
Enhancing access to institutional financial support for small and medium enterprises in the Sekondi-Takoradi metropolis of Ghana

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ABSTRACT

This paper discusses the factors which affect access to financial support by small and medium enterprise (SMEs) in Sekondi-Takoradi. Financial resources are crucial in the life of all businesses including SMEs. However, access to financial support comes with the problems of information asymmetry, moral hazard and adverse selection. The factors that influence access to financial support are investigated using a non-interventional cross-sectional study design. Quantitative data were collected from 303 randomly selected SMEs using interview schedules, while qualitative data, using an interview guide, were obtained from 21 institutions offering financial support to SMEs in Sekondi-Takoradi. With the use of interpretations of the qualitative data, and descriptive statistics including cross tabulations, the results showed that interest rates, collateral, guarantors and, business and financial information, and financial literacy play a role in the access of institutional financial support by SMEs.

Key words: small, medium, enterprises, access, institutional, financial, support, Ghana.

Introduction

In a 2007 contribution to national development strategies policy notes for the United Nations Department for Economic and Social Affairs (UNDESA), Chandrasekhar argued that successful development should be inclusive and deliver a broad-based improvement in the quality of life, in addition to the focus on productivity growth and per capita gross domestic product. According to Chandrasekhar, growth depends upon the share of national income that is devoted to investment, but in order to realize investment potentials there must be improvement in access to capital. This view is very pertinent with respect to small and medium enterprises.

Small and medium enterprises (SMEs) are considered as very important to the development of countries due to the enormous contributions that they make towards the reduction of poverty and ensuring long-term social stability (Beyene, 2002). It is also argued by Raynard and Forstater (2002) that it is through the promotion of small enterprises that the international communities and the world at large can make progress towards the global target of halving poverty levels by the end of year 2015. This view is supported by Carmichael (2011) who states that even though microfinance alone is not a panacea for poverty reduction, it can make important contributions with respect to improved housing, water supply, education and health services.

According to Lieldholm and Mead (1979) and Gills, Perkins, Roemer and Snodgrass (1987), when a country has a low income per capita, the employment generation of its small business sector tends to be high. In explaining the Harrod-Domar model, Gill et al. argued that, considering the lower saving levels and higher unemployment and underemployment levels of poor countries, these countries have the potential to achieve higher growth rates by economising on capital and utilising as much labour as possible through the development of their SMEs. This is because, as was concluded by Green, Kirkpatrick and Murinde, (2006) and Agyapong (2010), SMEs contribute to development through employment creation and income generation which ultimately lead to poverty reduction. Such views echoed that of Hussain (2000) who also opined that SMEs have the likelihood to bring about development through poverty alleviation because they provide employment to both rural and urban poor as they are sited everywhere and tend to use more labour-intensive processes of production.

Small businesses bring about increased incomes, diversified livelihood opportunities and provide more secure employment for the poor, thus reducing poverty, especially in developing countries (Admassie & Matambalya, 2002; Duncombe & Heeks, 2005). Furthermore, they provide social benefits to the poor including enhancement of skills, increased self-confidence and security against income loss. Therefore, a school of thought argues that subsidising SMEs is a poverty alleviation tool (Beck, Demirguc-Kunt & Levine, 2005).

In the opinion of Cull, Davis, Lamoreaux and Rosenthal (2005), accessing finance is very critical to SMEs because although SMEs are more often than not established with the entrepreneurs' equity and tend to depend on retained earnings for growth, they need financial resources for working capital, to withstand adverse business conditions and to take advantage of new technologies and opportunities. Cull et al. added that managerial competence is also essential in combining the factors of production so that the production possibility frontier shifts outward as productivity increases leading to growth and development.

Kuzilwa (2005) explains that traditional microeconomic theory regards finance as a corporate factor of production. This stems from the fact that irrespective of the size and age of the firm, finance is normally required for three standard uses. These include capital investment, either for start-up or expansion, in machinery and acquisition of premises, financing working capital during start up or while expanding and for the purchase of operating materials. The pecking order theory also talks about the importance of finance especially through credit to small businesses (Olawale & Odeyemi, 2010). These make access to external sources of finance in the form of credit very important to small enterprises.

