UNIVERSITY OF EDUCATION, WINNEBA

CREDIT RATIONING OF SMALL AND MEDUIM ENTERPRISES:

EFFECT ON THE GROWTH OF SMES AND ITS CONSEQUENCES ON

EMPLOYMENT IN GHANA

PRINCE OPPONG AMOFAH

2017

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EMPLOYMENT IN GHANA

PRINCE OPPONG AMOFAH

A Dissertation in the Department of Accounting Education, Faculty of Business Studies,

submitted to the School of Graduate Studies, University of Education, Winneba, in

partial fulfilment of the requirements for award of the Master of Business Administration

(Accounting) degree

AUGUST, 2017

DECLARATION

STUDENT'S DECLARATION

I, PRINCE OPPONG AMOFAH, declare that this dissertation, with the exception of quotations and references contained in published works which have all been identified and acknowledged is entirely my own original work and it has not been submitted either in part or whole for another degree elsewhere.

SIGNATURE: -------------------------------------

DATE: ---
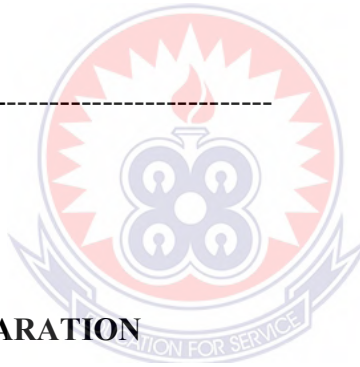
SUPERVISOR'S DECLARATION

I hereby declare that the preparation of this project report was supervised in accordance with the guidelines on supervision of dissertation as laid down by the University of Education, Winneba.

SUPERVISOR'S NAME: DR. CAMILLUS ABAWIERAWONGNAA

SUPERVISOR'S SIGNTURE: ---

DATE: --

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ACKNOWLEDGEMENTS

My greatest manifold of thanks goes to the Almighty God for seeing me through my entire University education and granting me ideas, knowledge and guidance toward the realization of this project report.

I am thankful to all the people who in various ways made invaluable contributions to this level of my education. In particular, I express my profound gratitude to my supervisor; Dr. Camillus Abawiera Wongnaa for his immerse valuable feedback as well as his constructive pieces of advice throughout the work. I cannot also forget to thank Dr. Dadson Awunyo-Vitor (KNUST) for the support he offered me. I am also grateful to my parents for their support and my wife and all my siblings I say thank you for your moral support. I thank all the respondents who answered my questionnaires in the various district in Ashanti Region for making my work a success. I sincerely appreciate all your efforts.

Lastly, I thank Dr. Joseph Mbawuni who in diverse ways advised me and acted like a father to me throughout my MBA education and all my friends and relatives.
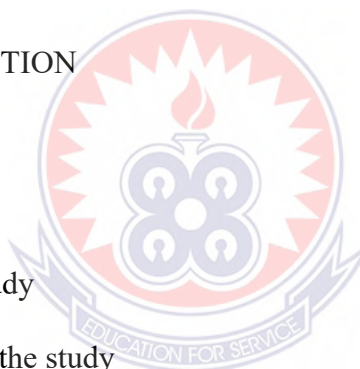
DEDICATION

This work is dedicated to my children, Samuel, Afrah and Gyamfua, my wife Florence

Agyekum, my mother Theresa Tuffour and Amofah's family.

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ACRONYMS

FI- Financial Institutions

SMEs- Small and Medium Enterprises

MASLOC-Microfinance and Small Loans Centre

GDP-Gross Domestic Product

GIPC- Ghana Investment Promotion Centre

AGI-Association of Ghana Industry

UNCTAD- United Nations Conference on Trade and Development

ABSTRACT

The study provides a comprehensive discussion on Credit Ration of Small and Medium Enterprises (SME), its effect on the growth of SMEs and subsequent effect on employment in Ghana. Access to finance has been noted as one of the major challenges impeding the survival and growth of the SME sector in Ghana. The problems of access to finance, gaps and the reasons for the gaps in SME financing in Ghana are discussed. Gaps in SME financing were discussed in relation to credit rationing theory which advocates that agency problems and asymmetric information are the main reasons for the credit rationing behaviors of credit providers to SMEs. This paper is a study to identify gaps in literature regarding the financing of SMEs in Ghana using primary data to gather information. Out of 200 questionnaires administered, 175 were responded to and used for the study. Descriptive analysis was used to arrive at the major findings in this thesis. From the study, the major factor that influenced loan application by firms in Ghana were inflation rate and external business environment while the major factor that influenced credit rationing were lack of securable collateral. The effects of credit rationing on the growth of SMEs is that credit is needed to expand business. Therefore it is recommended that policy recommendations aimed at solving access to finance challenges and must be empirically tested on a regular basis and progress in that regard must be constantly monitored and revised to eradicate the problems.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Availability of funds to Small and Medium Enterprises (SMES) has been identified as major constraints that impede the growth of SMEs sector in Ghana. Credit facility is very crucial to the growth and productivity of SMEs (Osei-Assibey et al, 2016). About 90% of registered companies in Ghana according to the Registrar-General are SMEs, and about 80% of them are private owned and 92% of the private owned constitute business in Ghana (Abor & Beikpe, 2006).

A study conducted by Bastiat Ghana, a liberal economy think tank, 2014, shows that 92% of companies registered in Ghana are micro, Small and Medium Enterprises (SMEs).According to the study, 85% of the SMEs offer employment in the manufacturing sector and also offers 75% of contribution to the country's Gross Domestic Product (GDP). The study also clearly stated that 'among the bigger obstacle to SMEs in Ghana is access to funding and ability to conduct market research to support their operations as a guide to work scientifically for the success of their ventures.

In Ghana, the inaccessibility of financial institutions by SMEs has significantly affected the role SMEs play in the overall macroeconomic performance of the Ghanaian economy as studies have identified a growing gap in the financial support offered to Ghanaian SMEs (Osei-Assibey et al, 2013). The high interest rates, collateral requirements and the cumbersome processes have often been mentioned as the main impediments to SMEs' access to bank loans in Ghana (Bigsten et al., 2000; Buatsi, 2002). These identified

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causes of credit rationing impedes the growth of SMEs and therefore SMEs only try to work with and maintain the limited resources available to them which eventually inhibits them from employing more people. This study however focuses on factors that motivate credit ration of SMEs, its effect on the growth of SMEs in relation to its consequences on unemployment.

Credit rationing refers to a condition in which individuals or enterprises that need credit facility are not able to apply for credit or applicants are not offered the desired amount applied for (Boucher & Guirkinger, 2007). SMEs have limited access to capital market due to the perception of higher risk, informational barriers, and high cost of intermediation for smaller enterprises thus credit market is characterized by information asymmetry and adverse selection which give rise to credit rationing by lenders which they use as optimal behavior (Cheng et al., 2014).

SMEs may be defined in two ways- the Ghanaian perspectives and the international perspective due to the differences that exist in the economic systems of countries of the world and of the variables used in the description of SMEs worldwide.

SMEs can be defined from the Ghanaian perspective as a registered enterprise with employment level ranging from thirty (30) to seventy (70) employees and depending on the type of industry will be referred to as a small or medium scale enterprise according to the Ministry of Trade and Industry (2000:27)". Ayagari, Beck and Demirguc-kunt (2003:13) define SMEs as "formal enterprise which has a cut-off range of zero (0) to two hundred and fifty (250) employees".

In Ghana, SMEs offer the larger percentage of employment. This presumes that the growth of Ghanaian economy largely depends on the strength and growth of SMEs, thus SMEs represents the engine of growth of Ghana economy so policies should be established by Ghana government and institutions such Ghana Investment Promotion Centre (GIPC) should be strengthen so as to ensure the proper functioning of Ghana SMEs and create business environment suitable enough to attract more SMEs both local and foreign investors.

SMEs creates rooms for personal initiatives, innovations and development of new products, services and techniques which breeds and encourages healthy competitions and because of the competitions SMEs engender, they serve as a cornerstone of free market. This competition eliminates monopolies and encourages free market which would eventually result good products and services are offered to customers. The small business is a partner to big business and provides products and services that normally cannot be provided by the latter.

As it is said earlier, the strength of Ghana economy depends largely on SMEs and anything that would prevent the success of SMEs should if could not be avoided be minimised, there should be incentives to motivate and encourage entrepreneurs to go into SMEs business. A conducive financial institutions environment should be created and policies that ensure that there is enough returns on SMEs business and that the government of Ghana should ensure the removal of any barrier to accessibility of funds to SMEs.

The Central Bank together with Registrar General of Companies can put down certain strategies to ensure that information that would be required by commercial banks are met and gap that exist between the SMEs and commercial banks are reduced and where possible closed.

1.2 Statement of the Problem

Many researchers such as Bigsten et al (2000), Bocher and Guirkingerb (2007), Chung et al (2014) have made researches to know why lenders refuse to give loans to SMEs or reduce the amount of loan that SMEs apply for. From the previous studies done by the following scholars; Daniels (2012), Land rights and SME credit, evidence from Ghana; Nkuah et al (2013), Financing SME in Ghana, Challenges and Determinants in Accessing Bank Credit; Joshua et al (2006), How are SMEs financed?, are evidence from the Ghanaian Non-traditional Export Sector, etc. have four major common factors (determinants) that inform credit rationing (thus lenders whether to give loans, reduce the amount applied for or deny access to loans or the applicant making self- withdrawals). These determinants are; informational barriers, credit worthiness of the applicants (perception of high risk), collateral availability (high cost of intermediation for SMEs), and self-withdrawal of applicant due to conditions attached to the loan accessibility. The study looks at the determinants of credit rationing, its effect on the growth of SMEs in relation to its consequences it unemployment.

