Have Availability and Access to Financial Opportunities Enhanced the Growth of Micro, Small and Medium Enterprises in Central Region of Ghana?

Bawuah, Bernard, MPHIL, MBA
Lecturer
Department of Accountancy and Commerce
School of Business and Law
University for Development Studies
Ghana

Yakubu, Awudu Sare, MPHIL
Partner
Institute of Project and Business Management
Private Mailbag, Accra
Ghana

Sampson, Vivian Esumanba, MPHIL
Lecturer
Department of Banking and Finance
Methodist University College
Ghana

Abstract

This study examines the importance of Micro, Small and Medium Enterprises to a country. The lack of support has made MSMEs development an issue of concern today. These concerns have necessitated numerous researchers to investigate what has been done and should be done by stakeholders to enhance sustainable growth of MSMEs. This research employed both quantitative and qualitative methods. The findings show that there exists a suitable financial environment to MSMEs of today. The findings also however indicate a low impact of these supports to MSMEs because of high interest rate associated with some of them. It further suggests MSMEs that have access to finance do not necessarily increase their growth. There is the need for stakeholders to bring interest rate down in order to enhance the impact of these supports.

Keywords: availability, access, financial opportunities, growth, MSMEs

1. Introduction

In recent past, it has been acknowledged that micro, small and medium enterprises (MSME) can positively influence the economic growth of developing countries. The entrepreneurs of these MSMEs do not only create income and employment, but they generate wealth and contribute to the welfare of people in the long run (Levy and Powell, 1996). The ability of these MSMEs to influence growth is seen in the advantages they have over large firms. According to Arthur (2003), MSMEs are able to use locally available materials and cheap labor to produce low cost goods and services.

This attribute makes corporate sector growth a vital element to economic development in developing countries including Ghana. Adei (2006) alludes that SMEs dominate the economy of Ghana in terms of their contribution to Gross Domestic Products (GDP); employment; training of the youth and creating sustainable livelihoods for the majority of the population. His study stressed that SMEs should be given the necessary attention in policy, financial and general business support. SMEs in Ghana involve in activities which include: soap and detergent making, agro-processing, tailoring, blacksmithing, mechanics, textile and leather making, food and water processing, electronic assembling, bakery, furniture making and information technology (ICT) services.

The share of manufacturing industries to Ghana's GDP is not encouraging (Ghana Statistical Services, 2003). This can be attributed to the fact that very little is done to develop SMEs which dominate the sector even though small businesses are known to have the ability to switch production rapidly between products and to identify new niches in which they have comparative advantage within the economic environment (Arthur, 2003) and their flexibility in terms of their ability to respond quickly to customer and market demands (Levy & Powell, 1996).

Ghana can reduce its unemployment rate, promote urban productivity and create more industrial linkages that can contribute in alleviating poverty through SMEs. It is for these reasons that various governments in Ghana have attempted to implement a number of supporting schemes to support MSMEs but some of these schemes wee schemes introduced by government, either alone, or with the support of donor agencies to increase the flow of funds to SMEs. Medium and Small Loan Scheme (MASLOC) aimed purposely to support SMEs was established in 1991 and got restructured in 2004 by the government of Ghana to support small businesses that cannot have access to credit from the conventional financial institutions. In 2006, the World Bank approved a credit of 45million US dollars to support the implementation of Ghana's MSMEs Project which forms part of a broader poverty reduction and private sector development strategy. Some private groups and individual also have other schemes for these small businesses ranging from microfinance to venture capital support schemes.

Based on this evidence, some people have the perception that there are a lot of financial schemes nowadays which aimed at targeting small businesses. Therefore access to funds should not be a barrier any longer. But Agyapong (2010) argued that the proliferation of financial institutions and schemes present an oversimplified model that overlooks some important discussions and the way in which these elements of the financial system have affected SME credit availability. (Berger and Udell, 2005) also posited that the concentration of financial institutions does not necessarily guarantee increase supply of credit to creditworthy SMEs. (Abor and Biekpe, 2006) added that there is no guarantee for affordability and access to credit because most of the schemes are perceived to be difficult in accessing. If leverage can increase a firm's value in the tax model of Modigliani and Miller (1963), then access to credit by small businesses can enhance their growth. This assessment becomes more realistic especially where innovation is considered to be one of the unique factors of an entrepreneur. The implementations of these innovations always go with capital. In this research is aimed at assessing the financial opportunities that exist for these small and medium business operators and a further assessment to ascertain whether availability necessarily translate to access of funds and growth of small businesses. To achieve these objectives, three specific objectives were enumerated to guide the outcome: To identify the various financial opportunities that is available to small businesses in the study area; to ascertain access levels of these financial opportunities by small businesses in the central region and to further ascertain whether businesses that gain access to such financial opportunities experience any better growth in the region.

2. Literature Review

Different regions or countries have defined MSMEs based on local operations and conditions. It should be noted therefore that certain definitions may not be applicable in certain regions or settings (Agyapong, 2010). For instance the features and mode of operation of small businesses in Ghana makes this research to adopt the definition by the National Board for Small Scale Industries (NBSSI). NBSSI (1998) gave an operational definition of SMEs as "Small business is any business that employs up to 29 people. Small business is divided into: the micro, small and medium enterprises. The micro enterprises employ up to 5 employees with fixed assets (excluding land and building) not exceeding the value of $10,000. Small enterprises are those employing between 6 and 29 employees or having fixed assets excluding land and building not exceeding $100,000 and a medium enterprises employ between 30 and 99 employees with fixed assets of up to $1million".

2.1 MSMEs in Ghana

Innovation capability of Ghanaian MSMEs is not only in developing new goods or services but also in stimulating investment interest in new ventures being created. Although Ghanaian firms have been criticized for not being innovative, MSMEs have attempted to change this phenomenon (Agyapong 2010). The innovativeness of these small ventures is to create a paradigm shift by altering the conventional ways in terms of available technology, strategy, skills and styles (Jun & Deschoolmeester, 2003). Unlike some years ago, the activities of MSMEs have resulted in for instance the processing of fruits and vegetables for the local and international markets. They are often at the forefront of the production of most of the non-traditional export commodities such as textiles, packaged dry fish and fresh fruits.

