissimilarities among the regions. For instance, in Ashanti and Western Region, banks laid more emphasis on savings. While in Greater Accra landed property was in most demand. Generaaly, it can be observed from the table that all the different types of collateral are in demand in one way of the other in the regions. It can therefore be conluded that banking methodologies do not differe a great deal in the regions.

However, we observed from our discussions with the entrepreneurs thatdifferent methodologies for the ifferent industry sectorsand constraints limiting access. For instance, in the Ashanti region interaction with shop owners revealed that most shop owners who were willing to apply for loans from the financial institution were likely to be granted the loan. Collateral demanded depended on the type of business one is operating. Shops selling fast moving consumer goods are more likely to be granted loan without collateral being demanded. For instance, we found that demand for loans by carpenters was more likely to be refused loan if compared to traders in fast moving consumer goods. Carpenters in Kumasi have a Small Scale Carpenters Association, which at times fight for their interest. The baseline is to operate an account with the bank for sometime before loans are approved.

For most traders, bank officials visit their shops to inspect the nature of business to be sure there is no misrepresentation on the part of loan seeker due to problems of asymmetrical information. When the bank officials are satisfied with the business operation, the loan is granted.

Majority of loans granted was for 91 days (3 months) and non-exceeded one year (12 Months), They were mainly to clear goods at the port or stock up store to meet seasonal demand. Most loans were short-term loans. . The main reasons banks preferred short erm loans were that the short period it would put pressure on them so that they was be able to repay the loan. They believed that long term loans lead to indebtedness and there would be payment problems.

In the past National Board for Small Scale Industries gave loans to some carpenters but the recovery rate was very low so they no longer give them loan. The general view being held was that the Rural Banks and Savings and Loans companies were more prepared to give loans to small businesses than the commercial banks.

It was further observed that a lot of firms have difficulties accessing loan facilities from the banks. This is due to the fact that the banks often require, detailed loan proposal with sound financial records and a collateral security. More often than not, such micro firms are not in the position to meet such requirements. Thus some of them resort to the use of overdraft or the use their treasury bills as a collateral security.

5.3 Credit Constraints in the Regions

To assess the constraints in accessing a loan a series of questions concerning respondents borrowing needs, experiences and perceptions were developed. Following (Braham et al 1996) questions were asked about explanations on failure to apply for loans, in the case of application and rejection, what the explanation for their rejection was. In the case of acceptance, they were asked whether they had received the loans amount they requested or wanted. If they had not pursued formal loans they were asked were not.

The responses were used to group respondents into three response categories (see Braham et al 1996). The categories and responses which led to classifications in each category are:

a. a. Fully constrained: either applied and were rejected or did not apply due to:

- • Insufficient collateral or the ability to document sufficient asset holdings to secure the loan

- • High transaction costs, i.e., the costs of obtaining property titles, compiling enterprise projects or paying other loan fees made the effective cost of the loan prohibitive: and,
- • Fear of risk, specifically the loss of their wealth prevented them from pursuing a loan

b. b. Partially constrained: Received a loan but for less than requested or wanted given the loan terms

c. c. Unconstrained: Either received full loan amount or had no interest in a loan

The findings are shown in the table below.

Table 9 Regional Credit Constraints

	Fully constrained	Partially constrained	Unconstrained
Volta Region	80% (12)	13% (2)	6% (1)
Ashanti Region	61% (8)	23% (3)	15% (2)
Brong Ahafo	68% (11)	18% (3)	12% (2)
Greater Accra	50% (10)	30% (6)	15% (3)
Western Region	46% (7)	26% (4)	26% (4)
Central Region	90% (20)	4% (4)	0% (0)
Upper West Region	41 % (5)	25% (3)	16% (2)
Total	62 %	19%	12%

A general pattern emerges on the degree of constraint felt by the firms in accessing funds. A good majority of the firms 62%, felt fully constrained in assessing funds while 19% felt partially constrained. Only 12% felt unconstrained in accessing funds. This means a good majority of firms 81% felt somewhat constrained in having access to funding.

On the regional level the trends were the same. Regional differences occurred only in terms of the degree respondents perceived the level of constraint. None of the regions provided any evidence of unconstrained access to funding. Central region provided the most unfavourable report on access to funding (0% of unconstrained and 90% of full constrained access). Western region provided the most favourable results with 46% firms reporting of full unconstrained and 26% for both partially constrained and unconstrained access. Two regions, Volta and Central Regions, had worst report with the highest percentage of fully constrained firms, 80% and 90%, respectively.

A number of reasons were given by respondents on why they felt constrained in obtaining access to funding. They included the following:

- They don't expect to be given
- Cannot fulfil requirements
- Banks do not lend to dress makers.
- Attitude of bank officials
- The process for acquiring the loan
- Simply rejected loans for lack of a bank account
- Not interested in banks because business is bad
- Had to change bank before getting loan
- High interest rates
- Asked to join an association before getting the loan
- Because friends tried but were not given

Some do not want others to know about their financial difficulties and would therefore not go for loan. Others feel the interest is too high. With regards to the carpenters some said the ban on the use of chain saw has affected their business, they are not getting enough wood to meet production target. They said the sawmills are exporting all the quality woods leaving them with the rejected ones. Lack of wood also makes it difficult for them to apply for laons.They feel if they go for loan, they may not be able to pay it. Some of the carpenters who enquired but were discouraged said the lack of working capital has made it that they are not able to produce sample products for customers to appreciate their creativity in order for them to place order.