The consequence of limited access to financing and long-term capital which, in the view of Asian Productivity Organization [APO] (2007), is the basis on which companies are built, is low productivity. Herrington, Kew and Kew (2008) explained that one of the reasons for high failure rates of new SMEs in South Africa is the non-availability of formal sector financing. Notwithstanding the importance of finance, access to financial resources comes with issues of information asymmetry, moral hazard and adverse selection. According to Green, Kirkpatrick and Murinde (2006), the rationale for providing financial support to SMEs is based on the argument that a fundamental cause of poverty is market failure. Market failure which is a consequence of market imperfections, asymmetric information and the high fixed costs of small scale lending, limits the access of the poor to the formal financial sector. This pushes them to the informal financial sector, and in the extreme scenario, it leads to financial exclusion.

Because of the difficulties associated with access to financial resources, Chandrasekhar (2007), for instance, proposes policies that will ensure financial inclusion. Some of the proposed ideas are branch banking in rural or underserved areas, prevention of credit migration and concentration, directing credit, institutional safeguarding and supply leading role by financial institutions. In their contribution to the debate, Widdowson and Hailwood (2007) argued that financial literacy has a role to play in promoting a sound financial system that can lead to financial inclusion. Meyers (1984), in the pecking order theory, also explained the importance of institutional financing to SMEs.

The arguments and propositions that have been enunciated above can be contextualized within the SME setting in Ghana. According to Abor and Biekpe (2006), the most significant weakness facing SMEs in Ghana, and by extension those in the Sekondi-Takoradi metropolis, is their lack of access to external finance. In this regard, Quarshie, Enu-Kwesi and Mensah (unpublished) explained that the implication of limited or inadequate funding is that SMEs are caught in a vicious cycle of low investment, low incomes, low profits and savings for investment. Some studies have focused on the problem of inadequate funding available to SMEs in Sekondi-Takoradi metropolis and access to institutional financial support, but limited allusions were made to the issues of financial literacy and financial inclusion, which this study incorporated as additional areas that can be addressed in the process of enhancing access. Specific issues examined were the characteristics of SMEs and factors that influence access to financial resources.

The next section of this paper focuses on the theoretical and conceptual issues underpinning this study, followed by the methodology used. This is followed by the discussion of the results. The final section captured the conclusions and the policy implications.

Theoretical and conceptual issues on access to financial resources

The agency theory of Jensen and Meckling (1976), states that an agency relationship is a contract in which one or more persons, the principal(s), engage(s) another, the agent(s). It arises in any situation involving a cooperative effort between two or more parties and as such there might not be a clear cut principal-agent relationship. In view of this, there is the problem of one party, the agent, behaving in a way which is against the interest of the other party, the principal. Information asymmetry which is related to adverse selection and moral hazard is one problem associated with the agent-principal relationship. According to Stiglitz and Weiss (1981), agency problems such as information asymmetry and moral hazard can impact the availability of credit to businesses.

Asymmetric information, according to Hubbard (1994), exists when borrowers possess private information about a financial transaction which is better than the information the lenders have about the borrowers' prospects and use of future funds. Therefore in some situations between a bank and prospective borrowers, the bank is unable to distinguish between those who have the ability to repay the loan and those who do not or those who would divert the loan into riskier ventures and those who would not. Consequently, the bank would charge interest rate which is the average of the rates that it would charge to low risk and high risk borrowers if symmetric information existed (Baye & Jansen, 2002).

In the view of Stiglitz and Weiss (1981), financiers may as a result of asymmetric information, adverse credit selection and monitoring problems, ration credit by offering an array of interest rates that would leave a significant

number of borrowers without access to credit. Rose (2000) also contends that information asymmetry results in the problems of adverse selection and moral hazard, and Miller and Van Hoose (2001) explain that adverse selection occurs when there is the potential for high risk borrowers to go for loans.

