

**ASSESSING ALTERNATIVE SOURCES OF FINANCING FOR SMALL & MEDIUM  
SCALE ENTERPRISES IN GHANA  
CASE STUDY OF SAVINGS AND LOANS COMPANIES (S&Ls) IN THE  
GREATER ACCRA REGION OF GHANA.**

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**ABSTRACT**

The study was undertaken to analyse the alternative sources of finance for Small and Medium Scale Enterprises (SMEs) in Greater Accra Region of Ghana. It specifically identified the role of the non-banking financial institutions, particularly savings and loan companies as a reliable and alternative source of finance for SMEs in Greater Accra Region. In undertaking the research, questionnaires were distributed to one hundred and twenty (120) SME operators selected using the convenience sampling procedure of which one hundred (100) questionnaires were retrieved. A purposive sampling technique was used to select fifteen (15) savings and loan companies and questionnaires administered therefore; of which thirteen (13) of them was fully answered and retrieved. From the research, it was found out that SMEs contribute immensely to job creation and other sectors of the economy. However, the study revealed that SMEs have very limited access to deposit and credit facilities provided by formal financial institutions. The study further revealed that non-bank financial institutions like savings and loan companies have considered the neglect of SMEs' financial needs of banks as an opportunity to serve the informal sector businesses. The research also determined some of the challenges encountered by savings and loan companies in lending to SMEs which included asymmetry of information, high informal nature of business ownership and high level of managerial as well as financial illiteracy. The study concludes with some recommendations to improve credit to the SME sector by savings and loan companies. Among the recommendations were savings and loan companies should accept other forms of collateral security apart from land collateral security, train operators of SMEs on proper business practices and SMEs should improve their business management skills as well as be transparent in the providing business records and information in order to avoid information asymmetry.

**KEYWORDS:** SMEs, SAVINGS & LOANS COMPANIES, FINANCING, ACCRA

## 1.0 INTRODUCTION

The significant contributions of SMEs in recent years constitute the greater portion of several economic activities of most countries. Studies by Cook & Nixson (2000); Agyapong (2011) cite SMEs to contribute to gross domestic product, entrepreneurial skill development, employment generation and innovation to many developing economies. OECD (2004) reveals that SMEs contribute to over 55% of GDP and over 65% of total employment in high – income countries. In the case of low-income countries, they also account for over 60% of GDP and over 70% of total employment (OECD, 2004). As a result of their enormous and critical contributions, financial and other support schemes and programmes have been instituted by some developed and developing countries to support them. For instance loans, advice, export counselling, alongside legal assistance on exports are provided by the government of the USA through the Small Business Administration. In the late 1980s, the Federal Government of Nigeria established the Entrepreneurship Development Programme (EDP) through the National Directorate of Employment (NDE). This policy was targeted at graduate unemployment through the NDE programme which provided an opportunity for participants to acquire entrepreneurial skills and secure loan capital to empower them to establish their own small and medium enterprises. In Mexico, Mexican development fund, FIRA, has brokered a variety of structured finance packages to finance agricultural production (e.g., Shrimp, corn) to realign credit risks with the pattern of information between financial institutions and different participants in the supply chains of these agricultural products (de la Torea, Gozzi and Schmukler, 2006).

In spite of such efforts, various researches have shown that access to funds continues to pose the major challenge to their SMEs' growth and survival (Boachie-Mensah and Marfo-Yiadom, 2006; Beck, et al. 2002). In Ghana, many financial support schemes such as the Venture Capital Trust Fund, Micro-Finance and Small Loan Centre, Export Development and Investment Fund and Business Advisory Fund have been established by both private and public individuals and institutions. Notwithstanding such support schemes for SMEs, many studies still indicated that access to credit and finance continue to pose a barrier to SMEs' operations in the country (Poku and Frimpong, 2009; BoG Report, 2009; Mensah, 2004). A study by Mambula (2002) revealed that lack of access to finances is the major obstacle SMEs face, which was supported by Livard Pang (2006) and Florida et al, (1996) who established that, the major obstacle to entry in most entrepreneurial ventures is the initial capital outlay. If the difficulty of access to finance through the traditional banking by entrepreneurs persists, they may find it extremely difficult to start, expand or may simply go out of business. SMEs would therefore have no choice but turn to alternative sources of finance such as Savings and Loans Companies to finance their business.

