A FRAMEWORK FOR FINANCING SMALL AND MEDIUM ENTERPRISES IN THE SERVICE SECTOR: A CASE FOR GHANA

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A FRAMEWORK FOR FINANCING SMALL AND MEDIUM ENTERPRISES IN THE SERVICE SECTOR: A CASE FOR GHANA

I declare that the above thesis is my work and that all the sources I have used or quoted have been indicated and acknowledged through complete references.

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ABSTRACT

The small and medium enterprises (SMEs) in the services sector form the majority of businesses in Ghana and contribute significantly to the growth of the country's economy in terms of employment and Gross Domestic Product (GDP). SMEs across all sectors face diverse challenges, and access to finance has been identified as a primary challenge. Financial inclusion is easy access to and use of formal financial services, including credit sources for personal and business borrowings. However, Ghana lags in achieving full financial inclusion of businesses, and the majority of businesses experience voluntary and involuntary exclusion from financial services. Despite diverse approaches, such as government interventions and frameworks to promote financial inclusion to bridge the financial gap of SMEs, this challenge persists. The literature on SMEs in Ghana has not explored a sector-specific approach involving key stakeholders to improve the financial inclusion for SMEs in the form of access to financial services and credit. Therefore, this study focused on service sector SMEs' financial inclusion by investigating the challenges of access to finance and using the outcomes to develop a framework for the financial inclusion of this group of businesses. The study used an exploratory sequential mixed-method design where seven financial institutions were first interviewed on their SME lending decisions. Subsequently, the study surveyed 663 SMEs in the services sector to understand what influences their access to finance.

The study revealed that, in assessing SMEs for financing, financial institutions are guided by their credit policies inclined towards larger businesses, therefore placing a disadvantage on the SME loan applicant. The financial institutions, in the process of making lending decisions, assess the character of the SME owner or manager and review the financial records and collateral availability. The findings further revealed that although financial institutions are challenged in the lending process, they find SMEs valuable to their business. Therefore, they use alternative approaches such as tie lending to receivables, using lending schemes, use of grants where available, using loan insurance cover to protect the lending, bringing mobile banking to the doorstep of the SME client, and forming startup clubs to groom SMEs before lending to them. In addition, to overcome the lending challenges financial institutions face, they deepen their relationships with SME clients, reducing the information asymmetry challenges and making it easier to lend to them. Banks further develop basic financial information for the SMEs who need financial information and improve due diligence and monitoring of loans granted to SMEs to ensure repayment. The quantitative results

indicated that, although most SMEs own bank accounts which is a requirement in the loan application process and an indication of financial inclusion, only a third apply for loans. Surprisingly, most of those who apply for loans get access to credit. However, the financing gap persists because less than a third of the SMEs were included in the credit dimension of financial inclusion. Using binary logistic regression analysis, the study found a firm's balance sheet, cash flow projections and income statement were statistically significant in determining the access to finance or the usage dimension of SMEs' financial inclusion. The influence of SME owner/manager characteristics and collateral was insignificant in determining their access to finance, although the qualitative finding revealed otherwise. The SMEs would prefer to use angel investors and venture capital as alternative means of financing for their businesses, which will further improve their financial inclusion.

The main contribution of this study to the literature on SME financing is the development of a financial inclusion framework for service sector SMEs in Ghana based on the outcome of the mixed methods study. The framework proposes solutions for the three key stakeholders, namely, banks, SMEs and government policymakers, to implement for SMEs' financial inclusion. For financial inclusion in both the dimension of access and usage, SMEs should formalize their business, improve their competence level, avoid the diversion of funds, maintain consistency, ensure a succession plan, and maintain financial information. Government in the financial inclusion strategy, should reduce SME taxes, ban import of inferior goods, institute policies to formalize all businesses, ease land registration process, access to credit policies, and provide stable economy for SMEs to thrive. Further studies on other sectors of the economy should be done to compare with the services sector.

Keywords: Financial Inclusion, Access to finance, SMEs, Banks, Collateral, Characteristics

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DEDICATION

I dedicate this thesis to my children, Kwame Ntow Attrams (Papa), Kwabena Osei Attrams (Kobby) and Abena Adobea Nyamekye Attrams (Chica). You will achieve greater heights.

ABBREVIATIONS

ATM	Automated Teller Machines
BoG	Bank of Ghana
CA	Cronbach's Alpha
CAPI	Computer Assisted Personal Interview
CCA	Caribbean and Central America
COVID-19	Coronavirus Disease 2019
CUOs	Credit Union Organisations
EBAN	European Business Angels Network
EU	European Union
FI	Financial Institutions
FINSAP	Financial Sector Adjustment Programme
FUNSMED	Fund for Small and Medium Enterprises Development
GAIN	Ghanaian Angel Investors Network
GAX	Ghana Alternative Market
GDP	Gross Domestic Product
GEDC	Ghana Enterprise Development Commission
GRATIS	Ghana Regional Appropriate Technology Industrial Service
GSS	Ghana Statistical Service
IBES	Integrated Business Establishment Survey
IFC	International Finance Corporation
IMF	International Monetary Fund
LMICs	Lower Middle-Income Countries
MENA	Middle East and North Africa
MoTI	Ministry of Trade and Industry
MSME	Micro Small and Medium Enterprises
NBSSI	National Board for Small Scale Industries
NEIP	National Entrepreneurship and Innovation Plan
NFIS	National Financial Inclusion Strategy
NGOs	Non-Governmental Organisations
NPRA	National Pensions Regulatory Authority

OECD	Organisation of Economic Cooperation and Development
S&Ls	Savings and Loans
SDG	Sustainable Development Goals
SDIs	Specialized Deposit-Taking Institutions
SME	Small Medium Enterprises
UNISA	University of South Africa
USA	United States of America
VCTF	Venture Capital Trust Fund

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CHAPTER 1: BACKGROUND TO THE STUDY

1.1 INTRODUCTION

This study examines small and medium enterprises' (SMEs) access to finance from the perspectives of both financial institutions and SMEs in the services sector in Ghana. The concept relates to the financial inclusion of SMEs, not just access to financial services but also credit from financial institutions. The study further focuses on developing a framework for financing this group of businesses based on the outcome of the investigation of the SMEs' challenges regarding access to finance.

SMEs globally form a significant part of the economies of most countries and contribute significantly to their Gross Domestic Product (Balogun, Nazeem and Agumba, 2016; Cole and Dietrich, 2017). They are considered the engines of economic growth in most economies in developing and developed worlds (Ayyagari, Demirguc-Kunt and Maksimovic, 2017). SMEs contribute to employment creation and rural development (Manzoor, Wei and Sahito, 2021), as well as the development of the circular economy (Pereira et al., 2022). Furthermore, they make impact on both the micro and macro economies of countries (Lin et al., 2020). Due to their importance, both developed and developing economies have given attention to the growth of the SME sector to enhance the benefits thereof and financial inclusion of SMEs is at the core of policy development agenda. SMEs lag in access to finance which will enable them to thrive. Accordingly, there has been a need for greater SME financial inclusion in many countries, where governments are spearheading strategies for stronger and more inclusive growth of the private sector (IMF, 2019). Universally however, SMEs are not the same and they are defined differently in different regions.

The definitions of SMEs differ along dimensions such as the number of employees, turnovers, capital and total assets; and the differentiation may also be industry-specific or country-specific (Abor and Quartey, 2010; Beck and Demirgüç-kunt, 2011; Ayyagari et al., 2013). There is no universal definition that fits them all as they are studied across diverse disciplines and generally they encompass owner managed businesses, family businesses and startups in different sectors (Simba and Thai, 2019). Whilst the European Union (EU) defines SMEs as businesses employing under 250 employees (micro<10; small<50, medium<250) with turnovers of up to Euro 50 million, the Organisation for Economic Corporation for Development (OECD) defines SMEs differently

for different countries. For United States of America (USA), Denmark, France and Finland, SMEs are defined as businesses that employs under 500 employees, and for Japan and Korea, SMEs are businesses with under 300 employees. Similarly, SMEs are defined in Malawi, Mauritius and Tanzania as businesses employing less than 50 employees (Masroor and Asim, 2019). In Ghana, Abor and Quartey (2010) classified business establishments as micro, small, medium and large businesses based on the number of employees and fixed assets. Micro enterprises employ less than five persons with fixed assets, excluding land and buildings not exceeding US$10,000. On the other hand, small enterprises comprise 6 to 29 employees with less than US$100,000 fixed assets, excluding land and buildings. Medium and large enterprises by definition are businesses that employ 30 to 99 employees and 100 or more employees, respectively. Their fixed assets, excluding land and buildings, do not exceed US$1.0 million for medium enterprises and for large enterprises this exceeds US$1.0 million (Narteh, 2013). From the classification, about 90% of businesses in Ghana fall within micro, small and medium enterprises (Oppong, Owiredu and Churchill, 2014). These businesses can be found across the three main sectors of the economy namely, agriculture, industry and services sectors comprising 0.4%, 17% and 82.4% respectively, of the 638,234 business establishments (GSS, 2018). Quartey et al. (2017) reiterate that SMEs constitute a greater proportion of businesses in Sub-Saharan African regions.

In Ghana, SMEs constitute 85% of businesses and contribute 70% to the GDP. Turkson, Amissah and Gyeke-Dako (2020) contend that the majority of the micro, small and medium enterprises (MSMEs) that are found in the informal sector in Ghana are unregistered and unaccounted for in the categorizations. In spite of the large representation of SMEs only a third have access to financial services, whilst the majority are excluded from financial services. The G20/OECD (2022) summit postulated that efforts to promote safe and sustainable SME financial inclusion should be part of strategies that are both comprehensive and tailored to country-specific circumstances because of variations in their financial needs. Accordingly, this study investigated a country and sector specific approach to SMEs financial inclusion. The purpose is to recommend the improvement of their access to finance as a group of financially challenged businesses. SMEs, however, are represented in various sectors of economies with unique sector characteristics.

The services sector has been the major driver of the Ghanaian economy, followed by the industrial and agricultural sectors. According to Gyeke-Dako et al. (2015) and based on the Bank of Ghana Annual Report (2019), the sectoral contribution to GDP for the services sector has averaged 32.9%

in the 1990s, 38.9% in the 2010s, and 45% in 2020, indicating an increase in contribution over two decades. Comparatively, the industrial subsector has seen a gradual growth in the contribution to GDP, averaging 24.5%, 24.8% and 25.5% in the 1990s, 2010s and 2020, respectively. The agricultural sector has seen a significant decline in its share of the GDP from 42.6% to 32.6% and 25% in the 1990s, 2010s and 2020, respectively. In terms of revenue, the services sector contributes 69.8% to the economy, while industry and agriculture contribute 29.1% and 1.1%, respectively. The importance of SMEs who form the majority of businesses across sectors of the economy cannot be over emphasised.

In spite of the importance of SMEs to economies, they face many challenges, on which the literature has elaborated extensively (Abor and Quartey, 2010; Beck, 2013; Ayyagari et al., 2017; Quartey et al., 2017) . The lack of infrastructure and physical development for instance, has been a hinderance to SMEs development for many years and still persists (Bondinuba, 2012). SMEs are further fraught with both internal and external challenges, including poor management, strategic planning problems, poor accounting systems, multiple taxations and an unstable public policy environment (Asunka, 2017). Mamman et al. (2019) add to the discourse on SME challenges and argue the lack of regulation and competition is a cause of the SME development challenge. The financing challenge of SMEs has been discussed by authors with an indication of constraints faced by this group of businesses across countries (Moscalu, Girardone and Calabrese, 2020; Ullah, 2020; Mohammed and Bunyaminu, 2021). The financing gap of micro, small and medium enterprises (MSMEs) is estimated at $5.2 trillion across developing regions annually with differentiations as outlined in Table 1.1. MSMEs in East Asia and the Pacific have the highest financing gaps for both micro and SMEs, having a gap of $278 billion and $2,110 billion, respectively. Comparatively, the Sub-Saharan African region has a financing gap of $86 billion for micro-enterprises and $245 billion for SMEs compared to the US$5.2 trillion gap in developing countries annually (World Bank, 2018). This means that firms operating in this category of businesses have an unmet financial need and are excluded from accessing financing from formal financial institutions. This poses a challenge for developing countries where the majority of businesses operate in the MSMEs and create employment as well as contribute to GDP as discussed above.