Where there is information asymmetry, interest rates are high resulting in a situation where low risk borrowers decide not to borrow, and this often leads to an increase in the proportion of loans issued to high risk borrowers (Baye & Jansen, 2002). In Ganbold's (2008) view, adverse selection pertains when there are high risk borrowers who are categorised as such because while some may be unable to pay their debts, others are simply unwilling to pay their debts and are thus prepared to borrow at high interest rate. When the lenders are aware that this problem exists, they become reluctant to lend, resulting in credit rationing.

Moral hazard is more pronounced with small firms as a result of the blurred line between the business and the entrepreneur (OECD 2006). It occurs in a situation where after the borrower or agent has received the loan or funds from the institution or principal, the former uses the resources in a way which is inconsistent with what was specified in the agreement between the two parties (Abor & Biekpe, 2006).

In order to deal with the problem of information asymmetry and the issues of adverse selection and moral hazard, financiers adopt certain measures which would enable them to make loans available to the borrowers with the ability to repay or to those who will not divert the funds into riskier ventures (Hubbard, 1994; Olawale & Odeyemi, 2010). These strategies include demanding credit reports, collateral and monitoring the activities of the borrower after the facility has been granted.

The pecking order theory by Myer (1984) ranks the sources of funds that firms use to finance their business activities. This hierarchical order indicates that the first option is for businesses to use internally available funds for financing their operations. Sourcing for external debt is the second option, while external equity is the third alternative. Preference ordering reflects the relative costs of the various sources of finance, and this approach is particularly relevant to small firms since the cost of external equity to them may be even higher than for large firms. This order of financing business activities, according to Lemuel (2009), is a common practice among SMEs. Lemuel adds that there is an inverse relationship between profitability of SMEs and their external borrowing. Thus the reliance of SMEs on borrowing or credit declines as they become profitable.

In the case of SMEs, the source of finance with the least cost associated with asymmetric information is often provided by existing managers who, in most cases, are owners of the firm (Bartholdy, Mateus & Oslon, 2010). Since SMEs' management and shareholders are often the same persons, internal equity and internally generated funds have no cost associated with information

asymmetry and is thus the cheapest source. Hence, the first choice of financing for SMEs is internal sources but they would seek credit if this source (internal funds) were unavailable. Inadequate internal funds explain one demand side determinant of access to finance through credit by SMEs.

The agency (Jensen & Meckling, 1976) and pecking order (Myer, 1984) theories show the factors that influence access to finance in the form of credit on both the demand and supply sides. On the demand side, that is, from the side of SMEs, small businesses demand finance through credit when they do not have adequate internally generated funds to finance their business activities. However, where they will demand this finance is informed by the available knowledge which is a function of their financial literacy levels (Widdowson & Hailwood, 2007). On the supply side, that is, on the side of financiers, providers of credit would extend credit to SMEs if certain conditions in the form of the provision of collateral and accurate business information are met by the latter, in addition to a policy environment that encourages financial inclusion (Chandrasekhar, 2007).

Collateral is an asset that is pledged by a borrower to a lender as security against default on a loan (Baye & Jansen, 2002), and is measured by using the presence of property as its indicator (Olawale & Odeyemi, 2010). In the view of Barbosa and Moraes (2004), firms that invest heavily in tangible assets tend to have higher financial leverage since they can borrow at lower rates of interest if their debts are secured with such assets. Collateral requirements also reduce the moral hazard problems discussed in the agency theory since it adds potential cost to borrowers if they do not put up their best effort. When collateral requirements are in place, the perverse incentive of the borrowers' willingness to divert funds towards private use or extract the whole surplus of the project is diminished. This action would increase the chance of the borrower losing the asset pledged as collateral (Barbosa & Moraes, 2004).