Formal credit market accessibility by SMEs is very crucial to the development and growth of SMEs. Ghana's credit market consists of formal and informal market. Historically the formal credit market is made of commercial and rural banks with

commercial banks being the major supplier of credit fund to household and private business. To improve efficiency in the accessibility to funds and enhance access to a wide variety of services in the formal credit market, the government of Ghana has implemented a number of financial sector reforms which includes making free market of commercial banks, review of banking act to widen the definition of banking beyond the commercial banks, and also reducing government role in the financial sector. A number of private donors through the government have also brought much assistance to the SMEs by trying to promote credit schemes targeted at the SMEs. This means that there are a lot of measures implemented to increase the supply of formal credit which should relax constraints imposed on accessibility of funds by SMEs and enhance the growth of SMEs. Despite all these development, there is evidence of constrained access to bank credit by SMEs in spite of the role they play in the fight against poverty in Ghana through creation of employment opportunities, competition of consumer market, and their contributions to the GDP, etc. (Nkuah et al, 2013). This implies that banks do not just lend to anybody who can afford the price of credit but apply some degree of credit ration using non-price mechanism. This study will delve into the predominant determinants of credit ration by banks, its effects on the growth of SMEs and its consequences on employment as all previous studies give different causes of credit ration without looking at it in relation to growth of SMEs and employment.

1.3 General objective of the study

The general objective of this study is to determine the most prevailing factors (determinants) explaining the credit rationing by commercial banks in Ghana and its effect on the growth of SMEs and employment

1.4 The Specific Objectives of the study

The specific objectives of the study are:

1. To identify and analyse the prevailing factor(s) that influence credit rationing by Commercial Banks in Ghana

2. To examine the effect of credit ration on the growth of SMEs in Ghana

3. To examine the consequences of credit ration of SMEs on employment.

1.5 Research Questions

With the background information given to the problem, the following questions would be sought:

1. What are the prevailing factors that influence credit rationing in Ghana?

2. What are the effects of credit rationing on the growth of SMEs in Ghana?

3. Are there any consequences of credit rationing of SMEs on employment?

1.6 Justification of the Study

A reasonable number of studies have shown that a lot of SMEs are denied access to credit facility by Commercial banks especially in developing countries such as Ghana, Nkuah et al (2013), Financing SME in Ghana, Challenges and Determinants in Accessing Bank Credit; Abor et al (2006), How are SMEs financed?. The study will also seek to investigate the effect of credit ration on the growth of SMEs and its consequences on employment. This study is geared to explaining these forms of causes of credit ration, its implication on the growth of SMEs and employment and how if these causes of credit rationing are overcome, could help SMEs get access to credit, improve working capital of

SMEs to expand their operations which would eventually need more hands on deck to create employment which reduces unemployment burden on the central government of Ghana. Based on these benefits, institutions such as government agencies, Financial Corporations (i.e. Banks), SMEs etc can rely on this study to revise their strategic decisions on credit rationing.

1.7 Scope of the research

In context, the study is to assess the prevailing factor(s) among all the determinants of credit rationing of SMEs by banks in Ghana, its effect on the growth of SMEs and relation to the consequences on employment. Geographically, the study focused on 7 districts in the Ashanti region. Time covers the period the study is expected to be completed. In terms of design, the study will deploy a fact-finding research which makes subsequent research imperative. Limitation of this study relate to scant measure of variables, small sample sizes, errors in measurements, and other causes usually related to data collection and analysis.

1.8 Organization of work

This research is grouped into five chapters. The first chapter would be about the introduction, background, statement of problem, justification, objectives, research questions, the scope and limitation and organization of the study. This is followed by chapter two, which reviews literature that captures evidence on the subject matter as congregated from other relevant sources and in additions, the theoretical framework that edifies the ideologies behind credit ration of SMEs by banks in Ghana. The factors

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affecting the credit rationing in Ghana is also assessed from the perspective of other researchers. Chapter three, four and five deals with the methodology, discussions and recommendations of and from the study and logical conclusions made in the study respectively.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature relevant to credit rationing of SMEs by financial institutions. It also reviews the theoretical literature and empirical literature on the consequences of credit ration of SMEs and the lenses through which financial institutions view SMEs.

2.2 Theoretical Review

SMEs faces a lot of difficulties in accessing funds in recent years even though there has been economic reforms in Ghana and a switch of emphasis from ostentatious capital intensive, large-scale industrial projects to a small medium enterprises with immense potentials for developing domestic capacity for rapid substantial industrial development. Funds needed for the routine operations of SMEs have become very crucial. Firms can be funded either by equity (ownership fund) or debt (borrowing of fund) with the later been very much crucial with respect to accessibility of such fund due to asymmetric information, perception of high risk, high cost of intermediaries of SMEs and self-withdrawal which results in credit rationing by lenders in order to minimize or avoid risk (Osei-Assibey, 2014).

Joshua et al (2006) argued that SMEs are denied credit due to lack of securable assets, lack of knowledge by lenders about the nature of respondent business, stringent eligibility criteria, lack of knowledge about lending criteria, difficulty in finding out about available

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finance and bureaucracy, all these are as a result of low awareness and the usage levels of the various financing initiatives among SMEs.

Results from a study conducted by Bedman (2013) shows that price competitiveness, credit availability, perceived service quality, staff attributes, and bank attributes among other things are determinants of SMEs bank selection.

Financial Institutions (Financial Institutions) would not grant credit to SMEs until collateral provided, despite society discerning on Financial Institutions, for such conduct. Financial Institutions are also trying to minimize their risk as a way of sustaining the survival of their institutions and stewardship of resources put in their custody (Patrick et al, 2012).

Nkuah et al (2013) also argued that there is a positive significant relation between certain attributes of a firm and accessibility of credit facilities. They indicated that certain financial activities such as business registration, documentation/recording, business plan, assets ownership and others that also influence heavily on SMEs access to bank credits.

Christine et al (2013) study also indicated that though availability of credit has improved, a large number of the SMEs do not source for funds from Financial Institutions and as a result, the growth of the sector remains stunted. They further established that security requirement, difficulty in getting personal guarantors, absence of accounting records and Risk averse as the most significant variables in the order, which they impede access to credit of SME sector.

Joshua et al (2006) again revealed that as firms engage more in international business, they seem to use more of formal finance than informal finance. However, these formal Financial Institutions are too bureaucratic and their requirements are too difficult to fulfill which naturally discourages SMEs from accessing credit from these Financial Institutions.

Daniels (2013) also argued that lenders also demand for landed property for collateral purpose whether the borrower has registered title over the property used as the collateral or not.

In his literature work, Osei-Assibey et al (2012) realized that borrowers are screened by lenders before advancing loans to them and are been monitored after the loans have been given to them, coupled with efforts involved in satisfying collateral requirements imposed significant cost on the borrowers resulting in some of them refraining from borrowing and are thus rationed out. While quantity rationed households are denied access to the desired amount of loans, risk and transaction cost, rationed households instead voluntarily withdraw from the credit market because of non-price terms of available contracts (Boucher et al, 2006). Thus, some potential borrowers do not apply for credit although they need the loan, due to risk of default. Boucher and Guirkinger (2007) identified quantity rationing, risk rationing and transaction cost rationing within financial market in Peru. Osei-Assibey et al (2012), also reviewed that the ultimate reason for credit rationing of certain borrowers is loan transaction costs as asserted by Meyer and Ceuvas (1992).

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2.3 The Evolution of Credit Ration

Stiglitz and Weiss (1981) originated the theory of adverse selection in credit market based on two main assumptions. First they assumed that lenders cannot distinguish between borrowers and different degrees of risk (information asymmetry) and that the contract is subject to limited liability and second that the repayment of any loan is limited to the assets which rises from the returns of the investment only and that other assets of the borrower could not be used to cover loan repayment.

The issue of risk aversion on the part of lenders led to credit rationing. Based on this assumption, lenders bear all the downside risk and all the returns from the investment above the loan repayment obligations accrued by the borrower. In order to ration the borrowers, the lenders raise the interest rate to increase their returns to compensate the associated risk; however, this would lead to adverse selection. The increase in the interest rate would affect the profitability of the low-risk borrower that would cause them to opt out of credit applicant pool. To avoid this, lenders may hold the interest rate at a level below the prevailing market rate and efficiently ration credit applicants in order to achieve a better lower compensation and a lower risk portfolio.

According to Stiglitz and Weiss (1981), lenders reject credit application by not offering credit applicants' loans or offering an amount less than what has been applied. This means that a household is been rationed when their demand for credit exceed the loan amount offered by the lenders or they could not apply for the loan because they perceive that they do not meet conditions sufficient enough to meet the requirement for the supply of credit although they need credit.

Ghost et al (2000) also raised argument in support of Stiglitz and Weiss that most firms (households) are rationed by lenders because of strands within the credit literature which focus on adverse selection (hidden information), moral hazard (hidden action) and contract enforcement problems.