MSMEs are now engaged in shoe making, rubber processing, designing African wears, manufacturing medicine (under licensing), computer, car and bus assembling (Abor and Biekpe 2006).

Assistance and support to strengthen these small informal and formal businesses can lead to higher profits, wages and employment levels which in turn can contribute to a bottom-up transition out of poverty for entrepreneurs and workers (Sievers and Vandenberg, 2007). It is further believed that the formalization of informal business activities can contribute to increasing tax-incomes for the government which will enable the government in the long run to invest the money in health care and education systems.

In many African countries industrialization is seen as a key to development because industrial jobs promise higher family incomes and improved quality of life, especially for the growing numbers of workers who have little land (Pedersen and McCormick, 1999). The role and the contribution of MSMEs in the industrialization process of developing countries have however been very long neglected and underestimated due to the tendency to favor large-scale import substitution (Assan, 1999). It is only in recent years that the importance of formal MSMEs in manufacturing to spur industrialization (Sievers and Vandenberg, 2007) has been acknowledged.

Due to their small and perceived flexible nature, MSMEs are expected to be able to withstand adverse economic conditions and survive where many large businesses would collapse. MSMEs are vital for economic growth and development because they encourage entrepreneurship, generate employment and reduce poverty (Kayanula and Quartey 2000; Mead and Liedholm 1998).

2.2 MSMEs Financing Gap

The issue that has possible impact on the capital-structure of SMEs is the so-called “SME Financing Gap”. The SME Financing Gap is commonly defined as “the situation where a significant share of SMEs cannot fulfill the financing needs which exceed their internal financing capacities” (Jensen and Uhl, 2008). There are different reasons why the financial constraints of MSMEs are larger than those of large companies. One reason is the problem of asymmetric information which is more severe in MSMEs (OECD 2006). This is partly due to the fact that in many cases the company is very much tied to the entrepreneur. This scenario leads to a situation where the entrepreneur has considerably superior information on the the company. Related to this is the problem that a manager in an MSME is more likely to have insufficient management skills compared to the managers in large cap companies. Therefore potential investors have a difficult time to assess whether an MSME manager is making bad management decisions or not which could threaten the well-being of the firm (Jensen and Uhl, 2008).

Several studies have been carried out, looking at financial development and access to finance, more specifically on the possibility of an “SME Financing Gap” globally. Some of the empirical evidence found by (Chaves et al. 2001) indicates that leverage in Eastern Europe is low and the access to external finance is insufficient in terms of the associated cost and availability. This view is to some extent supported by a survey that was commissioned by the European Union to investigate the access to finance of SMEs. In this survey, less than one third of the interviewed MSMEs in Eastern Europe said that they had sufficient financing to see their projects through (EOS Gallup Europe 2006). On the contrary, more than three quarters of the interviewed MSMEs from Western Europe said that they had sufficient financing opportunities for their projects. In this context, it is also interesting to note that 59 percent of the interviewed companies in Eastern Europe believe that banks are not willing to take the risk associated with lending to MSMEs (EOS Gallup Europe 2006). The risk-premium associated with a loan for such a company could potentially drive up the cost to prohibitive heights (Jensen and Uhl, 2008).

2.3 Equity Finance of MSMEs in Ghana

Long term financing of equity capital needed by growth-oriented small and medium companies is virtually non-existent for MSMEs in Ghana. Only four commercial venture capital funds have been established in Ghana over the past years. In 1991, U.S. Agency for International Development (USAID) and the Commonwealth Development Corporation (CDC) sponsored the formation of a venture capital fund in Ghana in response to a perceived need for financial products and services designed to meet the long-term financing requirements of small and growing businesses in the context of Ghana’s financial sector reform program (Mensah, 2004). In line with the declaration of the period in Ghana as the “Golden Age of Business” with the private sector as the engine of economic growth, the government provided additional leverage with the establishment of Venture Capital Trust Fund (VCTF) to offer low cost and long term financing to Small and Medium Scale Enterprises (SMSEs) which constitute about 90% of all registered businesses in the country.

The only source of funding for the Trust Fund was an amount equivalent to twenty-five percent (25%) of the National Reconstruction Levy (NRL). From the inception to date, the VCTF has been provided with seed funding of GH¢22.4 million from 2003 to 2006. The NRL was discontinued at the end of the 2006 fiscal year and as a result of the curtailment, the VCTF did not receive any additional funds. The total capitalization of the venture capital industry supported by VCTF stood at GH¢50.1 million in 2007 (VCTF report, 2007).

As at the end of December 2007, four venture capital finance partnerships have been established between the VCTF and various private sector partners (VCTF report, 2007). They are Activity Venture Finance Company Limited, Fidelity Equity Fund II, Bedrock Venture Capital Finance Company and Gold Venture Capital Limited. All the VCTF are general purpose funding companies and invest in all sectors of the economy except direct imports to sell. Currently, the priority sectors for funding are Agriculture and allied sectors. Approved investments by sectors stood at: Agriculture 33%, Services 25%, Financial 17%, ICT 17% and Manufacturing 8% (VCTF report, 2007). Mensah (2004) outline the number of reasons to justify the equity shortage which include: Equity investors seek highest return consistent with the risk of the investment; MSMEs investments are difficult to evaluate; MSMEs investments take time to mature; investments are difficult to liquidate; major institutional investors such as insurance companies are not allowed to invest in private MSMEs.