## 2.0 RESEARCH OBJECTIVE

The main objective of the research is to determine whether savings and loan companies can serve as an alternative source of finance for SMEs in the Greater Accra Region. In pursuit of this objective the other supporting objectives are:

- To determine alternative sources of finance for SMEs in the Greater Accra Region of Ghana.
- To analyse the challenges faced by Savings and Loans Companies in lending credit to SMEs.
- To recommend ways of enhancing access to finance for SMEs by Savings and Loans Companies.

### **3.0 LITERATURE REVIEW**

#### **3.1 Importance of SMEs and Access to Credit**

The impact of the activities of SMEs on the economies of many countries has been significantly recognized – job creation, innovation and creativity enhancement, gross domestic product and export revenue contributions (Schumpeter, 1911). SMEs seem to have advantages over their large-scale competitors in that they are able to adapt more easily to market conditions, given their broadly skilled technologies. They are able to withstand adverse economic conditions because of their flexible nature (Kayanula and Quartey, 2000). SMEs are more labor intensive than larger firms and therefore have lower capital costs associated with job creation (Anheier and Seibel, 1987; Liedholm and Mead, 1987). They are useful in ensuring income stability, growth and employment. Since SMEs are labour intensive, they are more likely to succeed in smaller urban centres and rural areas, where they can contribute to a more even distribution of economic activity in a region and can help to slow the flow of migration to large cities.

Due to their regional dispersion and their labour intensity, it is argued, small-scale production units can promote a more equitable distribution of income than large firms. They also improve the efficiency of domestic markets and make productive use of scarce resources, thus facilitating long-term economic growth (Kayanula and Quartey, 2000). Contributions of SMEs include the utilization of labour intensive technologies, basis for entrepreneurship and consequently impacting on employment creation; promoting the process of both inter- and intra-regional decentralization. Moreover, the economic power of large scale enterprises is being neutralized by SMEs and thus are gradually being recognized as a powerful economic force behind the economic achievements of countries. Additionally, growth of SMEs is regarded as the catalyst for achieving social and economic objectives, alongside female unemployment, poverty alleviation particularly in rural Africa (Cook and Nixson, 2000).

One important problem that SMEs often face is access to capital (Lader, 1996). Lack of adequate financial resources places significant constraints on SME development. Cook and Nixson (2000) observe that, notwithstanding the recognition of the role of SMEs in the development process in many developing countries, SMEs development is always constrained by the limited availability of financial resources to meet a variety of operational and investment needs. A World Bank study found that about 90% of small enterprises surveyed stated that credit was a major constraint to new investment (Parker et al., 1995).

Levy (1993) also found that there is limited access to financial resources available to smaller enterprises compared to larger organizations and the consequences for their growth and development. The role of finance has been viewed as a critical element for the development of SMEs (Cook and Nixson, 2000). A large portion of the SME sector does not have access to adequate and appropriate forms of credit and equity, or indeed to financial services more generally (Parker et al., 1995). In competing for the corporate market, formal financial institutions have structured their products to serve the needs of large corporates to the neglect of the financial needs of small businesses.

#### **3.2 Overview of Savings and Loans Companies in Ghana**

Many susu and finance companies were established in the late 1980's and their core business was to mobilize savings supposedly credit seekers to borrow. Owusu (1993) states that the generous credit overtures made by these companies enthused many petty traders, mostly women,

to make colossal deposits with them. However, it turned out that the companies had fraudulent intentions and the millions of cedis mobilised were misappropriated by the owners and the employees without any recourse to redress by depositors. In 1990, susu and finance companies were licensed under the classified name Savings and Loans Companies by the Bank of Ghana. This was done to sanitize the financial system, particularly the non-bank financial institutions which include Savings and Loans Companies. Additionally, a legislation was enacted in 1993 to regulate the licensing and operation of other players in the financial market, which were not banks (non-bank financial institutions), namely the Financial Institutions (Non-Banking) Law, 1993 (PNDC Law 328). Since then, Savings and Loans Companies (S&Ls) have gained greater visibility and are perceived as an important component of the financial system of Ghana especially in the populated regions like Greater Accra.