Table 1.1: Financing gap of MSMEs in developing regions

	Financing gap ($billions)	
Regions	**Micro**	**Small and Medium Enterprises**
East Asia and Pacific	278	2,110
Latin America and the Caribbean	111	1,098
Europe and Central Asia	140	636
South Asia	46	291
Sub-Saharan Africa	86	245
Middle East and North Africa	57	138

Source: *Author's based on World Bank data (2018)*

Businesses in Ghana are not excluded from the financing challenges. Access to finance has been noted as a major challenge that SMEs in the country have been facing over a period of time (World Bank Group, 2015; Turkson, Amissah & Gyeke-Dako, 2020). Studies on SMEs in Ghana further reveal that one in every two firms has challenges with access to finance, a major obstacle to their business development (World Bank Group, 2015). The challenge is even more pronounced among small and medium firms than the large firms. For instance, small firms represent the least of firms (19.9%) with a bank loan, followed by medium firms (22.9%) and large firms (50.8%) in that order (World Bank, 2019). Table 1.2 displays access to credit by firms in Ghana. This means that the majority of businesses have to source for financing for their businesses from other sources other than banks. The challenge of access to finance is even further heightened by the provision of collateral to access loans from banks. Meanwhile, the proportion of loans that require collateral is over 70% across the three firm sizes. Small firms are further challenged with providing 244% of collateral coverage for loans. Both medium, and large firms need to provide 198% and 222% collateral coverage for loans respectively. Therefore, all firms are faced with the challenge of providing collateral for loans, with small firms being the most challenged. The implication is that firms that are unable to provide collateral for loans are excluded from financing from formal sources. This worsens the financial inclusion challenge faced by these businesses.

Table 1.2 Access to credit by firms in Ghana

Firm Size	Percent of firms with a bank loan/line of credit	The proportion of loans requiring collateral (%)	Value of collateral needed for a loan (% of the loan amount)
Small	19.9	70.6	244.8
Medium	22.9	87.9	198.6
Large	50.8	95.3	222.8

Source: *World Bank report on Ghana (2019)*

Quaye et al. (2014) reiterate the challenge of SMEs' access to finance as their biggest problem. While some SMEs do not apply to financial institutions for loans at all, only a few of those that apply are granted the loans. Therefore, access to finance gap continues to persist for SMEs (World Bank Group, 2019) and this is coupled with banks' reluctance to lend to them (Turkson, Amissah and Gyeke-dako, 2020). In a stakeholder engagement in Ghana, SMEs stated that the barriers they encounter in accessing finance include cumbersome verification and accreditation of the credit application process (Government of Ghana, 2020b). Meanwhile, financing is key for the continuous growth and sustenance of SMEs (Rahman, Rahman and Belas, 2017; Xia and Gan, 2020). Migliorelli (2021) affirms the need to provide sufficient financial resources to targeted sectors to ensure sustainability of firms and sustainable societies as a whole. Sommer (2020) further reiterates that all stakeholders in the financing chain contribute to sustainable financing. The author identifies these stakeholders as a government, which sets up a coherent framework that enables and incentivizes sustainable financing, businesses to develop sustainable business models, and financial institutions to ensure sustainable use of their financial resources. Financial institutions and businesses have been identified in this study as key in addressing the access to finance gap and their importance to this course has been further discussed.

Contemporary discussions around the globe suggest that financial institutions are the biggest source of external financing to SMEs through the provision of loans, overdrafts, trade finance, operation of bank accounts, handling of deposits and investments, and relationship banking (Cusmano, 2015; Boadi et al., 2017; Sheng, 2021). They therefore play a key role in financial inclusion of businesses and individuals both on the access dimension and usage dimensions of the

theory of financial inclusion. However, financial institutions have challenges lending to SMEs because they perceive them as belonging to a high-risk segment (Owens and Wilhelm, 2017). Therefore, banks rarely lend to SMEs without adequate collateral security that ensures a fallback plan when the customer defaults. Coupled with this, the SMEs attract higher interest rates from financiers due to their perceived high riskiness (Kusi et al., 2017; Thompson, Boschmans and Pissareva, 2018; Schwab, Gold and Reiner, 2019). Financial institutions are not the only contributors to the SME financial access challenge. Apanga, Appiah and Arthur (2016) assert that SMEs on their part continue to face the challenge of access to finance due to other factors. The contributing factors include the attributes or characteristics of the SMEs that make them unfavourable to external financing. Whilst their financing decisions are affected by their attributes, financial institutions are also interested in the availability of collateral, which most SMEs do not possess (Quartey et al., 2017). Financial inclusion efforts have been made by governments to extend formal credit to businesses who are challenged in order to reap the benefit of job creation, poverty reduction and development that are realised from them.

Historically, there has been a policy agenda attempt to make SMEs more financially inclusive. There have been several initiatives by the Government of Ghana in the past to support SMEs through various financing schemes and policy frameworks to improve their financial inclusion. In an era from the 1970s to 2010s, various governments instituted programmes and financing schemes to meet the financing needs of SMEs and the private sector for growth, with support from developing partners such as the World Bank. Some of these schemes included the Ghana Enterprise Development Commission (GEDC), the National Board for Small Scale Industries (NBSSI), the Ghana Regional Appropriate Technology Industrial Service (GRATIS), Financial Sector Adjustment Programme (FINSAP) and the Fund for Small and Medium Enterprises Development (FUNSMED) (Kayanula and Quartey, 2000; Azeem and Adamtey, 2004). The aforementioned schemes provided training, advisory services and financing for SME development. In recent times, support for SMEs has been through the Ministry of Trade and Industry (MoTI), the National Board for Small Scale Industries (NBSSI – now Ghana Enterprises Agency), which embarked on a financial support programme termed NBSSI Master Card Foundation recovery and resilience programme for micro, small and medium enterprises (MSMEs) that were negatively impacted by the COVID-19 pandemic (NBSSI, 2020). Another of such initiatives is the National Entrepreneurship and Innovation Plan (NEIP), which aims to support SMEs with financing

(Ministry of Business Development Government of Ghana, 2019). However, these schemes ended without achieving sustained SME financing as most of them were politically guided and did not last (Abor and Biekpe, 2006). The challenge of SMEs financial inclusion still confronts governments today and it requires investigations that will help improve their financial inclusion.

Theories of financial inclusion have been propounded by several researchers with a general understanding that financial inclusion is access to financial services by the general populace. Rasheed et al. (2019) describes financial inclusion as the use of, and access to, formal financial services. It is established that, SMEs and entrepreneurs can only reach their full potential if they obtain the finance they need for their business at all stages – start-up, growth and maturity of their businesses (Zeidan, Galil and Shapir, 2018). However, a lack of appropriate and sustainable forms of finance is a long-standing hurdle for SMEs, with varying severity of financing constraints across countries. A recent summit of the G20/OECD (2022) outlined that, credit to the private sector as a share of GDP in developing countries is well below the average of high-income countries', that SME loans represent a smaller proportion of business credit, and the lack of a well-developed financial infrastructure poses challenges. The summit further lays claim that SMEs are typically at disadvantage with respect to large firms in their financial inclusion, owing to opacity, under-collateralization, high transaction costs and lack of financial skills. Consequently, SMEs generally face higher interest rates, tighter borrowing terms and are more likely to be credit-rationed than large firms (Osei-Assibey, Bokpin and Twerefou, 2012). More generally, financing needs and constraints vary widely across the business population, with firm size, age of the firm, phase of business development, and gender, ethnicity and other characteristics of the business owner having an important influence on the type of financing needed as well as on access to different sources of financing (World Bank, 2018). Furthermore, access to non-bank financing is often even more constrained (Owusu et al., 2017), despite recent improvements in SME uptake of alternative financing instruments. Most sources of finance beyond straight bank debt are at the reach of only a small share of SMEs, especially in economies where sparse private capital markets exists and SMEs lack the size, expertise and resources they need to approach alternative sources of finance (Abbasi, Wang and Abbasi, 2017). While bank financing will continue to be essential for the SME sector in all economies, there is a pressing need to create a more diverse range of SME financing options in order to lessen the SMEs' sensitivity to changes in the credit market, strengthen their capital structure, seize growth opportunities, and increase long-term investment (G20/OECD,

2022). From the foregoing discussions, it is evident that the theory of financial inclusion grounds the study and the key components to be assessed in order to improve access to finance are the financial institutions, SMEs and policy makers in order to achieve an improvement in the financial inclusion agenda for SMEs. The existing literature does not adequately address the problem of access to finance with a focus on the key stakeholders, on specific sector and alternative inclusive financing for SMEs. Hence, this thesis seeks to investigate SMEs financial inclusion with a country and sector specific focus in order to address the challenge of SMEs lagging behind in access to finance as projected by the problem statement of the study.

This chapter comprises the background in section 1.1 and problem statement of the study in section 1.2. Section 1.3 states the goal, research questions and research objectives guiding the study and section 1.4 outlines the significance of the study. The chapter provides the delimitations of the study in sections 1.5, and ethical considerations in section 1.6. The limitations and an outline of the thesis chapters are outlined in sections 1.7 and 1.8, respectively, whilst section 1.9 gives the chapter summary.

1.2 PROBLEM STATEMENT

SMEs globally face capital instability and financing gaps across all regions including the sub-Saharan African Region which has a financing gap of US$245 million compared to the US$5.2 trillion gap in developing countries annually. The difficulty of SMEs obtaining external financing has been attributed to the issue of asymmetry information between borrowers and lenders (Ma, Zhou and Chen, 2019) and the unavailability of required information used to assess businesses that fall particularly within the small and medium size enterprises category (Quartey et al., 2017). Banks generally prefer borrowers with good performance history, who are credit worthy and own assets that can be used to secure the lending and in turn they utilize strategies to enhance the lending decision and minimise the potential risks associated with lending (Duqi, Tomaselli and Torluccio, 2018). However, not all lending to businesses is repaid and a significant number go bad. This means that SME information tend to influence financial inclusion of businesses when it comes to using and accessing financial services and in particular accessing credit. The theory of financial inclusion propounds easy access to and use of financial services for individuals and businesses, but the financing gap proves that the problem of access to finance for SMEs still exists

and requires more investigations in order to achieve full financial inclusion for this group of businesses.

In Ghana, banks are the major financiers of businesses across sectors (Bank of Ghana, 2020). This means that banks are the main source of financing for businesses since they offer and control most loans and have the ability to significantly influence the financing gap of SMEs and their financial inclusion. In terms of sectoral distribution of credit by banks, the services sector, which is the largest sector, accounts for only a fifth (22.1%) of the total share of credit from the financial institutions and a greater proportion of these loans (74%) fall in the nonperforming loan (NPL) categories. This means that banks lend less to SMEs in this sector and further struggle with the repayment of loans granted to these businesses. The share of loans to the commerce (trading) and finance is 22.9%, similar to the services, with nonperforming loans of 24.2%. This implies that the broader services sector (including commerce) receives 45% of the credit from banks but 40% of these loans are challenged. This means that the banks struggle with lending to businesses and businesses likewise struggle with accessing financing from banks due to the experience of NPLs. Figure 1.1 indicates the sectorial share of credit and non-performing loans in Ghana.

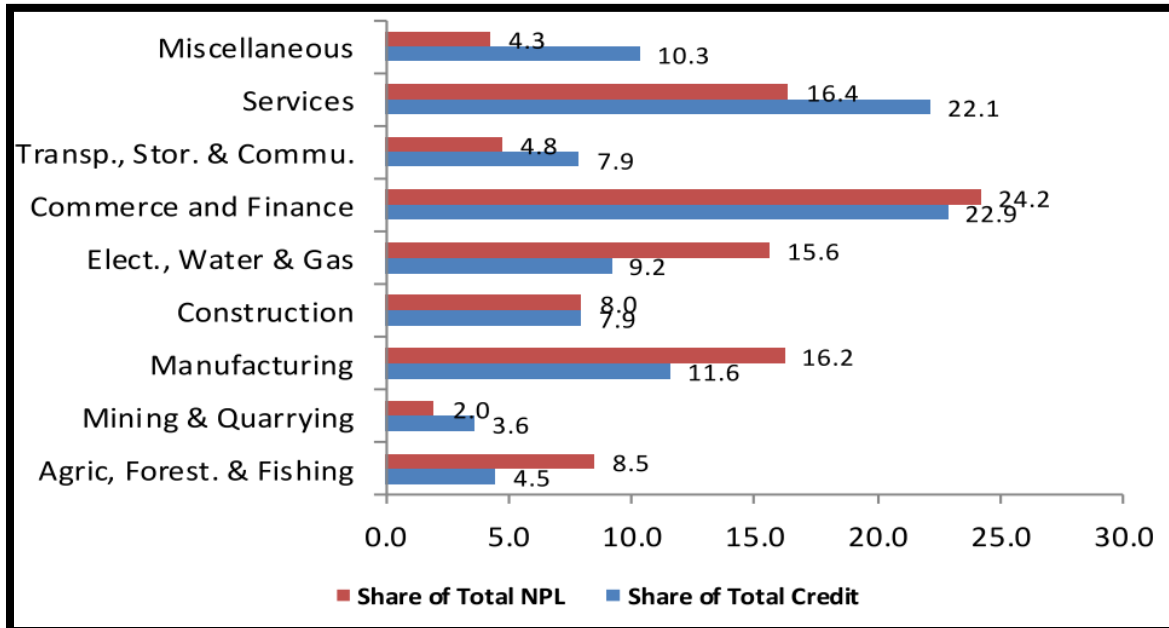

Figure 1.1: Share of Credit and Non-Performing Loans sector distribution

Source: Bank of Ghana report (2020)

Studies that have been done on SME financing in Ghana reveal that the financing gap of SMEs in Ghana continues to be a challenge across all sectors of the economy and researchers have suggested a sector-specific approach in resolving this in future studies as each sector has its peculiarities (Domeher, Musah and Hassan, 2017). Other researchers have similarly reiterated the need for a sector-based approach to overcome barriers in SME financing and the need to involve stakeholders in the process (Seidel-Sterzik, McLaren and Garnevska, 2018), key among them are policy makers, banks and SMEs (Sommer, 2020). Furthermore, businesses in the services sector have been found to be particularly challenged in accessing financing because they use intangible assets and lack the assets banks require as collateral (Kwak, 2020). One of the principles propounded by the G20 Summit for financial inclusion is to identify SME financing needs and gaps and to improve the evidence base and this is achievable through efforts to collect and disseminate data by size, sector, and location to enable policies that are tailored to specific needs (G20/OECD, 2022). A service sector specific study into the SME financial inclusion seems to be rare in Ghana. Most studies have focused on agriculture and manufacturing sectors broadly. The financing gap of SMEs persists. There is the need to investigate the role that banks play in the financial inclusion process in their lending decisions on SMEs in the service sector and further, there is the need to investigate the SMEs in this sector's peculiarities that influences their access to finance. The outcome of the investigations will then contribute to developing a framework for the financial inclusion of SMEs in the service sector.