2.4 Definition of Access to Finance

There is no one universally acceptable definition of access to credit because there are several views of what constitute access to credit. World Bank (2008) defines access to finance as the absence of price and non-price barriers in the use of financial services. Claessens (2005) also defines access to credit in considering three main factors: the availability of the financial service, the price of the credit available, (both explicit and opportunity cost) and lastly the range, type and quality of the credit being offered; thus an access to finance refers to the availability of supply of quality financial services at a reasonable cost, (Claessens & Tzioumis, 2006). Hence it becomes important to differentiate usage and access to finance. Access refers to the supply of financial services and the use of the services is determined by demand and supply. Ensuring access to finance means ensuring the degree to which financial services are available to all at a fair price (Ganbold, 2008).

2.5 Sources of Credit to SMEs

Basically SMEs are financed by two major sources; the internal source (refer to as equity financing thus self-finance by the owners), and external source also known as debt financing which includes borrowing from formal, semi- formal and informal source

(Osei-Assibey et al, 2012), thus SMEs are externally financed through suppliers credit or bank borrowing, Ayeetey et al (1994).

2.6 Formal Source of Credit

According to Osei-Assibey et al, (2012), the formal source of credit includes the universal banks, as well as Rural and Community Banks (RCB). Aryeetey and Gockel (1994) sees the formal financial sector been dominated by commercial and developing banks, which offer both short-term and long-term credit, but over 90% of these credit facilities are of short-term in nature.

2.7 Semi-formal Sources of Finance

This includes registered Non-banking financial institutions (NBFinancial Institutions) which are mostly the Savings and Loans companies, credit unions, and Micro finance institute (MFinancial Institutions) which provide credit and other financial services to SMEs. The semi-formal sources unlike the formal source, of credit, appears more likely to accept a greater screening and monitoring cost involved in mitigating information asymmetry hence making it very costive in loan application, (Osei-Assibey et al, 2012).

2.8 Informal Sources of Finance

The informal financial sector is defined by Aryeetey and Gockel (1994) as a participation in all commercial Savings and lending activity that takes place outside of formal or established financial institute. Osei-Assibey et al (2012) also argues that informal sectors are made of a large number of financial institutions that are not regulated and falls outside all the banking loans in Ghana; they are mainly dominated by the activities of

money lenders and 'susu' operators. Other forms of informal source include personal resource such as funding from relatives, selling of properties, trade credit etc (IBID 2012)

2.9 Empirical Review on Causes of Credit Ration

Claessens (2005), in explaining the reasons for credit rationing, considered two dimensions:

a) Due to the lenders specific constraints, high cost of investment in providing collateral, especially

   In rural areas, lack of security in cash transfers and high transactions of small volumes, provisions of credit facility to small household and firms may be constrained

b) The constraint of the institutional (SMEs) environment, such as lack of technological innovations and distribution networks may affect the provision of loans to households and firms.

According to Beck et al (2008), the major differences that exit between SME financing in developed and emerging countries are due to deficiencies in the contractual and informational framework in the emerging countries and less stable macroeconomic environment. In addition, financial sector policy distortion and lack of knowhow on the part of banks are also reasons for SMEs' credit constraint (Malhotra et al, 2007 & Gockel, 2003).

Information asymmetries are seen as one of the reasons that bank or creditors deny credit to applicants as thus lenders are unable obtain true information about the credit

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worthiness of applicants (SMEs) and such information arises from the SMEs own lack of accounting records, inadequate financial statement, business plan and thus makes it very difficult for creditors to assess the credit worthiness of potential SME proposal, (UNCTAD 2005). Because bank lack access to the credit history of applicants, banks mitigate these information asymmetries by either charging high interest rate, or they decide not to lend altogether, (Kempson et al 2000).

Inadequate management information system in financial institutions; the undeveloped state of economic information industry; and the poor state of certain public services such as the registration of property title and collateral are some of the reasons SMEs are denied credit and this is more severe in emerging countries, (Zavatta et al 2008). Zavatta again argued that insufficiently developed legal systems prevent the development of certain financial instruments including the use of collateral as a risk-mitigating element. For example, legal provisions regarding security interest are of crucial importance in determining the efficacy of collateral.

2.10 Conclusions

The above studies have shown many determinants of credit rationing but each failed to address the effect of credit rationing on the growth of SMEs in relation to its consequences on employment and attentions to gradually solve those factors that seriously encourages credit rationing and promotes the growth of SMEs which would encourage expansion of firms and hence help solve unemployment problems. For this reason this study would look at the concept of credit ration, how it impedes the growth of

SMEs and its consequences on employment which when solved by the end of this study would solve all the other minor determinants of credit ration.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with the procedures and techniques used in carrying out the research. It incorporates the research design, strategy, population of the study, sampling size, and sample techniques. Also, the sources of data (mostly primary), data collection technique, data collection instrument, and data analysis as well as the conceptual framework.

3.2 Research Design

The research design used is descriptive design. Descriptive research determines and reports the way things are and helps a researcher to describe a phenomenon in terms of attitude, values and characteristics (Mugender & Mugender 2003), thus descriptive design allows researcher to gather, present and interpret information for the purpose of clarification. This design would be chosen because the research seeks to find out the current state of predominant credit rationing determinant(s) by commercial banks.

3.3 Target Population

The population of interest of this study comprised of 310 SMEs in seven districts within Ashanti region. Ashanti region was chosen as where there are many SMEs and perceived to the economic capital of Ghana. Seven districts that were chosen are; Kumasi Metropolitan Assembly, Mampong Municipal Assembly, Atwima Nwabiagya District Assembly, Atwima Kwawoma District Assembly, Sekyere-West Municipal Assembly, Ejura-Sekyeredumasi Municipal Assembly, and Ahafo-Ano South District Assembly.

3.4 Sample Size Determination

According to Strydom et al, (2005) sampling means taking any portion of a population as distinctive of that population. If population is moderately small, the model should contain a reasonably larger percentage of the population. Large samples enable the investigator to draw more accurate expectations and more detailed extrapolations than in smaller samples. For simplicity and ease of getting the needed data for this study, SMEs in the Ashanti Region form the sample size for this study. The researcher adopts both random and purposive sampling technique to specifically select SMEs firms. In all, one hundred and seventy five (175) firms were used for this study, which covers seven districts in the Ashanti region namely, Kumasi Metropolitan Assembly, Mampong Municipal Assembly, Atwima Nwabiagya District Assembly, Atwima Kwawoma District Assembly, Sekyere-West Municipal Assembly, Ejura-Sekyeredumasi Municipal Assembly, and Ahafo-Ano South District Assembly.

The formula below was used to determine the sample size used;

$n = N/1 + N(e^2)$, where

n=desired sample size

N= the finite size of the population

e= maximum acceptable margin of error determined by the researcher as 5%

1= a theoretical constant

Therefore, $n = 310/1 + 310(0.05)^2 = 175$

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3.6 Data Collection

A simple random technique was employed as sampling technique in this study. This was to make certain that the selected number of SMEs within Seven District in the Ashanti Region, involved in the data collection process, represent a cross-section guaranteeing a fair view, capturing the needed information. The researcher ponders that the findings derived will be credible and a true reflection of state of affairs. This research used only primary data to run the required responses to the research questions. Primary data were obtained from the field using questionnaires and structured interview guides. Questionnaires were administered to some of the one hundred and seventy five (175) individuals with various managerial experiences working in various positions of the SMEs. Considering the nature of the topic, it was appreciated that questionnaires would be the most suitable instrument to use for the study. This is because questionnaire has been identified as the best economical means of gathering data from a possibly large number of respondents at a moderate cost. Thoughtful thoughts were given to each wording of individual questions. This was done to ensure that respondents gave objective responds to the questions. The questionnaires were mostly closed ended questions. The researcher used administration of questionnaires as the main source of data collection method. The questionnaires were administered to various managers of SMEs institutions in the Ashanti region to provide the needed information. As a strategy aimed at minimizing the time it took to carry out the exercise, the researchers adopted both self-administered and drop and pick strategies in questionnaire administration. The procedure adopted during data collection was in three stages: Pilot study, pre-study sessions and finally administration of research instruments for data collection. The pilot study aided

the researcher in measuring the validity and reliability of the designed collection instruments. The primary data was collected using a questionnaire and observation techniques.

Pie chart and tables were used in organizing the quantitative data. Scaled items were coded via a 5-point scale beginning from 1 = Strongly Disagree, to 5 = Strongly Agree. Non responses, together with not applicable questions, were exempted from the analysis. Scaled items were further buckled into three groupings: Agree, Neutral and Disagree, for the purposes of results discussion as demonstrated in Table 3.1

Table 3.1: Representation of Scaled Items

Coding Method	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
A	5	4	3	2	1

Response Rate

Totaling 200 questionnaires were administered to CEOs, accountants, managers and staff of various SME firms and other firms located within seven districts in the Ashanti Region of Ghana. In all, 175 questionnaires were attended to and returned giving a response of 87.5%.

3.7 Description of Demographic factors

The first section of the questionnaires circulated and responded to was the description of the demographic factors of the respondents. This section was included in the questionnaire to help the researcher to ascertain a somewhat background information about the respondents. The respondents' demographic characteristics included key elements such as; age, gender, educational level, and industry they worked in, professional qualification, duration of work among others

3.8 Data Analysis

The data attained was statistically investigated. The researcher employed descriptive and quantitative analysis to analyze the data. The quantitative method was the focal method in this research while the descriptive method was used to support the outcomes in the quantitative method. Different exploration approaches and procedures were required because of the unique nature of the quantitative data captured by the survey. Discussed below is the approaches used to produce the results in Chapter 4, and in this chapter to analyze the features of the sample and population of the research. The researcher outlined a number of recommendations and drawn conclusions.

