

UNIVERSITY FOR DEVELOPMENT STUDIES, TAMALE

**AN ANALYSIS OF MICRO AND SMALL ENTERPRISES (MSEs) ACCESS TO
CREDIT FROM THE BARCLAYS BANK IN TAMALE**

BY

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**A DISSERTATION SUBMITTED TO THE DEPARTMENT OF BUSINESS STUDIES,
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AND MICROFINANCE MANAGEMENT**

MAY, 2013.

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DECLARATION

STUDENT

I hereby declare that this dissertation is the results of my own original work and that no part of it has been presented for another degree in this University or elsewhere:

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SUPERVISOR

I hereby declare that the preparation and presentation of the dissertation was supervised in accordance with the guidelines on supervision of dissertation laid down by the University for Development Studies.

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ABSTRACT

The study was an analytical survey aimed at investigating micro and small enterprises (MSEs) access to credit from the Barclays bank in Tamale. More specifically, the study was aimed to identify and analyze: the Barclays bank lending conditions and MSEs access to credit; How MSEs access credit from the bank; socio-economic factors that determine MSEs access to credit; and the effects of access to credit on MSEs. To achieve these objectives, proportional stratified and simple random sampling (SRS) methods were employed to select 250 sample size for the study. Data were obtained from interviews conducted with and questionnaires administered to MSEs, Barclays bank staff, NBSSI and MASLOC. Both qualitative and quantitative techniques were used to analyze the data. The study revealed that the number of employees of a business, experience in credit use and number of fixed assets possessed, attitude towards risk, business size and new or existing business were considered as key determinants for credit by MSEs. It also showed that credit helps MSEs to meet orders placed by customers, acquisition of additional equipment, purchase of raw materials, rent/purchase of a workshop, payment for operational expenses and acquisition of new technology. There was strong evidence that lack of access to credit leads to: inability to meet customers' demands; inability to invest or expand and grow business; inability to promote products; lack of access to new/external markets; inadequate raw materials; difficulty in paying production/operational expenses; use of inappropriate and low level of technology; inability to pay for advanced business development trainings; and inability to engage skilled/qualified professional employees. It was therefore recommended that physical collateral as one of the major factors of MSEs access to credit can be replaced with group lending method by commercial banks. Also banks need to address the consequential 'fear of approach' held by MSEs. Banks should make a sustained effort to better communicate with MSEs at early stages in the lending application process to improve MSEs understanding. Commercial banks need to segment their service markets since they cannot serve the entire market as customers' needs and wants are diverse.



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However, I hereby declare that all shortcomings that may be contained in this dissertation are solely mine.



DEDICATION

I dedicate this dissertation to my brother, Mr. Ibrahim Nuhu of MOFA-Ghana , my wife, Fati Mahammood and all family members for their encouragement and support in the pursue of this course.



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LIST OF ABBREVIATIONS

1. UNCTAD - United Nation Conference on Trade and Development
2. MSEs - Micro and Small Enterprises
3. SMEs - Small and Medium Enterprises
4. GDP - Gross Domestic Product
5. NBSSI - National Board for Small Scale Industries
6. BoG - Bank of Ghana
7. LICs - Low Income Countries
8. USAID - United State of America International Development
9. UNIDO - United Nation International Development Organization
10. GSS - Ghana Statistical Service
11. GEDC - Ghana Enterprise Development Commission
12. ASSI - Association of Small Scale Industries
13. MASLOC - Microfinance and Small Loans Scheme
14. JHS - Junior High School
15. HND - Higher National Diploma
16. MSLE - Middle School Leaving Education
17. GHABA - Ghana Beauticians Association
18. GNTDA - Ghana National Tailors and Dressmakers Association
19. GESTA - Ghana Electricians and Technicians Association



CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The role of micro and small scale enterprises in developing Countries' economies has been highly emphasized. These enterprises have been identified as the foundations through which the rapid industrialization and other developmental goals of these countries can be realized (UNCTAD/ITEM/TEB/Misc.8, 2002).

Entrepreneurs in the Micro and Small Enterprises (MSEs) sector in developing countries play key roles in the local economic development of these countries. It is estimated that MSEs employ 22% of the adult population in developing countries (Daniels, 1994; Daniels & Ngwira, 1992; Daniels & Fisseha, 1992; Fisseha, 1992; Fisseha & McPherson, 1991; Gallagher & Robson, 1995). Yet, the majority of entrepreneurs in this sector are considered not credit worthy by most commercial banks, because of their inability to meet certain lending conditions and principles of these banks.

According to Aryeetey et al (1994), MSEs have limited access to capital markets, locally and internationally, in part because of the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms and as a result, MSEs often cannot obtain long-term finance in the form of debt and equity.

The issue of MSEs access to credit from commercial banks, in recent times has been a topical one and has drawn the attention of the international community. According to the UNCTD/TEB/Misc.8 (2002), MSEs in developing countries are challenged with access to credit from commercial banks because of their inability to fulfill certain lending conditions



enterprises to MSEs because MSEs are considered as high risk borrowers in the credit market.

However, Hossain (1988) posits that the provision of credit has increasingly been regarded as an important tool for raising the incomes of the population, mainly by mobilizing resources for more productive uses. He further stated that credit provides opportunity for the rural poor and the MSEs to help develop entrepreneurial activities in the local economy. According to Hossain, at low levels of incomes, the accumulation of capital may be difficult, and under such circumstances, credit can help the poor to accumulate capital and invest in employment-generating activities.

As indicated above, Micro and Small Enterprises limited access to credit from the Barclays bank in Tamale would retard their growth and development. This is because MSEs access to credit turns to augment their working capitals and increase productivity. Therefore, the research seeks to identify and analyze key determinants of MSEs access to credit from the Barclays bank.

1.2 Problem statement

The enormous contributions of micro and small enterprises (MSEs) to economic development cannot be overemphasized. According to Elain (1996), "micro and small enterprises (MSEs) sector has a high potential for contributing to local economic development of developing countries". Yet, majority of entrepreneurs in this sector are considered not credit worthy by most commercial banks because of their inability to fulfill certain banking terms and conditions.





Access to credit from commercial banks by MSEs has been a widespread concern for most authorities in sub-saharan African countries. According to Emilio (2005), the banking systems in Africa are not providing enough support to new economic initiatives and in particular, to the expansion of micro and small enterprises (MSEs). Emilio (2005) further stated that most banks in Africa remain highly liquid and reluctant to expand credit to MSEs other than the most creditworthy large enterprises.

In addition, the issue of MSEs access to credit to some extent has been blamed on the complex and rigid systems put in place by commercial banks. According to Nappon and Huddleston (1993), the effects of existing financial institutional policies, especially the lending terms and conditions on access to credit by MSEs, have not been addressed. They further explained that, there are not enough indications of potential change in lending conditions of commercial banks in order to address MSEs access to credit.

The nature of the MSEs sector pose a lack of proper understanding to most commercial banks to support the credit needs of entrepreneurs in this sector (Aryeetey, 1994). Hence, access to credit continues to be one of the key challenges facing the MSEs sector. According to Finnegan (2003), commercial banks, mostly give the following reasons for their inability to extend credit to MSEs: that the small amounts of loans for MSEs require more time and effort to process; lack of understanding of MSEs needs; poor financial information presented by MSEs; unreliable accounting information; and unrealistic business plans. He added that, the current credit strategies for credit delivery by commercial banks are not adequately supportive to micro and small enterprises (MSEs) credit needs and therefore are unable to fully meet the varying demands of the different categories of end-users like MSEs.



In Ghana, in particular, MSEs frequently have difficulty in accessing credit from commercial banks. According to Sam (2004) micro and small enterprises claimed that commercial banks are too focused on commercial banking principles of lending to MSEs with rigid credit methodologies: requiring documentary evidence and collateral, of which most MSEs do not possess.

The issue of micro and small enterprises access to credit from commercial Banks in Tamale is not an exception. According to NBSSI/PU/D, MSEs in Tamale mostly find it difficult in accessing credit from the Barclays bank due to certain unknown factors besides the usual collateral requirement. The Barclays bank and the MSE-operators have not yet identified the 'information- gap' which has been keeping them apart. Consequently, whereas MSE - operators perceived the bank to be demanding unattainable credit conditions; the bank on the other hand holds the view that MSE- operators are not presenting bankable projects for funding.

However, according to Aryeetey et al (1997), the growth rate and the increasing demand for more resources to augment MSEs operations always crowd them out. He posits that as MSEs expand in size, the type of credit require becomes increasingly difficult for micro- credit institutions to satisfy. Yet, they still remain too small and risky for the commercial banks to extend credit to.

Therefore there are many key considerations that may be contributing to this information-gap between MSEs and the Barclays bank. Hence, the need for this research to identify and analyze the key determinants of MSEs access to credit from the Barclays bank in Tamale.

1.3 Purpose of the study

The main purpose of the study was to evaluate micro and small enterprises (MSEs) access to credit from the Barclays Bank. The specific purposes were to:

1. Identify the lending conditions of the Barclays bank;
2. Investigate how MSEs access credit from Barclays bank;
3. Explore socio-economic determinants of MSEs access to credit from the Barclays bank; and
4. Find out the effects of access to credit on MSEs.

1.4 Research Questions

1. How relevant are the lending conditions of the Barclays bank in MSEs access to credit?
2. How does micro and small enterprises (MSEs) access credit from the Barclays bank?
3. What socio-economic factors determine MSEs access to credit from the Barclays bank?
4. What are the effects of access to credit on MSEs?

1.5 Significance of the study

The study has provided useful information on the status of micro and small enterprises (MSEs) in accessing credit from the Barclays bank credit facilities. This information is vital for policy makers in taking appropriate actions toward facilitating the establishment of comprehensive and sustainable financial institutions for the development of micro and small enterprises sector.

Second, the research revealed certain basic requirements for a loan from the Barclays bank. These requirements would guide the MSEs on how to apply for loan from the Barclays bank. In addition this information is also very significant for the Barclays bank towards facilitating



credit delivery to MSEs, because MSEs are now aware that the basic requirements are part and parcel of the loan application process.

Third, the study had brought to light some key socio-economic determinants of access to credit. This information is useful to resolving the 'blame -game' between MSEs and the Barclays bank and would help to close the information –gap in credit demand and supply.

Fourth, the study revealed major effects of credit in the survival and growth of businesses. This thus serves as a critical input for policy-makers to ensure that there is a sustainable provision of credit to MSEs by financial institutions.

Finally, the findings of the study would contribute to the body of literature on MSEs access to credit from commercial banks.

1.6 Delimitation

The study focused on evaluating the processes involved in MSEs access to credit from the Barclays bank. How lending conditions, credit application procedures and socio-economic factors affect MSEs access to credit from the Barclays bank.

This study does not discuss the number of MSEs who have accessed credit from the Barclays bank. The study also exclude the number of MSEs the Barclays bank granted credit to; and the impact of the bank's credit on MSEs.

1.7 Outline of chapters

This dissertation is organized into five chapters: Chapter one constitutes the introduction which focuses mainly on the background to the study, problem statement, purpose of the study, research question, significance, delimitation and the organization of the study. Review



of the theoretical and empirical literature pertinent to the concern of the dissertation is presented in chapter two. Chapter three describes the methodology of the study. Chapter four focuses on the presentation and discussion of results. Finally, summary, recommendations, conclusions and limitations of the study are presented in chapter five.



CHAPTER TWO

LITERATURE REVIEW

INTRODUCTION

This part of the dissertation reviews the theoretical and empirical literature pertinent to the main issues of the study. It shows how other writers have dealt with MSEs access to credit in parts. In this regards, the review was done based on the following topical areas the study sought to cover:

2.1 Definitions and concepts

2.1.1 Credit

According to the free on line dictionary, Encyclopedia (undated), credit means Faith and it comes from the Latin word credito. An agreement, by which something of value-goods, services, or money-is given in exchange for a promise to pay at a later date. Credit is a transaction between two parties in which one, acting as creditor or lender, supplies the other, the debtor or borrower, with money, goods, services, or securities in return for the promise of future payment. As a financial transaction, credit is the purchase of the present use of money with the promise to pay in the future according to a pre-arranged schedule and at a specified cost defined by the interest rate.

It was also defined by Ellis (1992) that credit is a sum of money in favor of the person to whom control over it is transferred, and who undertakes to pay it back. Moreover, Beckman and Forster (1969), defined credit as the power or ability to obtain goods or services in exchange for a promise to pay later. Similarly, it is a power or ability to obtain money by the borrowing process, in return for a promise to repay the obligation in the future.