Various frameworks have been developed to address the SME financing gap. A review of some of these frameworks reveals the need to address the issue from the combined approaches of both financiers and SMEs with implications for policymakers. Prelipcean and Boscoianu (2014) propose a framework for funding SMEs based on government interventions through the use of specialised investment funds and special purpose vehicles. In their model, a specialized investment fund reduces the overall risk of providing financing for SMEs. However, government's direct funding of SMEs alone has not been sustainable and requires other forms of support (Curtis, 2016). Yahaya, Mansor and Bakar (2016) construct a framework for SME financing by considering financial and non-financial factors of an SME that can contribute to financial institutions providing credit for SMEs. These financial and non-financial factors in their model are the basis of credit risk assessment of the SME and include profitability, leverage ratio, liquidity ratio, activity ratio, investment ratio, size of the company, educational level of the entrepreneur, and type of industry.

However, SMEs face challenges of maintaining the financial records required by financial institutions (Berger, Minnis and Sutherland, 2017). Therefore, this framework does not resolve the access to finance gap since most of the required information for banks decision making may not be provided by SMEs. Kumar and Rao (2015) discuss a framework determined by the demand side of financing by SMEs and the supply side of financing by financiers and suggest the need for an equilibrium point to ensure SMEs have access to finance. However, the scholars do not show how this can be achieved. Owusu et al.'s (2017) basis for a framework for financing SMEs is premised on the significant contributions SMEs make in the Ghanaian economy and the financing constraints they face, therefore leading to a yet-to-be-experienced wave of growth of SMEs. The framework postulates that financing needs depend largely on the accessibility from both internal and external sources and outlines the internal sources as retained earnings, self-financing and bootstrapping. External financing is based on bank loans, crowdfunding and business angels. The framework further includes the entrepreneur's financial education as a moderating factor in their growth and concludes that these are the financing sources for SMEs. However, the scholars fail to show how SMEs can access the financing sources identified. Nguyen and Cahn (2021) propose a framework for financing SMEs in which financing determinants come from the entrepreneurs' individual factors, organizational (firm-level) factors and contextual (institutional) factors. However, the framework does not address how firms can access loans. The existing frameworks for SME financing that have been discussed are missing a financial inclusion goal for these businesses which the current study will address.

1.3 RESEARCH GOALS, QUESTIONS AND OBJECTIVES

1.3.1 Research Goals

The goal of this study is to investigate the access to finance challenges of SMEs in the services sector in Ghana in order to develop a framework for the financial inclusion of these SMEs. The specific research questions and objectives the study seeks to address are outlined in the next sub section.

1.3.2 Research Questions

Main question: How can the challenge of access to finance for the services sector SMEs in Ghana be addressed in order to achieve financial inclusion of these businesses?

From the main research question, the following research questions were formulated to guide the study.

- What constitutes financial institutions' lending decisions on SMEs?
- To what extent do the personal attributes of services sector SME owners/managers in Ghana affect their access to finance?
- How do firm characteristics of SMEs in the services sector affect their access to finance?
- How do collateral requirements influence SME external financing?
- What are the alternative approaches to SME external financing?

1.3.3 Research Objectives

Primary Objective: The primary objective of the study is to investigate the challenges of access to finance for SMEs in the services sector in Ghana and to develop a financial inclusion framework for these businesses.

Secondary Objectives: To achieve the primary objective, five secondary objectives were derived for the study as outlined below.

- Examine what constitutes financial institutions' lending decisions on SMEs.
- Evaluate the personal attributes of SME owners/managers in the services sector that affect their access to financing.
- Assess the firm characteristics that influence SME financing in the services sector in Ghana.
- Determine the extent to which collateral requirements influence SME external financing.
- Assess alternative approaches to SME financing.

1.4 SIGNIFICANCE OF THE STUDY

This study contributes to literature, policy and practice in several ways. Firstly, it contributes to the literature on financial inclusion, which is at the heart of many developing economies' strategies for development and growth. The financial inclusion literature indicates that economies where access to and use of financial services has been highly achieved, the society is developed and has high per capita income and GDP figures, whilst economies with low achievements of financial inclusion suffer poverty. The businesses that are most challenged in financial inclusion in developing economies such as Ghana are the micro, small and medium-sized enterprises which

are the largest form of businesses creating employment and added benefits. The literature reveals that the financing gap of businesses in Ghana persists, and studies to help to improve the financial inclusion of businesses are relevant. This study is driven by empirical data on SMEs in Ghana that contributes to the literature on financial inclusion and will shed some light to other researchers and policymakers in the field of SME financing.

Secondly, the study contributes to the policy agenda on improving SMEs' financial inclusion in Ghana, which can have ramifications for other countries in the sub-region because of the similarities in our development. Historically, there have been policy attempts to improve SMEs' financial inclusion through government financing schemes for some sectors and products, including cocoa but they yielded little success (Kayanula and Quartey, 2000; Bernards, 2021). It reveals the attributes of SMEs that influence their inclusion, the factors that financial institutions use to make decisions to lend to SMEs, and the alternative channels that can all guide the policy strategy for greater SMEs' financial inclusion.

Finally, the study practically contributes to the improvement of the financial inclusion of SMEs in the service sector in Ghana. The framework involves financiers and SMEs with implications for government policymakers in order to achieve the objective of access to finance. The framework explains the attributes of SME owners and the characteristics of the businesses that hinder them from accessing financing from financial institutions, thereby advancing the theory of financial inclusion. The framework further explains financial institutions' lending decisions and the innovative approaches which lead to advancing credit to SMEs amid the challenges encountered. SMEs and financial institutions are in a government-controlled policy environment that influence their activities. Since the government's role is to create a conducive environment for all and spearhead the inclusion of persons and businesses in accessing financing, the framework further contributes to the financial inclusion theory. Furthermore, the framework addresses the lack of a sector-specific framework for the services sector. SMEs excluded from external financing sources, whether due to their inability to meet financial requirements or other reasons for exclusion, can be targeted to improve their access to finance. For financial institutions that are the major financiers of SMEs but have challenges lending to SMEs, the framework will guide them to tailor their financing approaches to enhance access to finance for SMEs and hence financial inclusion for SMEs.

1.5 DELIMITATION

Geographically, the study was conducted in Ghana and the reason was based on the fact that the services sector is the largest sector and contributes most to the economy of Ghana and hence an impact on this sector can significantly impact the economy. Data were collected in two cities: Accra in the Greater Accra Region located in the south, and Kumasi in the Ashanti Region located in the lower mid-portion of the country, because of their highest proportions of SMEs in the services sector. Data were collected from businesses in the services sector such as traders, hotels, restaurants, transport services, educational institutions, salons, and information technology firms. The businesses included were those that employed a minimum of six persons and a maximum of ninety-nine persons, which is the category of classification for the SMEs. Interviews of financial institutions were limited to banks and staff whose responsibilities were related to SMEs. The study's theoretical perspective is the information asymmetry theory and the theory of financial inclusion.

1.6 ETHICAL CONSIDERATIONS

Ethical clearance was obtained from the University of South Africa as part of the School of Business Leadership requirements to ensure participants were protected throughout the data collection process.

1.7 LIMITATIONS OF THE STUDY

There were limitations in the study. All the financial institutions in Ghana could not be interviewed. Only those who granted permissions were involved in the study, therefore limiting the number of banks involved in the study. Similarly, all SMEs in the service sector could not be included in the survey because they were too many and timeframe for the study was limited. Targeted SME owners or managers were limited to two cosmopolitan cities in two regions in Ghana. Only respondents who were in the services sector were included in the analysis in the study. The industry and agricultural sectors were therefore excluded from the study. Government or policymakers were excluded from the interviews; therefore, inferences made on policies in the framework were drawn from outcomes from the interviews of the financial institutions and the SME survey. Despite these challenges, the findings of the study are valid because the sector selected, and the sampled study population are representative of the entire population that could have been studied if time and financial resources were available.

1.8 OUTLINE OF THE THESIS

Below is an outline of the study structure.

Chapter 1: This chapter contains the introduction and background to the study, the research questions and objectives guiding the study, and the justification, scope and significance of the study. The limitations of the study, the research design and strategy and ethical considerations have also been outlined in this chapter.

Chapter 2: The chapter contains a review of the underlying theories of the study and concludes with the conceptual framework that guided the study.

Chapter 3: This chapter contains the literature review of the study based on the objectives and the concept being studied with references relating to the study. The literature review is structured along the concepts of the study: access to finance, financial institutions lending, personal and firm attributes of SMEs, alternative financing and challenges.

Chapter 4: This chapter comprises the methodology adopted for the study explaining the data collection methods, analysis and statistical approaches used.

Chapter 5: The chapter presents the research findings and the analysis for both the qualitative and quantitative study. It commences with the findings from the qualitative study and outlines the themes derived from the study on which conclusions are drawn based on the first objective. The quantitative study follows with a presentation of the findings from the four objectives addressing the quantitative aspect of the study. Discussions drawn on literature are undertaken.

Chapter 6: This chapter developed the framework and provides an explanation of the developed framework; it draws on the literature to support the assertions. The explanations are undertaken according to the three stakeholders: financiers, SMEs and government policy makers.

Chapter 7: This chapter presents the conclusions of the study, recommendations, expected impact of the study, and proposes areas for future research.

1.9 CHAPTER SUMMARY

This chapter discussed the financing gaps faced by SMEs and other challenges they face. Efforts to improve this gap through government financing schemes in Ghana have experienced little success. The problem statement discussed the problem of SMEs' low financial inclusion in spite

of efforts made historically and the aim of improving the financing gaps by developing a framework that will improve their access to finance challenge. To achieve the development of the framework, the objectives included addressing the question of how financial institutions approach SME lending, assess and evaluate SME owner/manager attributes and the firm characteristics, determine collateral requirements' influence on access to finance and evaluate the alternative approaches to SME financing. Furthermore, the quest for a sector specific approach to addressing the SME financing challenge situates the study in a key place in research on SME financing.

The research approach is an exploratory sequential mixed research method, involving interviews with financial institutions followed by a survey of SMEs in the services sector. The scope of the study is limited to the geographical region of Ghana with data collected from two large cities with high concentration of the target population. The limitations of the study and the ethical considerations are outlined. The chapter ended with an outline of how the study has been structured. The next chapter discusses two theories on which the study is grounded, namely, information asymmetry theory and financial inclusion theory, and further develops a conceptual framework to guide the study.

CHAPTER 2: REVIEW OF THEORIES

2.1 INTRODUCTION

Studies on SME financing have utilised diverse theories in economics and finance to understand SME financing from different perspectives (Ayyagari, Demirguc-kunt and Maksimovic, 2013; Šarlija and Harc, 2016). The diverse nature of research in SME financing raises questions as to which theories will best address the research questions. This chapter thoroughly reviews the theories found to be relevant in this study and gives the theoretical grounding to the study. It starts with an introduction in section 2.1 and continues by reviewing the information asymmetry theory in section 2.2 relating it to the relationship between the lender and borrower amongst others. Section 2.3 reviews the theory of financial inclusion and elaborates the tenets of the theory. A justification for selecting the financial inclusion theory as the main theory grounding the study is provided in section 2.4. section 2.5 presents a conceptual framework for the study. And finally, section 2.6 summarises the chapter.

2.2 INFORMATION ASYMMETRY THEORY

The Information Asymmetry Theory (IAT) was first developed by Akerlof (1970). Akerlof (1970) explains that the theory relates to a condition where sellers in a market have more information about a product's quality than the buyers, leading to adverse selection and moral hazards. The theory is also often referred to as imperfect information theory (Stiglitz, 1979).