Additionally, Pretorius and Shaw (2004) explain that the business information of SMEs plays an important role in the ability of SMEs to access financial support. According to them, financial information, for instance, is one of the primary measures of the capacity of a business to repay its debts, and this financial and business information can be found in the business plans of firms as well as the financial records. In their opinion, small business owners who make business plans available to banks and other support institutions stand a good chance of obtaining support. This is because creditors use the financial information provided by firms to analyse the present performance of the business as well as predict the future performance of the enterprise (Kitindi, Magembe & Sethibe, 2007). According to Kitindi et al., studies in Botswana indicate that formal lenders require financial statements and audit reports from prospective borrowers.

Many of the foregoing issues or factors can be addressed by financial literacy. Widdowson and Hailwood (2007) used ideas from several authors to

compile a number of elements that determine financial literacy. These elements include basic numeracy skills, an understanding of the benefits and risks associated with particular financial decisions such as spending, borrowing, leveraging and investing, understanding the trade-off between risk and return, main attributes of different types of investments, and financial policies. Other elements are the ability to appreciate the benefits of diversification, the time value of money, and the capacity to seek professional advice. The abilities require financial education (World Bank, 2009) to empower individuals to enable them to analyse diverse options and take actions that further their goals.

Methodology

This was a non-interventional cross-sectional study which used mostly a quantitative approach. The SMEs and financial support institutions in the Sekondi-Metropolis constituted the population for the study. The simple random sampling technique, specifically Excel's RAND function was used to select 308 units out of which 303 responded, from a list of 1,547 enterprises provided by the Business Advisory Centre (BAC) of the National Board for Small Scale Industries (NBSSI) in Sekondi-Takoradi, and 31 out of the 32 institutions offering financial support to SMEs. These numbers were determined based on the sample size determination formula by Krejcie and Morgan (cited in Sarantakos, 2005), which assumes an error margin of five percent and a 95 percent confidence level associated with the results.

Data collection occurred between April 2011 and July 2011. An interview schedule was used to collect data from the SMEs and a questionnaire was used to collect data from the support institutions. The support institutions include banks, savings and loans companies, microfinance institutions, credit unions and state agencies. With the exception of the banks where 12 instruments were retrieved, all the questionnaires from the other support institutions were recovered and as a result 21 instruments from the institutions were used for the data analysis. The questionnaires from the banks and support institutions were gleaned for emergent general issues that related to access and inclusion. The data from the interview schedules were processed using Statistical Product and Service Solutions (SPSS) version 17.0 and Microsoft Excel 2007. The analysis of the data was done by using descriptive statistics and data presentation tools such as frequencies and percentages, tables and figures and, cross tabulations.

Results and discussion

The first couple of paragraphs focus on the characteristics of the SMEs. These are followed by discussion of the factors that influence access to financial resources. Except where it is explicitly stated, the findings relating to the SMEs are based on the 303 who participated. The SMEs in Sekondi-Takoradi constitute a heterogeneous group with majority (53.1%) of the 303 enterprises in the service sector and the rest in the manufacturing and primary sectors. The

activities that these enterprises undertake include poultry, upholstery and carpentry, and electrical work. The enterprises were dominated by sole proprietorships which constituted about 94.1 percent of the SMEs involved in the study.

The majority of the enterprises are managed in a personalized way because out of the 295 of the businesses owners operating banking accounts, many of the accounts (83.7%) were in the names of the business owners. About 49 percent of the 303 businesses did not prepare business accounts and in cases where accounts were prepared, they were done by the managers many of whom have low levels of education and competencies. Enterprises without business registration comprised 67.7% percent of the SMEs.

Factors influencing access to financial resources

The demand side issues affecting access to financial resources are seen in the pecking order theory which says that businesses demand credit from external sources when they have internal resource constraints (Myer, 1984). On the other hand, the supply side factors are derived from issues of information asymmetry in the agency theory where in order to satisfy themselves that their debtors have the capacity to efficiently manage and pay back the loan, support institutions put in place certain conditions and requirements (Baye & Jansen, (2002).