2.1.2 Financial institutions

Financial institutions are private or governmental organizations, which serve the purpose of accumulating funds from savers and channeling them to individual households, and business looking for credit. Financial institutions are composed of deposit-type institutions (bank and non-bank contractual saving institutions), personal and business financial companies, government and quasi-government agencies, and miscellaneous lenders (Greenwald & Associates, 1983).

2.1.3 Micro and small enterprises

The term MSEs covers a wide range of definitions and measures, varying from country to country and between the sources reporting MSEs statistics. Although there is no universally agreed definition of MSEs some of the commonly used criteria are the number of employees, value of assets, value of sales and size of capital as well as turnover. Among them the most common definitional basis used is employees because of the comparatively ease of collecting information and here again there is variation in defining the upper and lower size limit of an MSE. In developing countries the number of employees and size of assets or turnover for MSE tend to be much smaller compared to their counterparts in developed countries due to their relative size of business entities and economies.

There is no single, uniformly acceptable, definition of a small firm (Storey, 1994). Firms differ in their levels of capitalization, sales and employment. Hence, definitions which employ measures of size (number of employees, turnover, profitability, net worth, etc.) when applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to a different result.



According to the World Bank (2006) - Firms with fixed assets (excluding land) less than US\$ 250,000 in value are Small Scale Enterprises. Yehuala (2008), small scale enterprises are firms with less than or equal to 25 permanent members and with fixed assets (excluding land) worth up to US\$ 50,000.

USAID in the 1990s - Firms with less than 50 employees and at least half the output is sold (also refer to Mead, 1994). UNIDO's Definition for Developing Countries: Large - firms with 100+ workers, Medium - firms with 20 - 99 workers, Small - "5 - 19 workers, Micro - " " < 5 workers. UNIDO's Definition for Industrialized Countries: Large - firms with 500+ workers, Medium - firms with 100 - 499 workers, Small - " " ≤ 99 workers Elaian, K (1996).

Small Scale enterprises have been variously defined, but the most commonly used criterion is the number of employees of the enterprise. In applying this definition, confusion often arises in respect of the arbitrariness and cut off points used by the various official sources. As contained in its Industrial Statistics, The Ghana Statistical Service (GSS) considers firms with less than 10 employees as Small Scale Enterprises and their counterparts with more than 10 employees as Medium and Large-Sized Enterprises. Ironically, The GSS in its national accounts considered companies with up to 9 employees as Small and Medium Enterprises.

An alternate criteria used in defining small and medium enterprises is the value of fixed assets in the organization. However, the National Board for Small Scale Industries (NBSSI) in Ghana applies both the 'fixed asset and number of employees' criteria. It defines a Small Scale Enterprise as one with not more than 9 workers, has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Cedis (US\$ 9506, using 1994 exchange rate).



The Ghana Enterprise Development Commission (GEDC) on the other hand uses a 10 million Cedis upper limit definition for plant and machinery. A point of caution is that the process of valuing fixed assets in it poses a problem. Secondly, the continuous depreciation in the exchange rate often makes such definitions out-dated.

Steel and Webster (1990), Osei et al (1993) in defining Small Scale Enterprises in Ghana used an employment cut off point of 30 employees to indicate Small Scale Enterprises. The latter however dis-aggregated small scale enterprises into 3 categories: (i) micro -employing less than 6 people; (ii) very small, those employing 6-9 people; (iii) small -between 10 and 29 employees.

2.2 Lending Conditions of Barclays Bank

The issue of lending conditions of commercial banks creating MSEs limited access to credit has been more topical. According to Sam (2004), commercial Banks in Ghana have traditionally looked at the MSE sector with caution and as such there are usually no separate MSEs lending conditions and loan request is handled quite stringent.

Schmidt and Kropp (1987) stated that access to financial services by smallholders is normally seen as one of the constraints limiting their benefits from credit facilities. However, in most cases the access problem, especially among formal financial institutions, is one created by the institutions mainly through their lending policies. This is manifested in the form of prescribed minimum loan amounts, complicated application procedures and restrictions on credit for specific purposes. They further argue that the type of financial institution and its policy would often determine the access. Where credit duration, terms of repayment, required security and the provision of supplementary services do not fit the needs of the target group, potential borrowers would not apply for credit even where it exists and when they do, they would be denied access.



The work by Stiglitz and Weiss (1981) marks the beginning of attempts at explanations of credit rationing in credit markets. In his explanation, interest rates charged by a credit institution are seen as having a dual role of sorting potential borrowers (leading to adverse selection), and affecting the actions of borrowers (leading to the incentive effect). Interest rates thus affect the nature of the transaction and do not necessarily clear the market.

Again, according to Stiglitz and Weiss (1981), higher interest rates induce firms to undertake projects with lower probability of success but higher payoffs when they succeed (leading to the problem of moral hazard). Since the bank is not able to control all actions of borrowers due to imperfect and costly information, it will formulate the terms of the loan contract to induce borrowers to take actions in the interest of the bank and to attract low risk borrowers.

In addition, the terms of the contract, like the amount of the loan and the amount of collateral also affect the behaviour of borrowers. According to Stiglitz and Weiss (1981), raising interest rates or collateral in the face of excess demand is not always profitable, and banks will deny loans to certain borrowers. They further point out that the result is credit rationing in credit markets, which refers to two situations: (1) Among loan applicants who appear to be identical, some receive and others do not, with those who don't having no chance of receiving a loan even if they offered to pay higher interest rates. (2) There are identifiable groups of people who at a given supply of credit are unable to obtain credit at any interest rate, but with a larger supply, they would.

Besley (1993), following this line of argument, stated that adverse selection will arise because in the absence of perfect information about the borrower, an increase in interest rates encourages borrowers with the most risky projects, and hence least likely to repay, to borrow, while those with the least risky projects cease to borrow. He added that interest rates will thus play the



allocative role of equating demand and supply for loanable funds, and will also affect the average quality of lenders' loan portfolios.

According to Hossain(1988) , the Grameen Bank experience shows that most of the conditions imposed by formal credit institutions like collateral requirements should not actually stand in the way of smallholders and the poor in obtaining credit. The poor can use the loans and repay if effective procedures for disbursement, supervision and repayment have been established. On the issue of interest rates, the bank also supports the view that high interest rate credit can help to keep away the influential non-target group from a targeted credit programme.

The lending terms and conditions of commercial banks have not favoured MSE. MSEs loans financed out of the normal business portfolio of a commercial bank are granted for 12 months or considerably less, secured by deposits or other sources with a view to categorize it as a "secured loan" under Bank of Ghana (BoG) conditions, and carries the upper band of interest rates(Sam, 2004).

Notwithstanding, certain credit facilities available at the Barclays bank have crowded out MSEs. Information gathered on credit facilities available to businesses from the corporate department website (2012) of the Barclays bank indicates that the bank has financial support for businesses, however, conditions attached to these credit facilities do not favour MSEs.

According to the Barclays bank corporate website (2012), there is a Government Guaranteed Loan which provides access to finance for start-ups and businesses with a viable business proposition but with a lack of or inadequate security to meet normal lending criteria. The loan may be used for a wide range of business needs, from buying assets to providing funding for working capital, subject to certain restrictions (www.barclaysbankcoporate.com).



THE LOAN DETAILS ARE:

- Sums between £25,001 and £1,000,000 for any type of business at any stage
- Loan terms available for up to 10 years
- Maximum customer turnover £25m
- For all loans under the scheme, a guarantee premium of 2% per annum on the outstanding balance is payable quarterly by you to the Government
- Lending fees and associated costs will be applicable

In addition, the Barclays bank has the Revolving Credit Facility (RCF). The Revolving Credit Facility (RCF) is a flexible loan available to Corporate Clients and has been designed so that clients can repay their loan balance to zero but still have the facility available to borrow again. This facility is useful for clients who may not want to use a loan facility at all times but appreciate the peace of mind given by the knowledge of the agreed limit will be available (www.barclaysbankcorporate.com)

The Benefits of this loan portfolio are:

- Available in all major currencies
- Term commitment given by the bank ensuring that client funding needs are met
- Flexible funding: No prepayment fees, so can be repaid immediately
- Available for larger amounts than available through the Overdraft product

Additional Information

- Minimum loan size of £2million



- Any property used as security ,which may include your home may be repossessed if you do not keep up repayments on your mortgage(www.barclaysbankcoporate.com)

Another credit facility for the Barclays bank is the Term Loan. A Barclay's term loan for £25,001 or above is designed to help general business needs. The loan can be tailored to meet individual requirements for example choice of currency, loan term, interest rate structure. It is designed to help clients with short-term finance requirements, such as purchasing plant and machinery, or for longer-term business growth (www.barclaysbankcoporate.com)

The Benefits of this loan portfolio are:

- Repayment schedules to suit your business cash flow
- Interest rate structure or combination that best suits your needs from:
Fixed or variable rate linked to Barclays Base Rate
London Inter-Bank Offered Rate (LIBOR)
- Tailored Features offering a competitive lending and hedging solution for loans between £1m and £10m
- Loans are available in major currencies to match your currency income stream helping to reduce administration costs and exchange rate risk
- Capital repayment holiday available, at outset and during loan term
- Any property used as security , which may include your home may be repossessed if you do not keep up repayments on your mortgage (www.barclaysbankcoporate.com)

The Barclays commercial Mortgage. This a loan secured by property tailored to meet your individual needs. Whether you require finance for the purchase or extension of your premises or



would like to release the equity locked in your property for other business uses, Barclays bank will help you design a loan solution that is perfect for you (www.barclayscorporate.com)

The Benefits of this loan portfolio are

1. Equity release available¹
2. Interest rate structure that best suits your needs
3. A choice of variable or fixed interest rates:
 - o Fixed or variable rate linked to Barclays Base Rate
 - o London Inter-Bank Offered Rate (LIBOR)
4. Repayments schedules to suit your business cash flow
5. Capital repayment holiday of up to two years at the outset, plus mid-term capital repayment holiday (interest will be charged during holiday periods)

Additional information

- Loan funds of up to 80% of the property valuation available
- Any term from one to 25 years is negotiable
- Lending fees and associated borrowing costs applicable
- It is not a condition of the loan that you hold a current account with the Bank
- Any property used as security, which may include your home may be repossessed if you do not keep up repayments on your mortgage (www.barclaysbankcorporate.com)

Another credit condition of the Barclays bank which limited MSEs access to credit, is the Barclays Bank Term Loan (BTL) designed to help general business needs. According to the available information from the corporate department website (2012) of the Bank, one of the



conditions of this loan is a property to be used as security which may include borrowers home and may be repossessed if borrower does not keep up repayments.

The exclusion of micro and small enterprises from commercial banking credit services has been a critical challenge to the development of the sector. Wolday (2002) stated that commercial banking system created micro and small enterprises (MSEs) limited access to credit, due to the fact that banks are either unwilling or unable to serve MSEs because of high risk and transaction costs, difficulties in enforcing contracts, and penalization by the central banks for lending to MSEs that lack traditional collateral.

A number of factors explain why certain borrowers prefer to use credit. Factors related to the participation of credit users in the credits market were therefore investigated. Such factors can be divided into borrowers characteristics, and the loan terms and conditions imposed by lenders (Kashuliza and Kydd, 1996; Zeller, 1994).

In addition, Bigsten et al. (2003), and fliesig (1995), stated that in developing countries asymmetric information, high risk, lack of collateral, lender-borrower distance, small and frequent credit transactions of rural households make real cost of borrowing vary among different sources of credit.

According to Adera(1995), commercial banks fail to cater for the credit needs of micro and small enterprises mainly due to their lending terms and conditions which created the myth that micro and small enterprises are not bankable, because they cannot afford the required collateral.

Hussien (2007), in his view stated that small enterprises are more likely to prefer the informal sector to the formal sector with respect to flexibility in rescheduling loan repayments in times of unexpected income shocks.



Bottomley (1975) argues that the ceiling on interest rates also imposes a considerable constraint for banks to advance small loans since they prevent banks to incorporate the additional administrative cost involved in processing small loans and not also permit banks to offer risk-adjusted interest rates. Thus banks tend to advance loans only to those who offer lower risk and better security, which implies that only rich and wealthy people receive loans at cheaper rates, leaving the small and poor borrowers to seek loans from the unorganised credit market.