Akerlof (1970) gives several applications of the theory, relating it to quality and uncertainty in transactions such as insurance, brand-named goods, and on structures of money markets. In these instances, the buyer or applicant may have certain information about themselves or their businesses, which the seller does not have and, therefore, lead to the payment of higher premiums for goods that may be of high or low quality due to information inefficiency. The theory explains that borrowers have more information about their businesses or themselves, while lenders have less information about the businesses. Hence, high-interest rates are charged to make up for the risk, particularly in less developed countries where information is not readily accessible.

Nel and Baard (2019) further allude that information asymmetry is the withholding of information by management from shareholders, which tends to affect the price. This assertion of information asymmetry by Akerlof (1970) and other authors (Auronen, 2003; Nel & Baard, 2019; Stiglitz &

Weiss, 1992) reflects the relationship between financial institutions (lenders) and SMEs (borrowers) during the process of loan applications by the latter and decisions to provide the loans by the lenders. While the lenders may not know all the information about a firm applying for a loan, the borrower, on the other hand, has more information about their business. This affects the decision to lend to SMEs and causes challenges to SMEs' access to finance. Brewer (2007) asserts that in an atmosphere of information asymmetry, fewer firms may or may not be funded at all because of substantial uncertainty, even though there may be good credit risks in the marketplace. Therefore, the existence of information asymmetry is said to be one of the most notable features in the field of SME financing (Berger and Udell, 1998; Brent and Addo, 2012).

Stiglitz and Weiss (1992) contribute to the information asymmetry theory and further discuss that asymmetry is present and prevalent in many markets. To achieve market equilibrium, the authors admit that credit rationing is used in all contracts, even in addition to the use of collateral and interest rate charged to distinguish borrowers with different default probabilities. Credit rationing is pre-conditioned by firstly, some residual uncertainty or information imperfection about the borrower; secondly, the existence of sufficiently strong non-price terms of the contract such as collateral and equity and thirdly, where the income a lender anticipates is below expectation compared to other contracts. Greenwald and Stiglitz (1990) further contribute to the information asymmetry dialogue and agree imperfect information affects a firm both internally and externally. According to the authors, due to these asymmetries in information between capital providers and managers of firms, firms are forced to take a risk-averse position leading to several consequences such as changes to the firm's financial structure and strength, and its effect on prices and sales of the firm's products.

Information asymmetry does not only explain the lender-borrower opaqueness leading to interest rate determination and access to finance challenges but further proposes ways of minimising this effect on borrowers. Kysucky and Norden (2016) argue that information asymmetry and the resultant effects can be minimised between lenders and borrowers through strong bank–borrower relationship lending. Long-lasting bank–borrower relationships are correlated to increased lending at lower premiums in developed countries with competitive banking industries than in developing countries. However, the pervasiveness of relationship lending per se does not necessarily come along with these benefits for SME borrowers. Therefore, this suggests that despite relationship banking, SMEs still face information asymmetry challenges that affect their access to finance. A

solution to the asymmetry problem is through ongoing interaction by a banker and the client through time and across products to allow the bank to gather important and confidential information about the client through lending, loan monitoring process or deposit service. The banker then becomes well informed about the client and can charge an interest rate based on the quality of the credit. The approach that microfinance institutions use is similarly based on relationship-based lending and tends to reduce asymmetry problems (Brewer III et al., 1996).

Typically, the management skills of SME owners and managers are weak, inhibiting their ability to provide the required information on their business for bank borrowing; hence, another non-bank financing tends to reduce the asymmetry challenge and improve the financing gap of SMEs (Tucker and Lean, 2001). The lack of financial information, therefore, affects SMEs' financing access the most as banks rely on such information in making lending decisions (Mensah, 2004). When this is applied to financial inclusion it means that insufficient information between borrowers and lenders can lead to a lack of financial inclusion in financial services from banks. The issue of adverse selection and moral hazard, as postulated by Akerlof (1970), is important in SMEs' access to finance.

2.2.1 Adverse Selection

As alluded to earlier, when financial institutions do not access required information, they resort to adverse selection (Stiglitz & Weiss, 1981). The financial institutions tend to charge higher interests on SME loans under such circumstances or require more collateral. However, Blazy and Weill (2013) argue that the presence of collateral is not a solution to the adverse selection challenge; they identify a positive relationship between the adverse selection challenge and the risk premium and moral hazard. The authors conclude that adequate cover are not markedly associated with lower probability of moral hazard. It can be inferred that for loans that are secured, information asymmetries are unimportant in a bank's decision to lend to a customer.

2.2.2 Moral Hazard

A consequence of information asymmetry is moral hazard, which occurs when businesses in a contractual agreement do not keep to their side of the agreement and tend to take a greater risk to protect against costs that could be incurred. Owing to moral hazard, banks request different kinds of collateral to secure against loans in case of defaults. In the same vein, banks can reject loan applications due to moral hazard even when collateral is offered by a firm (Storey, 1994). Although

the provision of collateral tends to impact the interest rate charged and the tenure of the loan facility and further reduces the moral hazard, banks fear certain businesses offer collateral to get access to loans, but the performance of the loans does not reflect the success of the projects (Chan and Thakor, 1987). Conversely, the offer of collateral by a business sends a signal to the bank that the business believes in the project's likelihood of success, hence their commitment to their personal resources (Tucker and Lean, 2001). Many SMEs lack adequate and acceptable collateral required by the banks, leading to financial exclusion in terms of usage of credit for their businesses (Fanta, 2016).

2.3 FINANCIAL INCLUSION THEORY

In the following sub-sections, the definition of financial inclusion and its effects on countries are discussed. Additionally, the dimensions of financial inclusion theories and financial inclusion indicators are discussed. Issues concerning financial exclusion and financial inclusion strategies implemented by various countries are included in this sub-section to strengthen the grounding of the study on the theory of financial inclusion.

2.3.1 Definitions and Effects of Financial Inclusion

Researchers and institutions across the globe have propounded several versions of financial inclusion definitions. The World Bank defines financial inclusion as the availability of financial resources that can be easily accessed by those who need them in an environment that is well-regulated (Demirguc-Kunt, Klapper & Singer, 2017). Other authors describe it as providing basic financial services to everyone so businesses and individuals can afford to access it in a well-managed and sustainable way (Ozili, 2020). Sahay et al. (2015) further describe financial inclusion as access to and use of formal financial services, including credit sources for personal and business borrowings. Mohiuddin (2015) additionally views financial inclusion as a means to help small businesses to generate income and accumulate assets, which further spurs economic development and reduces inequalities in society. Wang et al. (2022) refers to financial inclusion as a situation in which individuals and businesses can access affordable and beneficial financial goods and services that fulfil their requirements. These goods and services transactions, digital payments, accounts, savings, credit and insurance. The various definitions so far gives an indication that all businesses need financial services, not only to use the services for savings and investments, but also to obtain credit for their businesses. The underlying factor in financial inclusion definitions is

access to finance for all who require it. Financial inclusion occupies global importance due to the effects it has on economies.

There has been increased calls to expand financial services to the poor in societies across the globe. It is apparent that access to financial services is beneficial. It is especially beneficial to SMEs and entrepreneurs who can only reach their full potential if they obtain the finance they need to start, sustain and grow their business (Sharma and Changkakati, 2022). Appendino et al. (2019) identified that improving SME financial inclusion can help increase economic growth, job creation, and the effectiveness of fiscal and monetary policy and could also contribute to financial stability. Empirically, Ayyagari et al. (2021) proved a positive correlation between access to finance and employment growth rate across all firms in developing countries. According to the authors, access to finance increased employment across firm types by 1.163%. Nevertheless, in terms of specific firm sizes, the growth was significant for micro and SMEs at 1.27% and 1.33%, respectively, whilst large firms' access to finance resulted in a 0.0098% growth in employment. This means that enhancing SMEs' financial inclusion yields greater economic benefits.

Financial inclusion benefits both the demand side (individuals and businesses) and the supply side (financial institutions and banks). Shihadeh et al. (2018) show in their study of the sixteen publicly listed Jordanian banks that financial inclusion positively influences the gross income and return on assets of these banks in the short and long term over six years. The authors used the SME's credits and deposits, number of ATMs, number of ATM services, number of credit cards, and the number of new services as factors of financial inclusion measurement. Apart from the number of credit cards, the rest of the factors had a significant effect at 1% on the gross incomes of the banks. ATMs and SMEs' credit were at 1% and 10% significance on the return on assets of these banks. This means that the financial inclusion of businesses improves the performance of banks, which forms a significant part of the supply side of the concept.

The current study focuses on the demand side (SMEs) of financial inclusion theory and how to improve access to finance (credit) because of the persistent financing gaps of SMEs. Several studies support financial inclusion's benefits and effects on SMEs and economies in general (IMF, 2019; Lu, Wu and Liu, 2020; Ayyagari et al., 2021). Some authors have suggested that to be able to achieve the Sustainable Development Goals (SDGs) on poverty eradication, financial inclusion is the main driving force (Simatele, 2021). The G20/OECD (2022) has established fourteen critical

principles for all interested economies to support their efforts to enhance access to diverse financing instruments, specifically for SMEs. Two of these principles have been identified to resonate with the current study, which focuses on SMEs' access to finance:

- The principle to identify SMEs' financing needs and gaps and improve the evidence base,
- The principle to enable SMEs to access diverse non-traditional financing instruments and channels.

The current study investigates the service sector SMEs' access to finance and provides evidence of bank ownership, access to credit, and alternative means (non-traditional bank financing) by which SMEs have access to finance. Based on the evidence, the researcher proposed a framework to improve the financial inclusion of this category of businesses.

2.3.2 Dimensions of Financial Inclusion Theories

Various dimensions of financial inclusion and guiding principles shape the understanding of financial inclusion as a pro-development initiative in economies. Various authors have propounded different principles guiding the understanding of this concept. Ozili (2020) argues that there are three main theories of financial inclusion: 1) theories of financial inclusion beneficiaries, 2) theories of financial inclusion delivery, and 3) theories of financial inclusion funding. The author further propounds several theories under each of the three main theories. Figure 2.1 portrays the various theories of financial inclusion by the author. However, only some theories in financial inclusion will be relevant to the current study, and therefore, the researcher is obliged to select what is applicable to the study. There are, however, conflicting perspectives on who the beneficiaries of financial inclusion should be. Whilst some authors argue that women and people experiencing poverty in society should be the focus (Bhandari, 2018), Ozili (2020) argues that it should be for the public, those previously dissatisfied with financial services, the vulnerable (elderly and young people), and the economic/social system of a country. This study focuses on the financial inclusion of SMEs in the services sector as beneficiaries.

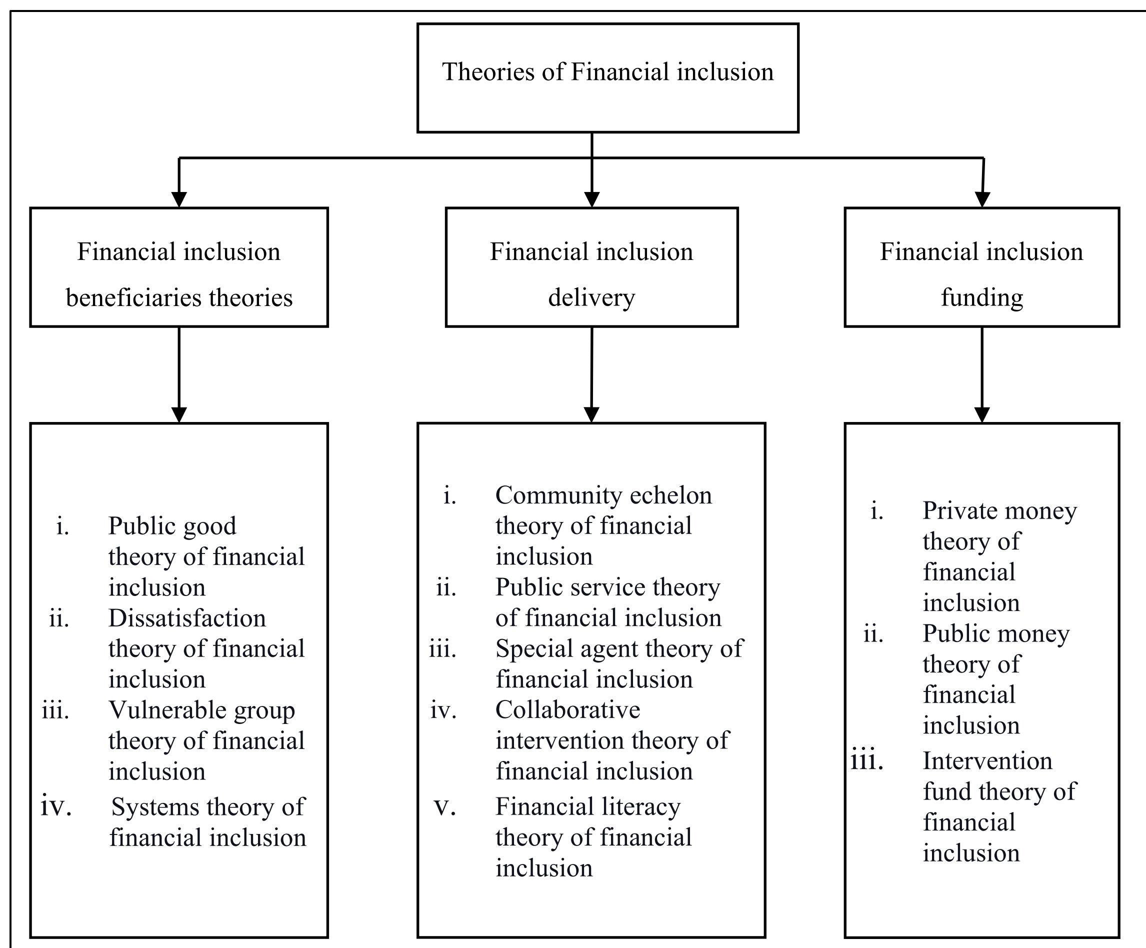

Figure 2.1: Dimensions of financial inclusion theories

Source: *Author based on literature*

Gabor and Brooks (2017) argue that the delivery of financial inclusion should be the responsibility of governments, while others show that the private sector should do this delivery or a nexus between the private and the public sectors should be responsible for the delivery of financial inclusion (Arun and Kamath, 2015). This is because financial inclusion plays a vital role in economic growth and improving inequalities among populations and living standards in developing countries (Singh and Stakic, 2021).