The interviews revealed that any exporting firm that applies for loans from the financial institution would be granted the loan. This is due to the fact that their cash flow is good as they earn foreign currency.

Shop owners who were willing to apply for loans from the financial institution were likely to be granted the loan provided the shop owner could provide some collateral

(Land, house, car). On the other hand businesses with good cash flow do not need landed property as collateral.

If one compares the demand for loans by small business such as the shop owners in Takoradi with Ashanti and Brong Ahafo Regions, shop owners in these two regions are more likely to demand loans than their counterparts in Western Region. Some of the reasons that account for this includes the small size of the market in Takoradi and the fact that shops are being open in residential areas and this is having some impact on shops in the central business district.

Most shop owners said their businesses have been not been doing well in recent times so they are not willing to go in for Bank loan as they feel they may not be able to sell fast to repay the loans. A few said some relatives in the past defaulted in repayment of loan and their collateral's were forfeited so they really have to plan very well before they go in for Bank loans.

Firms that are into export uses the services of the banks for their foreign earnings repatriation and for their cash management due to this, such firms are able to secure loans without much straggle.

Summary of findings Discussions and Conclusions

One of the key objectives of the financial sector liberalization programme (FINSAP) was to address the structural and institutional weaknesses of the financial sector in Ghana. It sought to ensure that businesses have access to institutional credits and deposit mobilization, and also reduced excess liquidity in the country in a regulated environment. It held the view that a strong and competitive financial sector could make significant contributions towards increasing mobilization of domestic savings currently held in the form of non-financial assets.

A major question for this study, therefore, was to determine and acess to loans by Ghanaian small scale entrepreneurs. The study also examined the extent to access to funds in both the formal banking system and Non Bank Financial institutions and Microfinance institutions differed in the seven regions in Ghana. The findings of this study included:

- • There was no consistent pattern in the differences in access to loans in the regions. While some regions were similar in terms of a particular dimension of access to loans they could differ in other aspects.
- The success rate of applicants appeared high enough. In both western region and upper West region, 100% of applicants were successful while in the Volta region; Ashanti region, Brong Ahafo region and Greater Accra region 60% were successful. The lowest success rate was in the Central Region where only 22% of applicants obtained loans. On the whole there was a success rate of 68.8% for firms applying for loan. This suggests good accessibility.

- • A general pattern emerges on the degree of constraint felt by the SME's in accessing funds. A good majority of the firms 62%, felt fully constrained in assessing funds while 19% felt partially constrained. Only 12% felt unconstrained in accessing funds. This means a good majority of firms 81% felt somewhat constrained in having access to funding.
- • Though none of the regions provided any evidence of unconstrained access to funding. Regional differences occurred only in terms of the degree respondents perceived the level of constraint. Central region provided the most unfavourable findings on access to funding with 0% of unconstrained and 90% of full constrained access. Western region provided the most favourable results with 46% firms reporting of full unconstrained and 26% for

both partially constrained and unconstrained access. Two regions, Volta and Central Regions, had worst report with the highest percentage of fully constrained firms, 80% and 90%, respectively.

- • Evidence from this study suggests that lending policies are not particularly designed to fit particular regions. Credit duration, terms of payment, required security and the provision of supplementary services do not fit the needs of target group or particular regions.

A common observation we made in all the regions studied was respondents' perception of access to funding. Over the years certain beliefs and imagined problems about obtaining finance from the formal banking system still prevailed and have served as major constraints in accessing funds. This suggests the need for educating and proper orientation of the poor and SME's about the new developments in accessing funds. It is the view of the study that though banking facilities and social infrastructure might differ amongst the regions, there is a common denominator that is a major constraint to access to funding. This is the nature of the SME's and the perception of the Owners.

In view of this, a number of recommendation are made here

- • There is the need to educate SME's about banking methodologies for granting loans. This would clear the myths and beleifs held about the banking system.
- • SME's need to be properly organised to make them able to access loans from banks. Most SME's have not been able to access loans because over the years they have not built up the right infromation , eg., book keeping and accounts to enable proper assessment to be done by the banks.
- • The operations of some SME's are not econmical, scale efficiency can only be achieved through co-operation in performing various economic activities.

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Apendix 1

Firm Demographics:

Main products of firm.	Number	Percentage
Furniture and handicrafts	19	14.2
Building Materials & hardware	19	16.8
Dress making	8	7.1
Veneer and lumber	2	1.8
Electrical repairs gas cooker	4	3.5
Hair dressing	2	1.8
Restaurant	1	.9
Business centers	1	.9
Auto mechanic	2	1.8
Vulcanizing	1	.9
Retailing (general goods)	29	25.7
Clothing and textiles	3	2.7
Drinking bar	1	.9
Optical center	1	.9
Poultry and farming	5	4.4
Electronics	2	1.8
Spare parts dealers	3	2.
Building & construction consultancy	3	2.7
Computer services	2	1.8
Arts & design	2	1.8
Educational institution	2	1.8
Coconut oil production	2	1.8
Total	112	99.1