Mchujuko (1991) reports that in Tanzania, small enterprises, though not officially stipulated in various bank lending policies, are discouraged by the institutional framework to individually apply for loans from the banking system. He noted that the situation is perpetuated by cumbersome and costly tender formalities and sometimes necessitating client to tip a bank official in order for his loan application to be processed.

Banks also link credit to possession of immovable assets which are taken as loan security. Collateral is considered as an important part in the lending process. Mutua (1994) argues that since lender takes calculated risk, borrowers must demonstrate their good faith by showing that they too have something at stake in the deal.

Farmers and rural entrepreneurs in Tanzania, particularly women, are much at a disadvantage as far as their ability in offering collateral for loans is concerned (Omar and Shaidi, 1992). Poor farmers lack title deeds for the pieces of land they own and as a result they do not qualify for bank loans with which they can expand their businesses and improve their incomes. Tibaijuka *et al.* (1989) concede that insecurity in land tenure in Tanzania reduces the innovativeness and willingness of poor smallholders to invest and as a consequence has limited their chances to receive financial support from formal financial institutions.



Reliance on collateral by banks often, however, excludes many otherwise creditworthy small-scale borrowers in many African countries where land titles are not well documented or readily transferable (Steel *et al* 1997).

There are many who believe that the single most important factor constraining the growth of the MSEs sector is the lack of finance. There are many factors that can be adduced for this lack of finance: a relatively undeveloped financial sector with low levels of intermediation; lack of institutional and legal structures that facilitate the management of MSEs lending risk; and high cost of borrowing and rigidities interest rates (Sam, 2004).

2.3 MSE access to credit

The literature on economic development and corporate finance consistently demonstrates that inadequacies in relation to finance are key barriers to firm growth. According to Hossain (2007), MSEs find access to finance more difficult than larger firms. They ranked all the obstacles firms face in doing business and found out that financing is a top problem for MSEs.

According to the World Development Report (World Bank 2006), small firms obtain only 30 percent of their financing from external sources; whereas large firms meet up to 48 percent of their financing needs through external financing. The report also states that Small firms identify lack of access to financial services as one of the key constraints to growth and investment; and that MSEs are usually more credit constrained than other segments of the economy because of the following: (a) financial sector policy distortions; (b) lack of know-how on the part of banks; (c) information asymmetries, for example, lack of audited financial statements; and (d) high risks inherent in lending to MSEs.

The risk involved in lending to MSEs has also been a contributory factor to MSEs limited access to credit. According to Gonzales (1983), when lenders perceive the risk of lending to MSEs to be



greater than they actually are, they will charge higher interest rates or refrain from lending to them altogether. He further indicated that, if lenders do charge high interest rates, this increases the risk they are exposed to by discouraging low-risk, low-return borrowers from seeking loans, ultimately discouraging lenders from lending to MSEs altogether.

MSEs are intrinsically riskier borrowers than large firms as perceived by lenders. According to Lycette (1989), there is a negative relationship between firm size and level of risk. This is the case because MSEs are more vulnerable to market changes and often have inadequate management capabilities because of their smaller size.

Liedholm's (1987) found MSEs in Africa and Latin America closure rates exceeded 20 percent per year in the early 1990s, demonstrating the intrinsically high risk associated with them because of lack of credit and shortage of working capital.

Despite efforts to overcome the widespread lack of financial services, especially among small enterprises in developing Countries, and the expansion of credit in the rural areas of these countries, the majority still have only limited access to bank services to support their private initiatives (Braverman and Guasch, 1986).

The access to credit by small producers in many African countries is rather disappointing. Very few small farmers and rural micro-entrepreneurs have been integrated into formal financial markets and many do not use credit or if they do, they continue to borrow from informal market lenders (Adams, 1984).

Gonzalez-Vega (1983) reported that only a small fraction of small enterprises in low income countries (LICs) have received formal loans. It is estimated that only 15 percent of small enterprises in Asia and Latin America and just five percent in Africa are financed through formal credit sources (Gonzalez-Vega 1983, Braverman and Huppi, 1991).



Krain (1998) observed that credit from the formal financial sources meets only a small portion of the total credit demand of the small enterprise sector. He found out that credit from the formal financial sources accounted for only 9.9 percent of the total credit available to the small enterprise sector. The remaining 90.1 percent is from the informal financial sources comprising mainly loans from relatives, neighbours, friends, rotational savings groups and one's superior at work ("boss") and other sources.

The majority of small enterprises in LICs, do not have access to banks and other formal financial institutions. The development and commercial banks view the small-scale and micro-entrepreneurs as risk borrowers and extending loans to them is to cut down their profitability in the transactions and to incur irrecoverable losses to the banks (Levitsky 1993).

Small enterprises are regarded riskier than large ones for reasons often related to the difficulty in obtaining accurate information about them. Banks associate small and micro-enterprises to high transaction costs because they are widely dispersed geographically and their inaccessibility. Illiteracy and unreliable income of small enterprises are also regarded as reasons for the reluctance of banks to lend to them (Levitsky, 1993).

Discrimination against women in formal financial market is also widely spoken (FAO, 1984, Otero and Downing, 1989). It is argued that women's lack of control over economic resources and the nature of their economic activities restrict their access to formal credit more than men's. Other factors pointed out as constraints for women in accessing credit are related to institutional requirements, cultural and social norms and to the type of reproductive activities that women are engaged. McKee (1989) observes that gender-based credit constraints, such as limited education, inferior legal status and unpaid reproductive responsibilities aggravate the problems for women when operating small businesses



2.4 Socio-economic determinants of MSEs access to credit

The terminological meaning of the word 'Access', to some authors, refers to entry into or use of a system, while to others it characterizes factors influencing entry or use. Moreover, the free on line dictionary (undated), access can be defined as, the right to obtain or make use of or take advantage of something as services or membership (Penchansky and Thomas ,1981).

Diagne et al., (2000) also adding to the issue of access , stated that a household is said to have access to a particular type of credit if at least one of its members has a strictly positive credit limit for that type of credit. He further said that, a household is classified as credit constrained for a type of credit if at least one of its members is constrained for that type of credit.

In addition, Bigsten et al. (2003) stated that in developing countries asymmetric information, high risk, lack of collateral, lender-borrower distance, small and frequent credit transactions of small enterprises make real cost of borrowing vary among different sources of credit.

Access to credit by micro and small enterprises can also be attributed to their characteristics. Hussien (2007) in support of this stated that the probability of choosing the commercial bank credit sector was positively attributed to: gender, educational level, and enterprise's size. He further explained that education, credit information and extension visit are more likely to increase the information base and decision making abilities of the enterprise's including the ability to compare pros and cons of choosing appropriate credit and production technology.

Mohieldin and Write (2000), in their analysis of the impact of the explanatory variables on the outcome of whether a person has access to a loan or not, revealed that both the requirements of the individual (demand side) and that of the lending institution (supply side) determined whether a loan is granted. According to them educational level, ownership of land, total assets, and size of enterprise were significant factors in loan accessibility.



Emphasizing on the factors that determine MSEs access to credit, Lycette (1989) argues that despite their dominant numbers and importance in job creation, MSE's are regarded by creditors and investors as high-risk borrowers due to insufficient assets, low capitalization, vulnerability to market fluctuations, high mortality rates, information asymmetry, lack of accounting records, inadequate financial statements and business plans makes it difficult for creditors and investors to assess the creditworthiness of potential MSE proposals.

2.5 Effects of access to credit on MSEs

Improving access to finance of micro and small enterprises is crucial in fostering entrepreneurship, competition, innovation and growth (Braverman, 1991).

Access to finance has been identified as the most important factor determining the survival and growth of micro and small enterprises. Hulme (1996) indicated that, "access to finance allows Micro and Small Enterprises (MSE's) to undertake productive investments to expand their businesses and to acquire the latest technologies, thus ensuring their competitiveness and that of the nation as a whole. He further stressed that, poorly functioning financial systems can seriously undermine the microeconomic fundamentals of a country, resulting in lower growth in income and employment.

Significantly, a system of credit provision is a *sine qua non* for capitalist development. Entrepreneurs need credit to begin their organizations, and generally need credit throughout the life of their enterprises to fill the gap between purchasing inputs and receiving payment for outputs. In developing countries rural people have often not been able to obtain formal credit, leading many writers to see credit as a panacea, the missing ingredient, for rural development (James, 1997).





Basically, financing is necessary to help MSEs set up and expand their operations, develop new products, and invest in new staff or production facilities (Gonzalez 1983). Many small businesses started out as an idea from one or two people, who invest their own money and probably turn to family and friends for financial help in return for a share in the business. But if they are successful, there comes a time for all developing MSEs when they need new investment to expand or innovate further. That is where they often run into problems, because they find it much harder than larger businesses to obtain financing from banks, capital markets or other suppliers of credit. This “financing gap” is all the more important in a fast-changing knowledge-based economy because of the speed of innovation (Feder 1990).

According to Gonzalez (1983) if MSE's cannot find the financing they need, brilliant ideas may fall by the wayside and this represents a loss in potential growth for the economy. In his view the “bagless” vacuum cleaner and the “wind-up” radio or flashlight which needs no batteries are now common household items, but nearly failed to see the light of the day because their inventors could not find financial backing to transform their ideas into production.

Credit provision is one of the principal components of small enterprises development. Credit helps to attain rapid and sustainable growth of small enterprises. To boost micro and small enterprises production and productivity entrepreneurs have to use improved production technologies. However the adoption of modern technologies is relatively expensive and small enterprises cannot afford to self finance. As a result, the utilization of improved production technologies is very low. It is argued that enhanced provision of credit would accelerate small enterprises production and productivity (Briquette, 1999).

In addition, innovative MSE's with high growth potential, many of them in high-technology sectors, have played a pivotal role in raising productivity and maintaining competitiveness in

recent years. Innovative products and services, however great their potential, need investment to flourish (Braverman, 1991).

Also, intrusive documentation is of concern. At the point of application for banking services, some banks are known to be too demanding on documentation. Customers feel that the documentation required (such as tax compliance certificate) before the approval of the much needed loans is an intrusion into their financial privacy. Discouraged by this exercise some customers have opted for other informal financial institutions that do not require too much detail (Buvinic, 1990)

At a certain stage in business development, business credit clearly does become a strong force for further improvement –when a man with energy and initiative who lacks only the resources for more and more efficient production is enabled by the use of credit to eliminate the one block on his path to improvement. Financial credit is the most flexible form of transferring economic resources to the poor. One can buy anything that is for sale with cash obtained through credit (Padmanabhan, 1996).

According to the free on line dictionary (undated), credit transactions have been indispensable to the economic development of the modern world. Credit puts to use property that would otherwise lie idle, thus enabling a country to more fully employ its resources. The presence of credit institutions rests on the readiness of people to trust one another and of courts to enforce business contracts. The principal function of credit is to transfer property from those who own it to those who wish to use it, as in the granting of loans by banks to individuals who plan to initiate or expand a business venture. The transfer is temporary and is made for a price, known as interest, which varies with the risk involved and with the demand for, and supply of, credit.





According to Kebede (1995), credit makes traditional agriculture more productive through the purchase of farm equipment and other agricultural inputs, the introduction of modern irrigation system and other technological developments. Credit can also be used as an instrument for market stability. Rural farmers can build their bargaining power by establishing storage facilities and providing transport system acquired through credit. Credit plays a key role in covering consumption deficits of farm households. This would, in turn, enable the farm family to work efficiently in agricultural activities. Credit can further be used as an income transfer mechanism to remove the inequalities in income distribution among the small, middle, and big farmers. Moreover, credit encourages savings and savings held with rural financial institutions that could be channeled to farmers for use in agricultural production. Credit also creates employment opportunities for rural farmers.

Advocates of credit as a poverty alleviation measure (see, Howse 1978, Adam *et.al* 1984, Boomgard 1989, and Mutua 1996) contend that limited availability of credit services has undermined rural micro-enterprise activities due to lack of capital for investment and has prevented the enterprises to adopt improved practices because of their inability to purchase the necessary inputs required in the production. They further explain that low productivity of these enterprises is generally attributed to the use of poor technology resulting from limited access to credit.

Fatchamps (1997) noted that with insufficient funds, small enterprises cannot invest in new equipment and machinery, and it becomes difficult to reach out to new markets and products. He further contended that without financial assistance, small enterprises cannot cope with temporary cash flow problems, and are thus slowed down in their desire to innovate and expand. The

general perception is that access to external finance is critical for poor entrepreneurs, who may never have funds proportional to their ambitions.