Funding financial inclusion is important, but who should fund financial inclusion remains unclear. While some authors suggest this should be done using public funds (taxes), others suggest the capitalists in the private sector should fund financial inclusion since they create the gap (Mohiuddin, 2015). Arun and Kamath (2015) state formal financial institutions such as banks are

best suited to take up the mission of financial inclusion, and that access to credit, savings and remittance begin with having a bank account. The financial inclusion theories are relevant to the current study, which seeks to address the financing gap challenge of SMEs and improve the financial inclusion of SMEs in the services sector through financial institutions or banks.

Financial inclusion has been measured variedly by various authors for different purposes. Allen et al. (2016) measured the level of financial inclusion of an economy using three leading indicators: firstly, ownership of an account; secondly, use of accounts to save; and thirdly, frequent use of an account, that is, at least three withdrawals per month. The authors justify these three indicators using data across 123 countries because it is easy to compare these indicators across countries. The authors, however, claim that using credit as an indicator for financial inclusion measurements across countries may be challenging because credits across countries vary by maturity, interest, collateral requirements, and the like. This means that a country-specific study of financial inclusion using credit is important. Hence this study on SMEs' access to credit in the services sector in Ghana contributes to the financial inclusion literature. Sharma and Changkakati (2022) in their recent study on the impact of financial inclusion on the development goals agenda, used three dimensions of financial inclusion, namely access, usage, and quality across 153 economies over three years. The indicators for access included accounts, ATMs, branches, insurance, and the indicators for usage included deposits, loans, borrowings, and debit and credit card usage. The results indicate a significant positive relationship between financial inclusion and economic growth. The importance of financial inclusion in economies cannot be overemphasized. The outcome of this study is to contribute to improving SMEs' financial inclusion in Ghana's service sector.

2.3.3 Financial Inclusion Indicators

Financial inclusion is at the core of development concerns in many economies. There have been various approaches to measuring the level of financial inclusion. Report from The Global Findex Database provides several indicators for measuring financial inclusion across the globe, with the most recent database being the 2021 Findex Database (World bank, 2022). Therefore, the researcher selected some of the indicators deemed to be relevant to this study and discussed them in this section.

Firstly, *account ownership* is a basic indicator of financial inclusion, as alluded to by several authors (Allen et al., 2016; Wellalage and Locke, 2017; Senzu, 2021; Agyekum et al., 2022). The

Global Findex report indicates an average world *accounts ownership* growth from 51% to 76% from 2011 to 2021, a span of ten years (Table 2.1). Whilst the region of East Asia and the Pacific showed growth above the world average, from 55% to 81%, Sub-Saharan Africa performed below the world average, from 23% to 55% of persons above the age of fifteen having an account of a sort. Ghana specifically showed a growth of 40% from 29% to 68% in 2011 and 2021, respectively. In this case, account ownership is general and includes ownership of an account at a bank, credit union, microfinance institution, post office, or mobile money service provider (World bank, 2022). The report reveals a significant growth of 47% from 2014 to 2021 in mobile *money account ownership* in Ghana. However, *Ghana's ownership of financial institution accounts* increased by only 10% comparatively, from 29% to 39% between 2011 and 2021.

Another indicator of financial inclusion is *ownership of financial institution accounts* which grew from 23% in 2011 to 40% in 2021 in Sub-Saharan Africa, compared to a worldwide growth from 51% to 74% over the decade. The region, therefore, lags below the world average. This means that 60% of the adult population in the region still needs this basic indicator of financial inclusion with the benefits that come with it. Hence, the focus of policies in developing economies is to improve the financial inclusion levels through various strategies in order to reap the benefits thereof (Ayyagari et al., 2021). Whilst *the ownership of credit cards* as an indicator remained at a low of 3% in Sub-Saharan Africa compared to 24% of the world ownership, *mobile money account* was the highest, at 33% in the same region compared to 10% of worldwide *mobile money account*. This means that mobile money as an indicator of financial inclusion is relevant in Sub-Saharan Africa. There have been success stories of financial inclusion growth in Africa using mobile money as a means of extending financial services to the excluded population (Ahmad, Green and Jiang, 2020; Sylvio, Talom and Tengeh, 2020; Kulu et al., 2022).

Another indicator of financial inclusion is *borrowing from a financial institution*, which improved across economies with most regions improving from a single digit in 2011 to a double digit in 2021: East Asia and the Pacific improved from 9% to 33%, and Latin America and the Caribbean from 8% to 30%. The Sub-Saharan Africa region recorded an increase from 5% to 10% between 2011 and 2021, being the least for this indicator across the world. In sharp contrast, Sub-Saharan Africa recorded the highest inclusion figures on the indicator *of borrowing from family or friends*, which remained at 40% over a decade, compared to the worldwide indicator, which increased from 23% to 27%. *Borrowing from family and friends* far exceeds borrowing from financial institutions

in the sub-region. There is also a marked difference between *account ownership at a financial institution* (40% in 2021) and *borrowing from a financial institution* (10% in 2021). This means the region still lags behind in financial inclusion access to credit. Hence the current study on investigating SMEs access to finance is relevant for the Sub-Saharan African region since the challenge of persistent low access to credit from financial institutions is evident. From the Global Findex 2021 database, Sub-Saharan Africa had the highest averages of the financial inclusion indicator *borrowed to start, operate or expand a farm or business*, which was at 13% in 2014 and dipped slightly to 12% in 2017. Table 2.1 outlines the selected Global Financial Inclusion indicators discussed.

There have been several studies on SMEs' financial inclusion in developing economies and policy direction on how to improve their inclusion. Whilst some studies have used only quantitative data to analyse and address the issue and suggested policy directions such as improving education levels in order to improve financial inclusion (Asiamah, Steel and Ackah, 2021), others have drawn on archival research to propose contemporary measures to improve financial inclusion (Bernards, 2021). Most studies have navigated the nexus between financial inclusion and poverty reduction (Asiamah, Steel and Ackah, 2021; Singh and Stakic, 2021; Essel-Gaisey and Chiang, 2022). This study takes a holistic approach by investigating the issue of SMEs' financial inclusion from both the financial institutions' and SMEs' perspectives, including the issue of collateral and alternative means of financing SMEs using a mixed method approach with the outcome of a policy framework to improve SMEs' financial inclusion.

Table 2.1: Selected Global Financial Inclusion Indicators

Indicators	Year	World	East Asia & Pacific	Europe & Central Asia	Latin America & Caribbean	Middle East & North Africa	South Asia	Sub-Saharan Africa
Account (% age 15+)	2011	51%	55%	44%	39%	33%	32%	23%
Account (% age 15+)	2021	76%	81%	78%	73%	48%	68%	55%
Financial institution account (% age 15+)	2011	51%	55%	44%	39%	33%	32%	23%
Financial institution account (% age 15+)	2021	74%	80%	77%	71%	47%	66%	40%

Indicators	Year	World	East Asia & Pacific	Europe & Central Asia	Latin America & Caribbean	Middle East & North Africa	South Asia	Sub-Saharan Africa
Owns a credit card (% age 15+)	2011	15%	7%	16%	18%	8%	2%	3%
Owns a credit card (% age 15+)	2021	24%	29%	24%	28%	4%	4%	3%
Owns a debit card (% age 15+)	2011	31%	35%	36%	29%	22%	7%	15%
Owns a debit card (% age 15+)	2021	53%	66%	59%	53%	38%	23%	24%
Mobile money account (% age 15+)	2011	-	-	-	-	-	-	-
Mobile money account (% age 15+)	2021	10%	6%	17%	23%	6%	12%	33%
Borrowed from a formal financial institution (% age 15+)	2011	9%	9%	8%	8%	12%	9%	5%
Borrowed from a formal financial institution (% age 15+)	2021	28%	33%	28%	30%	11%	11%	10%
Borrowed from a savings club (% age 15+)	2011	-	-	-	-	-	-	-
Borrowed from a savings club (% age 15+)	2021	-	1%	1%	1%	4%	3%	11%
Borrowed from family or friends (% age 15+)	2011	23%	27%	28%	14%	35%	19%	40%
Borrowed from family or friends (% age 15+)	2021	27%	27%	30%	26%	39%	31%	41%
Borrowed to start, operate, or expand a farm or business (% age 15+)	2014	7%	8%	2%	6%	-	9%	13%
Borrowed to start, operate, or expand a	2017	6%	7%	4%	6%	6%	7%	12%

Indicators	Year	World	East Asia & Pacific	Europe & Central Asia	Latin America & Caribbean	Middle East & North Africa	South Asia	Sub-Saharan Africa
farm or business (% age 15+)								

Source: *Based on World bank (2022)*

2.3.4 Financial Exclusion

Caplan, Birkenmaier and Bae (2021) in their scoping review on financial exclusion, identify unifying defining elements across studies and defines financial exclusion as '*specific population systems (i.e., individuals, families, households, communities, and societies) experience a partial or full blockage of access to foundational financial products and services that would enable them to meet their basic human needs that achieve societal standards. The blockage results in negative impacts'*. Kabakova and Plaksenkov (2018) observe in their study across forty-three countries that despite the financial inclusion agenda of many economies, financial exclusion exists, which means that not everyone has access to financial services or enough knowledge or experience to use them. The authors propound that achieving financial inclusion depends on the entire ecosystem, including the health of the financial market, economic, political, social and technological spheres. Furthermore, financial exclusion is affected by the absence of socioeconomic factors, socio-demographic, technological and political factors of development. Takyi and Leon-Gonzalez's (2020) study on measuring what factors influence financial inclusion in Ghana revealed that the income tax rate, as a fiscal policy instrument to debt-to-output ratio, has the most significant effect on the financial exclusion of individuals and firms, followed by government spending and consumption tax rate.

Previous studies have reported the classification of businesses' access to finance according to those constrained and those unconstrained, leading to voluntary and involuntary exclusion from financing (Osei-Assibey, 2010). For those unconstrained, whilst some businesses demand credit and it is granted, others do not demand it as they do not need it. On the other hand, businesses involuntarily constrained may demand credit and be partially successful or completely denied, leading to financial exclusion. Alternatively, businesses voluntarily constrained cannot request credit for various reasons, including a lack of collateral, high-interest rates and transaction costs and psycho-social reasons. Figure 2.2 indicates the classification of constrained and unconstrained

businesses. In addition, other evidence suggests that religious beliefs contribute to the financial exclusion of businesses, and in some cases, women are notably excluded based on religion (Díez-Esteban, Farinha and García-Gómez, 2019; Hussain, Mahmood and Scott, 2019; Khan et al., 2021).