The results showed that the reasons for which SMEs require institutional financial support were unavailable own resources as seen in 41.3 percent of 247 responses and inadequate retained earnings(31.6%) as shown in Figure 1. This finding is similar to that of Lemuel (2009) who concluded that that access to financial resources from external sources is essential to small businesses in view of the fact that many SMEs tend to experience problems of undercapitalisation when the businesses start to grow.

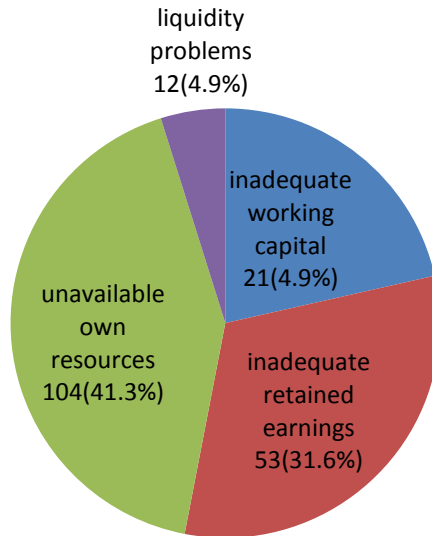


Figure 1: Reason support is required
Source: Field work, 2011

This study revealed that many factors play a role in the determination of the rates of interest that are charged on loans by the banks. These factors include the level of risk associated with the borrower, the ability to meet certain requirements, insurance fee, agency fees, and operational costs. The other support institutions take into account operational costs, agent fees, processing fees and the sustainability of their schemes in fixing the interest rates.

Gleaning of the data provided by the banks involved in the study showed that the insurance and agent fees are usually a percentage of the loan amount and the processing fee is a fixed rate. Similarly, the MFIs and the SLCs incorporate all these charges in the interest rates. However, in the case of the state agencies and the credit unions, processing fees are not part of the interest rate and the borrower has the option to either pay it upfront or have it deducted from the loan amount. These findings are consistent with the conclusions of Tetteh-Ossom (2011) that charges paid by SMEs on loans include processing, facility and legal fees.

The level of risk associated with the borrower is also factored into the interest rate and this could be up to 10 percentage points. This is similar to the

findings of Amonoo et al. (2003) that the risk associated with an applicant constituted 16 percent of interest rates charged by the banks studied. In this study, 8.9 percent of the 303 businesses indicated that they were discouraged from applying for credit due to the high interest rates. Similarly 40.6 percent of the enterprises stated that credit was expensive, a situation that is consistent with Classens' (2006) conclusion that cost is one of the factors which hinder access to financial services.

However, the support institutions in this study, including the commercial banks, explained that they prefer not to give loans to businesses that they are not convinced are capable of repaying. They explained that this makes them avoid adverse selection, a situation where loans are given to borrowers who are incapable or unwilling to repay and are thus prepared to borrow at high interest rates. The assertion by the support institutions also corroborates the observation by Demirguc-Kunt et al. (2008) that involuntary exclusion from access occurs when enterprises are seen to be high risk. This also confirms the issue of adverse selection which states that more risky clients are more likely to go for loans in the face of high interest rates (Olawale & Smith, 2010).

Another issue addressed is financial and business information, which can be placed within the realm of financial literacy as an influencing factor for financial inclusion (Chandrasekhar, 2007; Widdowson & Hailwood, 2007). In order to reduce information asymmetry, support institutions depend on financial and business information from the borrower (Baye & Jansen, 2002). With respect to this issue, 231 SMEs provided multiple responses that totalled 422. The study showed that out of 231 SMEs that had requested for support, the institutions demanded financial information 26.5 percent of the time, and business information 15.9 percent of the time. The specific requirements under business and financial information are management structure, business plan, cash flows, credit history and audited accounts. All these are elements of financial literacy as compiled by Widdowson and Hailwood (2007), and the findings concur with those of Olawale and Odeyemi (2010) that business plans, annual financial statements and audited accounts are demanded by banks from prospective borrowers.