Gilla and Lassalle (1994) show that rapid development reached in Europe and Asia was highly facilitated by the availability of credit to the majority. Countries like India, Indonesia, Burma and even China were reported to have recorded a good pace of development after managing to solve problems of credit availability for the majority.

Hulme and Mosley (1996) noted that credit gives poor people a means of investing and breaking out of the “vicious circle” of poverty. He noted that credit has the potential of improving credit user’s income and savings and as consequence enhances investment and reinforces high incomes. This argument is highly supported by the findings of Kashuliza *et al.* (1996) who also observed that income of the credit users are significantly higher than the income of non-credit users in the Southern highlands areas of Tanzania.

The lack of capital and the absence of attractive investment opportunities are considered to be important reasons behind inadequate economic development in many developing countries. This is why an attempt is made in most developing countries to encourage, through development policy measures, capital formation as well as the supply of financial means in the form of credit through official financial institutions (Manig, 1996).



CHAPTER THREE

METHODOLOGY OF THE STUDY

This chapter contains five sections. The first section of this chapter describes the study area. The second section deals with the study design, population and sampling, data sources and data collection methods and techniques of data analysis.

3.1 Description of study Area

The Tamale Metropolis is one of the 26 Districts in the Northern Region. It is centrally located in the region and hence serves as the hub for all administrative and commercial activities in the region. Tamale, the Metropolitan capital is also the political, economic and financial capital of the region. The Metropolis shares boundaries with Savelugu-Nanton to the West, Yendi to the East and Central Gonja to the South.

3.1.1 Location and Size

The Tamale Metropolitan Assembly is the only Metropolitan Assembly in the Northern Region and the other two Northern Regions in general. The Metropolis is located in the centre of the Northern Region and shares boundaries with six other districts namely the Savelugu- Nanton to the North, Yendi Municipal Assembly to the East, Tolon-Kumbungu to the West, Central Gonja to the South -West and East Ganja to the South. The Metropolis has a total estimated land size of 750 km sq which is about 13% of the total land area of the Northern Region. The map below shows the Metropolis in National Context. The Tamale Metropolis is located at the centre of the Northern Region. It lies between latitude 9.16° and 9.34° North and longitudes 00.36° and 00.57.



3.1.2 Topology & drainage

The Tamale Metropolis is located approximately 180 metres above sea level. The topography is generally rolling with some shallow valleys which serve as stream courses. There are also some isolated hills but these do not inhibit physical development.

The Tamale Metropolis is poorly endowed with water bodies. The only natural water systems are a few seasonal streams which have water during the rainy season and dry up during the dry season. Notable among these streams are the Pasam, Dirm-Nyogni and Kwaha.

All these streams have their headwaters from Tamale which is situated on a higher ground. Aside this, some artificial dams and dug-outs have been created. Two of such dams are the Builpela and Lamashegu dams.

3.1.1 Geology & soil

The Tamale Metropolis is under laid by sandstone, mudstone and shale, which over time, have been weathered to different degrees. The main soil types that have resulted from the above natural phenomenon include sand, clay and laterite ochrosols. These soil types are inadequately protected resulting in serious erosion during the rains.

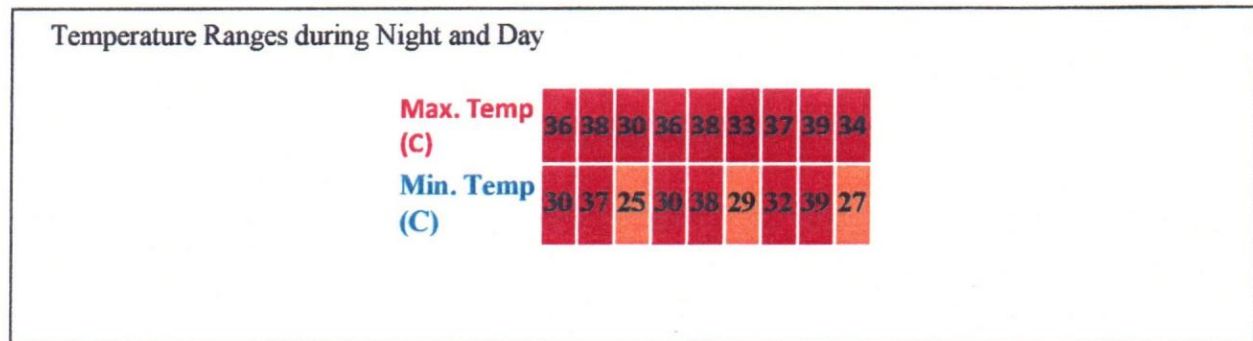
3.1.4 Relief and Climate

Generally, the Metropolis is located about 180 metres above sea levels with some few isolated hills. This geographical land nature is suitable for the construction of roads, expansion of electricity and general building works in the area. The Metropolis experiences only one single rainfall in a year. Daily temperature in the Metropolis varies from season to season. Whiles in the rainy season there is high humidity, slight sunshine with heavy thunder storms, the dry season is



characterized by dry Harmattam winds from November-February and high sunshine from March-May. Below is the daily temperature ranges in the Metropolis.

Figure 1.3 Temperature Ranges of the Metropolis



3.1.5 Population of the study area

The Tamale Metropolis in general is believed to have a total population of 371,351 in the region, according to the 2010 population and housing census. This figure is made up of 185,995 males and 185,356 females. The figure also forms 15% of the National population figure. The metropolis with an urban population of 73.79% is the only district in the region which is predominantly urban. The Metropolis has a household size of 6.2; and a total number of 58,858 households. There exists vast difference between the densities of the urban and rural areas. This is an indication of influx of people to Urban Tamale, and gives credence to the assertion that facilities and opportunities for modern employment are concentrated in few central places. The total population of 18 years and older is 210,869. This consists of 104,329 males and 106,540 females. As it is the case with the Metropolis, the structure of the population indicates a broad base that gradually tapers off with increasing age due to death.



3.1.6 Ethnicity and Religion

Apart from the Metropolis where there is ethnic diversity, almost all people in the surrounding villages are Dagombas. Even in the Metropolis, the Dagombas constitute about 80% of the total population. Islam is the predominant religion in the Metropolis with 84% of the population affiliated to it. Christianity follows this with a proportion of 6%. 10% belongs to the Traditional African religion.

3.1.7 Informal Sector

This sector is made up of petty traders, food vendors, Sheabutter processing, farming, industrial and manufacturing goods. Clay and leather wares, smock weaving, Batik tie and dye and art works.



Study Area in National Context



3.2 Study design, Population and sampling, Data sources, Data Collection Methods and data analysis.

3.2.1 Study design

The ultimate goal in this study was to learn about micro and small enterprises access to credit from the Barclays bank of Ghana, Tamale branch. This involves , among other things, identifying the lending conditions of the Barclays bank, investigating how MSEs access credit from the Bank, exploring socio-economic determinants of MSEs access to credit, and finding out the effects of access to credit on MSEs.

The study was, therefore, structured basically within the framework of the descriptive research. According to Ary, Jacobs and Razavieh (1990), descriptive research studies are designed to obtain information, which concerns the current status of phenomenon. The use of the descriptive research will enable the researcher bring to light the status of MSEs access to credit from the Barclays bank in Tamale.

The relevance of the descriptive approach to research in the field of education has been addressed by scholars (Creswell, 1994, Gay, 1992, and Fraenkle and Wallen, 1993). All these scholars have agreed on the view that the descriptive research method provides opportunities for researcher to gain valuable insights into the current status of phenomenon with respect to variables or conditions in a situation.

This type of design was preferred because the extent to which MSEs access to credit from the Barclays bank deals with attitudes. The descriptive design will therefore provide the picture of accessibility process and also expose the attitude of MSEs and bankers in credit delivery and use. Furthermore, it can be used with greater confidence with regards to particular questions of



special interest or value to the researcher. Also in-depth follow-up questions can be asked and items that are unclear can be explained using descriptive design (Fraenkle & Wallen, 1993).

Notwithstanding the advantages associated with descriptive survey, Creswell (1994) contends that errors and inadequacies of survey research in education appear at many points from the way problems are initially chosen and defined through selection of population and sample to items construction and analysis of resulting data. Accordingly, Best and Kahn (1995) postulated that descriptive statistical analysis limits generalization to the particular group of individuals observed and that no conclusions are extended beyond this group. Descriptive research surveys therefore focus on ascertaining the status of a defined population in relation to certain variables. Fraenkle & Wallen are of the view that there is the difficulty of ensuring that the questions to be answered by respondents when using the descriptive survey results can vary greatly depending on the exact wording of questions or statements. Another disadvantage of the descriptive survey is that it may produce untrustworthy results because they may delve into private and emotional matters that respondents may not be completely truthful about.

In spite of these disadvantages, the descriptive survey design is considered the most appropriate for carrying out the study on the analysis of MSEs access to credit from the Barclays bank. This is because the effect of access to credit depends on how a group (respondents) perceived it.

3.2.2 Research population

The population of the study was members of the Association of Small Scale Industries (ASSI), the branch Manager and credit officer of the Barclays bank, the Regional Manager and Accountant of NBSSI and a Project Officer of MASLOC. The essence of this structure was to



collect detailed and objective information as far as possible from different groups of people responsible for facilitating MSEs access to credit.

The ASSI from which the sample was drawn, represents MSEs in the Tamale metropolis and the local Government not only listens to the Association, but also request for their inputs in important trade issues. The selection of the bank staff is based on the fact that they supply credit to MSEs. The choice of the NBSSI staff is also based on the fact that they facilitate MSEs access to credit. The selection of the MASLOC staff is because they supplement banks supply of credit to MSEs.

The total population was therefore about 505 respondents. The accessible population, however, was ASSI- members, the branch manager and credit officer of the Barclays Bank, the Regional Manager and Accountant of NBSSI and a Project Officer of MASLOC.

3.2.3 Sample and sampling techniques

The sampling techniques employed for the study were the proportional stratified and simple random sampling. According to Gay (1992), “proportional stratified sampling is more convenient when sub-groups in the population are represented in the sample at the same proportion that they exist in the population”(p.129). He further stated that “any location, within which we find an intact group of similar characteristics (population members), is a stratum” (p.132). Since the MSEs are spread all over Tamale and each sub-group has its peculiarity, it will be proper to use stratified sampling. Also, the procedure ensures proportional representation of each of the MSEs-subgroups for the study.

All the five hundred (500) ASSI- members were put into sub-groups based on their business sectors. These sectors then formed the strata from which the sample size was selected.





In an attempt to obtain a representative sample of the MSEs from the eight sub-groups for the study, the names of MSEs Associations registered by the NBSSI in Tamale were collected. These sub-groups formed the strata from which the appropriate proportional representations were identified. The names of the various MSEs were given code numbers for sample selection. From the list another sampling frame was constructed. The proportionate number of MSEs from each subgroup required for the study was determined. This was about 50% (i.e the total number of 250 sample size, divided by the total number of MSEs in the study area (500), the fraction was then expressed as a percentage). The number of MSEs in each sub-group was multiplied by 0.5 to obtain the number of MSEs to be sampled from each subgroup. For example GHABA has 50 members. This was multiplied by 0.5, to obtain 25 MSEs. Similarly GNTDA has 100 members. This was multiplied by 0.5 to get 50 and so on.

The simple random sampling was then used to select the sample MSEs from each sub-group. Each MSE was given a code and this was written on a piece of paper. These pieces of paper were folded and mixed together. The pieces of paper were then picked one after the other without seeing through the pool. This was done with replacement in order to maintain the same probability for each sample sub-group. This process continued until the needed number or sub-sample MSEs of 50% was obtained for all the eight subgroups. The number of MSEs selected from each sub-group is shown in Table 1.

Table 1. Breakdown of sample size- Micro and Small Enterprises (MSEs)

Serial No.	Name of MSE Sub-group	Total No. of Membership	No. of MSEs sampled
1	GHABA	50	25
2	GNTDA	100	50
3	Welders	50	25
4	GESTA	50	25
5	Aluminum pot	50	25
6	Smock makers	100	50
7	Gaurages	50	25
8	Batik makers	50	25
Total		500	250

Table 2. Sample of Business support Organizations

No.	Name of Organization	No. to interview
1.	NBSSI	2
2.	Barclays bank	2
3.	MASLOC	1
Total		5

3.3 Data sources

3.3.1 Primary data

Primary data was collected using a combination of tools. These tools included administering questionnaires and personal interviews. The essence of this was to help collect first hand information from the respondents.