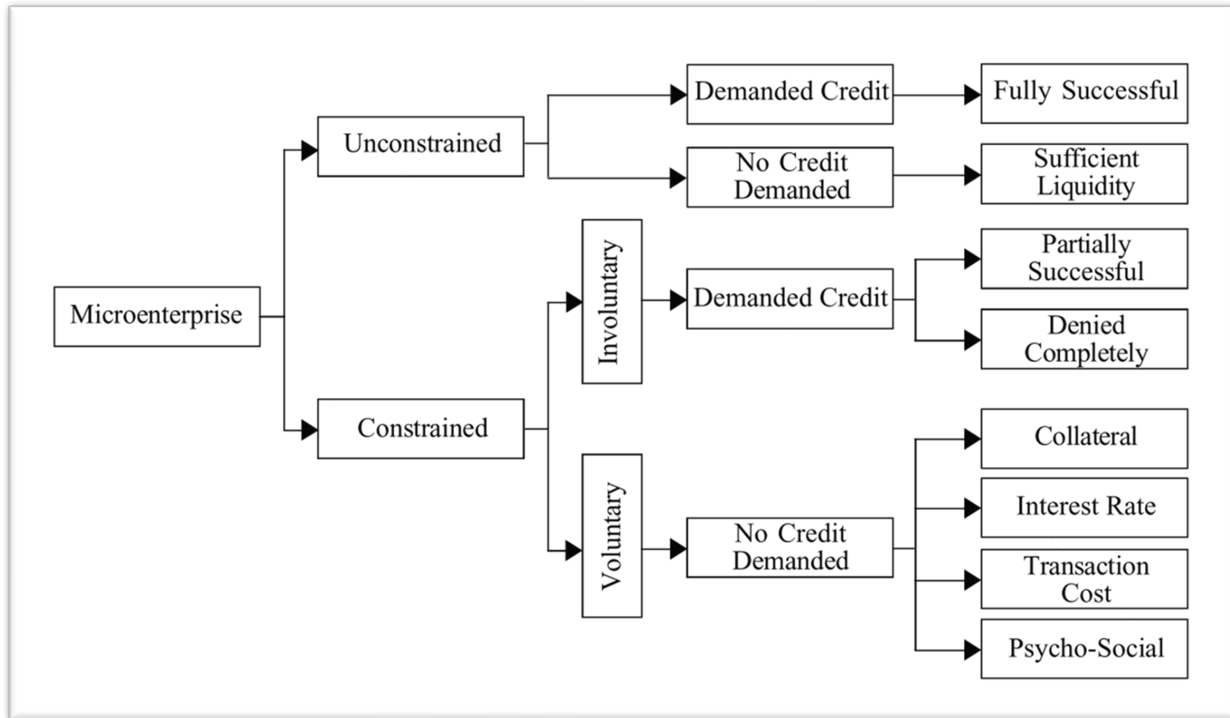

Figure 2.2: Classification of constrained and unconstrained businesses

Source: Osei-Assibey (2010)

2.3.5 Financial Inclusion Strategies

Financial inclusion strategies have become pivotal in the development plans of many countries. As part of the means of poverty alleviation and achieving the global SDGs in developing countries, financial inclusion has been a key aspect of the development strategies of these countries (Demirguc-Kunt, Klapper and Singer, 2017; Sharma and Changkakati, 2022). The World Bank (2017) conducted investigations into countries' financial inclusion strategies and reported the strategies of 124 countries that took part in their global financial inclusion survey. From the report, 104 countries (84%) have put in place national strategies for achieving financial inclusion in their countries through strategic frameworks, sets of actions, monitoring and evaluation frameworks and coordination structures. More than half of these countries (51%) have implemented a stand-

alone national financial inclusion strategy (NFIS), with over half of the countries in Sub-Saharan Africa and East Asian and Pacific regions having their country specific NFIS. The average tenure of these strategies is four years, with the lead entities spearheading the agenda comprising the Ministry of Finance or other lead ministries, the Central Bank, multi-stakeholder entities and other financial sector regulatory authorities. In addition, specific regions and countries have developed, adapted and implemented specific strategies for improving the financial inclusion of their economies.

Blancher et al. (2019) mention three strategies used by countries in the Middle East and North Africa (MENA) and Caribbean and Central America (CCA) regions to achieve full financial inclusion. These include targeted lending to SMEs by state-owned banks, SME credit guarantees and interest rate regulations. The authors caution against using state-owned banks to spearhead financing of SMEs as this can lead to crowding out private banks financing of SMEs, and further reiterates that interest rate regulations to ease SME access to finance is important but not sustainable. On the other hand, credit guarantees are a good means to expand SMEs' financial inclusion, but fewer institutions implement this. Xia and Gan (2020) affirm that credit guarantees have advantages in providing financially constrained SMEs with stable financing, which in effect, leads to deepening their financial inclusion. In the East African region, there are examples of governments spearheading national financial inclusion strategies with policies on SME inclusiveness. Tanzania, for instance, has successfully implemented their first national financial inclusion framework (from 2014-2016), which had a focus on expanding the opportunities for people to access financial services, and is in their second phase of a national financial inclusion framework (from 2018-2022) which puts thrust on the usage of financial services by individuals and businesses (Government of Tanzania, 2018). The Tanzanian strategy discusses the need for financial sector stakeholders to drive innovative approaches that will increase access and usage of financial services by underserved MSMEs.

In the same region, Bekele (2022) does a comparative analysis of the financial inclusion levels of Kenya and Ethiopia, with the former being at a high financial inclusion level and the latter being a low financial inclusion country. The analysis reveals that differences at the macro level are due to the financial liberalisation policy, gross domestic product, percentage of the rural population, and mobile money service expansion in the two countries, which are influenced by their national strategies on financial inclusion. Similarly, at the micro level, literacy rates and means of receiving

payments, such as government transfers, revealed marked differences. Factors that were found to have significant positive effects on financial inclusion included gender, age, employment status and owning a mobile phone. On the contrary, lack of documentation, lack of trust, and lack of money negatively influence financial inclusion. Ghana's six-year national financial inclusion development strategy (NFIDS) outlines a comprehensive reform agenda structured around five mutually reinforcing pillars of financial sector development: (a) Financial Stability; (b) Access, Quality, and Usage of Financial Services; (c) Financial Infrastructure; (d) Financial Consumer Protection; and (e) Financial Capacity (Government of Ghana, 2018). The second pillar, which focuses on access, quality and usage of financial services, aims to improve financial inclusion through the increase of the availability and usage of innovative financial products and services tailored to the needs of the financially excluded population. This pillar is of particular interest to the researcher as it relates to the bane of this study. The study will therefore contribute to the policy discussion on financial inclusion access and usage with a specific focus on SMEs in the service sector.

Nigeria similarly has a financial inclusion strategy with the aim of increasing the access and usage of financial services to the population with a specific focus on women, micro, small and medium-sized enterprises (MSMEs) and people living in the most excluded regions, that is, in the North East and North West (Government of Nigeria, 2018). Another developing country that has put in place a financial inclusion strategy is the Government of the Phillipines (2022) with one of the objectives being to increase access to finance by agriculture and MSMEs as part of the overall desired outcomes of the strategy. ElDeeb, Halim and Kamel (2021) propose three main pillars for determining financial inclusion in Egypt as follows: integrated marketing tools, which increase SMEs' awareness of and access to the most sophisticated banking services, usage of banking services, and assessment of the macroeconomic risks that would prevent SMEs from gaining access to financial services. In a more developed financial sector region like Ireland, the focus is no longer on the financial inclusion of individuals or small businesses, as this is not a challenge (Government of Ireland, 2019). Apart from financial inclusion strategies from governments, researchers have proposed other strategies for achieving financial inclusion with a resultant effect on other segments of an economy.

Essel-Gaisey and Chiang (2022) analyse the relationship between financial inclusion and environmental poverty and conclude that poor households are faced with overcrowding,

inadequate and unsafe dwellings and unimproved water and sanitation facilities, and this can only be improved through financial inclusion of poor households. The authors revealed that financially included households were less environmentally poor than financially excluded households. Access to finance, therefore, plays a significant role across all spheres of life. Other studies suggest that mobile money accounts play a significant role in improving financial inclusion in many African regions (Ahmad, Green and Jiang, 2020; Avom, Bangaké and Ndoya, 2023). Similarly, Fintechs are important in improving financial inclusion (Senyo and Osabutey, 2020; Sheng, 2021) and in particular with the help of policy direction in reducing the gender gap in access to and use of financial services (Yeyouomo, Asongu and Agyemang-Mintah, 2023). Institutional quality further increases the penetration, accessibility, and use of financial services in Africa (Ongo Nkoa and Song, 2020). From the discussions so far, there is consensus in the literature across economies on increasing the financial inclusion of individuals and businesses. Therefore, the current study is important to the discourse on financial inclusion and contributes to the literature on the subject by uniquely investigating SMEs' access to finance and developing a framework to improve the financial inclusion of SMEs in the service sector.

2.4 JUSTIFICATION FOR THE THEORY OF FINANCIAL INCLUSION

In this chapter, two main theories have been discussed. The information asymmetry, which relates to information sharing between providers of banking credit and applicants for the service (suppliers and demand) provides an understanding of the relationship between financial institutions and SMEs in this study. One of the study's objectives is to investigate the financial institutions' approaches to lending to SMEs which relates to the theory of information asymmetry and the theory of financial inclusion. The objective of investigating the characteristics of the SME owner and the firm on access to finance further borders on information asymmetry. However, all these lead to the decision of SMEs to be financially included or get access to finance. The information asymmetry theory is subsumed in the financial inclusion theory. Hence the justification for grounding the study on the financial inclusion theory.

The chapter further discussed the financial inclusion theory and outlined the tenets of the theory. The general definition of access to financial services for all gives a grounding of this theory for this study which investigates the services sector SMEs' access to finance. The financial inclusion indicators include access to financial services, including ownership of bank accounts and usage of

financial services, including credit or loans (borrowing from a financial institution). The study further investigates collateral and access to finance and alternative means of accessing financing for SMEs in the service sector. The outcomes of the investigations lead to the development of a framework for SMEs' financial inclusion. Therefore, the theory of financial inclusion grounds the current study and forms the foundation upon which the study is developed. Furthermore, an understanding of what financial exclusion is, as discussed in this chapter, helps to understand how to overcome exclusion by building strategies to increase financial inclusion. The researcher, therefore, believes that the theory of financial inclusion forms the basis for the study. The main theory of financial inclusion therefore influences the conceptual framework.

2.5 CONCEPTUAL FRAMEWORK

In order to establish what influences SMEs' access to finance when they apply for credit in financial institutions, the researcher developed a conceptual framework for the study. The argument is that SMEs are faced with diverse challenges, including financing access and for SMEs to be financially inclusive, they need to have a relationship with a financial institution in the form of at least a bank account, which implies using financial services which is a basic indicator of financial inclusion. Thereafter in the quest for credit (loan), the SME is assessed by the financial institution when they put in their loan application. Officers assess the application at the financial institution, and this assessment involves an evaluation of the SME owner/manager's personal attributes, including their character, gender, age, education level, experience, literacy and training obtained. Furthermore, the SME business characteristics, such as the size of the business, the type of business, and the financial information, such as cash flow projections, audited accounts, etc, are assessed by financial institutions, and this influences the decision to grant the credit or not. Financial institutions do this assessment based on their criteria, including the capacity of the SME to repay the credit. Collateral plays an important role in SMEs' credit access, and in making financing decisions, financial institutions consider and assess the collateral availability of the loan applicants (Öhman and Yazdanfar, 2017). Different types of collateral, such as guarantees, cash in investments, land, buildings, stocks, and equipment, are assessed to determine their suitability or otherwise in the loan process (Duarte, Matias Gama and Esperança, 2016). Another assumption is that there are alternative means by which SMEs seek to access finance, and these means are not necessarily through a financial institution's credit appraisal process. Internally SMEs rely on family and friends financing support (Osei-Assibey, 2013) but externally other alternative

approaches include angel investors, venture capital, going to the stock market, using mobile money/data and factoring as other means of accessing and using finance (Saksonova, 2018). As listed in the conceptual framework, the attributes of the owner/manager and that of the firm form the independent variables to determine how they influence access to finance, the dependent variable. Similarly, collaterals listed form the independent variables determining access to finance. The alternative sources of finance for SMEs were assessed separately to determine their usage. The conceptual framework depicted in Figure 2.3.