2.4 MSMEs Financing from Banking and Non-Banking Institutions in Ghana

The formal financial sector in Ghana comprises commercial banks (including Merchant Banks and Development Banks), 17 of which operate a network of 303 branches in the country; 115 rural and community banks, savings and loan companies and non-bank financial institutions (Bank of Ghana, 2004). Recently, as banks and other financial institutions have sought to broaden their loan portfolio, SMEs have become an increasingly attractive customer group. Traditionally, however, financial institutions in Ghana have been cautious with lending to MSME groups because of high default rates and risks associated with the sector (Leippoid et al. (2006). Mensah (2004) argue that a few banks have developed an explicit policy for MSME target groups taking the particular requirements and needs into consideration, for example, developing earmarked financial products and appropriate credit management systems. Few banking institutions have MSME desks or departments with specific loan products. Many of these loan products are even donor funded. For others, lending to micro and small businesses is simply transacted by credit officers from corporate finance departments of the bank who generally apply the same appraisal and lending principles to SMEs. None of the commercial banks have any specialized training for credit officers in proven MSMEs lending techniques, and most credit officers do not have any prior MSME specific experience (Mensah, 2004). A recent GTZ (Gesellschaft Für Technische Zusammenarbeit) survey has provided insight into the lending practices of financial institutions towards micro and small scale enterprises (MSEs):

- Banks and other financial institutions have traditionally looked at the MSE sector with caution. As a result, there are usually no separate MSE lending policies, and loan requests are handled with quite stringent rules. A maximum of 95% of their value is granted with a lien placed on them to minimize the risk of default.
- Terms and Conditions: MSE loans financed out of the normal business portfolio of a commercial bank are granted for 12 months or considerably less, secured by deposits or other sources with a view to categorize it as a "secured loan" under BoG conditions, and carries the upper band of interest rates.
- MSE Lending within the Organizational Structure of the Financial Institution: Commercial banks find it difficult to integrate MSE finance effectively into their existing organizational structure.
- Systems and Procedures: Almost without exception, the financial institutions attempt to service SME clients with a package modified from their existing corporate clientele. As a result, there is strong emphasis on business documentation and financial reports (GTZ, 2001).

Most financial institutions try to treat their small business clients the same way they treat their large commercial customers. The evaluation techniques used by these financial institutions for granting credit to these SMEs has either been the transaction lending technologies or relationship lending. Much of the recent research on SME access to funding, including Berger and Udell (2004), focuses on the comparative advantages of different types of financial institutions in using transactions lending technologies versus relationship lending. Transactions lending technologies are primarily based on quantitative data that may be observed and verified at about the time of the credit origination. This hard information may include many examples like financial ratios calculated from certified audited financial statements; credit scores assembled from data on the payments' histories of the MSME and its owner provided by credit bureaus; or information about accounts receivable from transparent, low-risk obligors that may pledged as collateral by the MSME or sold to the financial institution (Berger and Udell, 2004).

Some of the bank needed information that are being addressed by transactions lending technologies cannot be readily available to some of the SMEs because most of them are not found of keeping records (Coleman 2000). This situation renders most SMEs informationally opaque, therefore, inhibits their access to finance under transactions lending technologies conditions. The most common findings in extant literature are that large institutions have comparative advantages in transactions lending to more transparent MSMEs based on hard information. While small institutions have comparative advantages in relationship lending to informationally opaque MSMEs based on soft information.

Relationship lending on the other hand makes access to finance to SMEs possible because of its lending characteristics (Petersen and Rajan 1994).

In order to strengthen the position of MSMEs, the access to financial and non-financial services should be made available to them because it contributes to the performance and expansion of these enterprises. Financial services should include the provision of micro-credits and loans while non-financial services incorporate a wide range of Business Development Services (BDS). BDS activities refer to group training, individual counseling and advice, the development of new commercial entities, technology development and transfer, information provision, business links and policy advocacy. (Kapila and Mead, 2002).

2.5 Growth of MSMEs to an Economy

The role of MSMEs and entrepreneurship in economic growth and development involves more than just increasing per capita output and income; it also involves initiating and constituting change in the structure of business and society (Hisrich et al. 2008). This change is accompanied by growth and increased output which allows more wealth to be divided by the various participants. Change and development are facilitated according to one economic growth theory, that is, by innovation (Hisrich et al. 2008). Innovation is not only key in developing new products or processes but also in stimulating investment interest in new ventures being created. This new investment works on both the demand and supply sides of the growth equation; the new capital created expands the capacity for growth (supply side), and the resultant new spending utilizes the new capacity and output (demand side) (Agyapong, 2010). The author opined that the development of innovation and its commercialization through entrepreneurial activity help stimulate and generate enough incomes that promote growth. Similarly, small entrepreneurial ventures have been found to have a relationship with economic prosperity as they serve as sources of government tax revenue, contribute to gross domestic product, providing employment, facilitating the distribution of goods and services, providing flexible specialized goods and services as well as serving as the source of industrial innovation (Buame, 2004).

In some rural areas and regions in Ghana such as the Central, Upper East and West regions, MSMEs are the only main sources of employment and hence only source of income (Agyapong 2010). Thus MSMEs in Ghana help alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care, and empowering people to make the choices that best serve their needs. No wonder in Ghana, data from the Social Security and National Insurance Trust (SSNIT) reflects that, by size classifications, the Ghanaian private sector is highly skewed, with 90% of companies employing less than 20 persons, and a small number of large-scale enterprises. At an aggregate level, MSMEs are believed to demonstrate impressive growth, especially when compared with larger firms. However, many individual MSMEs grow slowly or not at all – in some cases, due to a conscious decision on the part of the business owner (Nichter and Goldmark, 2005). In this sense, the growth theories discussed here relate to efforts MSMEs bring to increase wealth in poor countries in order to improve welfare concurrently and how adequate funding can do for them.

3. Methodology

The methodology employed in this research is both quantitative and qualitative. Creswell (2002) suggests that combining qualitative and quantitative approaches within the same piece of research enables the researcher to provide richer detailed analysis. Linking qualitative and quantitative data ensures the overall effectiveness of the research process as one can enhance the findings of the other. Questionnaires were used to collect data on the kinds of financial opportunities that exist in the Central region to small business operations, their accessibility and growth of these businesses. Descriptive statistics, frequencies and Kruskal Wallis test, all quantitative tools have been employed for analysis in this study. The qualitative aspect of this work had to do with gaining new perspective and more in-depth information that were difficult to convey quantitatively.