3.3.2 Secondary data:

Data from secondary sources was obtained from books, journals, reports, internet and research works relating to the subject matter. Data was gathered from Government Agencies such as the MASLOC and NBSSI. Data was also collected from financial institutions. The Data collected provided a framework that guided the study.

3.4 Data collection method

Two different tools were employed to obtain the needed data and to address the research questions. This included the use of questionnaire and personal interview together. They provided a rich source of detailed information and ensured validation of the findings through triangulation. The questionnaire and personal interview guides were developed by the researcher adopting some items used in related studies by Yehuala (2008). The researcher constructed three sets of questionnaires. One set was for the Barclays bank that is expected to give credit to the MSEs. The second set was for the NBSSI and MASLOC. The third set of questionnaires was for MSE operators.



3.4.1 Survey questionnaire

The questionnaires were constructed and piloted in order to detect any ambiguities or inherent problems. From the comments and remarks from the pilot questionnaire respondents, the entire questionnaire was revamped and improved upon. While some questions were open-ended items (where respondents provided their own responses), a few were close-ended items (where respondents were offered options from which they were to select those that they deemed appropriate).

The questionnaire was designed to capture detailed profile of the respondents in addition to what they consider as the lending conditions of Barclays Bank; how MSEs access credit from Barclays Bank; socio-economic determinants of MSEs access to credit; and the effects of access to credit on MSEs.

3.4.2 Personal interviews

In order to complement the responses from the questionnaires, the researcher also conducted face-to-face interviews with some other MSE stakeholders, largely MSEs consultants and professional services providers.

As was the case with the questionnaires, the interviews were basically focused on the reasons why the MSEs have performed below expectations because of access to credit. Their views and opinions were also elicited on the following:

How the MSE sub-sectors can be resuscitated and energized, what caused the limited access to credit by MSEs, how their access to credit can be enhanced, what they felt were the major challenges of MSEs, their overall recommendations on the way forward, what they expect the Barclays bank to do to partner with MSEs for sustainable growth.



3.4.3 Scoring of items

The respondents were expected to respond to all the items on the inventory. Options were provided for respondents to choose from by responding to items on their biographic data. The items that were used to answer research questions were scored using Likert type scale. For respondents were asked to rate the appropriateness, frequency and degree of importance, effectiveness and the degree to which they agree to the determinants of their access to credit from the bank. A scoring key was prepared to help assign points to the responses.

Most of the items on the questionnaire were multiple scored especially on a four point Likert type scale. The responses were scored ranging from four (4) for strongly agree, three (3) for agree, two (2) for disagree, and one (1) for strongly disagree. Also other variables were scored ranging from four (4) for very important, three (3) for important, two (2) for somehow important, and one (1) for not important.

The items on the questionnaire, which were open-ended, were coded with numbers one, two, three and so on depending upon the number of different responses. These responses were tallied to obtain total for each response on each item.

3.5 Data collection procedure

The questionnaires were administered by the researcher to respondents in their various workplaces. The researcher gave out the questionnaires and explained each item on the questionnaires to respondents. The respondents were then allowed to respond to the items on the questionnaire. The respondents were informed that the completed questionnaires would be collected back in two weeks time. This was to give them enough time to respond to all the items on the questionnaire since they were many. The researcher also conducted a face-to-face



interview with the Barclays bank staff, NBSSI staff, MASLOC and some BDS providers in Tamale. The researcher spent two days with each of them.

3.6 Techniques of data analysis

The responses were edited and summarized. Simple percentages, tables and description of implications were used to analyze the responses. The analysis was done based on the research questions.

Research question one

How relevant are the lending conditions of the Barclays bank in MSEs access to credit? The data with respect to this research question was analyzed using percentages and description of the implications of the percentages on the overall objective of the study. The extent to which respondents' attached importance to the lending conditions of the bank as a factor in their access to credit was analyzed descriptively.

Research question two

How does micro and small enterprises (MSEs) access credit from the Barclays bank? This research question was answered using percentages and description of the implication of the procedures involved in MSEs access to credit. The attitudes of MSEs towards the procedures of access to credit were verified in-line with each procedure.

Research question three

What socio-economic factors determine MSEs access to credit from the Barclays bank? Percentages and tables based on the responses on how socio-economic factors determine their access to credit was constructed. Percentages and tables were used to analyze the responses of this item.



Research question four

What are the effects of access to credit on MSEs? This research question was answered using description of the implication on MSEs access to credit.



CHAPTER FOUR

Presentation of Results and Discussion

This chapter presents the analysis of the responses made by respondents under the study. The analysis was done geared towards addressing the purpose of the study. Wherever applicable, tables and percentages are provided to illustrate and support the findings. The analysis of the data was done based on the research questions. The chapter is divided into five major sections. The first section presents the characteristics of the respondents. The lending conditions of the Barclays bank are presented in the second section. The third section contains MSEs access to credit from the bank. The socio-economic determinants of MSEs access to credit is presented in the fourth section. Finally, the fifth section, presents the effects of access to credit on MSEs.

4.1 Characteristics of respondents

The study with a target of 255 sample size to be covered, yielded 205. This represents a response rate of 80.4%. Out of the 205 respondents, 80% were Owners and the remaining 20% were senior apprentices with decision making authority. The respondents were composed of 65.4% males and 34.6% females. The dominance of male respondents was due to the business categories sampled for the study. Table 3, shows the sex distribution in the sample size.

Table 3. Sex Distribution

Sex	MSEs		Barclays		NBSSI		Masloc		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Male	130	65	1	0.3	2	0.6	1	0.3	134	65.4
Female	70	35	1	0.3	0	0	0	0	71	34.6
Total	200	100	2	0.6	2	0.6	1	0.3	205	100

From Table 3, it is observed that males outnumbered the females by (134) 65.4%.



4.1.1 Age Distribution

The essence of age distribution in this type of study was to help categorized the respondents into youth age, middle age and old age in order to identify the majority age group in the sample.

Table 4, shows the details of this distribution.

Table 4. Age Distribution

Age group	Number	Percentage
20 – 29	20	9.7
30 - 39	55	27
40 – 49	60	29.3
50 - 59	30	14.6
60 – 69	20	9.7
70 - 79	20	9.7
Total	205	100

Source: Field survey, July, 2012.

Table 4, reveals that 40-49years was the modal age group in the sample size. The 40-49 years formed (29.3%) of the entire sample size. The age groupings, 20-29 (9.7%), 70- 79(9.7%) and 60-69(9.7%) respectively were the least groups in the sample. The average age of the respondents was 45 years. It therefore implies that majority of the economical active population of the study area are engaged by the MSE- sector.

4.1.2 Marital status

The survey indicated that 90 % of the respondents were married and 10 % was single. The implication of marital status in the study is that; whereas the respondents who are single would have fewer dependents on their businesses and as such less responsibilities and demand for credit; respondents who are married would have more dependents and responsibilities on their businesses pushing them to look for credit in order to augment their working capitals.

4.1.3 Level of Education

The level of education of respondents essentially helps him or her to observe good business management practices including credit management. To some extent, education is one of the ingredients banks look for when granting credit to its clients. Table 5, shows the details of the level of education of respondents.

Table 5. Level of Education

Level of Education	Number	Percentage
No education	60	29.3
J.H.S	70	34.1
MSLE	50	24.4
HND	20	9.8
Degree	5	2.4
Total	205	100

Source: Field survey, July, 2012.

Table 5, shows that, JHS leavers with 34.1% were the majority in the sample. Whiles 24.4 % completed Middle School; 29.3% of the sample has no education. A few respondents, 9.8% and



2.4% holds HND and degree respectively. It can therefore be inferred that most Micro and Small Enterprises sampled for the study are managed by people with relatively low level of education. The implication of this on their access to credit is that, proper business management practices would hardly be observed. Meanwhile, banks would be interested in knowing MSEs businesses as well as credit management records before granting credit.

4.1.4 Business Sector Association

The majority of the study population was members of the Association of Small Scale Industries (ASSI), which is an umbrella business Association in Tamale. The sample taken for the study was stratified randomly selected from this population. Therefore, there was the need to segregate the sample according to the sub-groups in order to examine the issue of access to credit amongst respondents in different sectors of the local economy of the study area. Table 6, shows the details of this analysis.



Table 6. Business Sector Association

Business Sector	Number	Percentage
GHABA	22	10.7
Welders & Fabricators	20	9.8
GARAGES	18	8.8
GNTDA	42	20.5
GESTA	15	7.3
Batik Makers	21	10.2
Aluminum pot makers	17	8.3
Smock makers	45	22
<u>Others (Business support Organizations)</u>		
Barclays	2	1
NBSSI	2	1
MASLOC	1	0.4
Total	205	100

Source: Field survey, July, 2012.

Table 6, gives detail of the sub-groups captured in the sample. The respondents composed of (10.7%) of the GHABA, (20.5%) of GNTDA members, (9.8%) of Welders & Fabricators, (7.3%) of GESTA members, (10.2%) of Batik makers, (8.3%) of Aluminum pot makers, (22%) of Smock makers, and (8.8%) of Garages. In addition the study covered (1%) each of the Barclays bank and NBSSI staff respectively; and (0.4%) of the MASLOC staff. It therefore indicates that, various views on the issue of MSEs access to credit have been sought from almost all the business sector associations and some business support organizations existing in the study area.

4.1.5 New or Existing Business

The survey revealed that 96% of the MSEs interviewed were existing businesses. 4 % were new businesses established 6 months before the interview was conducted. This shows that the longer an entrepreneur is in business the more experience and exposure to constraints and difficulties in accessing credit from Banks.

4.1.6 Ownership of Business

80 % of the MSEs were the Owners of the sample businesses. While 20 % were senior apprentices with decision-making authority. This is an indication that the data gathered contains varying opinions of key actors in the MSE-sector.

Research question one

How relevant are the lending conditions of the Barclays bank in MSEs access to credit?

4.2 The Barclays Bank lending conditions

This part of the research sought to assess the relevance of the Barclays bank lending conditions on MSEs access to credit. According to Sam (2004), commercial Banks in Ghana have traditionally looked at the MSE sector with caution and as such there are usually no separate MSEs lending conditions. Table 7 shows the views of MSEs on this issue.



Table 7. The Barclays Bank lending conditions

Conditions	SA (%)	A (%)	DA (%)	SDA (%)
MSE should hold an account with the Bank	130 (63.4)	70 (34.1)	3 (1.5)	2 (1.0)
MSE should write a letter to express interest.	190 (92.7)	10 (4.9)	5 (2.4)	0 (0)
MSE should fill loan application form	200 (97.6)	4(2.0)	1 (0.4)	0 (0)
MSE should be willing to offer collateral	160 (78.05)	40 (19.51)	0 (0)	5(2.44)
MSE should present a well laid-out business plan	110(53.7)	95(46.3)	0 (0)	0(0)
Business should be registered with the RGD.	50 (24.0)	55(27.0)	30 (15.0)	70(34.0)
MSE should have a known and fixed address	118(58.0)	50(24.0)	22(11.0)	15(7.0)
Loan should not be more than the bank limit	170(83.0)	30(15.0)	5(2.0)	0 (0)
Form of business organization	155(76.0)	30(15.0)	20(9.0)	0 (0)
MSE track records and experience in credit	90(44.0)	80(39.0)	10(5.0)	25(12.0)
Repayment sources	112(55.0)	50(24.0)	35(17.0)	8 (4.0)
MSE should present passport pictures	200(98.0)	5(2.0)	0(0)	0 (0)
Personal guarantor	141(69.0)	60(29.0)	4(2.0)	0 (0)

Source: Field survey, July, 2012.

Interpretation: SA- Strongly Agree, A-Agree, DA –Disagree and SDA-Strongly Disagree

As seen from Table 7, it could be observed that respondents with (34 %) scoring strongly disagreed with business registration as one of the lending conditions of the Barclays bank. However, with the following scorings, respondents strongly agreed that as part of the Barclays lending conditions: MSEs should hold an account with the Bank(63.4%) ; MSEs should write a





letter to express interest in loan (92.7%); MSEs should fill loan application form (97.6%); MSEs should be willing to offer collateral (78.05%); MSEs should present a well laid-out business plan (53.7%); MSEs should have a known and fixed address (58 %); Loan should not be more than the bank's credit limit (83 %); Form of business organization (76 %); MSEs track records and experience in credit (44%); Repayment sources (55%); MSEs should present passport pictures(98%); and Personal guarantor (69%). In addition, though some respondents scored against Agreed and Disagreed, their impact was not much as compared to strongly agreed and disagreed respectively. It therefore implies that those conditions respondents strongly agreed with play significant role in their access to credit from the bank. Hence, respondents' inability to fulfill any of the conditions strongly agreed with would deny them access to credit from the bank.