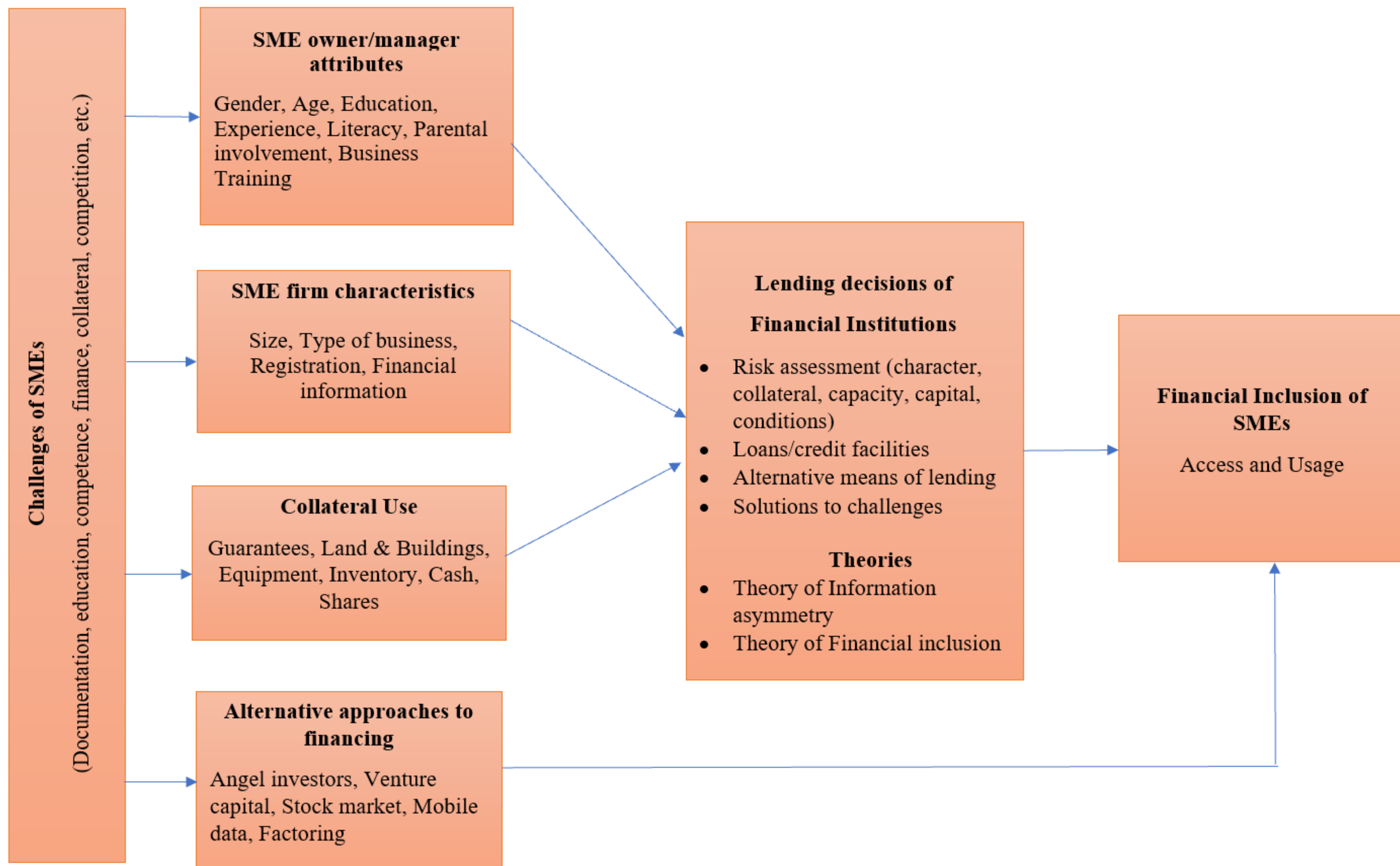

Figure 2.3: The Conceptual Framework

Source: Author's construct

The conceptual framework therefore is grounded by the financial inclusion theory which propounds access to financial services for all. However, in the process of SMEs financial inclusion, some do not have bank accounts, for those who have, some do not request for business loans, whilst others are either rejected by the financial institutions or granted their loan requests. The factors which go into financial institutions assessment of SME applications including the owner characteristics, firm information, collateral are considered the independent variables in this study and the dependent variable is whether a credit application is granted or not (financial inclusion access and usage) as depicted in the conceptual framework. The outcome of the investigation leads to the development of a framework to improve SMEs financial access. The investigations included the challenges SMEs face in their business in order to have a deeper understanding of the concept as these further influences the framework to improve their financial inclusion. Financiers consider several factors in order to arrive at a financial decision. Research supports the components of the conceptual framework of the study.

As Campanella and Serino (2019) point out, the characteristics of SME owners/managers such as age, gender, education and ethnicity affect the ability to access loans from banks. Establishing the SME owner/manager attributes that influence their access to finance is key in improving financing for SMEs in the service sector. SMEs face bigger financing constraints because financial institutions are less willing to lend to them for reasons that include the firm's characteristics. Kersten et al. (2017) purport that the first reason for default risks is negatively associated with firm size and firm age. Second, the cost of appraising and monitoring SMEs is relatively higher for financial institutions, and third, there are higher costs associated with liquidating assets in case of default. SMEs could have profitable investment projects, but due to market imperfections such as information asymmetry, financial institutions find it difficult to assess the creditworthiness of SMEs and find them simply not credit-worthy unless the lending is subsidised (Abraham and Schmukler, 2017).

Additionally, certain SMEs need external financing but refrain from applying because they perceive their application will not be approved as they may not be able to provide all the necessary documentation, including collateral (Duarte, Gama and Esperanca, 2016). Understandably, SMEs, unlike large businesses, are not obliged to provide publicly available information on their businesses. With this opaqueness, large and foreign banks may be discouraged by relationship lending as they rely on hard information to extend credit to businesses (Levy-Yeyati, Martínez

Pería and Schmukler, 2010). Motta and Sharma (2020) identify the challenges of accessing financing by SMEs and explain this is due to information asymmetry challenges and further propose the use of lending technologies as a solution to this challenge between banks and SMEs. In sharp contrast, Quartey et al. (2017) argue that SMEs in developing countries need not file detailed financial reports as most of them do not raise capital or equity from the public market. This explains their inability to provide financial statements to aid their access to finance even if the financial institutions are willing to use lending technologies. The literature review discusses additional details of the components of the conceptual framework.

2.6 CHAPTER SUMMARY

This chapter introduced and discussed two theories that form the basis of the theoretical grounding of the study - the theory of information asymmetry and the financial inclusion theory. The information asymmetry theory relates to the opaqueness in information between SMEs and financial institutions, which leads to the latter applying higher interest rates and demanding higher collateral before advancing credit because of the high-risk perception of SMEs. Additionally, financial inclusion theory was discussed. The discussions included the definition of financial inclusion as access to financial services for all in the most appropriate form and manner. The different dimensions of financial inclusion were further discussed, including the beneficiaries, the delivery channels, and the financial inclusion funding.

Furthermore, the indicators of financial inclusion were discussed, which revealed that ownership of bank accounts and borrowing are some of the indicators of a business or individual being financially included. The financial exclusion was also discussed to give a perspective on financial inclusion. Finally, the global strategies being adopted by countries were discussed as financial inclusion cannot be done in isolation but rather forms a key part of the development agenda of most developing countries. Hence, the importance of this study to the discourse of SMEs' financial inclusion. The theory of financial inclusion was justified as the main theory upon which the research is grounded, as the outcome of the investigation is to develop a framework to improve access to finance of SMEs. The factors discussed, such as SME owner characteristics, firm factors, collateral and alternative approaches, all point to their financial inclusiveness.

The chapter developed a conceptual framework that guides the study. The framework indicates several factors that influence the decision-making of financial institutions in lending to SMEs or

rejecting their request for credit. In addition, other alternative approaches to financing SMEs are included in the conceptual framework for a holistic study of the concept of SME financial inclusion for businesses in the service sector in Ghana. The next chapter reviews the existing literature on the study of SMEs' financial inclusion.

CHAPTER 3: LITERATURE REVIEW

3.1 INTRODUCTION

This chapter presents a review of the literature on the concepts of the study; it discusses the concept of access to finance for SMEs in section 3.2. Sections 3.3 and 3.4 discusses the types of financing and financial institutions risk assessments. The financial institution's lending approaches are discussed in section 3.5. The owner/manager attributes and firm attributes have been discussed in sections 3.6 and 3.7 respectively. Additionally, the alternative sources of financing for businesses and the challenges of SME financing have been considered in this chapter in sections 3.8 and 3.9 respectively. Finally, section 3.10 presents a chapter summary.

3.2 THE CONCEPT OF ACCESS TO FINANCE

Ye and Kulathunga (2019) define access to finance as *"the availability of financial services, in the form of demand deposits, credit, payments or insurance" p4.* The authors further explain that firms have good access to finance if they can access these financial services at affordable rates that meet their financial needs. Sykes et al. (2016) explain access to finance as the presence of credit facilities that can be easily utilized by individuals and businesses alike. The concept is an important factor to helping SMEs achieve their potential, and it means the availability and cost of different financing instruments where availability refers to the supply of external capital, the type, range and quality of the capital and the SMEs' capability of accessing the capital (Gvetadze et al., 2018). Using parallel surveys by the European Central Bank, Anastasiou and Drakos (2021) analyse two sides of access to finance as the supply side and the demand side of finance, where the supply side survey used data from loan officers in banks and the demand side used data from SMEs.

The authors discover that there is no equilibrium between the demand side and the supply side of access to finance as the demand side perception of access to finance based on the loan terms and conditions overshoots that of the supply side, leading to increased discouragement rates of borrowers. This means that there are more borrowers whose lending needs are not met by the lenders, leading to borrowers who experience financial exclusion. Similarly, Amarteifio and Frimpong (2019) show that government's interventions in the supply side of finance through funding schemes for SMEs in Ghana to bridge the financing gap has not achieved the purpose, hence the focus on the demand side by getting SMEs to be investment ready. The authors assess the investment characteristics of SME owner/manager and firm characteristics and find age of

owner/manager, business size, financial information and financial leverage positively affect access to finance. In other words, SMEs can position themselves to obtain financing if they are investment ready. This means that SMEs investment readiness influences their financial inclusion particularly in the usage of financial services. Furthermore, SMEs' access to finance in the literature is influenced by diverse conditions – regional or global. For instance, in the wake of the Brexit in the United Kingdom (UK), Sun, Calabrese and Girardone (2021) report the conditions that prompt banks to decline finance to SMEs and find that export and import firms experienced less access to loans and overdrafts. In contrast, female-owned firms , start-ups and micro-firms experienced an increase in access to finance under the same conditions.

Another factor that influences SMEs access to finance is that of fragmentation in the financial sector. In the European regions, Calabrese, Girardone and Sclip (2021) report that financial fragmentation negatively impacts SMEs ability to secure financing and at the same time discourages potential borrowing and the effect is more pronounced in new and small firms across Europe. The implication is that financial inclusion of small and new businesses are hindered by fragmentation in the financial sector.

Access to and use of finance are important considerations when assessing financial inclusion. Some people might not use formal financial services on the grounds of religion or other reasons, even if the financial services were provided. This attitude could be termed voluntary self-exclusion. Another category of the population might not be using financial services not because they did not want to, but due to other reasons such as being tagged as high risk, being discriminated against, the high cost of the financial product, and the contractual framework (Beck and Cull, 2014). Studies have shown that banks are the biggest financiers of SMEs across countries (IFC, 2013). According to Beck et al. (2008), perceived profitability is the main driving force for banks' interest in the SME segment in both developed and developing nations. Most of these banks also have dedicated departments to manage their SMEs separately from their large enterprises. However, SMEs' share of loans or different types of financing products from banks across countries indicates a lower share of the loan or credit portfolio than that of large enterprises.

3.3 TYPES OF FINANCING FOR SMES

A large body of literature describes two basic types of financing for businesses: debt and equity (Brown and Lee, 2017; Quartey et al., 2017; Xia and Gan, 2020). Ghisetti and Montresor (2020)

and Rao et al. (2019) discuss debt as borrowed money payable over a short- to a long-term period at an agreed interest rate whether the firm makes profits or not. In contrast, equity is described as contributions by shareholders, entrepreneurs, or investors who then own a share of the firm and make returns if the firm makes a profit (Xia and Gan, 2020). Amoako-Adu and Eshun (2018) elaborate equity sources of financing to include own or personal savings, family equity, retained earnings from ongoing business if profitable, and sweat equity from the owner of a business from their efforts especially at the start-up stage. Debt includes loans from friends, relatives, banks and other financial institutions.

There are also internal and external forms of financing. Internal financing includes raising funds from within a firm, such as profits, sale of assets, and accounts receivable, while external financing includes commercial banks, government, and non-government agencies (Ahmad and Atniesha, 2018; Ferrando and Ruggieri, 2018). Sources of financing for SMEs have been discussed in the next section.

3.3.1 Internal Sources of SME Financing

In the following sub-sections, the internal sources of SME financing have been discussed. This includes the use of personal savings to finance business ventures and relying on financing from family and friends. In addition, for existing businesses, retained earnings are one of the means of internally financing the business.

3.3.1.1 Personal Savings

One of the commonest means of financing businesses at the start-up stage is the business owner's personal savings (Abbasi, Wang and Abbasi, 2017). In other words, the business owner saves up whilst employed to start their own business. Sarbah and Quaye (2014) report that 64% of SME owners in the Greater Accra Region use their personal resources as start-up capital for their businesses. Kafeshani et al. (2018) reiterates the reliance of entrepreneurs on their personal savings in order to launch a new idea or project. Other reasons for using personal savings include expansion of business, purchase of equipment, and working capital (Belas et al., 2015; Martinez, Scherger and Guercio, 2019). However, most SMEs tend to need external financing to start and to expand their business because personal savings are inadequate to achieve growth in business; therefore, they resort to other alternative means of accessing financing (Quartey et al., 2017).

3.3.1.2 Family and Friends Financing

Financing from family and friends remains a common source of funds for SMEs in the form of loans or equity funding (Benzing and Chu, 2009; Baker, Kumar and Rao, 2020). On many occasions, family loans and equity are pre-seed or seed funding to get a venture started. Sometimes, business owners rely on funds from family and friends as a short-term measure for their businesses when constrained financially (Biest and Wyss, 2019; Ughetto, Cowling and Lee, 2019). Family financing is often the optimal funding source for micro and small-scale enterprises looking to drive growth. In essence, family financing can take the form of peer-to-peer funding or crowdfunding, where SMEs accumulate funds from several family members or close friends to raise a more significant overall sum with generally flexible repayment plans and interest rates (Emilitri et al., 2015; Saksonova, 2018).