The banks involved in this study explained that information such as audited accounts afford them the opportunity to access the financial health of the business. Their views coincide with the conclusion of Pretorius and Shaw (2004) that financial information is one of the primary measures of the capacity of a business to repay its debts. Business information, according to the banks enables them to know about the management structure as well as the competence of the personnel. It also provides a situational analysis of the feasibility of the project and how the funds would be used, thus allowing for monitoring to avoid the diversion of the funds. The requirements by the banks are also consistent with the position of Kitindi et al. (2007) who concluded that lenders use the business

information of the enterprises to assess their performance and make predictions of their future performance as a measure of their ability to repay their debts.

Creditors demand collateral as it enables them to reduce the problem of information asymmetry and moral hazard (Chittenden, Hall, & Hutchinson, 1996). In this study, demanding collateral is a normal practice by the banks, savings and loans companies, and MASLOC, a government set-up also demands collateral security for its individual loans scheme. The results showed that collateral was sought from the SMEs in 30.3 percent of the 422 multiple responses. Out of these 30.3 percent, 47 percent of the responses suggested that the SMEs were not able to meet the requirement and thus could not access the loans.

The reason for the inability to provide collateral is that the SMEs do not have assets that they could use as collateral. According to Stiglitz and Weiss (1992), collateral requirement favours wealthier applicants. In this study, 83.2 percent of the 303 enterprises stated that providing collateral is the factor which constrains them the most when requesting for credit. This is similar to the findings of Abor and Biekpe (2006) which showed that lack of securable assets was a problem for 26.4 percent of SMEs.

According to the enterprises, assets that the lenders preferred as collateral include buildings, land, vehicles, and machinery. Similarly, in cases where the loan is to be used to procure assets such as vehicles, collateral would not be demanded by the banks before the loan is approved. When the item is purchased, it becomes collateral and is registered jointly in the name of the creditor and the borrower until the debt is fully paid up. Two of the banks stated that in cases where the enterprise does have collateral, either the business or the guarantor would be made to operate an investment account whose seed money is at least a quarter of the loan amount, but cannot make claims on it until the loan is paid up. This procedure or arrangement highlights the conclusions of Barbosa and Moraes (2004), that firms which invest heavily in tangible assets tend to have a higher financial leverage since they can borrow at lower rates of interest if their debts are to be secured with such assets.

Table 1: Ability to provide collateral and type of support received

Type of support	Assets as collateral				Total
	Yes		No		
	Frequency	Percentage	Frequency	Percentage	
Training	0	0.0	60	29.9	60
Credit	23	11.4	59	29.4	82
Credit and Training	22	10.9	37	18.4	59
Total	45	22.3	156	77.7	201

Source: Field work, 2011

Furthermore, the results showed that there is a significant relationship between possessing assets that could be used as collateral and the type of financial support that can be accessed ($\chi^2 = 26.358$, p-value = 0.00). The results, as displayed in Table 1, indicate that all the 60 enterprises which had access to training did not have assets that could be used as collateral. On the other hand the 22.3 percent of the enterprises that secured support in the form of credit or credit and training jointly had assets which could be used as collateral. This is in line with the findings of Olawale and Odeyemi (2010) that enterprises which possess assets that can be used as collateral are more likely to be successful in their credit applications.

Another factor that can influence access to financial support is the provision of guarantors. Guarantors undertake to pay the loan in the event that the debtor defaults on the loan. All the institutions involved in the study demand guarantors before they grant loans with the exception of group loans where the members of the group serve as guarantors for the loan that each member of the group takes. Similarly, the study by Obamuyi (2007) indicated that banks demand personal guarantees for SME loans. The results showed that in 27.7 percent of the 422 multiple responses for loan requests, guarantors were demanded by the support institutions. In 22.2 percent out of 117 applications, this requirement could not be met. The enterprises which were unable to provide guarantors explained that they could not get the number of people required and or people who met the criteria of the institutions. In cases where they got such people they were unwilling to guarantee loans on their behalf.