Savings and Loans Companies (S&Ls) are therefore deposited-taking financial institutions regulated by the Bank of Ghana under the Non-Bank Financial Institution (NBFI) Law 1993 (PNDC Law 328), with a minimum capital requirement much lower than that of the universal banks but above that for rural and community banks. The enactment of the NBFI Law has given rise to a rapid growth and transformation of some Financial Non-Governmental Organizations (FNGOs) into savings and loan companies operating in urban and peri-urban areas in the country. They serve mostly the economic active informal unbanked population and offer tailored products to suit this category of the population. They are restricted to a limited range of financial services compared to universal banks, mostly mobilizing deposit, provision of credit to low income clients and SMEs, money transfers and financial literacy. Thus, they have taken advantage of banks' neglect of the financial needs of SMEs to serve them. Savings and Loan companies have seen some tremendous injection of foreign capital and benefited immensely from technical assistance from institutional investors. This has boosted operations and increased their competitiveness.

### **3.3 Alternative sources of finance for SMEs**

Okraaku and Croffie (1997) argue that SMEs relies primarily on personal savings of owners, and sometimes business profits, if any for their financial needs. They have little or no access to formal external credit. Traditional financial institutions regard SMEs as high risk and high default rate businesses. As a result, the financial needs of SMEs are not considered in the lending policy formulation of banks. Most of them are denied access to financial assistance from traditional financial institutions. Therefore, SMEs would have a choice than to turn to alternative sources of finance to cater for their financial needs. Some of the alternative sources of finance for SMEs are discussed below:

#### **3.3.1 Friends and families**

Contributions from family and friends remain an alternative source of finance for SME operators Okraaku and Croffie (1997). Financing from friends and families is an important phenomenon. It is the most common source of finance for the poor (Collins et al., 2010), especially for the third of the world's population without access to formal finance. Moreover, it is important for small and medium enterprises (SMEs), a sector that comprises much of worldwide economic activity. A recent industry report estimates that financial institutions have yet to tap into a potential global market for SME financing worth about \$5 trillion (MasterCard, 2008).

### **3.3.2 Money lenders**

The first form of microfinance to be officially licensed in Ghana were moneylenders and have long been an important source of emergency and short-term finance (after relatives and friends) for the vast majority of the population lacking access to commercial financing. By the mid-1960s, money lending had become more of a part-time activity by traders and others with liquid funds than a full-time profession (Offei 1965, cited in Aryeetey 1994). Money lenders make funds available to businesses who may need them and conform to their terms of payment. This source may be appropriate if funds are needed to cater for their short-term needs. The borrower must be prepared to pay interest which is usually higher than that of the banks. Terms and mode of repayment of the principal and interest must be agreed and documented, a witness if possible should be involved for future references. The reliance on moneylenders as a short term source of finance may have been reduced by the emergence, credit unions, susu associations and clubs, and especially savings and loans companies, which has enabled money lending-type operations to become licensed. In recent years, most individual money lenders do not hold licenses or operate full time, and the Ordinance has ceased to be of any importance, although it remains on the statute books.

### **3.3.3 Trade Credit**

According to various theoretical and empirical studies, trade credit is a major source of financing for small firms and has been discussed and investigated as a short term financial source in various theoretical and empirical studies. With the use of trade credit, borrowers might encounter capital market imperfections in the form of asymmetric information and transaction cost. According to Wolken (1993) this consequently leads yield to high interest rate and credit rationing, thus prompt them to use trade credit. In this market setting, trade credit might cause less transaction costs associated with the liquidation of each individual commercial exchange, compared to credit from other financial institutions, like banks therefore trade credit is a more efficient way to deal with market imperfections.

### **3.3.4 Business Angels**

According to Berger & Udell (1998), business angels are informal market for direct finance. Angels are highly-selective wealthy individuals with long business experience who invest directly in high growth SMEs with which they have had no previous relationship (Madill, Haines, & Riding, 2005). This form of investment is usually based on an equity contract, typically common stock. Though angels by definition are individuals, they sometimes coordinate their investment in small investment groups.