Qualitative research design helps the researcher to understand people in terms of their own definition of their world that cannot be obtained in a quantitative method. This design offered the offered the opportunity to focus on finding answers to questions that could not be answered quantitatively and that was based on the social experiences of the respondents. The population of this study included all Micro, Small and Medium Scale enterprises in the Central Region during the period for the study. There are a lot of small businesses and many more spring up each day in the region. However, this research limited it dealing with businesses that employ 5 or more persons just to be in line with NBSSI (1998) definition of MSMEs.

3.1 Sampling and Sampling Techniques

Twenty seven (27) small businesses and five (5) institutional bodies were selected from two (2) municipalities and one (1) district in the Central Region. Nine (9) businesses were selected from each of the municipalities and nine (9) from the district. The five (5) institutional bodies comprise two (2) commercial banks, one (1) rural bank, one (1) micro-finance institution, one (1) savings and loans and MASLOC. The two (2) municipalities were Mfantsiman West and Cape Coast with Senya being the only district. These three (3) areas were selected using convenience sampling. The three (3) areas are purely the commercialized zones in the region. Purposive sampling was used to select the targeted number of financial institutions and supporting organizations needed for the research from the three (3) selected geographical areas (municipalities and districts). Purposive sampling was preferred to other sampling techniques because the researcher selected those institutional bodies based on their willingness to support this study in terms of responses. The systematic random sampling method was then used to select businesses that were needed to complete the questionnaire. A sample frame which represented names of businesses was obtained from the respective revenue offices of each of the sampled areas' assemblies.

3.2 Data Collection Instrument: Questionnaire

A careful examination of relevant literature and expert judgment, questionnaire and semi-structured interview were chosen to gather the data for this study. In all, a total number of twenty seven (27) questionnaires were administered. Each questionnaire was made up of two (2) main parts, close-ended and some open-ended parts. The first part contains items that elicited information on the demographic background of each business. The demographic component of the questionnaire essentially elicited information on variables like the type of business, where it is located and the number of years they have been in operation. This was in tune with the research since these variables helped the researcher to make deductions from views of respondents.

The second part of the questionnaire was targeted at answering the research questions. Seven (7) items numbering 3 to 9 were provided to elicit responses' on what financial opportunities are available to small businesses in the Central Region. These items constituted the section B part of the questionnaire. Out of the seven (7) questionnaire items, five (5) were close-ended items which provided respondents with the opportunity to respond by selecting from five (5) point scale (e.g. Very Sure, Sure, Somehow, Rarely and not at all). The remaining two (2) items were open-ended which required respondents to write their own responses. Section C comprises six (6) questionnaire items that were intended to elicit responses on how these small businesses in the Central Region have accessed these available financial opportunities. Four (4) of these items were closed-ended items which demanded respondents to indicate by ticking an appropriate option (e.g. Excellent, Very Good, Good, Poor and Very Poor) and two (2) of them were also open-ended type. The questionnaire items numbered 10 to 15. The final part being section D of the questionnaire was to elicit information to help ascertain whether there is any difference in growth between businesses that have access to external funding. The items were made up of five (5) close-ended and three (3) open-ended questions. The purpose of these open-ended items was to prevent the omission of any possible factors that would enrich the findings of this research but might have been restricted in the case of close-ended questionnaire. In totality, eight (8) questionnaire items starting from question 16 to 23 were given to respondents to answer.

3.3 Data Analysis

The data analysis procedure included two (2) main phases: the use of inferential statistics or statistical data analysis and the qualitative data analysis. Regarding the inferential statistics, version 16.0 of the Statistical Package for Social Sciences (SPSS) computer software program and Microsoft Excel were used for data storage, calculation of central tendencies, frequencies and percentages. Also a Kruskal Wallis analysis model was employed for the data analysis. The test statistic of SPSS for significant testing comes with its degree of freedom (*df*), Chi-square value and probability (*P*-value) of the test result.

A *p*-value=0.05 was used for this study, meaning 5% significance level or 95% confidence interval. For the qualitative data, the content analysis method was used, as explained by Yildirim and Simsek (2000). The data were coded, themes were found, and the data were organized and defined according to the codes and themes. Then, interpretations were made. Thus, the analysis involve several stages of categorizing and filtering of the data in order to identify the exact dominant themes, that is, themes that would reappear throughout the interviews.

4. Empirical Results

4.1 Demographic Characteristics of Respondents

The respondents for this research were thirty two (32) and they are made up of twenty seven (27) small businesses and five (5) banking and non-banking institutions. These businesses that provided information have been grouped under three production sectors; Industry, Commerce and Service. 46.9% (n=15) of the respondents were from the industry (eg. Palm oil processing, Pure Water processing etc), 40.6% (n=13) of the respondents were from Commerce sector (eg. trading etc) and 12.5% (n=4) of the respondents came from the Service (eg. restaurant, Hair dressing salon).

4.2 The findings to Research Questions 1

What financial opportunities are available to small businesses in the Central Region of Ghana? In order to answer the above question, views were elicited from small businesses. The study analyzed the items and supported them occasionally with open-ended responses to enhance clarity and understanding. Seven (7) investigative questions were posed to respondents to answer. Under these questions, the researcher analyzed respondents' views separately and later follows them with discussions, making inferences where necessary. Below are each of the posed questions and their analysis based on the data collected.

a. How many banking institutions do you know support small businesses within your operational vicinity?

Table 4.2.1: Number of Banking Institutions That Support Small Businesses

No. of Banking institution	Frequency	Percent
None	4	14.8
1	4	14.8
2	8	29.6
3	5	18.5
4 and above	6	22.2
Total	27	100.0

The responses are presented in Table 4.1.1 above. This table indicates that 14.8% (n=4) of the respondents claimed they were not aware of any financial institution supporting small businesses. 14.8% (n=4) claimed they knew one institution while 29.6% (n=8), 18.5% (n=5) and 22.2% (n=6) indicated knowing 2, 3 and 4 institutions respectively that support small businesses. In totality, there were 85.2% respondents claiming knowledge of at least one financial institution that support small businesses in the Region. Respondents were also asked to indicate the number of these institutions they transact business with and the responses given were as follows: 6 respondents representing 22.2% do not transact business with the available financial institutions. 48.2% (n=13) other respondents indicated that they transact business with one of the existing institutions and 8 respondents representing 29.6% indicated they transact business with two (2) institutions. In all, 77.8% indicated they transact business with at least one financial institution. These are presented in Table 4.1.2 below.