After cleaning, editing and coding, all the collected data was analyzed using qualitative approaches. To obtain these descriptive statistics, the researcher used SPSS statistical analysis software and Microsoft Excel software. Quantitative measurement tool was used to get respondents opinion away from the structured questionnaires. The study used descriptive statistics such as frequency distribution and percentages to facilitate the

change of raw data into a form that was easy to understand and interpret in relation to the study variables.

3.8.1 Conceptual Framework

The main purpose of this research was to find out the prevailing factor(s) that influence commercial banks ration credit from the lenders' perspective. Credit rationing would be measured by the amount of loan a client applied and the amount that would be granted. If the loan that would be granted is less than the amount applied for then there is credit rationing.

The firm characteristics would be measured by looking at the risk profile and earnings of either business or the individual who apply for the loan. The loan characteristics would be measured by the interest rate and collateral provided by the client and the loan maturity period for the loan applied. The age and gender of the individual or the operational years of the business and the credit history of the loan applicant would measure the observable characteristics.

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Independent variables

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┌─────────────────────────┐
│   Firm Characteristics  │
│                         │
│     Risk Profile        │
│                         │
│     Earnings            │
└─────────────────────────┘
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Dependent variables

```
┌─────────────────────────┐          ┌─────────────────────────┐
│   Loan Characteristics  │          │   Credit Rationing      │
│                         │          │                         │
│     Interest Rate       │ ──────>  │  Amount of loan applied │
│                         │          │                         │
│   Collateral Provided   │          │  Amount of loan granted │
└─────────────────────────┘          └─────────────────────────┘
```

```
┌─────────────────────────┐
│ Observable Characteristics │
│                         │
│     Credit History      │
│                         │
│   Operational years     │
└─────────────────────────┘
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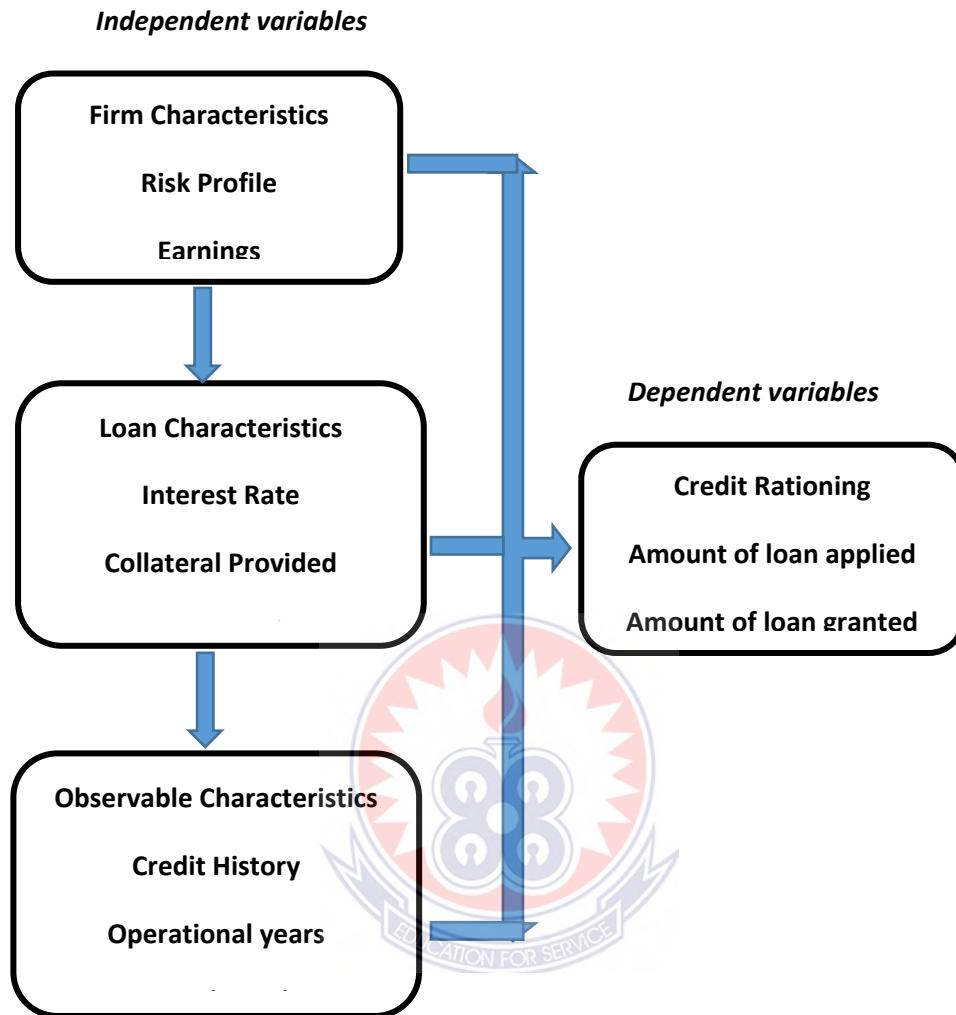
CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF RESULTS

4.1 Introduction

This chapter presents the data analysis and discussion of research results. The analysis and discussions were aimed at understanding the objectives of this research which includes; the demographic characteristics of the respondents, the factors that influence companies to apply for loans, why loan applications are being rationed, the effect of loan ration on SME's growth and its subsequent effect on employment.

4.2 Demographic Characteristics of the Respondents

The researcher sought to establish the demographic characteristics of the respondents. Characteristics such age, working experience, position in the work place, level of education, the industry the firms operate in etc. This enabled the researcher to examine and assess the caliber of respondents so as to determine the quality of response that ensured quality study.

4.2.1 Age Distribution of Respondents

From the below diagram, bulk of the respondent was between the ages of 31 to 40 years. This age group contributed to 44% of the total respondents. This was followed by the age group above 51 years who contributed to 26%, the age group between 41 to 50 years were 15%, age group between 25 to 30 years were 12.5% and the age group below 25 years contributed 2.5% of the total respondents. This is an indication that a relative matured age group is owners or employees of SMEs. This is a clear indication of Ghana youth unemployment rate. The figure below reveals the outcome
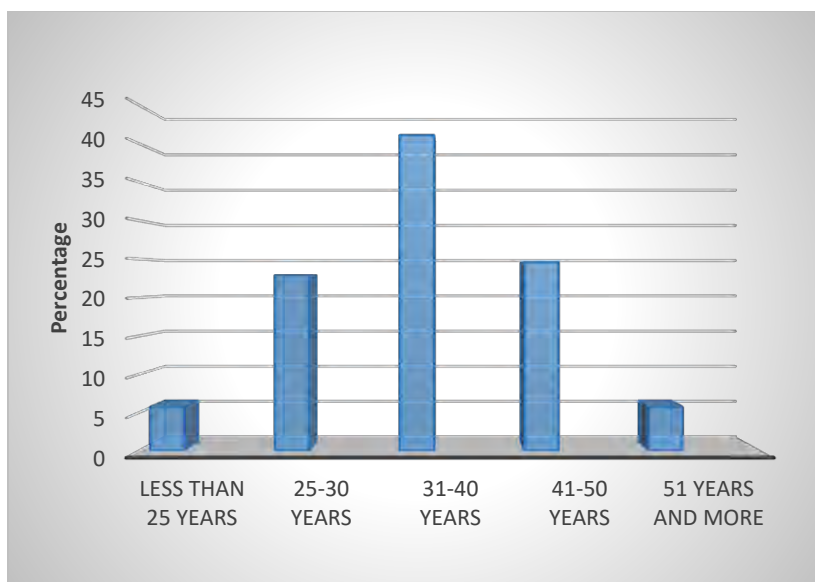
Figure 4.1 Age distribution of Respondents

(Source: Field Work. 2017)

4.2.2 Educational Level of Respondents

Table 4.1 Educational level of Respondents

Education Level	Frequency	Percent	Cumulative Percent
WASSCE/SSCE	20	11.4	11.4
DIPLOMA	29	16.6	28
HND	43	24.6	52.6
DEGREE	54	30.9	83.5
MBA	23	13.1	96.6
NEVER	6	3.4	100
Total	175	100	

(Source: Field Work, 2017)

The official scholastic levels of the respondents were typically at the tertiary level, as majority of the respondents (30.9%) had Bachelor's Degree. Those who had Master's

Degree were 13.10%, 24.6% of the respondents had HND while the remaining of the respondents have had other form of education or none at all.

Education and reading ability are most crucial parts of the socio-economic development of Ghana. They exalt the attaining of statistics, capabilities, potentials and state of mind that encourage the enhancement of individual limits for socio-economic prosperity. From the analysis, most of the respondents have attained a high level of education with approximately 40% attaining bachelor's degree. This explains the fact that most SMEs have highly educated human resources and that education is key to employment and establishment of SMEs in Ghana.

4.2.3 Industry Distribution of the Respondents

Table 4.2 shows the industry distribution of the respondents

Sector of Economy	Frequency	Percent	Cumulative Percent
Manufacturing	6	3.4	3.4
Trading	102	58.3	61.7
Redistribution	32	18.3	80.0
Farming	6	3.4	83.4
Education	15	8.6	92.0
Service	12	6.9	98.9
Mining	2	1.1	100.0
Total	**175**	**100.0**	

(Source: fieldwork, 2017)

The industry in which respondents worked in were categorized into manufacturing, trading, redistribution, farming, education, service, and mining. From the above table, 23.10% of the respondents worked in the manufacturing, farming, education, service and mining sectors. 58% of the respondents are in the trading business while 18.30% are in

the redistribution business. This is an indication that most SMEs in Ghana are into the buying of buying and selling. This is a true reflection that Ghana's economy lacks industrialization and technological advancement as stated by Osei-Assibey et al (2012).

This results however disagree with studies conducted by Bastiat Ghana that 85% of SMESs in Ghana offer employment in the manufacturing sector as it is seen that more than 50% SMEs in Ghana rather offer employment in the trading(buying and selling) business.

4.2.4 Role of the Respondents in their Companies

Figure 4.4 shows the role all the respondents play in the companies they worked in. This is to determine the level of influence of the respondents in their firms.
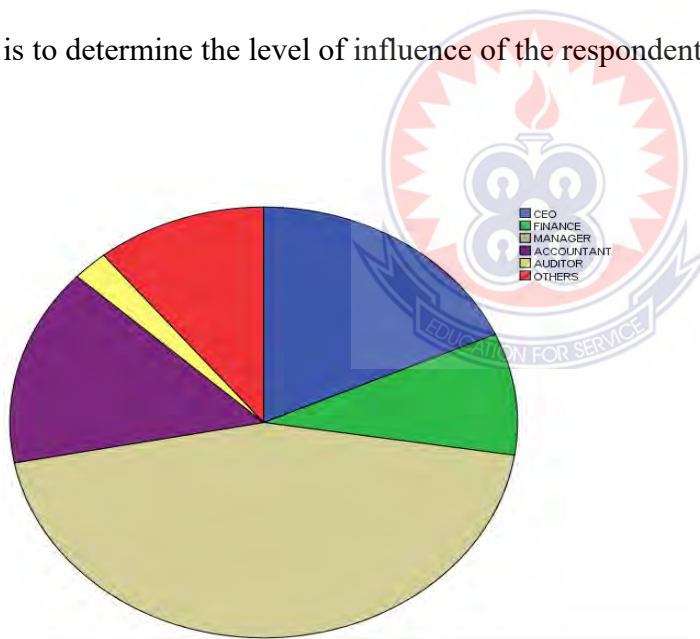

Figure 4.2 Roles of Respondents
(Source: fieldwork, 2017)

From the above diagram, the results show that majority of the respondents are Managers, they covered 44.6% of the total respondents, and this was followed by CEOs who had

18.30% of the respondents. 14.9% of the respondents were accountants and the other 11.3% were playing the roles of finance, audit and the remaining 10.9% were playing the other roles. This therefore shows the level of authenticity of the information gathered. The above indicates that most SMEs in Ghana are not managed by owners or creators but handed to those who are experts in the field of stewardship, Ghost et al (2000).

4.2.5 Years of Working Experience

Figure 4.3 below shows the distribution of number of years a respondent has worked with his/her organization within the industry.
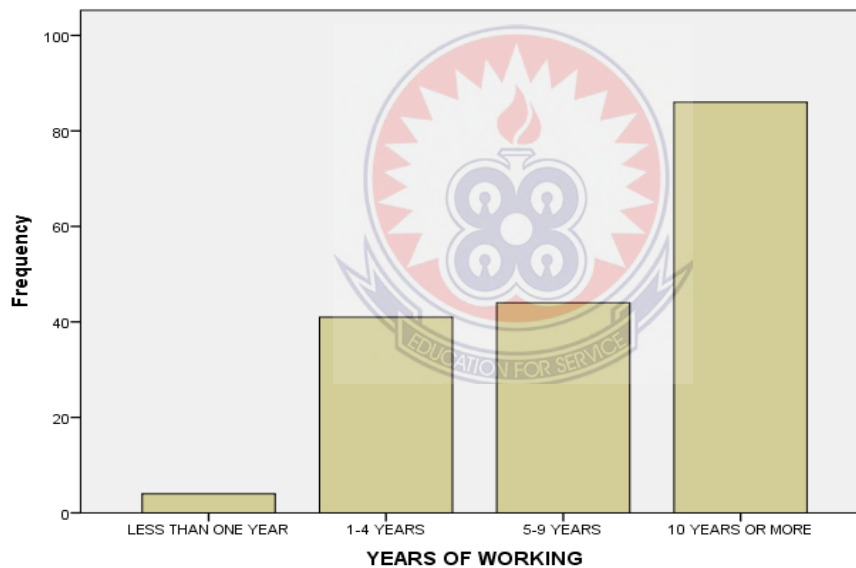
Figure 4.3 Years of Experience
(*Source: field work, 2017*)

The study shows that majority of the respondents have 10 years or more working experience covering 49.1%.This follows by those between 5 to 9 years' experience in the industry covering 25.1% of the respondents. 23.4% of the respondents have between 1 to 4 years working experience and only 2.3% had working experience less than 1year.

4.2.6 Employee Size of Organization

The researcher sought to find out the organizational size of SME firms. This was to establish the strength of SMEs in offering employment in Ghana and their relative capabilities in helping to solve the unemployment menace in Ghana.
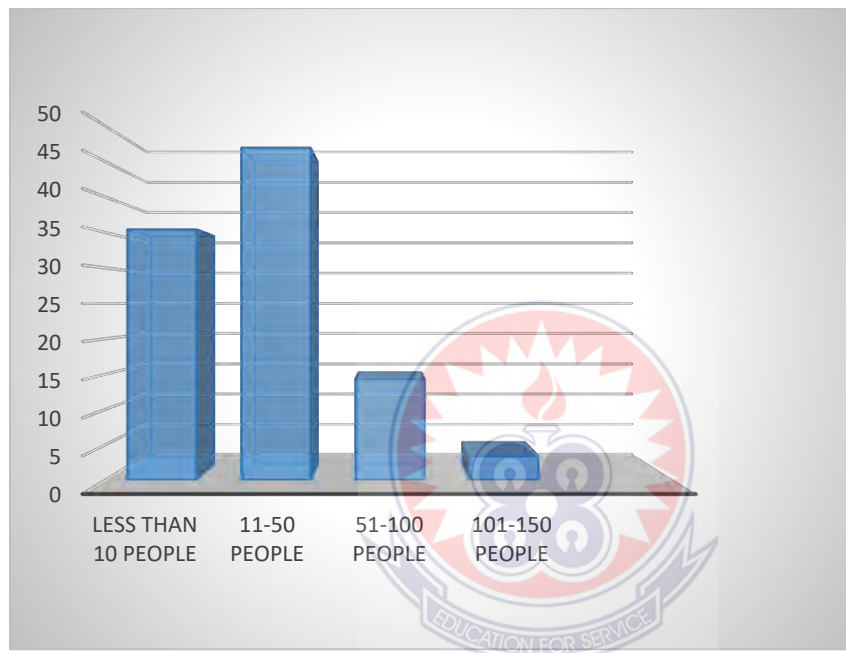
   Figure 4.4 Employees size of the SMEs
(Source: field work, 2017)

From Figure 4.4, majority of the respondents worked in organizations with employees below a capacity of 50 people making 46.9% of the respondents. This is followed by respondents working in organization with less than 10 people equaling a percentage of 35.1%, only 14.3% of firms had employed between 51 and 100 employees and the remaining few relatively larger in structure could employ above 100 people. These can be interpreted that majority of the respondents work for a relatively small organizations as