According to the SMEs, two guarantors were required by the institutions for each loan. However, the criteria for guarantors are not uniform as they are dependent on the institution in question, but generally guarantors should be resident in Ghana. Credit unions, MFIs and SLCs require that guarantors are patrons of their institutions. In addition to this, they should not guarantee for more than one loan at a time and should not be servicing a loan themselves. SLCs want guarantors who have steady incomes that are twice the required monthly loan payments, passing through their accounts. In the case of banks, shareholders, partners, proprietors or board members can guarantee for the loan.

The institutions involved in the study explained that guarantors serve as a security for the loan. This is because under normal circumstances, people guarantee loans for people they know and consider as trustworthy. Guarantors assist to monitor the debtors as they would ensure that the loan is paid. This corroborates the conclusions of Tetteh-Ossom (2011) that peer monitoring minimises default. Furthermore in the event that the clients abscond, the guarantors are used to help trace them. Guarantors are also another way that creditors ensure that they do not lose their money as they are made to pay the loan in the event of default.

In order to know from the respondents which factors they find as most constraining in their quest for financial support, they were asked to indicate

which factors, based on Widdowson and Hailwood's (2007) compilation, constrain them the most when accessing financial support. Six factors stood out, and these were interest rate, guarantor, collateral, business and financial information, appropriateness of product and discrimination. The results displayed in Table 2 indicate that collateral requirement is the factor that majority (83.1%) of the 303 businesses ranked as constraining them the most when they access financial support.

Table2: Rank of constraints of access to financial support

Constraints	1 st	2 nd	3 rd	4 th	5 th	6 th
Interest rate	27	160	111	5	0	0
Guarantor	0	5	78	179	17	24
Collateral	252	51	0	0	0	0
Business information	24	82	82	76	39	0
Appropriateness of service	0	0	27	50	226	0
Discriminatory factors	0	0	0	8	16	279
Total	303	298	298	318	298	303

Source: Field work, 2011

In a related study, Abor and Biekpe (2006) found that the unavailability of collateral topped the problems that the enterprises encountered when accessing credit. The results so far show that there are interactions among interest rate, collateral, guarantors and, business and financial information due to how these factors influence access to financial support as shown in Figure 2. All these factors influence the chances of an SME in accessing support. In the same vein, the ability of the enterprise to meet these requirements would have an effect on the interest rate to be charged on the loan. This is because these requirements are used to assess the level of risk associated with the business which is a factor in the determination of interest rate.

According to Baye and Jansen (2002) conditions such as collateral and business information help reduce the level of risk associated with a business which also plays a role in the interest rate charged on a loan. The factors that have been illustrated in Figure 2 directly or indirectly express elements of financial literacy which need to be acquired through training (Widdowson & Hailwood, 2007; World Bank, 2009) in order to facilitate financial inclusion.