The responses therefore confirmed Schmidt and Kropp (1987) view that MSEs access to credit problem, especially among formal financial institutions, is one created by the financial institutions mainly through their lending conditions. According to Schmidt and Kropp, the access problem is manifested in the form of prescribed minimum loan amounts, complicated loan application procedures and restrictions on credit for specific purposes. They further argued that the type of financial institution and its lending conditions would often determine the access. Where credit duration, terms of repayment, required security and the provision of supplementary services do not fit with the needs of the target group, potential borrowers would not apply for credit even where it exists and when they do, they would be denied access.

4.2.4 Constraints and difficulties faced by MSEs

According to respondents they faced certain constraints and difficulties when accessing the Barclays bank services. These constraints and difficulties were listed for respondents to confirm or reject based on their assessment of each constraint. The detail of this assessment is shown in Table 8.

Table 8. Constraints and difficulties faced by MSEs

Constraints/Difficulties	SA (%)	A (%)	DA (%)
Access to Group lending	198 (97.0)	2 (1.0)	5 (2.0)
Demand for Individual Collateral	200 (98.0)	0 (0)	5 (2.0)
Interest rate asked from borrowers	202 (99.0)	3 (1.0)	0 (0)
Time of credit availability	160 (78.0)	0 (0)	45 (22.0)
Repayment period	203(99.00)	0 (0)	2 (1.0)
Lack of opportunity to take a loan	50 (24.0)	20 (10.0)	135 (66.0)
Distance of workshop from the Bank	2 (1.0)	3 (2.0)	200(97.0)
Working hours of the Bank	25 (12.0)	10 (5.0)	170(83.0)
Working ethics and efficiency of the Bank Staff	190 (92.0)	12 (6.0)	3 (2.0)
Loan application process	201(98.0)	4 (2.0)	0 (0)

Source: Field survey, July, 2012.

Interpretation: SA-Strongly Agreed, A- Agreed, DA- Disagreed

From Table 8, it is revealed that respondents with the following scorings ,strongly agreed that they faced these constraints and difficulties when accessing Barclays bank's services: difficulty in accessing credit from the bank especially small business associations(97%); high demand for collateral(98%); high interest rates on business credit making it unattractive to MSEs(99%);



repayment period not enough to enable MSEs invest credit well in order to generate profit and pay-back(99%); Credit not available at times needed (78%) and tedious credit application processes(98%). However, with the following scorings, they strongly disagreed with lack of opportunity to take a loan (66%); distance of workshop from the Bank (97%); and working hours of the bank (83%) as some of the constraints and difficulties faced.

The constraints strongly agreed with by the respondents confirmed Stiglitz and Weiss (1981) statement that higher interest rates induces firms to embark on projects with lower probability of success but higher payoffs when they succeed; that raising interest rates or collateral in the face of excess demand is not always profitable, and banks will deny loans to certain borrowers. In addition , it also confirms Besley (1993) line of argument that adverse selection will arise because in the absence of perfect information about the borrower, an increase in interest rates encourages borrowers with the most risky projects, and hence least likely to repay, while those with the least risky projects cease to borrow.

The issue of repayment period as one of the constraints has been supported by Sam (2004) statement that MSEs loans financed out of the normal business portfolio of a commercial bank are granted for 12 months or considerably less, secured by deposits or other sources with a view to categorize it as a “secured loan” under Bank of Ghana (BoG) conditions, and carries the upper band of interest rates.



Research question two

How does micro and small enterprises (MSEs) access credit from the Barclays bank?

4.3 MSEs Access to credit from Barclays Bank.

Generally there are procedures applicable to all potential credit applicants. According to the bank staff interviewed these procedures are used to screen applications submitted by potential applicants for credit. The procedures are applied to all potential loan applicants including MSEs.

4.3.1 MSEs Knowledge of the procedures in accessing credit

85% of respondents indicated 'No' for not having knowledge of the procedures involved in accessing credit from the Barclays bank. This is because they do not have accounts with the bank. 15% responded 'Yes' for having knowledge of the procedures, because they have accounts with the bank.

4.3.2 Identification of borrower

This is the first procedure where potential applicant is assessed based on the following: the applicant track records, experience, educational or professional qualifications; the form of business organization applicant is operating; the applicant's past and present business performance; and the applicant's character, capacity and credit worthiness. The verification of this procedure with respondents revealed that (85%) of them had no track records and experience in so far as credit is concerned. (15%) had track records and experience in credit especially with the micro-credit institutions, but not commercial banks. It can therefore be inferred that this stage is among many of the reasons most MSEs interviewed had not succeeded in taken credit from the bank because they do not have track records and experience as well.



4.3.3 Purpose of the credit

The second procedure is the purpose of the loan. Under this section, potential loan applicants are expected to state clearly the purpose for which they are applying for the credit. The applicant is supposed to state: whether the credit is for productive purpose? Whether the purpose is a legitimate activity? Whether it is a new venture or existing? If existing, whether it is for expansion or diversification? According to respondents, the information to be provided under this procedure involves rigid documentations and evidence to support any purpose for which a credit is being sought for. However, according to the entrepreneurs most often they face difficulties in providing adequate and accurate information to support the stated purpose. Hence, the bank authorities had no time to look into their documents when scanty information is being provided.

4.3.4 Quantum of credit

The quantum of credit required is the third procedure. Under this procedure, the bank expects potential applicants to state clearly: whether the credit is a need based? The amount required should be timely and within borrowers stake/margin (varying between 5% to 25%). It should neither be over-financed nor under –financed. When crosschecked this procedure with respondents, it was revealed that the bank has never adhered to MSEs requested amounts when disbursing to them. According to the respondents the bank normally attributes the under – financed to management decision, of which MSEs have no influence over.

4.3.5 Period of credit

The fourth procedure is the period of the credit. Under this procedure, the bank expects potential loan applicants to provide information on the following: whether the credit is for short or long



term? Whether it is adequate by time? Whether it is a renewal/revival or enhancement? And what are the chances of contingencies? When crosschecked this procedure with respondent, it was revealed that the bank kept the period to 'camouflage' potential applicants. But in reality it does not work to perfection, because the maximum period an MSEs could get a credit from the bank is one year or less.

4.3.6 Sources of repayment

The source of repayment is one of the significant procedures. In this section, the bank needs adequate information from potential applicants to inform decisions. All applicants by this condition are supposed to provide information on the following: whether repayment will be out of business or salary income? Whether is self-liquidating i.e a working capital account? Cash credit-hypothecation or pledge (lock- in- key) facility. Out of sale of assets financed or disposal of collateral security? Any other source of income like guarantor? Whether it is a bridge credit? When verified this procedure with respondents, they indicated that this procedure has been a constraint to many of them because of poor records keeping. According to respondents, banks usually demand for cash- flow statement as evidence to support their source of repayments, of which, they have not prepared.

4.3.7 Collateral security

The sixth procedure is the collateral security to be offered. Under this section, the bank requires all potential loan applicants to provide answers to the following questions: what is the security to be offered? Whether the security is a primary-stock, assets (hypothecation, pledge etc)? Secondary- third party guarantee or charge on immovable property? The mortgage over assets type? When verified this procedure with respondents, they admitted that collateral though



important in securing a credit, it has been a constraint to most entrepreneurs in this part of the country. This is because the risk of being in default and losing your long-time toiled property like a house to a bank would be very painful and embarrassing to your entire family. They further stated that using stock or even third-party would still be embarrassing should you fail to pay back.

4.3.8 Appraisal of proposal

The seventh procedure is the appraisal of the proposal submitted by an applicant. In this section, the bank's credit officer critically assessed proposal submitted by an applicant. The assessment is normally done with the use of some financial ratios to find out the viability of the proposed project and make recommendations for management decision. The proposal is either rejected or accepted and then a letter of contract is written and conveyed to the applicant. With regards to this procedure, respondents indicated that it has been one of the most difficult aspects of MSEs access to credit. According to respondents this requires a business plan, which is very expensive to prepare.

4.3.9 Documentation/Disbursement/Inspection

The assessment under this is done based on ensuring that: proper documents are submitted, proper stamping is done, all aspects are completed, executed by all authorized signatories/seal, charges recorded within 30 days. Disbursement, inspection, insurance and follow-up on assets verification, stock statement is conducted.



Research question three

What socio-economic factors determine MSEs access to credit from the Barclays bank?

4.4 Determinants of MSEs access to credit

Access to credit by micro and small enterprises can be attributed to their features and some socio-economic factors. According to Hussien (2007), “the probability of choosing a commercial bank credit is positively traced to: gender, educational level, and enterprise’s size, and that education, credit information and extension visit are more likely to increase the information base and decision making abilities of the enterprise’s to compare pros and cons of choosing appropriate credit and production technology”.

4.4.1 MSE access to Barclays Bank credit

95% of the respondents indicated ‘No’ for not taking any credit from the Barclays bank. 5% responded ‘Yes’ for having access to Barclays bank credit. Respondents who indicated ‘No’ for not taking credit from the bank gave the following reasons: inability to present collateral when demanded by the bank; inability to present a well-laid out business plan; inability to get two personal guarantors when demanded by the bank; tedious loan application process; and unfavorably repayment period. For respondents who indicated ‘Yes’ for having accessed credit from the Barclays bank stated that they fulfilled all the conditions of the bank.

The responses of the respondents confirmed (Penchansky and Thomas, 1981; and Diagne, 2000) argument on access to credit. According to Penchansky and Thomas (1981), “the terminological meaning of the word ‘Access’”, to some authors, refers to entry into or use of a system, while to others it characterizes factors influencing entry or use. Moreover, the free on line dictionary



(undated), access can be defined as, the right to obtain or make use of or take advantage of something as services or membership.

Diagne (2000) also stated that a household is said to have access to a particular type of credit if at least one of its members has a strictly positive credit limit for that type of credit. He further said that, a household is classified as credit constrained for a type of credit if at least one of its members is constrained for that type of credit.

4.4.2 Socio-economic factors Barclays Bank consider before granting credit

The participation of MSEs in the Barclays bank credit is encouraged by the kind of socio-economic lending factors imposed by the bank on MSEs. The essence of this part of the study was to seek the opinion of MSEs on key socio-economic factors the bank considers before a credit is granted. Table 9 shows the details of the views of MSEs on this issue.



Table 9. Socio-economic factors bank consider before granting a credit

Factors	1 (%)	2 (%)	3 (%)	4 (%)
Age of the entrepreneur	160 (78.0)	5 (2.0)	20 (10.0)	20(10.0)
Gender of the entrepreneur	185 (90.0)	2(1.0)	6(3.0)	12(6.0)
Number of employees	4 (2.0)	30(15.0)	0(0)	171(83.0)
Number extension contacts with BDS providers	190 (93.0)	0(0)	5(2.0)	10(5)
Number of business development trainings attended.	120 (59.0)	60(29.0)	20(10)	5(2.0)
Affiliation with Business Association	201(98.0)	0(0)	0 (0)	4(2.0)
Experience in credit use	10 (5.0)	2(1.0)	4(2.0)	189(92.0)
Number of fixed assets possessed	20(10.0)	40(20.0)	12(5.0)	133(65.0)
Attitude towards risk	30(15.0)	10(5.0)	5(2.0)	160(78.0)
Business size	50(24.0)	15(7.0)	3(2.0)	137(67.0)
New or existing business	60(29.0)	30(15.0)	5(2.0)	110(54.0)
Form of business	20(10.0)	25(12.0)	6(3.0)	154(75.0)
Sector of business in the economy	30 (15.0)	45(22.0)	5(2.0)	125(61.0)

Source: Field survey, July, 2012.

Interpretation: 1- for not important; 2- for somehow important; 3- for important; and 4- for very important

Table 9, reveals some of the socio-economic factors that determine MSEs access to credit. It is observed from the table that based on the scorings, respondents did not consider the following as important factors in determining their access to credit: The age of the entrepreneur (78%) ; Gender of the entrepreneur (90%); Number of extension contacts with BDS providers (93%);



Number of business development trainings attended (59%); and Affiliation with Business Association (98%). However, based on the scoring, respondents considered the following as very important factors in determining their access to credit: The number of employees of a business (83%); Experience in credit use (92%); Number of fixed assets possessed (65%), entrepreneur attitude towards risk (78%); business size (67%); new or existing business (54%); form of business (75%); and sector of business in the economy (61%).