Table 4.2.2 Number of Banking Institutions Respondents Transact Business with

	Frequency	Percent
none	6	22.2
1	13	48.2
2	8	29.6
Total	27	100.0

Respondents were further asked to indicate if they were aware of any organizations that support small businesses apart from the conventional financial institutions. Out of the 27 respondents, 20 representing about 74% accepted knowing other organizations apart from the existing traditional banking institutions. 7 respondents also representing about 26% have no knowledge of any non-banking institution that supports small businesses (Figure 4.1.3). These findings indicate that majority (74%) of the respondents are aware of other non banking institutions that can support their businesses.

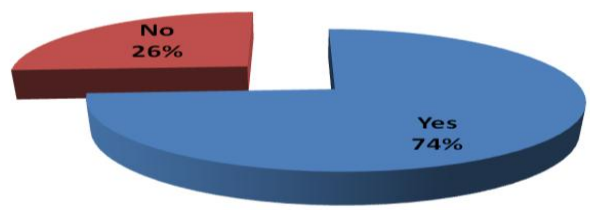

Figure 4.2.3: Respondents' Awareness of Non-banking Organizations that Support Small Businesses

A further probe into the same knowledge of non- banking institutions brought about the need for respondents to indicate by ticking from a list of known organizations that support small businesses. The results in figure 4 below reveals that 18 out of the 27 respondents representing 66.7% were aware of micro- finance institutions supporting small businesses. 17 respondents were aware of both Medium and Small Loan Scheme (MASLOC) and savings and loan institutions respectively. This represents 62.9% of the total respondents. A few of the respondents showed awareness of the Venture Capital Trust Fund (VCTF) and NGOs supporting small businesses. The numbers of respondents were 6 and 8 respectively representing 22.2% and 29.6%.

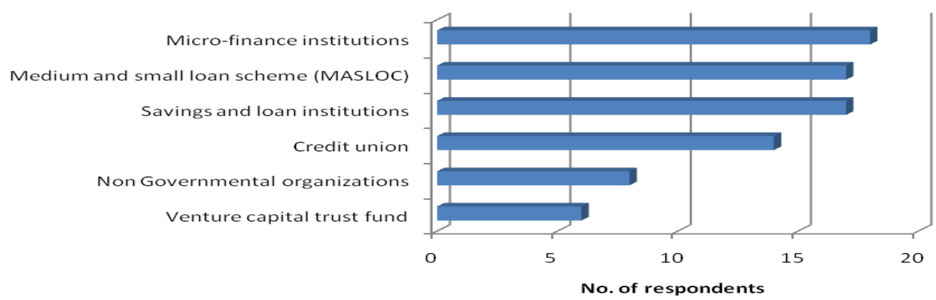

Figure 4.2.4: Respondents Awareness Levels of Non-Banking Institutions that Support Small Businesses

To verify whether any of the above organizations exist in respondents' operational area, respondents were requested to indicate whether any of the above organizations exist in their vicinities. From Figure 4.1.5 below, 29.6% (n=8) of the respondents pointed out that they were very sure. 37% (n=10) respondents specified that they were sure and 25.99% (n=7) respondents who were not certain of any such organization existing in their vicinities indicated somehow. Only 2 respondents indicated not having any of such organizations in their vicinity. In all, 66.6% of the respondents accepted that supporting organizations exist in their operational areas.

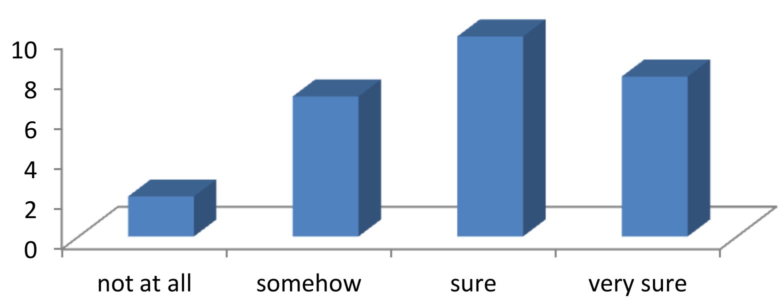

Figure 4.2.5: Awareness Levels of Non-Banking Institutions in Respondents' Vicinities

Responses to the posed question: "Have these organizations been supportive in terms of credit facilities to small businesses?" are presented in Figure 6 below. Respondents signified that these organizations are supportive by casting a yes-vote representing about 81% (n=22) to hold up to their claims.

About 19 %(n=5) of the respondents seemed not to agree with the majority. They voted No to show their opposition and this represents 19% of the total respondents. Figure 6 below is a pictorial representation of each respective response.

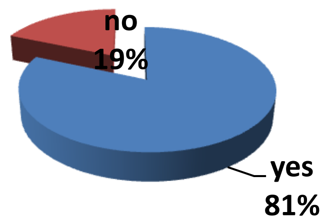

Figure 4.2.6: Support from Non-Banking Institutions

Additionally, respondents were to justify the impact of this support by indicating high or low as their responses. Figure 4.1.7 below depicts the impact levels of the supports from the financial bodies to the small businesses. 51.9% (n=14) of the respondents indicated that the impact of the supports given to them by the organization (non-banking institutions) were low while 29.6% (n=8) of the respondents also shared their views that their impact is high.