most SMEs in Ghana are formed by individuals with limited capital resources which cannot help expand the business to employ more people, Ghost et al (2000).

4.3 Analysis of the Factors that Influence Loan application in Ghana

There are many factors that influences firms in Ghana to apply for credit facilities such loan, overdraft, credit supply etc. The researcher restricted the factors to the following headings: Economic Growth, Inflation rate, External Influence, Existence of Capital Markets, and previous performance comparability and contingencies experience. The table indicates the extent that respondents agree or disagree to the assertions made above

4.3 Factors that Influences Firms to apply for Loans from Financial Institutions

Table 4.3 presents the key factors that influence firms' decisions to apply for loans from Financial Institutions in Ghana.

Table 4.3: *Analysis of factors that influences loan application by firms*

Factors	SA	A	N	D	SD
Economic growth	33.1	8.6	17.7	9.1	31.4
Inflation Rate	71.4	20.0	5.1	2.3	1.1
External Environment	75.4	13.1	8.0	2.3	1.1
Capital Market availability	20.0	10.9	22.3	24.0	22.8
Previous Performance	13.7	16.0	21.1	21.7	27.4

(Source: field work, 2017)

SA = Strongly Agree, A = Agree, Neutral, D = Disagree and SD = Strongly Disagree

There are many factors that influences firms in Ghana to apply for credit facilities such loan, overdraft, credit supply etc. The researcher restricted the factors to the following headings: Economic Growth, Inflation rate, External Influence, Existence of Capital

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Markets, and previous performance comparability and contingencies experience. It must be understood that most of the variables identified had varying degrees of influence on firms' application of loans in Ghana and are opinions of some people.

The above table 4.1, shows that 91.4% of the respondents agree with the claim that the inflation rate greatly influences loan application in Ghana. 88.5% of the respondents establish the assertion of external environment, while 41.7% of the respondents agree on the assertion of economic growth, only a few agreed that the existence of capital market and previous performance respectively motivate them to apply for loans. From the above analysis, conclusion can be drawn that the inflation rate in the country to a great extent influence the application of loans as over the years, Ghana's economy has seen an increase in the inflationary rate that affected price of goods and services, Gockel (2003). This had a significant impact on the cost of doing business in the country of which SMEs suffered from hence seeking for loan from financial institutions. Another major contributor to loan application by SMEs is the External Environment. This external environment such as IMF and the WORLDBANK are institutions that lends various nations money to enable their development, do that at an exorbitant rate which causes increases in a country's tax rates. This trickles down to the high cost of doing business and eventually inflation of prices as stated by Stiglitz and Weiss (1981).

4.4 Factors that influence Loan (Credit) Ration

Table 4.4 presents the analysis of factors that causes Credit Rationing among firms in Ghana.

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Table 4.4: *Factors Influencing Loan Denial (Credit Ration)*

FACTORS	SA	A	N	D	SD	TOTAL
Lack of Collateral	86.9%	1.1%	4.6%	2.3%	5.1%	100%
High Cost of Loan Application	18.3%	38.3%	36.0%	7.4%	0%	100%
Lack of Knowledge accounting Information about loan applicant	30.9%	10.9%	25.1%	26.3%	6.9%	100%
Lack of knowledge about loan application by Financial Institutions	65.1%	21.1%	10.3%	2.3%	1.1%	100%
Self-withdrawal due to requirement of the Financial Institutions	16.6%	31.4%	37.1%	12.6%	2.3%	100%

Source: (Field Survey 2017)

SA = Strongly Agree, A = Agree, Neutral, D = Disagree and SD = Strongly Disagree

There are many factors that sway the Financial Institutions in Ghana to ration loan applicants. The researcher constrained the factors to the following headings. These include: Lack of collateral, high cost of loan application, lack of Accounting Information by the loan application, lack of knowledge about the applicant by the financial Institution, Self-withdrawal due to requirement of the Financial Institutions.

The above table 4.4, shows that 88% of the respondents agree with the claim that lack of collateral has a great influence on loan application rationing in Ghana as evidenced in the work of Joshua et al (2006). From the survey, 86.2% of the respondents agree with the assertion that lack of knowledge about the applicants by Financial Institutions (information asymmetry) happens to be another main reasons for which Financial Institutions ration loan applicant (UNCTAD 2005), (Stiglitz et al 1981); 56.6% of the respondents did agreed that the cost in applying for loans is on the high (Osei-Assibey 2014), (Meyer & Ceuvas 1992); (Boucher & Guirkinger 2007), while 48% of the respondents also accepted that they self-withdraw because they could not meet the requirements by the Financial Institutions. From the analyzed data, the study is in

agreement with Patrick et al (2012) as the main factor influencing credit rationing is lack of collateral by SMEs of which the majority of the respondents agreement with. Respondents also agree with the assertion that high cost of loan application is major factor influencing credit rationing as stated by Meyer and Ceuvas (1992); Boucher and Guirkinger (2007).

4.5 Impact of Knowledge about Owners and Management of Firms on Credit Rationing

Table 4.5 presents the analysis on the level of financial institutions' knowledge about firms' owners and management has on their judgments to ration credit.

Table 4.5: *Analysis on Impact of Knowledge about Owners and Management of Firms on Credit Rationing*

Financial Institutions' Knowledge about firms'…	yes	No	Total
Owners	77.7%	22.3%	100%
Management	88.6%	11.4	100%

Source (Field Survey 2017)

Here, the researcher seeks to identify if financial institutions are influenced by their knowledge of firms' owners and management to give out loans to firms in the country. Knowledge about owners of firms as considered as one of the crucial factors Financial Institutions are said to consider especially when it comes to 'non-board' companies. The views of the respondents are as illustrated above, Osei-Assibey et al (2012). 77.7% of the respondents affirm that many firms is rationed because of the owners of the firm. This is a clear indication that most Financial Institution in Ghana, as part of the Loan processes, considers the reputation, success, credit worthiness and record of accomplishment of

Owners of companies who are trying to access these loans (Patrick et al, 2012). 88.6% of the respondents agreed that FI have high interest in the management of firms applying for loans and that whether or not those firms are rationed depend largely on those in charge of management.

Comparism made above shows in as much as Financial Institutions are interested in the ownership of the firms applying for loan, they are highly concerned about those that are managing the resources of the various firms applying for loan and that the kind of management in affairs of the applicant firm has a larger consequences of firms been rationed as shown in table 3 above, Ghost et al (2000).

4.6 Effects of Credit Ration on the Growth of SMEs

Table 4 presents the analysis on effects of credit rationing on the growth of SMEs.

Table 4.6: *Analysis on the Effects of Credit Ration on the Growth of SMEs*

Effects of Credit Rationing on the Growth of SMEs	SA	A	N	D	SD	TOTAL
Credit is needed for survival of Business	3.4	2.9	8.6	12.6	72.6	100
Credit is needed to Expand Business	89.1	8.6	1.1	0.0	1.1	100
Credit is needed to meet Suppliers' Expectation	66.3	25.1	6.3	0.0	2.3	100
Denial of Credit negatively affects firms' performance	30.9	34.9	24.6	7.4	2.3	100
Credit Denial leads to loss of Conditional Purchase Advantage by firms	34.3	28.6	18.9	12.6	5.7	100

 (Source: fieldwork, 2017)

SA = Strongly Agree, A = Agree, Neutral, D = Disagree and SD = Strongly Disagree

The above table shows that only 6.3% of the respondents agree with the assertion that credit is needed for the survival of business. This a clear indication that only a few think

businesses can only survive with credit facilities. Hence, it is concluded that firms don't need credit facilities to survive, Claessens (2005). From the survey, 97.7% of the respondents are in agreement with the assertion that credit is needed to expand business. This means that business expansion is capital intensive as stated by Ganbold (2008). Also, from the survey, 91.4% of the respondents agree with the assertion that firms need credit to meet their suppliers' expectation as cash at hand is needed to repay debts and goods supplied to firms in accordance with Christine et al (2003). The above diagram clearly shows that business survival does not depend much on credit, however if Financial Institutions ration firms it seems to have effect on all other factors as there is a interrelation chain among them thus for example unable to meet suppliers expectation means that the firm would not have enough goods to meet the demand of customers which would eventually affect performance, (Ganbold, 2008).