The responses confirmed what (Hussein, 2007 and Bigsten, 2003) said about the attributes of MSEs and their access to commercial banks credit. Hussien (2007) in support of this stated that the probability of choosing the commercial banks credit sector was positively attributed to: gender, educational level, and enterprise's size. He further explained that education, credit information and extension visit are more likely to increase the information base and decision making abilities of the enterprise's including the ability to compare pros and cons of choosing appropriate credit and production technology. In addition, Bigsten (2003) stated that in developing countries asymmetric information, high risks, lack of collateral, lender-borrower distance, small and frequent credit transactions of small enterprises make real costs of borrowing vary among different sources of credit.

Research question four

What are the effects of access to credit on MSEs?

4.4 The effects of access to credit on MSEs

Access to credit is one of the most important factor determining the survival and growth of micro and small enterprises (MSEs). According to Hulme (1996), access to finance allows micro and small enterprises (MSE's) to undertake productive investments to expand their businesses and to acquire the latest technologies, thus ensuring their competitiveness and that of the nation as a whole. He further stressed that, poorly functioning financial systems can seriously undermine the micro-economic fundamentals of a country, resulting in lower growth in income and employment.

4.5.1 Importance of credit in business

The respondents interviewed admitted that credit plays major importance in business development. According to respondents, credit plays the following importance in their businesses: credit helps MSEs to meet orders placed by Customers, credit helps them to acquire additional equipment/tools, Purchase raw materials, rent/purchase a workshop, payment of operational expenses and acquire a new technology. The respondents opinions were in lined with Hulme (1996) view that, "access to finance allows micro and small enterprises (MSE's) to undertake productive investments to expand their businesses and to acquire the latest technologies, thus ensuring their competitiveness and that of the nation as a whole".



4.5.2 Problems of lack of access to credit

According to respondents, some of the problems associated with lack of access to credit are : inability to meet customers' demands; inability to invest, expand and grow business; inability to promote products/services; lack of access to new/external markets; inadequate raw materials; difficulty in paying production/operational expenses; use of inappropriate and low technology; inability to pay for advanced business development trainings; and inability to engage skilled/qualified professional employees as some of the problems of lack of access to credit by MSEs. The responses confirmed Fatchamps (1997) statement that with insufficient funds, small enterprises cannot invest in new equipment and machinery, and it becomes difficult to reach out to new markets and products; cannot cope with temporary cash flow problems, and are thus slowed down in their desire to innovate and expand.

4.5.3 Problems Banks faced for not giving credit to customers

According to respondents banks would encounter the following problems for not giving credit to customers: inability for the bank to grow or expand; loss of customers to other financial institutions; being branded as poor service provider; experience dwindling deposits or savings and inability to sustain operations. The responses confirmed Buvinic (1990) view that "intrusive documentation is of concern. At the point of application for banking services, some banks are known to be too demanding on documentation. Customers feel that the documentation required (such as tax compliance certificate) before the approval of the much needed loans is an intrusion into their financial privacy. Discouraged by this exercise some customers have opted for other informal financial institutions that do not require too much details.



CHAPTER FIVE

SUMMARY, RECOMMENDATIONS AND CONCLUSION

5.1 Summary of findings

It was apparent in the findings of the study that: respondents with (34 %) scoring strongly disagreed with business registration as one of the lending conditions of the Barclays bank. However, with the following scorings, respondents strongly agreed that as part of the Barclays lending conditions: MSEs should hold an account with the Bank(63.4%) ; MSEs should write a letter to express interest in loan (92.7%); MSEs should fill loan application form (97.6%); MSEs should be willing to offer collateral (78.05%); MSEs should present a well laid-out business plan (53.7%); MSEs should have a known and fixed address (58 %); Loan should not be more than the bank's credit limit (83 %); Form of business organization (76 %); MSEs track records and experience in credit (44%); Repayment sources (55%); MSEs should present passport pictures(98%); and Personal guarantor (69%). In addition, though some respondents scored against Agreed and Disagreed, their impact was not much as compared to strongly agreed and disagreed respectively. It therefore implies that those conditions respondents strongly agreed with play significant role in their access to credit from the bank. Hence, respondents' inability to fulfill any of the conditions strongly agreed with would deny them access to credit from the bank.

Secondly, the study revealed that respondents with the following scorings ,strongly agreed that they faced these constraints and difficulties when accessing Barclays bank's services: difficulty in accessing credit from the bank especially small business associations(97%); high demand for collateral(98%); high interest rates on business credit making it unattractive to MSEs(99%);



repayment period not enough to enable MSEs invest credit well in order to generate profit and pay-back(99%); Credit not available at times needed (78%) and tedious credit application processes(98%). However, with following scorings, respondents strongly disagreed with lack of opportunity to take a loan (66%); distance of workshop from the Bank (97%); and working hours of the bank (83%) as some of the constraints and difficulties faced.

Thirdly, the study has shown that there are procedures applicable to all potential credit applicants. According to the bank staff interviewed these procedures are used to screen applications submitted by potential applicants for a credit. The procedures are applied to all potential loan applicants including MSEs. However, when crosschecked these procedures with respondents, (85%) of them claimed that they have no knowledge of the existence of such procedures, (15%) of them have some knowledge of the existence of these procedures in the commercial banks. The procedures are the following:

Identification of borrower is the first procedure where potential applicant is assessed based on the following: the applicant track records, experience, educational or professional qualifications; the form of business organization applicant is operating; the applicant's past and present business performance; and the applicant's character capacity and credit worthiness. The verification of this procedure with respondents revealed that (85%) of them had no track records and experience in so far as credit is concerned. (15%) had track records and experience in credit especially with the micro-credit institutions, but not commercial banks. It can therefore be inferred that this stage is among many of the reasons most MSEs interviewed had not succeeded in taken credit from the banks because they do not have track records and experience as well.



The purpose of the credit is second procedure. In this procedure, potential applicants are expected to state clearly the purpose for which they are applying for the credit. Under this, the applicant is supposed to state: whether the credit is for productive purpose? Whether the purpose is a legitimate activity? Whether it is a new venture or existing? If existing, whether it is for expansion or diversification? According to respondents: the information to be provided under this procedure involves rigid documentations and evidence to support any purpose for which a credit is being sought for; that most often they faced difficulties providing adequate and accurate information to support the stated purpose; and hence, the bank authorities had no time to look into their documents when scanty information is being provided.

The quantum of credit required is the third procedure. Under this procedure, the bank expects potential applicants to state clearly: whether the credit is a need based? The amount required should be timely and within borrowers stake/margin (varying between 5% to 25%). It should neither be over-financed nor under –financed. When crosschecked this procedure with respondents, it was revealed that the bank has never adhered to MSEs requested amounts when disbursing to them. According to the respondents the bank normally attributes the under – financed to management decision, of which MSEs have no influence over.

The fourth procedure is the period of the credit. Under this procedure, the bank expects potential applicants to provide information on the following: whether the credit is for short or long term? Whether it is adequate by time? Whether it is a renewal/revival or enhancement? And what are the chances of contingencies? When crosschecked this procedure with respondent, it was revealed that the bank kept the period to ‘camouflage’ potential applicants. But in reality it does not work to perfection, because the maximum period an MSEs could get a credit from the bank is one year or less.

The source of repayment is one of the significant procedures. In this section, the bank needs adequate information from potential applicants to inform decisions. All applicants by this condition are supposed to provide information on the following: whether repayment will be out of business or salary income? Whether is self-liquidating i.e a working capital account? Cash credit-hypothecation or pledge (lock- in- key) facility. Out of sale of assets financed or disposal of collateral security? Any other source of income like guarantor? Whether it is a bridge credit? When verified this procedure with respondents, they indicated that this procedure has been a constraint to many of them because of poor records keeping. According to respondents, banks usually demand for cash flows statement as evidence to support their source of repayments, of which, they have not prepared.

The sixth procedure is the collateral security to be offered. Under this section, the bank requires all potential applicants to provide answers to the following questions: what is the security to be offered? Whether the security is a primary-stock, assets (hypothecation, pledge etc)? Secondary-third party guarantee or charge on immovable property? The mortgage over assets type? When verified this procedure with respondents, they admitted that collateral though important in securing a credit, it has been a constraint to most entrepreneurs in this part of the country. This is because the risk of being in default and losing your long-time toiled property like a house to a bank would be very painful and embarrassing to your entire family. They further stated that using stock or even third-party would still be embarrassing should you failed to pay back.

The seventh procedure is the appraisal of the proposal submitted by an applicant. In this section, the bank's credit officer critically assessed proposal submitted by an applicant. The assessment is normally done with the use of some financial ratios to find out the viability of the proposed project and make recommendations for management decision. The proposal is either rejected or

accepted and then a letter of contract is written and conveyed to the applicant. With regards to this procedure, respondents indicated that, this procedure has been one of the most difficult aspects of MSEs access to credit. According to respondents this requires the submission of a business plan to the bank, which is very expensive to prepare.

Documentation/Disbursement/Inspection. This is done to ensure that: proper documents are submitted, proper stamping is done, all aspects are completed, executed by all authorized signatories/seal, charges recorded within 30 days. Disbursement, inspection, insurance and follow-up on assets verification, stock statement is conducted.

Fourthly, according to the study, 95% of the respondents indicated 'No' for not taking any credit from the Barclays bank. 5% responded 'Yes' for having access to Barclays bank credit. Respondents who indicated 'No' for not taking credit from the bank gave the following reasons: inability to present collateral when demanded by the bank, inability to present a well-laid out business plan, inability to get two personal guarantors when demanded by the bank, tedious loan application process and unfavorably repayment period. For respondents who indicated 'Yes' for having access to credit from the Barclays bank stated that they fulfilled all the conditions of the bank.

In addition, the study revealed that based on the scorings, respondents did not consider the following as important factors in determining their access to credit: The age of the entrepreneur (78%) ; Gender of the entrepreneur (90%); Number of extension contacts with BDS providers (93%); Number of business development trainings attended (59%); and Affiliation with Business Association (98%). However, based on the scoring, respondents considered the following as very important factors in determining their access to credit: The number of

employees of a business (83%); Experience in credit use (92%); Number of fixed assets possessed (65%), entrepreneur attitude towards risk (78%); business size (67%); new or existing business (54%); form of business (75%); and sector of business in the economy (61%).

Also, the study indicated that credit plays major importance in respondents businesses. According to respondents, the importance of credit on their businesses are that: Credit helps them to meet orders placed by customers, acquisition of additional equipment, Purchase of raw materials, Renting/purchasing of a workshop, payment for operational expenses and acquisition of new technology.

The study has shown that there are problems associated with lack of access to credit. According to respondents lack of access to credit would result in: inability to meet customers' demands; inability to invest or expand and grow business; inability to promote products/services; lack of access to new/external markets; inadequate raw materials; difficulty in paying production/operational expenses; use of inappropriate and low level of technology; inability to pay for advanced business development trainings; and inability to engage skilled/qualified professional employees as some of the problems of lack of access to credit.

Finally, the study revealed that banks would encounter the following problems for their inability to grant credit to customers: Banks would face stagnant growth or expansion; loss of Customers to other financial institutions; branded as poor service provider; dwindling deposits or savings; and inability to sustain operations.

5.2 Recommendations

The following recommendations can be considered in order to help reduce this problem, if not eradicated completely. These would help to increase micro and small enterprises access to credit, hence improve MSEs finance:

The physical collateral as one of the major determinants to MSEs access to credit can be replaced with the group- lending- methodology by commercial banks. The banks only need to encourage MSEs to strengthen their Business Associations which executive members could be used as social –collateral to attract loans from commercial banks.

Secondly, the Banks need to address the consequential ‘fear of approach’ to bank officials held by MSEs. The banks should clearly explain the modalities involve in MSEs access to credit to interested MSEs in order to remove bureaucracy and red-tapes.

Thirdly, the Banks should make a sustained effort to better communicate with MSEs at early stages in the lending application process to improve MSEs understanding of: How long credit applications are likely to take; what restrictions on decision-making are imposed on relationship managers and branch managers by their head offices and whether specific decisions will be transferred to higher levels and how many credit committees will examine the application before approval.

In addition, commercial banks need to segment their service markets since they cannot serve the entire market as customers’ needs and wants are diverse. Commercial banks should identify segments of the market and designed products for each segments in order to serve the market effectively.