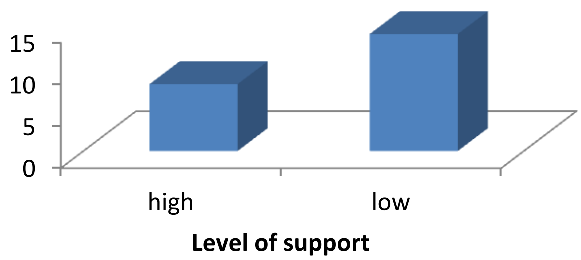

Figure 4.2.7: Impact Support from Non-banking Institutions

The Interview Responses

An interview was also conducted to ensure whether the financial institutions were making funds readily available to small businesses and what policies/plans have these institutions have put in place to enhance access of funds to small businesses relative to the traditional rigid collateral system. 5 respondents (financial bodies) who were interviewed, only one (1) banking institution declared not having a special or plan scheme for small businesses. The remaining 4 organizations highlighted the following as special support schemes or policies to replace the rigid collateral system which most of these small businesses find it difficult to produce on request.

- Ask small businesses to form groups of five (5) or ten (10) members and for the members to guarantee loans for each other. The interviewee posited that this will ensure trust among them. In other words, if you are not sure of a member (in terms of repayment commitment), you do not guarantee. This opportunity creates some form of flexibility for these small businesses.
- Also to ensure flexibility, others have instituted a policy that small businesses would produce guarantors who happen to be customers of the same financial organization and are of good standing in terms of business with the organization. This arrangement is also to increase trust and to reduce loan default rate. An interviewee when asked why this policy? Explained that “the main anxiety associated with granting credit support to these small businesses is their ability or willingness to pay back so we instituted this policy to ensure that guarantors know the credit worthiness of whoever is accessing the credit″.
- Another policy that emanated from the interview was the issue of an insurance premium. The interviewee explained that they sometimes ask an insurance company to guarantee credit for small businesses. Here, he said the insurance company comes in to assess the riskiness of the credit facility with reference to the applicant (small business) and levy a premium. The applicant (small business) pay 75% and the interviewee’s institutions absorb the remaining 25%. He later confessed that the involvement of the insurance premium increases the credit rate by saying “actually this makes the interest rate higher but what can we do? We are only custodians of investor’s money.”

Discussion

From the ensuing evidence above one can conclude that the available financial opportunities to small businesses in the central region are reasonably good. A cumulative total of 85.2% of respondents are aware of financial institutions supporting small businesses. Out of this lot, 77.8% confirmed transacting businesses with these financial institutions. In addition, 74.1% of respondents indicated knowing other financial bodies that support small businesses. The interviews conducted also pointed to the fact that support schemes and policies have been instituted by some of these financial bodies to help these small business operators. Only one (1) banking institution indicated not having special policy for small businesses and this is consistent with the literature (Mensah, 2004) discussed in chapter 2. However, this fact does not erase the general view that the current financial situations for small businesses have changed compared to some years back. In the past, banks and other financial institutions had traditionally looked at the MSME sector with caution. As a result, there were usually no separate MSSE lending policies, and loan requests were handled in stringent manner (GTZ, 2001).

Evidences from this research show that the situation now is better than before. Leippoid et al. (2006) also made a reservation that is similar to this research finding by declaring that recently, as banks and other financial institutions have sought to broaden their loan portfolios, MSMEs have become attractive customer group. Traditionally, however, financial institutions in Ghana have been cautious with lending to MSME groups because of high default rates and risks associated with the sector. In spite of the existing positive financial environment, respondents' views pointed that the impact of the support given to them was low. 51.9% of the responses gathered in this research show this. Some of the reasons that were given by respondents through an open-ended question and interview were:

- Inability of customers to pay back loans collected with interest.
- Government support scheme (MASLOC, for instance) have been politicized. As such funds given to beneficiaries are not paid back thereby limiting the capacity of the scheme.
- There is low income among small businesses' operations and this situation results in low savings. Low savings also results in a shortage of capital flow to small businesses in the form of support.

4.3 The Findings to Research Question 2

How have these small businesses access these financial opportunities? In order to answer this question, assessment was made on six (6) counts of investigative questions. The first assessment deals with the relationship between small business operators and the financial bodies. The responses that were given are presented in Table 4 below.

Table 4.3.1.: Relationships between Banking Institutions and Small Businesses

Response	Frequency	Percent
very poor	2	7.4
poor	6	22.2
good	16	59.3
very good	2	7.4
excellent	1	3.7
Total	27	100.0

From Table 4.3.1, a total of 8 respondents representing 29.6% have indicated that their relationships with financial bodies are either poor or very poor. 59.3% (n=16) of respondents gave a response of good relationship between financial bodies and themselves. A total of 11.1% (n=3) of the respondents indicated that their relationships have been very good and excellent. On the whole, majority of the respondents representing a total of 70.4% showed a positive response of a cordial relationship with financial bodies. Respondents were also asked to respond to the question "Have you ever accessed credit facility from any of the banking institutions since the beginning of your operations?". The results in Figure 8 indicated that about 78% (21) have accessed credit facilities and about 22% have not accessed any credit facility since their operations. The Figure 4.3.2 below is a chart that shows the responses.

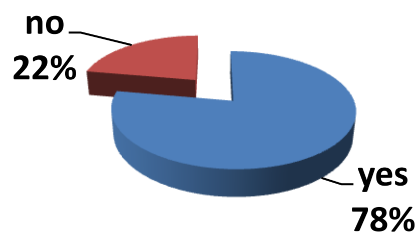

Figure 4.3.2: Small Businesses Access to Credit Facilities

Respondents were further asked to indicate the number of times they have applied for financial assistance. The responses from Table 4.3.3 indicates that out of the 21 respondents who responded Yes to the preceding question, 57.1% (n=12) of the respondents had applied two (2) times, 23.8% (n=5) of respondents had applied three (3) times, 9.5% (n=2) of the respondents had applied four (4) times and 4.8% each (n=1) of the respondent had applied either once or five (5) and above times.

Table 4.3.3: Frequency of Respondents' Application for Credit Facilities

No. of applications	Frequency	Valid Percentage
1	1	4.8
2	12	57.1
3	5	23.8
4	2	9.5
5 and above	1	4.8

Table 4.3.4 shows the number of times the credit facilities were granted to those respondents who applied. The analysis was on the question: Out of the number of times, how many of the credit facilities applied were granted? Apart from 14.3% (n=3) of the respondents who were not granted the facilities for various reasons, a total of 85.7% have been granted credit facilities at least once. The table below presents this information.