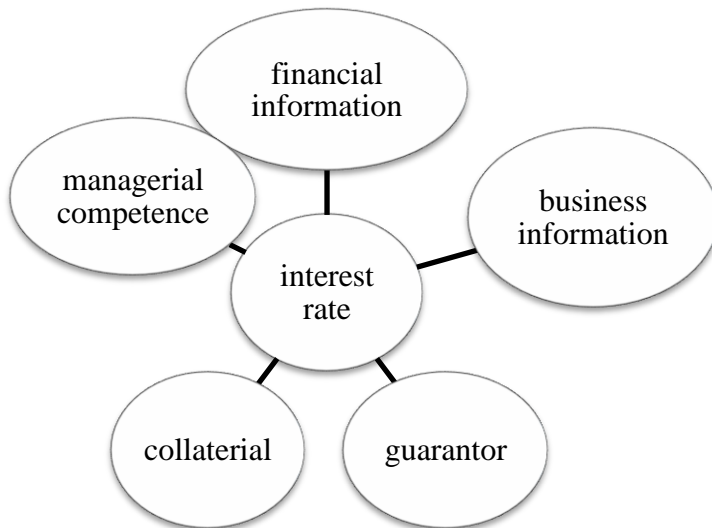


Figure 2: Factors influencing access to credit

Source: Author's construct based on the findings and views from literature, 2011

Another requirement that was discussed concerns the legal status of the applicant. In this study it was found that banks demand documents which show validation of the legal status of the business. Such documents include certificate of incorporation, licenses and permits as well as the share structure of the business, if it is a limited liability company from applicants. According to the banks, these documents show proof that the business is a legal entity that is permitted to undertake the particular type of activity. Therefore, an enterprise which does not have a business registration would not be offered a business loan. The share structure of the business for instance helps the banks to determine the amount that can be given to the enterprise as loan, similar to the findings of Amonoo et al. (2003) that the owner's equity is a condition for lending. The results also show that 47.5 percent of 284 multiple responses referred to business registration as one of the terms and conditions for a loan.

In the view of the banks many small enterprises do not qualify for credit due to the high level of personalisation. Many businesses fail to qualify for business loans because their accounts are in their personal names rather than the names of their businesses. One reason that accounts for this state of affairs is that the business owners do not draw a line between themselves and their businesses, and this reflects limited financial literacy. The results of this study showed that 87 percent of the 295 enterprises with bank accounts had the accounts in the names of the owners. Relatedly, 79 percent of the bank accounts in the names of the owners were also coupled with the fact that these businesses were not registered. The non-registration is another reason which explains the

inability of the SMEs to qualify for business loans, because business registration certificates and licences are prerequisites for the opening of business accounts.

In discussing compulsory savings, the findings were that this is a condition required by most support institutions with the exception of state agencies. The results indicate that banks, SLCs, MFIs and credit unions give support to only their clients unless they are collaborating with a state agency or an NGO. Similarly, Amonoo et al. (2003) found that banks offer credit to SMEs and also disburse funds from donor agencies.

The minimum period required for saving as well as the amount is dependent on the institution from which the support is being sought, but the minimum period is usually six months. In this study the enterprises have saved with the institutions for a period varying between two and 15 years with the modal number of years being two years. Similarly, Tetteh-Ossom (2011) found in a study of SMEs that the enterprises had a minimum of five years of relationship with the banks that they sought credit from. Though no minimum amount is required, the volume of the transactions in the account determines the amount that can be given as loan. The borrowers are required to save with the institutions after receipt of the loan and should also ensure that the account balance is enough to take care of their monthly payments.

Monitoring and evaluation is another issue addressed and the findings were that the institutions conduct this activity on their patrons. MFIs and state agencies monitor the activities of their applicants before support is extended to them. The banks and SLCs also undertake monitoring and evaluation after the facility has been extended to the business. Monitoring is carried out after extending credit to ensure that the business uses the loan for the purpose for which they were given. Out of a total of 284 multiple responses relating to terms and conditions for loans, 19.7 percent referred to monitoring and evaluation. Monitoring the activities of the borrower is done after the facility has been granted and it is used to determine if the client is using the funds in accordance with the interest of the creditor (Miller & van Hoose, 2001; OECD, 2006).

Conclusion

The evidence adduced suggest that factors that influence access to financial support include interest rates, collateral, guarantors and, business and financial information. The other factors are business registration, compulsory savings and monitoring and evaluation of the business. These are all issues that fall one way or the other into the realm of financial literacy. The results also showed that business request for institutional support when they do not have adequate internal sources of funds.

The implications of the findings are that SMEs that want to improve their access to financial support need to pay attention to financial literacy and seek support from the relevant governmental and non-governmental agencies in that regard. They should adopt prudent management practices such as operating

banking accounts in the names of the businesses rather than the owners of the enterprises, operating their business transactions through their business banking accounts instead of using cash transactions, and depositing their surplus funds at the bank. It is also imperative for the SMEs to keep good records of their businesses, register their enterprises with all the relevant state agencies, especially the Registrar Generals' Department, and avail themselves of and actively participate in training programmes organised for the sector. In order to ensure financial inclusion, the NBSSI, which is a principal state agency responsible for SMEs' success, should provide book keeping and accounting services to SMEs at non-commercial rates.

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