Also, with people as key part of the banking services, no commercial bank can afford to divorce its customer contact employees from the Bank's marketing strategy. The primary responsibility for the Bank's success often rests with relatively junior staff in such customer contact positions as a bank clerk, security guard etc. These individuals, who are often young and inexperienced, need both technical and interpersonal skills to succeed. Not only must they do their job quickly and accurately, but to do so while relating well to customers.

Finally, the research suggests further investigations into the issue of collateral inhibiting MSEs access to credit from commercial banks, since it is perceived by most MSEs to be one of the major key determinants to their access to credit.

5.3 Conclusion

It can be concluded that the MSEs sector in Tamale has limited access to credit services from commercial banks, a situation which has seriously constrained the sector's development and to a large extent help to alleviate poverty in Tamale. Furthermore the study showed that credit is the most important factor determining the survival and growth of micro and small enterprises. This is because MSEs access to credit allow them to undertake productive investments to expand their businesses and acquire the latest technologies.

The study results point out that MSEs limited access to credit occurred due to their inability to meet certain laid down lending conditions and socio-economic factors banks consider before granting credit to potential applicants. Therefore Commercial banks need to have separate credit line for micro and small enterprises who mostly find it difficult to meet their conditions. Commercial interest rates charged by the banks and collateral requirements which largely restrict micro and small enterprises from seeking credit from banks should be reviewed to satisfy MSEs.



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APPENDIX A

Dear Respondent,

The purpose of this study is to gather data on micro and small enterprises access to credit from the Barclays bank in Tamale. The exercise is purely academic and any data generated from this will be treated confidentially and to the benefit of MSEs and Barclays Bank in Tamale.

We therefore plead that you answer all questions as honestly as you can as your response will go a long way to assist in the formulation of sound recommendations to improve the lot of the MSEs access to credit from Commercial Banks in Ghana.

Thank you



APPENDIX B

QUESTIONNAIRE FOR MSEs

A. Respondents Characteristics

1. Age in years:

- i. 20-29 []
- ii. 30-39 []
- iii. 40-49 []
- iv. 50-59 []
- v. 60-69 []
- vi. 70-79 []

2. Gender :

- i. Male []
- ii. Female []

3. Marital status:

- i. Married []
- ii. Single []

4. Level of education:

- i. No education []
- ii. J.H.S []
- iii. S.H.S []
- iv. MSLE []
- v. HND []
- vi. Degree []

5. Business sector Association:

- i. GHABA []
- ii. Welders []
- iii. Garages []
- iv. GNTDA []
- v. GESTA []
- vi. Batik makers []
- vii. Aluminum pot makers []
- viii. Smock makers []

6. New or Existing business:

- i. New []
- ii. Existing []

7. Whether Owner of the business or not

- i. Owner []
- ii. Not owner []



B. Lending conditions of the Barclays Bank

8. The following are some conditions Barclays bank consider before granting a loan to MSEs? (Tick the box which approximates your feeling)

Condition	Strongly Agree	Agree	Disagree	Strongly Disagree
a. MSE should hold an account with the Bank.				
b. MSE should write a letter to express interest in loan				
c. MSE should be fill loan application form				
d. MSE should be willing to offer collateral				
e. MSE should present a well laid-out business plan				
f. Business should be registered with the Registrar General Department.				
g. Should have a known and fixed address.				
h. Loan should not be more or less than the bank' credit limit				
i. Forms of business organization.				
j. MSE track records and experience in credit management				
k. Repayment sources				
l. MSE should present passport pictures				
m. Personal guarantor				

9. The following are the constraints and difficulties face by MSEs in accessing credit from the Barclays bank. Tick as many as you deem approximate.

Constraints & Difficulties	Strongly agree	agree	Disagree
Access to Group lending			
Demand for Individual Collateral			
Interest rate asked from borrowers			
Time of credit availability			
Repayment period			
Lack of opportunity to take a loan			
Distance of workshop from the Bank			
Working time of the institutions			
Working ethics and efficiency of the Bank Staff			
Loan application process			

C. MSEs access to credit from the Barclays Bank

10. Do you know the procedures involved in accessing credit from the Barclays bank?

1. Yes [] 2. No []



11. Give reasons for your answer in 2.1.

1.....

2.....

3.....

12. How are these procedures supporting your access to credit?.....

.....

D. Socio-economic determinants of MSEs access to credit

13. Have you ever taken credit from Barclays Bank? 1. Yes [] 2. No []

14. Give reason(s) for your answer in 3.1

1.....

2.....

3.....

4.....

15. In your view, does the Barclays bank look for the following before granting a loan to MSEs? Please, tick 1 for not important; 2 for somehow important; 3 for important; and 4 for very important.

Issues bank consider	1	2	3	4
a. Age of the entrepreneur				
b. Gender of the entrepreneur				
c. Number of employees				
d. Extension contacts with BDS organizations				
e. Number of business development trainings attended				
f. Affiliation with Business Association				
g. Experience in credit use				
h. Number of fixed assets possessed				
i. Attitude towards risk				
j. Business size				
k. New or existing business				
l. Form of business				
m. Sector of business in the economy				

E. Effects of access to credit on MSEs

16. In your view, does credit play any role in your business? 1. Yes [] 2. No []



17. Give reason(s) for your answer in 16

- 1.....
- 2.....
- 3.....
- 4.....

18. Does lack of access to credit play any role in your business? 1. Yes [] No []

19. Please, can you give reasons for your answer in 18?

- 1.....
- 2.....
- 3.....
- 4.....

20. Do you think the Barclays bank will face problems for not giving credit to customers?

1. Yes [] 2. No []

21. Give reason(s) for your answer in 20.

- 1.....
- 2.....
- 3.....
- 4.....

F. RECOMMENDATIONS FOR EFFECTIVE CREDIT DELIVERY TO MSEs.

22. What are your comments on banks in addressing MSEs credit need?.....

23. What loan application criteria will you suggest for the Banks?.....

24. Who should be engaged by the Bank to help identify borrowers?.....

APPENDIX C

BARCLAYS STAFF INSTRUMENT

A. Respondents Characteristics

1. Age in years:

- vii. 20-29 []
- viii. 30-39 []
- ix. 40-49 []
- x. 50-59 []
- xi. 60-69 []
- xii. 70-79 []

2. Gender :

- iii. Male []
- iv. Female []

3. Marital status:

- iii. Married []
- iv. Single []

4. Level of education:

- vii. No education []
- viii. J.H.S []
- ix. S.H.S []
- x. MSLE []
- xi. HND []
- xii. Degree []

5. What is your position in the bank?.....

B. The lending conditions of the Barclays bank.

The following are some conditions Barclays bank consider before granting a loan to MSEs? (Tick the box which approximates your feeling)

Condition	Strongly Agree	Agree	Disagree	Strongly Disagree
a. MSE should hold an account with the Bank.				
b. MSE should write a letter to express interest in loan				
c. MSE should be fill loan application form				
d. MSE should be willing to offer collateral				
e. MSE should present a well laid-out business plan				
f. Business should be registered with the Registrar				



General Department.				
g. Should have a known and fixed address.				
h. Loan should not be more or less than the bank' credit limit				
i. Forms of business organization.				
j. MSE track records and experience in credit management				
k. Repayment sources				
l. MSE should present passport pictures				
m. Personal guarantor				

10. The following are the constraints and difficulties face by MSEs in accessing credit from the Barclays bank. Tick as many as you deem approximate.

Constraints & Difficulties	Strongly agree	agree	Disagree
Access to Group lending			
Demand for Individual Collateral			
Interest rate asked from borrowers			
Time of credit availability			
Repayment period			
Lack of opportunity to take a loan			
Distance of workshop from the Bank			
Working time of the institutions			
Working ethics and efficiency of the Bank Staff			
Loan application process			

C. MSEs access to credit from the Barclays Bank

8. Does your bank have some procedures of granting credit to MSEs?

1. Yes [] 2. No []

9. Please, can you list and explain these procedures?

- 1.....
- 2.....
- 3.....
- 4.....
- 5.....
- 6.....
- 7.....

D. Socio-economic determinants of MSEs access to credit

11. In your view, does your bank look for the following before granting a loan to MSEs? Please, tick 1 for not important; 2 for somehow important; 3 for important; and 4 for very important.

Issues bank consider	1	2	3	4
a. Age of the entrepreneur				
b. Number of employees				
c. Extension contacts with BDS organizations				
d. Number of business development trainings attended				
e. Affiliation to Business Association				
f. Experience in credit use				
g. Number of fixed assets possessed				
h. Attitude towards risk				
i. Business size				
j. New or existing business				
k. Form of business				
l. Sector business belongs to in the economy				

E. Effects of access to credit on MSEs.

11. In your view, does credit play any importance in businesses? 1. Yes [] 2. No []

12. Give reason(s) for your answer in 11.

1.
- 2.....
- 3.....

13. Does your Bank gain any benefits from giving credit to MSEs? 1. Yes [] 2.No []

14. Give reason(s) for your answer in 13.

- 1.....
- 2.....
- 3.....
- 4.....

15. What problems do you think your Bank will face for not extending credit to MSE-customers?

- 1.....



- 2.....
- 3.....
- 4.....
- 5.....

F. Recommendations for effective credit delivery to MSEs.

16. In your view, who should be targeted for credit by your Bank?.....

17. What are your comments on MSEs credit need?.....



APPENDIX D

NBSSI STAFF AND MASLOC

A. Respondents Characteristics

1. Age in years:

- xiii. 20-29 []
- xiv. 30-39 []
- xv. 40-49 []
- xvi. 50-59 []
- xvii. 60-69 []
- xviii. 70-79 []

2. Gender :

- v. Male []
- vi. Female []

3. Marital status:

- v. Married []
- vi. Single []

4. Level of education:

- n. No education []
- o. J.H.S []
- p. S.H.S []
- q. MSLE []
- r. HND []
- s. Degree []

5. What is your position in the institution?.....

B. Opinion on MSEs access to credit from banks

6. The following are some conditions Barclays bank consider before granting a loan to MSEs? (Tick the box which approximates your feeling)

Condition	Strongly Agree	Agree	Disagree	Strongly Disagree
a. MSE should hold an account with the Bank.				
b. MSE should write a letter to express interest in loan				
c. MSE should be fill loan application form				
d. MSE should be willing to offer collateral				
e. MSE should present a well laid-out business plan				
f. Business should be registered with the Registrar				



General Department.				
g. Should have a known and fixed address.				
h. Loan should not be more or less than the bank' credit limit				
i. Forms of business organization.				
j. MSE track records and experience in credit management				
k. Repayment sources				
l. MSE should present passport pictures				
m. Personal guarantor				

7. The following are the constraints and difficulties face by MSEs in accessing credit from the Barclays bank. Tick as many as you deem approximate.

Constraints & Difficulties	Strongly agree	agree	Disagree
Access to Group lending			
Demand for Individual Collateral			
Interest rate asked from borrowers			
Time of credit availability			
Repayment period			
Lack of opportunity to take a loan			
Distance of workshop from the Bank			
Working time of the institutions			
Working ethics and efficiency of the Bank Staff			
Loan application process			

6. Do you consider MSEs access to credit from banks as a constraint? 1. Yes [] No []

7. Give reason(s) to your answer in 6.

1.....

2.....

3.....

8. In your view, does your bank look for the following before granting a loan to MSEs? Please, tick 1 for not important; 2 for somehow important; 3 for important; and 4 for very important.

Issues bank consider	1	2	3	4
a. Age of the entrepreneur				
b. Number of employees				
c. Extension contacts with BDS organizations				
d. Number of business development trainings attended				

e. Affiliation to Business Association				
f. Experience in credit use				
g. Number of fixed assets possessed				
h. Attitude towards risk				
i. Business size				
j. New or existing business				
k. Form of business				
l. Sector business belongs to in the economy				

9. How can we improve MSEs access to credit from banks?.....
.....
10. In your opinion, what are the causes of MSEs limited access to credit from banks?.....
.....
11. What partnership do you think should exist between MSEs and banks?.....
.....
12. What is your general recommendation for sustainable credit delivery to MSEs?.....
.....
.....



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APPENDIX E

INTERVIEW GUIDE FOR OTHER BDS PROFESSIONALS

1. What are the causes of MSEs access to credit?
2. How can MSEs access to credit be enhanced?
3. Why have MSEs under-performed because of access to credit?
4. How can the MSE sub-sectors be resuscitated and energized?
5. What are the major challenges of MSEs?
6. What do you expect the Banks to do to partner with MSEs for sustainable growth?
7. What is your overall recommendation for the way forward?



PAUL J. B. ...