There are three features that make angel financing an appropriate option for SMEs (Harrison and Mason, 1992). First, angels are more active in the early stages of enterprises (seed and start-up) closing the so-called 'equity gap' by forming a 'bridge' between internal financing sources and outside investors. Second, by having lower rates of rejection and being a more potent form of capital with longer exit horizons, angel financiers tend to be more obliging to the needs of SME owner-managers. For example, German entrepreneurs have ranked business angels as the most desirable funding providers (Brettel, 2003). Finally, unlike venture capitalists, angel investors prefer to invest in their local economies where the majority of SMEs operate.

### **3.3.5 Non-Bank Financial Institutions (NBFIs)**

Financial institutions tend to differ from banks in their lending policies possibly in part because of regulatory differences (Berger & Udell, 1998) and Ayyagari, Demirgüç-Kunt and Maksimovic (2010) separate bank finance from other non-bank financial institutions funding. The activities of non-bank financial institutions in Ghana have gained prominence since the enactment of a regulatory framework, Non-Bank Financial Institution (NBFI) Law 1993 (PNDCL 328). The NBFIs covered under the law include savings and loan companies, credit unions, pension funds, finance houses, investment trust companies, finance companies, insurance companies, mortgage houses and leasing. In spite of the important and unique role played by NBFIs in meeting the financial needs of SMEs, the market for such source of finance has been largely ignored in the finance literature (Arena, 2011). Nonetheless, some researchers have attempted to investigate this role. For example, Atieno (2001) investigated and assessed the role of such institutions in facilitating the access to credit by SMEs in rural Kenya. He attributed the dominant position of these institutions as funding providers to SMEs to the fact that their procedures for loan applications are shorter than those of commercial banks. He adds another advantage makes this financing source favorable for SMEs which is longer loan maturity periods.

### **3.3.6 Governmental Support Schemes**

SMEs have played and continue to play significant roles in the development process in most developed economies, and have proven to be the most viable engines of economic growth and development. The successes recorded by these countries were because of serious consideration of the future rewards of sustained investment in this sector. As a result of their size and scope of operations, these enterprises require relatively small capital investment to start, thereby offering a relatively high labor-to-capital ratio. They also demand low technology and managerial skills, which are readily available within the society. In Ghana, some of the various governmental agencies which provide support for SMEs are National Board for Small-Scale Industries (NBSSI), Business Assistance Fund, Ghana Investment Fund, GRATIS Foundation, Rural Enterprise Project (REP) and Microfinance and Small Loans Centre (MASLOC).

### **3.3.7 Non-Governmental and Community-Based Organizations**

The development of good microfinance practices in Ghana has been facilitated by NGOs. They often partner RMFIs through the introduction of internationally tested methodologies. These methodologies often are based on group solidarity methods, and have benefited from linkages with CBOs that have already “come together on the basis of some kind of location, occupations, friendship, family ties, gender, or other grounds to serve a purpose at the community level” (Chord 2000). NGOs and CBOs are particularly important in making financial services available in the northern part of the country, where both commercial and rural banks are scarce – although they tend to be localized and donor-dependent. Ghana has relatively few NGOs whose primary mission is microfinance and that have reached significant scale. Although some 50 NGOs have active micro credit programs, they are generally multipurpose or welfare-oriented agencies (only four exceed 3,000 clients and total outreach is only about 60,000 clients; GHAMFIN 2003).

## **3.4 Overview of Greater Accra Region**

Greater Accra Region is the smallest of the ten administrative regions in Ghana in terms of land area. It occupies a total land area of 3,245 sq. km with a total population of 4,010,054 (GSS, 2011). It shares boundaries with Eastern Region to the north, Volta Region to the East, Gulf of Guinea to the south and Central Region to the West. The 2010 population and housing census

indicated that the region has the highest percentage of urban population of 16.3%. About 31.6%, 14.8%, 9.0% and 5.2% of the people in the region are actively engaged in wholesale and retail trade, manufacturing industry, accommodation and food industry and agricultural sector respectively. As a region which contains the capital city of Ghana, it is battling with rapid urbanization due to the administrative functions, it performs in the area of industry, manufacturing, commerce, business, culture, education and political. It also attracts migrants, not only from neighbouring countries but from all over the world. Greater Accra was chosen because most of the banks and non-bank financial institutions in Ghana are present there. According to the register of non-bank financial institution (NBFIs) issued by the Bank of Ghana at the end of December, 2013, the number of Savings and Loans Companies in Ghana was twenty-four (24); of which eighteen (18) of them was located in the Greater Accra Region. Additionally, as the region with administrative capital coupled with increase in rural-urban migration, there is a strong presence of SMEs activities there.