Table 4.3.4: The Number of Times Respondents have been Granted a Facility

Responses	Frequency	Percentage
nil	3	14.3
1	7	33.3
2	9	42.8
3	1	4.8
4 and above	1	4.8
Total	21	100

In spite of the small businesses' eagerness to seek assistance, they also care about the cost associated with these credit facilities. Figure 4.3.5 below shows responses on interest rate with regards to the credit facilities that are given to these small businesses. Responses showed that 59.3% (n=16) of the respondents thought interest rate on credit facilities to be very high, followed by 25.9% (n=7) of respondents indicating that interest rate is high. A few of respondents also indicated that interest rates are either moderate or very low.

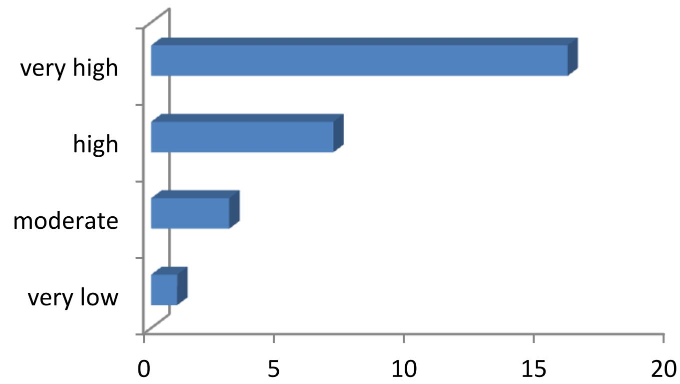

Figure 4.3.5: Respondents Perception on the Interest Rate

Discussion

From question 1, it was realized that almost all the policies instituted by the financial bodies centered on relationship building. The evaluation techniques used by these financial bodies for granting credits to these MSMEs have either been the transaction lending technologies or relationship lending. Relationship lending makes access to finance to MSMEs possible because of its lending characteristics (Berger and Udell 2004). The relationship lending technology is based significantly on qualitative information gathered through contact over time with the MSME often with its owner and members of the local community. The information may include the character and reliability of the MSME's owner based on direct contact over time by the institution's loan officer, the payment and receipt history of the MSME gathered from the past provision of loans, deposits, other services to the SME by the institution, the future prospects of the MSME garnered from past communications with MSME's suppliers, customers and neighboring businesses (Berger and Udell 2004). Therefore, small businesses' operators who seek to improve their relationships gain access to credit. Table 4 supports this assertion with a total of 19 respondents representing 70.4% indicating that they have acceptable relations with the various financial bodies. A total of 85.7% respondents specified that they had been granted credit facility at least once in their operations. One of the banking institutions that granted the researcher an interview admitted that very few of the small businesses become successful in accessing credit facilities from them because they use the assessment given to large firms for them (small businesses). This is consistent with the finding of Mensah (2004).

4.4 The Findings to Question 3

Is there a growth in businesses that have access to financial assistance in the Central Region? In order to answer the above research question, two investigation questions were posed for respondent to respond. How would you grade your financial state as a company before securing any form of financial assistance? And how would you grade your financial state after financial support? A cross tabulation analysis of the given responses to the above questions was conducted and it indicated that out of six (6) respondents who responded that their businesses were poor before accessing a facility, still had one (1) to be poor after accessing a facility, 3 to be good after accessing a facility and 2 to be very good after the financial support. Those sixteen (16) respondents who indicated that their businesses were good before, had 1 to be very poor after, 5 to be poor after, 7 to be still good after and 3 indicating a positive change to very good after. Also, four (4) respondents who pointed out that their businesses were very good before had 1 to be poor after, 2 to be good after and 1 to be very good after. One of the respondents who indicated an excellent business state before a credit facility surprisingly turned out to be poor after securing the facility. This analysis is presented in Figure11 below.

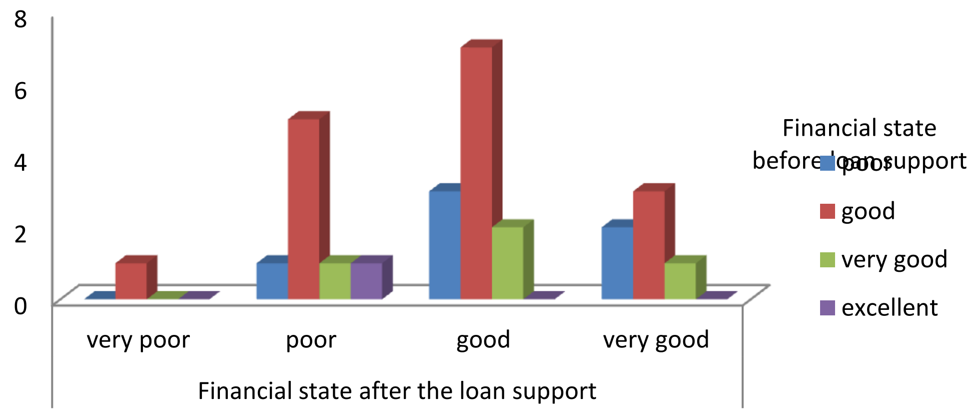

Figure 4.4.11 A Cross Tabulation of Respondents Financial State Before and After

Drawing inferences from the above analysis, there was the need to assess the general effects of these credit facilities on the growth of the businesses that had access to the credit facilities. To achieve this result, a non parametric Kruskal Wallis test was conducted using responses on access to credit facilities against responses on average financial growth over three years. The results are shown in Tables 4.4.2.

Table 4.4.3 Ranks of Kruskal Wallis' Test Result

Ranks

	average financial growth	N	Mean Rank
access credit facilities	very low	2	11.00
	low	5	13.70
	moderate	16	15.22
	high	4	11.00
	Total	27	

Test Statistics[a,b]

	access credit facilities
Chi-Square	2.391
df	3
Asymp. Sig.	.495

a. Kruskal Wallis Test

b. Grouping Variable: average financial growth

The test result indicates that there was no significant growth (i.e. H=2.391, p=0.495 >0.05) in businesses that have access to credit facilities. This implies that the financial support did not significantly enhance the growth of the beneficiary businesses.