4.6 To find out if expansion of SMEs would create Employment

Here the researcher wanted to find out if expansion of the firms would create room for additional employment or would only use the existing workforce and if they would employ, would be temporal permanent. The table below shows the views of the respondents.

Table 4.7 Response on creation of employment

Response	Frequency	Percentage
Yes	171	97.7
No	4	2.3
Total	175	100

Source: (Field Survey 2017)

The table above shows that, 97.7% of the respondents agree that expansion of SMEs would call for additional employment, which means that credit ration does not only have effect on expansion alone but has serious impact on employment too.

This results affirms the study conducted by Christine et al (2003) that although availability of credit has improved, a lot of SMEs do not source funds from financial institutions due to requirements by financial institutions which stunts the expansion of SMEs, hence most SMEs would maintain the little available resources and without a proper expansion, SMEs would not need any additional employment, although 2.3% of the respondent said that they, will not employ more people even if funds are made available, they would still maintain the labor force and rather motivate the existing workers to do more. Moreover, 87% out of 97.7% of the respondents who agree to offer employment if they had external source of finance to expand their company unanimously agreed that the employment would be permanent. This agrees with the study conducted by Bastiat Ghana that majority of employees are in the SMEs companies.

CHAPTER FIVE

SUMMARY OF MAJOR FINDINGS, CONCLUSION AND RECMMEDATIONS

5.1 Introduction

This chapter concludes the thesis report and offers recommendations for addressing the problem based on the detailed analyses of the research findings of this study. A summary of the literature given, followed by key findings. Conclusions drawn from the findings and then recommendations offered for future research.

5.2 Summary

The purpose of this study was to investigate the determinants of credit ration of SMEs, its effect on the growth of SMEs and subsequent consequences on employment in seven districts in the Ashanti Region of Ghana. Specifically to examine the views of owners, and top managers of the various SMEs to find ways to reduce the level of Credit Ration to SMEs by Financial Institutions.

The study therefore adopted quantitative methodologies which seemed appropriate to allow the researcher to gather more precise and quantifiable information on the determinants of Credit Ration and allow the researcher to get the data directly from the subjects themselves by sitting with the respondents and hear their views, perceptions and expectations in detail. Using a random sampling, the researcher obtains a population of one hundred and seventy five (175) people in seven different districts in the Ashanti Region of Ghana for the study. Questionnaire was the main instruments developed and used for the study.

In the literature, there was a popular perception that SMEs have staunch problem in accessing credit from Financial Institutions and are very much prevalent in developing

countries especially in Africa. It is this perception that, at least in part, has led to many researchers trying to establish the causes of these difficulties of accessing credit and find ways to curb them as it has direct negative impact on both the growth of SMEs and unemployment. Numerous researchers have identified different dimensions of credit ration in order to tackle the problem because they require different interventions. Indeed the literature suggested variety of causes among which were lack of collateral, high cost of loan application, lack of accounting information, lack of information about loan applicant by the Financial Institutions(information asymmetry), self-withdrawal due to Financial Institutions requirement, fear of risk associated with loan facilities, to mention but a few. Indeed as long as the main causes of credit ration varied from study to study, curbing it required a combination of government, Financial Institutions and SMEs factors

5.3 Key findings

In this study, the causes of credit ration of SMEs were analyzed and effort were sought to find out the causes of the credit ration. Indeed the study found out that with exception of Kumasi Metro, credit ration among SMEs by Financial Institutions was very predominant in firms in all the other six districts chosen for the study. Therefore, the call to examine the causes and find measures to eliminate or minimize the menace was very necessary to enhance the expansion and the growth of the firms, which in effect would create more employment to reduce the unemployment problem of the country.

Significantly, and unlike other research, this study found out that a higher percentage of SMEs claiming their reason for applying for loan were motivated by the growth in size they were envisaging. This study was able to establish the fact that expansion of many

SMEs actually called for additional capital as the demand of these firms' goods and services kept on increasing exceeding the strength of the firms and that the need for external assistance from financial institutions very crucial. Financial Institutions rationed SMEs who were influenced by expansion to apply for loans to bring collateral that corresponds with the claiming growth of the firms because Financial Institutions think that if a firm is really growing in size then they should have infrastructures that corresponds with the growth to ensure loan granted are safe and protected.

It was also found that as the inflation rate (the price of commodity going up) influenced firms' decision to apply loan so as to purchase more needed items to meet demands of customers to overcome the fluctuation of prices, so also do Financial Institutions rationed SMEs who they think are vulnerable in such period because in the views of the Financial Institutions any firm that is overwhelmed by the inflationary problem is not strong in terms of capacity of sustainability as the risk would be transferred to financial institutions.

This study, as well as other research confirms that borrowers are screened by lenders before advancing loans to them and are been monitored after the loans have been given to them, coupled with efforts involved in satisfying collateral requirements imposed significant cost on the borrowers resulting in some of them refraining from borrowing and are thus rationed out.

It is also critical that many credit facilities to SMEs were ration due to lack of managerial capabilities of the firms as Financial Institutions look at those in the helm of affairs of the firms with respect to who those mangers really are made-of, their

educational levels as well as their experiences. Though the ownership of the companies was equally concerned, however few did admitted that they were ration based on the ownership of the company.

It is also true that accounting information is required by financial institutions in application of loans but majority of the respondents disagree that they are rationed for lack of accounting information most said they do have proper accounting of records and are always in the position of providing it. However it is the Financial Institutions' requirement audited account that they (SMEs) claim they are not able to provide as it comes a higher cost and that they are not sure of being granted loan applied for and hence would not want incur cost on something they are not sure of getting.

It is also clear from the study that when SMEs are rationed or denied loans, they are unable to expand their operations which means that they would not be able have additional employment.

From the studies, it was found out 99% of the respondents admitted that they could employed more if not credit rationed and that they have they have demand of goods and services which calls for expansion but for the lack of financial assistance, they are not able to expand to create employment. The next section concludes this study.

5.4 Conclusions

The problem of credit ration by Financial Institutions is gaining much attention from firms, researchers and policy makers as it effect is not just SMEs but also the society and the youth that are unemployed with huge social costs. Regular rationing of SME is crucial to the development and the growth of the economy, wastage of potential human

resource. It forms the foundation for economic and social development. This is why chronic ration of SMEs by Financial Institutions need to be addressed from both the internal and external perspective.