#### **4.0 DATA ANALYSIS / FINDINGS**

The focus of this section is to produce results of the field work. Data were collected in the form of questionnaires administered to two sets of respondents namely SME operators and Savings and Loans Companies in the Greater Accra Region of Ghana. The convenience sampling technique was used to sample respondents from the SME business owners. De Vos (1998) states that convenience sampling is the rational choice in cases where it is impossible to identify all the members of a population. A purposive sampling technique was used to select respondents from management of savings and loan companies. According to Sunder et al. (2007) purposive sampling enables the researcher to use his or her judgment to select cases that will best answer his or her research question(s) and to achieve his or her objective. A total of 135 sets of questionnaires were distributed: 120 questionnaires for owners and operators of SMEs and 15 questionnaires for Savings and Loans Companies. However, only 113 sets were fully answered and completed, which was made up of 100 sets by SMEs and 13 sets by Savings and Loans Companies. The overall response rate for the questionnaire was 83.70%. The research was descriptive in nature and employed a case study method in assessing whether savings and loan companies are reliable and alternative source of finance for SMEs in Greater Accra Region of Ghana. The researcher used descriptive statistics such as tables and frequency counts and charts to depict the relevant data in order to effectively make a valid analysis in the presentation and analysis of the data collected from the field. Below are the findings and analysis of the field work of the research:

##### **4.1 Sources of start-up capital for SMEs in Greater Accra Region**

Finance is very vital for SME businesses from its inception, growth and survival. However, this is always hardly to come by and thus has remained a major obstacle for most SMEs, particularly in the developing countries as they are often denied access to credit from many financial institutions. Due to this, most SME owners depend entirely on their personal resources to cater for their business' needs and sometimes throughout the entire life of the business.

As shown in Table 4.1, research findings from the field indicated that 64% constituting majority of SME owners in Greater Accra Region used their personal resources as a start-up capital for their businesses and 3% fell money lenders for assistance. Credit union, bank and S & Ls had 5%, 6% and 9% of respondents fallen on them for credit. 13% depended on other sources for support.

#### **4.2 Alternative sources of finance for SMEs' expansion in Greater Accra Region.**

There are several objectives for establishing and running a business. Amongst them are growth, survival and expansion objectives. These objectives will be materialized when there are adequate funds at the disposal of business operators. Firms expand to a point where personal resources of the entrepreneur are unable to cater for such expansion. Therefore, it becomes necessary to seek for alternative sources of finance for the expansion of the business. The researcher sought from respondents their alternative sources of finance for expanding their businesses. The research findings in table 4.2 indicate that the majority (36%) of respondents sought credit from S & lease and credit union had 21%. There were 8% of the respondents who fell on friends and families for financial support. NGOs and money lenders had 5% and 3% respondents respectively. 27% of the respondents indicated that they look for other sources to acquire financial aid for their businesses.

The main objective of this research is to determine whether savings and loan companies serve as a reliable and alternative source of finance for SMEs. From the discussion, since the majority (36%) of SME respondents sought credit from savings and loan companies, it can be concluded that savings and loan companies can serve as a reliable and alternative source of finance for SMEs.

#### **4.3 Challenges faced by Savings and Loans Companies in lending to SMEs**

One of the objectives of the study is to reveal some of the challenges S & Ls encounter in lending to SMEs. All the 13 respondents (100%) of S & Ls indicated that they face the problem of asymmetry of information from SMEs as shown in table 4.3. This means that SME loan applicants are not transparent to S & Ls in the provision of their business information. Therefore, most SMEs is denied access to credit as they sometimes provide good business information which is in contrast to the actual situation on the ground.

69.2%, corresponding to 9 respondents of S & Ls asserted that SMEs' high informal nature of business ownership is a challenge to them; however, 4 respondents or 30.8% thought otherwise as shown in table 4.4. The informal nature of business ownership where some SMEs does not have proper registration documents while some do not have at all is a challenge encountered by S & Ls.