Discussion

It is not pleasant that a business which was doing well financially is struggling with bankruptcy and liquidation. How this issue comes about is not strange at all when it comes to business circles. Evidence in figure 4.4.1 is obvious where one respondent indicated that the financial state before securing a credit facility was excellent but turned out to be poor later. A total of 6 respondents indicated their financial states before to be good and very good but later, all of them became poor. Some of the problems could be explained by lack of management skills that are common with small businesses. According to Jensen and Uhl (2008), managers in MSME's are more likely to have insufficient managerial skills compared to the managers in large companies.

Also, there is the possibility that those respondents who had their businesses changing from good, very good and excellent before credit facilities to poor and very poor might be as a result of distress cost associated with the trade off theory (Modigliani and Miller 1963). A manager's ignorance of this theory may be his/her inability to determine the optimal level of the capital structure to avoid financial distress. This problem is bound to happen within the MSME's segment since most of companies are led by entrepreneurs with their expert skills lying within a field different from finance. Therefore, they might not possess the knowledge or for another reason, be ignorant of the interest tax shield which they do not take advantage of it (OECD 2006). It is also possible that the expected growth was not significant because most of these small businesses have failed to prepare proper and audit accounts Colman (2000) which would warrant the tax deductibility advantage that is associated with interest tax shield of Static Trade-off theory (Modigliani and Miller 1963).

Summary of Findings

For the sake of clarity and simplicity for all readers, the study chose to present the summary of findings of this study in a matrix form. The matrix has three (3) columns with the contents placed under each heading as follows: research questions, findings and the researcher's remarks.

Table 8: Summary of Findings

Research Questions	Findings	Remarks
1. What financial opportunities are available to small businesses in the Central Region?	The findings have shown with evidences that there are adequate financial opportunities that are available to small businesses in the Central Region. Examples are: -available number of both banking and non-banking institutions -Established special policies primarily to support small businesses	Although, the researcher could not find a single literature that supports the listed findings collectively, some individuals and group researchers have found one or more of the findings. The following were some of the literatures that support these findings. (Leippoid et al., 2001; Mensah, 2004;GTZ Survey,2001).
2. How have these small businesses access these financial opportunities in the central region?	The findings indicated with evidences that most of the small businesses take advantage of the available financial opportunities by approaching various financial bodies for assistance with majority of them being granted a facility at least once.	Some of the literature findings that were used to support the discussion under this question were: (Berger and Udell, 2004;Mensah, 2004;Colman, 2000)
3. Is there a significant difference in growth of businesses that have access to financial assistance in the Central region?	The findings indicated that there is no significant difference in growth (i.e. H=2.391, p=0.495(>0.05)) of businesses that have access to financial assistance.	A Kruskal Wallis non parametric test conducted confirmed this result. Various reasons have been assigned to these findings and they are supported by (Agyapong, 2010;Jensen and Uhl, 2008; Hisrich,Peters; OECD, 2006; Armal, 2001; Colman, 2000)

The first column of the table contains each of the research questions in this study. The second column deals with the findings that are associated with each research question. The third column which is also the last column of the matrix expresses the researcher's remarks concerning findings to each research question.

Conclusion

It was discussed earlier in this study the importance of Micro, Small and Medium Enterprises to a country. The lack of financial supports has made MSMEs development an issue of concern to many developing countries of today. These concerns have necessitated numerous educational researchers to investigate what has been done and should be done by stakeholders to enhance sustainable growth of MSMEs.

Various outcomes and contributions made in the past regarding financial opportunities provided to MSMEs and their impact on growth have been reviewed in this research to inform readers of what had existed already. This review ranged from international issues concerning MSMEs to present research findings in our local environment. While some reviewed researches criticized efforts made in diverse ways to assist MSMEs and also condemned the collateral system of granting credit facilities to MSMEs, others made suggestions and recommendations that would help improve MSMEs' development, especially, in the developing countries. This research employed both quantitative and qualitative methods. The results of these methods have brought to bear findings that will help erase some wrong notions that existed in the minds of the public concerning who to blame for the low level of attention given to small businesses. On the strengths of the findings made in this study, it is imperative to note that there exists a suitable financial environment to MSMEs of today and this situation deserves a bit of commendation for all who have made this possible. However, the findings also depicted a low impact of these supports to MSMEs probably because of high interest rate associated with some of these supports. The findings indicate that MSMEs having accesses to available finances do not necessarily increase their growth. Possible reasons were assigned to the low growth rate, in spite of, the available financial assistance. There is the need for stakeholders to bring interest rate down so as to enhance the impact of these supports.

Recommendations

It is not only important to assess the financial opportunities that are available to small businesses and their impact on growth but also it is imperative for all stakeholders to appreciate that there are more things to do as a nation to help develop small businesses. Based on the findings of this study, the following recommendations made for consideration:

- Government and donor partners should pay more attention to these MSME's since the success of these MSME's mean reducing poverty and improving living standards of many Ghanaians.
- The present government and successive governments should revamp existing bodies responsible for MSMEs, for example National Board for Small Scale Industries, Ghana (NBSSI).
- The government and the public/private sectors should put in place favorable regulatory framework to provide acceptable business environment. For example, reducing corporate taxes and granting tax relief for MSMEs; reducing obstacles in registration of businesses; dealing with interest rates and inflation in the country.
- The public sector should develop strategies to make capital accessible by making the financial markets more competitive.
- The consuming public should also be sensitized to support the growth of the MSMEs by patronizing products from such businesses and they will help provide the jobs for the unemployed and contribute to poverty reduction in the country.
- Lastly, Since MSMEs have created jobs, schools and colleges in the country should review their curricula to incorporate courses in entrepreneurship and innovations' management as these potential entrepreneurs would set up MSMEs that would help create employment as a way to tackle poverty.

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