This study has shown that the problem of credit ration is quite prevalent in Ghana especially in the metropolis and district assembles jurisdictions. The causes are very complex as it is precipitated by interplay of a multiplicity of factors which generate from credit worthiness of SMEs and the business environment. Key among the factors that give rise to credit ration are managerial competency and experience, provision of audited accounting information required by Financial Institutions, lack of collateral that corresponds with anticipated expansion of firms, lack of knowledge about the applicant by the Financial Institutions and self-withdrawal due to frustrations from the Financial Institutions

Therefore, this study advocates that in order to address the problem in meaningful way, efforts should be directed not only at interest of SMEs but at the broader socio-economic and political environment in which government would not borrow too much money from the Financial Institutions which will mean that too much money would be in the hands of the Financial Institutions and hence they would be forced to reduce too much credit ration of SMEs.

The problem is unlikely to be resolved by a single approach above. SMEs must create for themselves goodwill in that the doubt about them paying back granted loan minimize as there are lot of SMEs owners who after been granted loans absconds and hence affect credit ration of SMEs.

This study has significant implications for both theory and practice for financial policies. A stronger focus on employing qualified and competent (experienced) managers, developing the character of credit worthiness, provision of well-prepared and audited accounting information and focusing on developing infrastructure in the name of the business rather than the owners name which can be used as collateral in loan application; thus owners of SMEs should think of developing the structures such competent management, physical assets and goodwill of their companies before their own interest.

The trade ministry as well as AGI should identify training needs and organize symposiums, workshops, conferences and staff development programs for owners and management of SMEs to enhance their skills and performance levels.

The government should have the political will not to depend so much on financial institutions, create better Financial Institutional policies that will ensure the growth of SMEs are not impeded by any constraint as far financial needs are concerned.

Financial institutions as a matter of necessity should realized that they cannot continuously rationed firms largely on Management and Lack of collateral. In reality Financial Institutions do not get hold of whatever collateral SMEs present for loan, whether when payment of loan fails, at that time the value would be same amount based upon which the loan was granted, for example if an applicant uses his/her vehicle to be used as collateral, the lender only get hold of the covering documents and not the physical presence of the vehicle until there is default of payment. Until this time, the controls of the assets are still in the hands of the firm's owner; how to use it and the location of the vehicle at that point in time will still be in the hands of applicant.

Financial Institutions should think of granting applicant firms with interest free loans to SMEs in agreement of sharing profit. In doing so there could be agreement between the two firms to allow Financial Institutions to implant their own staff within applicant firm to monitor the operations of the applicant firms so that both parties would have clear conscience for mutual 'win-win' relation.

As a final conclusion, some limitations of this study should be emphasized. First, the sample size was relatively small, at least when compared to the samples employed in some of the other studies of credit rationed of SMEs, it effect on the SMEs growth and its consequences on employment as mentioned in the literature review. Because of this, it is possible that with a larger sample some of my insignificant results would become significant.

Second, the sample is not representative of all the SMEs in Ghana. The scope of SMEs covered is so limited. Thirdly, it would be useful to compare views across the entire distribution of participants rather than just a few. While this is unfortunate and limits the generalizability of my findings, it can be asserted that the advantages of this study for my purposes outweigh its drawbacks.

As a result, this dissertation draws only tentative conclusions regarding the causes of credit ration of SMEs, its effect on the growth of SMEs and consequences on employment and how to curb it. Based on this the following recommendations for future study are offered in the section below.

5.5 Recommendations for Addressing Credit Ration of SMEs

In the first place, government should desist from borrowing from financial institutions and concentrate on building a better Financial Institutional policy that would motivate Financial Institutions to grant SMEs the needed assistance by for example having pool where small percentage is deducted from amount granted to be used as insurance which Financial Institutions can rely on without entertaining any fierce of losing resources. This policy should be devoid of politics and for a better control this policy should be controlled and monitored by Bank of Ghana (BOG).Government through its agencies like Microfinance and Small Loans Centre (MASLOC), Ghana Investment Promotion Centre (GIPC) to implement programmes targeted for meeting financial needs of SMEs. To qualify for this government assistance, government should include in the policy that certain amount required depends on the number of new employees the firm can employ as this will check job creation and expansion of firms.

Financial institutions on the other part should re-consider the requirement in granting loans, though they are not to lose-guard the protection of shareholders resources, they should have time to know and study their clients very well, educate them, organize programmes and be familiar with their customers as this will ease the lack of knowledge about their customer, the collateral requirement which in effect only act as source of compensation on default, and is not controlled by them and should therefore not rationed base on collateral but rather change to granting interest free loans to SMEs upon agreement of sharing profit through implanting a staff in the client organization.

Proper provision of training to owners and managers of SMEs as the area of preparatory of financial information and professionally audited by external auditors to improve their

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chances to credit, conscientiously and gradually building assets for their companies so that having assets that can be used as collateral enhances access to credit. This would help build confidence in lending institutions when providing credit to SMEs.

In conclusion, to successfully implement these recommendations however requires effective mechanisms for co-ordination between government efforts and that of private sector including Financial Institutions and other stakeholders who contributes finance to SMEs. Enabling regulatory policies to sustain and significantly improve access to credit in Ghana to ensure growth in SMEs which would eventually create employments.

5.6 Suggestions for further research

To eliminate the instance of biasness it is recommended, for the purposes of future research, that studies should be repeated and average data used as a basis for drawing conclusion about the phenomenon. This is because data collected at one particular time is unduly influenced by temporary conditions that might not be typical of the variable under study.

Secondly, samples of SME selected should be classified into regular loan applicant and seasonal loan applicant, those totally rationed and those whose requested amount was reduced and those who fully had amount requested to do an in-depth study of each group. In this way responses will clearly reflect the general opinion of each category on a factor-by-factor basis.

Finally, from the view of financial policy, it is imperative that the study is done across several districts. This is because it will be unthinkable to draft a national policy based on the findings made from seven districts.

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APPENDIX

Quantitative Research - Questionnaires

QUESTIONNAIRES

PART 1

This questionnaire is designed to extract information aimed at helping the researcher to write his MBA thesis. The topic of this thesis is to assess credit ration of SMEs: Effects on the growth of SMEs and Consequences on unemployment in Ghana. The information collected is purely for academic purposes and any information given will be treated with extreme confidentiality.