Lack of proper business plan had 11 respondents representing 84.6% who opted for "no label" indicating that those S & Ls do not regard lack of proper business plan as a challenge in lending to SMEs. However, 2 respondents or 15.4% opted for "yes" label on the questionnaire which is an indication that lack of proper business plan is a challenge to them (Refer to table 4.5). This means lack of proper business plan is not a problem for majority of S & Ls.

S & Ls were asked to rate the level of financial literacy of their SME clients. Among the 13 respondents, 11 or 84.6% strongly disagreed that owners or operators of SMEs have a high financial literacy rate. 2 respondents representing 15.4% disagreed that owners or operators of SMEs have a high financial literacy rate (Refer to table 4.6). This means that SMEs' lack of financial knowledge in their operations is a challenge to all S & Ls in offering financial assistance or credit to them.

#### 4.4 Suggestions for improving access to credit by S & Ls to SMEs

Another objective of this research was to suggest ways of enhancing access to credit from S & L Companies to SMEs. The research findings revealed the following suggestions from S & L Companies:

- ❖ **Provision of land collateral security:** Out of the total of 13 S & Ls, 4 respondents or 30.8% “strongly agree”, the “agree” and “disagree” labels have 3 respondents (23.1%) each. This was followed by the “strongly disagree” and “no opinion” labels which had 2 respondents or 15.4% and 1 respondent or 7.7% respectively as shown in figure 4.1. The 30.8% and 23.1% for “strongly agree” and “agree” labels respectively indicates the preparedness for S & Ls to grant and improve loans when SMEs are able to provide landed collateral security.
- ❖ **Provision of business information:** 46.2%, corresponding to 6 S & Ls respondents strongly agree that SMEs should provide business information, followed by the “agree” label which had 5 respondents or 38.5%. The “strongly disagree” and “no opinion” labels had 1 respondent or 7.7% each. As shown in figure 4.2, 46% for strongly agree and 38.5% for agreeing show that the relationship between SMEs and S & Ls in terms of loan application and approval will be better enhanced if the former provide business information such as sales records, receipts, invoices, sales records, location of business, years of operations and so on to the latter.
- ❖ **Provision of business registration documents:** “Strongly agree” label had 5 respondents (38.5%) from the S & Ls, followed by 4 respondents (30.8%) for the “agree” label. The “no opinion” and “disagree” followed with 3 respondents or 23.1% and 1 respondent or 7.7% respectively. Access to credit for SMEs will be given a boost if proper business registration documents are provided to S & Ls as 5 respondents or 38.5% and 4 respondents or 30.8% strongly agree and agree respectively as shown in figure 4.3.
- ❖ **Provision of proper financial statement:** Among the 13 S & Ls, 9 respondents denoting 69.2% opted for “strongly agree” label which was followed by “agree” label with 4 represents or 30.8%. Figure 4.4 shows that 69.2% and 30.8% of respondents for S & Ls strongly agree and agree respectively, for SMEs to submit proper financial statement and if possible an audited one. The loan companies view this as important and one of the ways of improving loans to SMEs.

#### 5.0 CONCLUSION

SMEs are the impetus and an engine of economic growth and development of Greater Accra Region and Ghana in general. Thus, concerted efforts through government, policy makers, institutions and individuals are imperatively needed and geared towards the development of the SME sector, especially in the area of availing reliable and affordable credit to SMEs. Savings and Loan Companies in recent years have aided and continue to serve SMEs as they provide an alternative avenue for savings and access to credit for small savers and borrowers for whom the procedures and requirements of the traditional financial institutions are too cumbersome and discriminatory.

The situation is largely attributed to asymmetric information, their lack of collateral, high administrative costs of SME lending and high risk perception of SMEs. Consequently, Savings and Loans Companies serving the needs of SMEs can now be said to be an integral part of the financial system of Ghana. That notwithstanding, more need to be done by Savings and Loans

Companies as well as SMEs to improve access to credit. In view of the findings of the research, the following recommendations are given by the researcher which can enhance access to credit to SMEs:

First of all, SMEs are often regarded and perceived to have high risk and default rate. To bring such risk and loan default rate to its barest minimum, it is recommended that S & Ls consider providing group lending to SMEs who agree to do so. Default risk can also be controlled through credit rationing and character-based lending to entrepreneurs who have a good track record and close on-site monitoring, particularly with SMEs operating in the vicinities of the S & Ls.

Secondly, some SMEs are unaware of the existence of alternative sources of finance where loan facilities tend to be relatively flexible because they lack such information. SMEs should also be proactive in exploring information about alternative sources of finance. In such a situation, SMEs will not be limited in their choice-making process, but will be faced with many options where prudent and effective assessment can be made. This will enable SMEs to choose the option with the lowest cost of borrowing.

Additionally, SMEs are regarded as unattractive to banks and other financial institutions because of their improper internal structures and modus operandi. In order to serve as an attractive destination to S & Ls and other financial institutions, SMEs should improve their business management skills including basic record keeping, marketing and putting in place proper organizational structure. SMEs should be assisted to prepare financial statements and business plans through engaging the services of people who have the know-how. SME clients should enhance their financial and credit management skills in order to have a high credit rating. SME operators should make regular cash lodgement into their business accounts and use the bank transaction systems such as cheques for payments. This would give S & Ls and other financial institutions a better appreciation of their financial transactions. Thus, information asymmetry attributed to SMEs would be reduced. The attractiveness of SMEs will serve as facilitator to the approval of loan applications since that could make S & Ls and other financial institutions go down on their strict and cumbersome loan procedures. This is because strict and cumbersome loan application procedures are sometimes adopted to serve as a scare crow to many unattractive SMEs.

Moreover, other forms of collateral security other than landed collateral should be accepted by S & Ls and other financial institutions. S & Ls should support their SME clients by building long term and sustainable business relations, offer training services in credit management and improve on service delivery, such as faster loan approval times as well as offering credit to SMEs at a favourable interest rate.

Lastly, governments' role in supporting the SMEs sector should be intensified, especially where the financial system and the economic conditions in Ghana is a stumbling block for SMEs to access enough financial assistance from Savings and Loans Companies and the financial sector in general on favourable terms. More government finance schemes such as MASLOC and other micro-credit schemes, where collateral security is not a major demand should be established by the government. Such schemes usually charge interest rates lower than that charged by S & Ls and other financial institutions.

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## 7.0 TABLES AND FIGURES

**Table 4.1: SMEs’ sources of start-up capital**

	Frequency	Percent	Cumulative Percent
Self	64	64.0	64.0
Money lender	3	3.0	67.0
Banks	6	6.0	73.0
Savings & Loan Companies	9	9.0	82.0
Credit Unions	5	5.0	87.0
Others	13	13.0	100.0
Total	100	100.0	

Source: Fieldwork

**Table 4.2: Alternative sources of finance for SMEs expansion**

	Frequency	Percent	Cumulative Percent
NGOs	5	5.0	5.0
Money lenders	3	3.0	8.0
Friends and families	8	8.0	16.0
Savings & Loans Companies	36	36.0	52.0
Credit Unions	21	21.0	73.0
Others	27	27.0	100.0
Total	100	100.0	

Source: Fieldwork

**Table 4.3: Does your company face asymmetry of information as a challenge in lending to SMEs?**

	Frequency	Percent	Cumulative Percent
yes	13	100.0	100.0

Source: Fieldwork

**Table 4.4: Does your company face high informal nature of business ownership as a challenge in lending to SMEs?**

	Frequency	Percent	Cumulative Percent
yes	9	69.2	69.2
no	4	30.8	100.0
Total	13	100.0	

Source: Fieldwork

**Table 4.5: Does your company face lack of proper business plan as a challenge in lending to SMEs?**

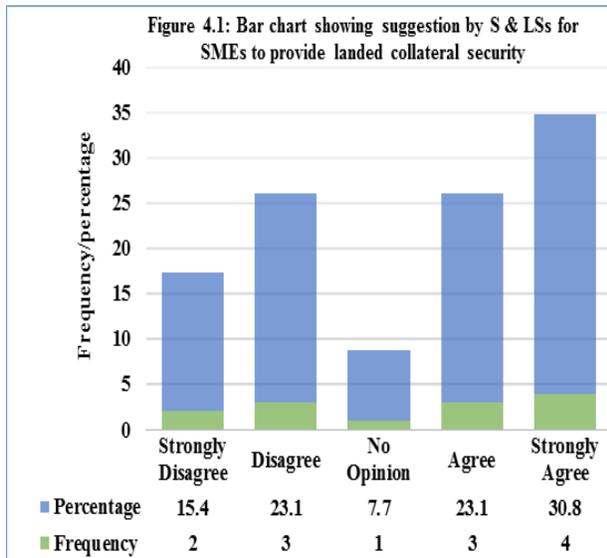
	Frequency	Percent	Cumulative Percent
yes	2	15.4	15.4
no	11	84.6	100.0
Total	13	100.0	