Please tick where it applies.

SECTION A:

Demographic Information

1. Gender   [ ] Male   [ ] Female

2. Age
   [ ] Less than 25years   [ ] 41-50years
   [ ] 25-30years   [ ] 51years or more
   [ ] 31-40years

3. Marital Status   [ ] Married   [ ] Divorced   [ ] Single   **[ ]** Others, Specify………..

4. Number of Children   **[ ]** None   **[ ]** 1   **[ ]** 2   **[ ]** 3   **[ ]** Above 3 years

5. Do you have other dependents?   **[ ]** Yes   **[ ]** No

6. If yes, how many are the dependents including children and wife,
   [ ] 1-5   **[ ]** 6-10   **[ ]** Above 10   **[ ]** None……

7. What is your highest level of Education?
   [ ] WASSCE/SSCE   **[ ]** Bachelor of Degree
   [ ] Diploma   **[ ]** Master's Degree
   [ ] High National Diploma holder   **[ ]** Other, Specify…………..

8. Number of years of schooling
   [ ] 10years   **[ ]** 15years   **[ ]** 20years
   [ ] 25years   **[ ]** Above 25years   **[ ]** None

9. Which Professional Certificate do you have?
   [ ] CIM   **[ ]** Academic Professor
   [ ] CIMA   **[ ]** Public Certified Accountant
   [ ] ACCA/ICAG   **[ ]** None

10. What kind of SME do you work in?

[ ] Manufacturing	**[ ]** Education
[ ] Trading	**[ ]** Service
[ ] Redistribution	**[ ]** Mining
[ ] Farming	**[ ]** Others (Specify)……………………

11. What is your role within your organization?

[ ] CEO	**[ ]** Accountant
[ ] Finance	**[ ]** Auditor
[ ] Manager	**[ ]** Others (Specify)…………………….

12. How long have you been working for your organization?

[ ] Less than 1year	**[ ]** 7-9years
[ ] 1-3years	**[ ]** 10years or more
[ ] 4-6years	

13. How long have you worked?

[ ] Less than years	**[ ]** 6-9years
[ ] 1-4years	**[ ]** 10years or more

14. How many employees does your organization have?

[ ] Less than 10 people
[ ] 11-50 people
[ ] 51-100 people
[ ] 101-150 people
[ ] Above 150 people

15. How many employees, including the management does your organization have? Please specify………..
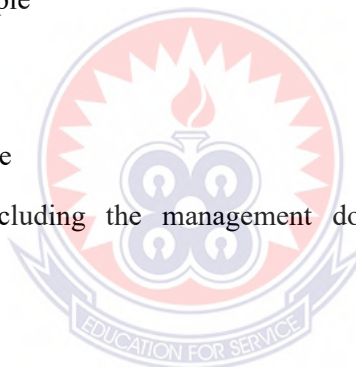
SECTION B:

Knowledge of SMEs

In the questions 16 to 20 presented below, indicate the extent to which you are aware or unaware with each statement about your knowledge and meaning of SMEs. Please indicate your perception on each statement by ticking the appropriate box.

16. Do you have knowledge about SME? **[ ]** Yes **[ ]** No
17. Is your organization classified under SME? **[ ]** Yes **[ ]** No

18. Is your company registered? **[ ]** Yes **[ ]** No
19. Reference to question 17, if yes, how long has your organization been in existence?

[ ] Less than 1year	**[ ]** 1-3years
[ ] 4-6years	**[ ]** over 6years

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20. How many years has your company been in existence? Please specify…………

SECTION C:

Factors that influenced your organization to access credit facilities

In the questions 21 to 25 presented in the table below, indicate the extent to which you agree or disagree with each statement about the factor that influence your organization to access credit.

Please, use a scale of 1-5, with 5 representing strongly agree, 4 representing agree, 3 representing neutral, 2 representing disagree, and 1 representing strongly disagree.

Factors that influenced your organization to access credit	5	4	3	2	1
21) Economic growth in Ghana greatly influenced your organization's to access credit					
22) The inflation rate influence your organization's decision to access credit					
23) The external environment forces such as competitors, customers demand influence your decision to access credit					
24) Existence of Capital Market influenced your organization's decision to access credit					
25) Previous performance influence your organization in accessing credit					

In the questions 26 to 32 presented below, indicate which factor causes you to apply for loan. Please tick the appropriate box.

26). Economic growth in Ghana greatly influences your organization to access credit?
[ ] Yes   **[ ]** No

27) The inflation rate influence your organization's decision to access loan?

[ ] Yes   **[ ]** No

28) The external environment forces such competitors, customers demand influence your decision to access Credit?   **[ ]** Yes   **[ ]** No

29). Existence of capital market influences your organization's decision to access credit?

[ ] Yes   **[ ]** No

30). Previous performance influences your organization in accessing credit?

[ ] Yes   **[ ]** No

31). Company growth in size? (Expansion) influences your decision to access credit?

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[ ] Yes   **[ ]** No

32). Requirements on certain bulk discount purchase influence to access loan?

[ ] Yes   **[ ]** No

SECTION D:

Factors that influence Loan Application to be rationed

In the questions 33 to 37presented in the table below, indicate which factor or factors that cause the denial of your loan application.

Please, use a scale of 1-5, with 5 representing strongly agree, 4 representing agree, 3 representing neutral, 2 representing disagree, and 1 representing strongly disagree and please choose in order of the factor you think is the most influential factor of credit denial and no two factors should be ticked under the same column of agreement.

Factors that influence loan application denial	5	4	3	2	1
33) Lack of collateral					
34) High cost of loan application					
35)Lack of Accounting information by the loan applicant					
36) Lack of knowledge about the applicant by the Financial Institution(FI)(information asymmetry)					
37) Self withdrawal due to requirement of the Financial Institutions					

SECTION E:

To find out the Ownership requirement by Financial Institutions (FI) on Loan Application

38) Do Financial Institutions ask to know the owners of the firm?   [ ] Yes   [ ] No

39) If yes, do Financial Institutions rationed based on the owners?   **[ ]** Yes   **[ ]** No

40) Do Financial Institutions ask for the gender of the owners?   **[ ]** Yes   **[ ]** No

41) If Yes, do Financial Institutions rationed based on the gender?   **[ ]** Yes   **[ ]** No

42) Do Financial Institutions ask for the educational level of the owners of the organization?

[ ] Yes   [ ] No

43) If yes do FI ration based on their Educational level? **[ ] Yes   [ ] No**

SECTION F:

To know if FI have interest in the Management of Loan Applicant Organization

44) Do FI ask to know the management of the organization?   **[ ] Yes   [ ] No**

45) If yes, do FI ration based on the management?   **[ ] Yes   [ ] No**

46) Do FI ask for the gender of the management?   **[ ] Yes   [ ] No**

47) If yes, do FI ration based on the gender?   **[ ] Yes   [ ] No**

48) Do FI ask for the educational level of the management of the organization?

    [ ] Yes   [ ] No

49) If yes do Financial Institutions ration based on their Educational level?
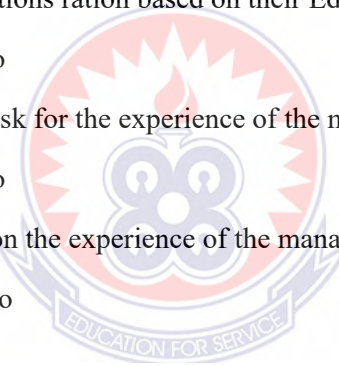
    [ ] Yes   [ ] No

50) Do Financial Institutions ask for the experience of the management?

    [ ] Yes   [ ] No

51) If yes, do FI ration based on the experience of the management?

    [ ] Yes   [ ] No

PART 2

This part looks at credit ration and the growth of SMEs and the consequences on employment

SECTION G:

To know if credit ration has effect on SME growth

In the questions 52 to 57 presented in the table below, indicate the extent to which you agree or disagree with each statement about the effect of credit denial on the growth of your organization.

Please, use a scale of 1-5, with 5 representing strongly agree, 4 representing agree, 3 representing neutral, 2 representing disagree, and 1 representing strongly disagree

To find out the effect of credit ration on SME growth	5	4	3	2	1
52) Credit is needed to survive the business					

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53) Credit is needed to expand the business operation					
54) Credit is needed to meet the demands of customers					
55)Denial of credit negatively affected your performance					
56) Denial of credit prevented you from meeting suppliers expectation					
57) Denial of credit prevented you from enjoying conditional purchase advantage					

SECTION H:

To find out if the effect of credit ration on the growth of SMEs has any consequences on employment.

58) Would credit help expand the operation of your organization?   **[ ]** Yes   **[ ]** No

59) The expansion of your organization would call for additional employment?

  [ ] Yes   **[ ]** No

60) How many employees could your organization employ if not credit ration? Please specify……

61) In reference to question 43, if yes, how many employees could your organization employ?   **[ ]** 1-10   **[ ]** 11-20   **[ ]** 21 and more

62) Would the employment be   **[ ]** permanent   **[ ]** temporal

63) If permanent, for how long can you sustain this employment? Please specify……..

64) For permanent employment, for how long can you sustain this employment?

  [ ] 1-2years   **[ ]** 3-4years   **[ ]** 5 and more years

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