Source: Fieldwork

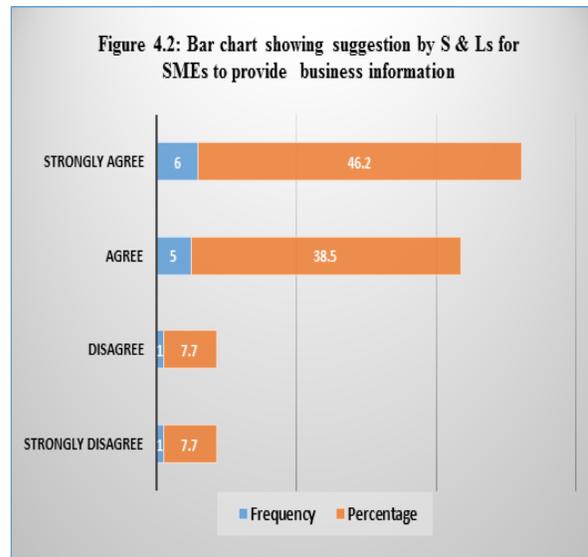
**Table 4.6: What is your opinion on the high financial literacy capacity of SMEs’ owners?**

	Frequency	Percent	Cumulative Percent
Strongly Disagree	11	84.6	84.6
Disagree	2	15.4	100.0
Total	13	100.0	

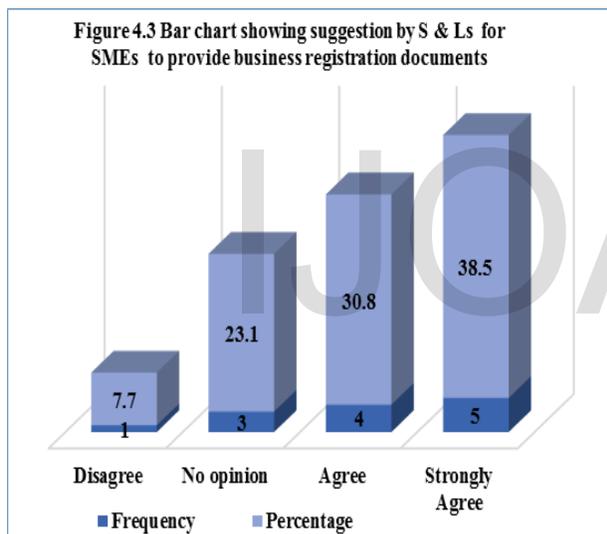
Source: Fieldwork



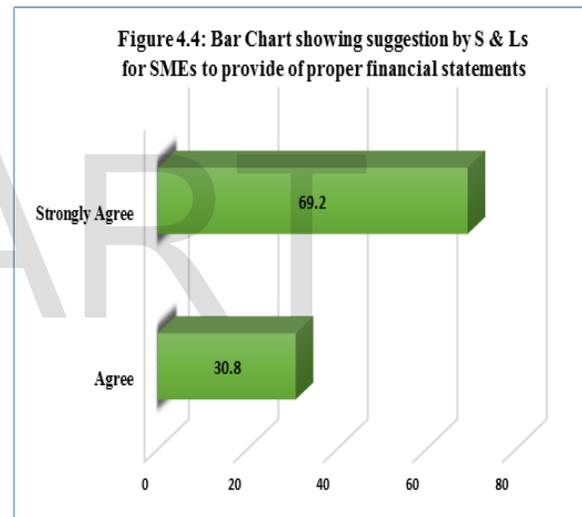
Source: Fieldwork



Source: Fieldwork



Source: Fieldwork



Source: Fieldwork