However, family financing for SMEs generally lacks formal review processes and the due diligence involved in commercial loans (Lin et al., 2020). Friends and family may not conduct a thorough review of a business credit history or require extensive collateral to secure the loan. This source of funds is usually limited and bears a potentially dangerous price as investors find it difficult to stay passive and often intrude into the affairs of the business (Nguyen and Canh, 2021).

3.3.1.3 Retained Earnings

A commonly used source of funding by existing profitable SMEs to finance their business needs is retained earnings, which is the accumulated portion of profits after costs such as operational expenditure, tax expenses and interest on loans have been deducted (Briozzo, Vigier and Martinez, 2016; Šarlija and Harc, 2016; Abbasi, Wang and Abbasi, 2017). On financing preferences of SMEs, Baker et al. (2020) indicate that 92% of SMEs express a high or very high preference for the use of retained earnings, followed by 88% of SMEs preferring their own earnings or personal savings. In other words, a greater percentage of SMEs depend on internal sources of financing for their businesses and reinvest profits into the business. In contrast, Zeidan et al. (2018) in their study find no difference in terms of owners’ preferences for sources of financing because 50% of business owners prefer internal sources of finance and the other 50% prefer debt in the form of loans. Agyei et al. (2020) reveal that SMEs in Ghana use internal sources of finance first, followed by debt and equity. In particular, they use profits (retained earnings) to lower their debt levels as the cost of external financing is higher.

Several studies attribute SMEs' preference for internal financing to their challenges in sourcing external funds. Information asymmetry challenges result in difficulty in obtaining loans from banks (Ma, Zhou and Chen, 2019), as well as lack of adequate collateral (Abor and Biekpe, 2006; Atogenzoya, Nyeadi and Atiga, 2014), and lack of financial information (Abraham and Schmukler, 2017; Domeher, Musah and Poku, 2017). These challenges, therefore, propel SMEs to rely on internally generated funds in the form of retained earnings for their businesses. The preference for internal financing hinders SMEs financial inclusion. However, SMEs need external financing for expansion, growth and development that is beyond the capacity of their retained earnings (Manzoor, Wei and Sahito, 2021).

3.3.2 External Sources of SME financing

In the following sub-sections, the external sources of SME financing have been discussed. These include local Susu group financing, bank financing and savings and loans. In addition, financing from Non-Governmental Organisations (NGOs) and Credit Union Organisations (CUOs) have been discussed.

3.3.2.1 Local Susu Group Financing

Boachie and Adu-darko (2022) elaborate on various savings groups that have existed in the West African sub-region such as Susu, Village Savings and Loans, Credit Unions and Rotating Savings Systems, which operate along similar lines. The authors further describe "Susu" as a form of banking where a person makes daily contributions to a Susu collector for some time and takes the bulk money back after paying a fee to the collector. Kuma, Yusoff and Jayamana (2021) discuss different models of Susu operations: Susu clubs, Susu Companies, Susu associations, mobile collectors model and Yibima model. They compare their operations to that of crowd funding in developed countries. While in a Susu club, members make contributions of funds into a pool where they can borrow from. In a Susu association, members make financial contributions into a pool and give to other members as startup funds. Susu companies, on the other hand, are registered and are formal companies whose staff collect funds daily from individuals or small businesses. After a minimum of six months of savings, they can lend double the amount invested to the contributor (Kuma, Yusoff and Jayamana, 2021; Boachie and Adu-darko, 2022). Comparatively, crowd funding, as discussed by Cicchiello et al. (2020) in European countries' context, is a means of

raising funding for start-ups, SMEs and individual entrepreneurs in a proposed environment that is less restrictive to investors and at the same time enhance transparency and disclosure.

Amoah-Mensah (2021) suggests that Rotating Susu is another means of funding where members in a group contribute and give to one member. This continues in a revolving manner until each member receives a lump sum. The author shows, based on their study in Ghana, that the rotating Susu helps its members to generate income, raise capital and increase their savings, and the success of the concepts emanates from the values of trust, synergy, empathy and commitment, tolerance, punctuality, and promptness. Participants in "Susu" schemes hardly receive any interests on the savings (Aryeetey, 2008) and are not required to provide collateral when borrowing; rather membership serves as a form of guarantee for each other (Alabi et al., 2007). In West Africa, this is a common practice among a wide range of socio-economic or occupational groups, including petty traders, artisans, food processors and salaried workers. Primarily, local Susu group financing helps contributors, particularly SMEs, to preserve their daily sales from ad hoc spending and demands which is difficult to control and ensure there is enough funds to restock on a regular basis (Adusei and Appiah, 2012). Additionally, local Susu groups provide access to uncollateralised loans at affordable rates.

Alabi et al. (2011) describe different types of "Susu" institutions that influence the operations of SMEs, namely, "Susu" Collectors; "Susu" Associations; "Susu" Clubs and "Susu" Companies. Each of these types of "Susu" plays an important role in financing small businesses, including collecting and accumulating savings, paying commissions and providing loans to the small business owners after a minimum savings period. These informal financing forms operate in certain African countries with similar approaches, having evolved over time, as confirmed by Steel et al. (1997) in four African countries. Steel et al. (1997) show that the relationship between traders and operators of informal financing is mutually beneficial to both parties, with the former developing the habit of savings in order to reinvest in the business and the latter protecting the savings from other daily demands of business owners. However, the operators are not well resourced in terms of capital.

Goski et al. (2007) discuss the significant role "Susu" operators play in Ghana, which has been emulated by most rural banks, savings and loan companies and commercial banks that undertake similar operations of daily savings collections and granting small loans over a period of time. The

authors identify an associated risk of the collectors absconding with the collections; instead, they find that private collectors whose income is tied to the volume of daily collections are reliable.

3.3.2.2 Bank Financing

Banks are the major players in SME financing across developed countries and emerging economies in the extant literature (Domeher, Abdulai and Yeboah, 2016; Behr, Foos and Norden, 2017; Hasan et al., 2021) and they play a key strategic role in SMEs financial inclusion in the economies of developing countries (Kelly, Ferenzy and Mcgrath, 2017; Zeqiraj, Sohag and Hammoudeh, 2022). Bank financing ranges from short-term loans, which is usually over one year, to long-term financing, which is usually over five years. In between is medium-term financing used for diverse purposes. Short-term loans from banks are usually used as working capital and for the day-to-day running of businesses and include overdrafts and bridge finance. In contrast, long-term loans are for the acquisition of capital-intensive needs such as commercial mortgages and fixed assets (NIBUSINESS, 2021). Greenbaum et al. (2019) outline four main types of bank loans as transaction loans, working capital loans, term loans, and a combination of these. These financing types come with terms and conditions outlined in an offer and include the interest rate, the tenure and instalment to be paid monthly in terms of loans, which the client has to adhere to or risk default. A bank provides an offer to a borrowing client stating the terms and conditions including the tenor, interest charged and the repayment amount. The bank usually requires SMEs to provide some security or collateral for such loans as a means of reducing risk due to SMEs' asymmetry challenges (Duarte, Gama and Esperanca, 2016).

Ma, Zhou and Chen (2019) affirm that small businesses have greater difficulty in obtaining external financing compared to large businesses, mainly due to the issue of asymmetric information between borrowers and lenders. Other scholars reiterate this assertion that limited financing from banks may not necessarily be due to the size of the business but primarily to the unavailability of required information used to assess the project (Quartey et al., 2017). Banks generally prefer borrowers with good performance history, are credit worthy, have existing banking relationship, and own assets that can be used to secure the lending. They utilize strategies to enhance the lending decision and minimise the potential risks associated with lending (Duqi, Tomaselli and Torluccio, 2018). Risk is associated with interest rate and therefore banks apply higher rates to transactions they are uncertain about, such as small business transactions (Rahman,

Rahman and Belas, 2017). In line with what banks require from small businesses, Abor and Biekpe (2007) proposes that small businesses should enhance their management practices by maintaining adequate information on their activities in order to minimize the perception of poor management banks have about them and increase their chances of getting credit facilities.

3.3.2.3 Savings and Loan Companies

Savings and Loans (S&Ls) Companies serve mostly the economically active informal, unbanked populations and provide specific services to suit this segment of clientele, as argued by Mantey, Aryee and Ampofo (2021). The authors concur that SMEs within the Accra township source startup capital from S&Ls and receive up to US$1,000 per borrowing and rely on their own savings and borrowings from family and friends for the daily operations of their businesses. This means that they contribute to the financial inclusion of SMEs in the form of access and usage of financial services. However, S&Ls are restricted to a limited range of financial services than universal banks, mostly mobilising deposits, providing credit to low-income clients and SMEs, transferring money, and offering financial literacy. They use microfinance modus operandi to serve most of the clients in the hinterlands with an average loan size higher than microfinance institutions (Mpuga, 2002).

According to Aryeetey (2008), S&Ls companies' mode of operations seems to be patterned largely along the lines of "Susu", with periodic deposit collection to raise their savings mobilisation and to provide SMEs and lower-income households with greater access to financial services, although smaller amounts of loans. These companies use innovative microfinance strategies to reach their target clientele at a high risk and therefore, their interest rates are higher than the traditional banks (Qyaye and Sarbah, 2016). However, clients value the speed and ease of obtaining credits than interest charges. The modes of frequent small payments (weekly, fortnightly, and monthly) favours the clients. S&Ls companies also insist that potential clients operate bank accounts with them for a period of time before applying for loans. This assists in choosing clients with consistency to pay off loans and to eliminate those who are unlikely to be reliable in honouring their loan obligation. According to the Bank of Ghana (2020), there are 25 S&Ls companies in Ghana, constituting less than 5% of the share of credit to businesses in the economy. In other words, S&Ls companies are not a significant source of finance to SMEs in Ghana but contribute to the financial inclusion agenda because they can support the unbanked micro and small businesses and individuals.

S&L’s operations are fraught with challenges such as poor risk management practices, unsound banking practices, and diversion of customer deposits into unsound business ventures (Bank of Ghana, 2019a). Berko, Dankwah and Boahene (2021), in their study on S&Ls companies in Sunyani, a city in Ghana, concur that S&Ls companies exhibit poor credit risk management practices and pay little attention, particularly to the character of the borrower, resulting in high default rates and hence the negative impact on their profitability. In other words, S&Ls are challenged in their role of financing SMEs.

3.3.2.4 NGOs and CUOs

Sarbah and Quaye (2014) discuss Non-Governmental Organisations (NGOs) and Credit Union Organisations (CUOs) as sources of financing for SMEs. According to the authors, NGOs are considered semi-formal systems, in that, they are formally registered and incorporated as companies limited by guarantee (not for profit) under the Companies Code but are not licensed by the Bank of Ghana. Boachie and Adu-darko (2022) indicate that CUOs comprise people of a common bond who contribute to saving and lending to one another. The bond includes groups such as church credit unions, community credit unions, and workplace credit unions. Even though CUOs contribute to the financing of businesses, Talbot, Bhaird and Whittam (2015) argue that CUOs’ contribution to bridging the financing gap of small businesses is not significant. The authors' study was based in a European country context where CUOs were identified to be challenged with structural issues, hence their inability to increase lending to small businesses. CUOs are registered by the Department of Cooperatives as cooperative thrift societies that can accept deposits from and give loans to their members only. In other words, small business owners who are not members of CUOs will not benefit from financing by this medium.

Quaye et al. (2014) reiterate that NGOs, in particular, are one of the main facilitators of good microfinance practices to improve the financial inclusion of the unbanked. They are generally welfare-oriented agencies that support the poor and implement initiatives to achieve sustainable development goals, including financial inclusion of all businesses and individuals in society. Trombetta et al. (2017) argue that NGOs face limitations that hinder them from being fully functional as a source of finance to businesses. First, regulations prevent NGO’s from being a deposit-mobilisation organisation and they are limited in the amount of financing they can provide. Furthermore, the lack of a clear national financial inclusion policy allows many actors to operate

in a disconnected way through different approaches, creating inconsistency and hampering the efforts and impact of stakeholders. Operational costs, weak infrastructure and the fragility of the institutions hinder NGOs' sustainability. In other words, NGOs lack the financial capacity to deliver credit to SMEs. Talbot et al. (2015) assert that CUOs structural issues would have to be resolved before they can become established in the SME financing ecosystem.

Figure 3.1 indicates the sources of financing for SMEs. The figure summarizes the two main sources of financing as debt and equity, with each comprising internal and external sources of financing. Internal sources of funds using equity include personal savings, family and friends and retained earnings. The external sources include angel investors, venture capital and stock market shares discussed in the subsequent sections. In terms of debt financing, the internal sources include loans from family and friends, while the external comprise financial institutions lending (banks, savings and loans companies), trade credit, asset leasing, hire purchase and factoring.

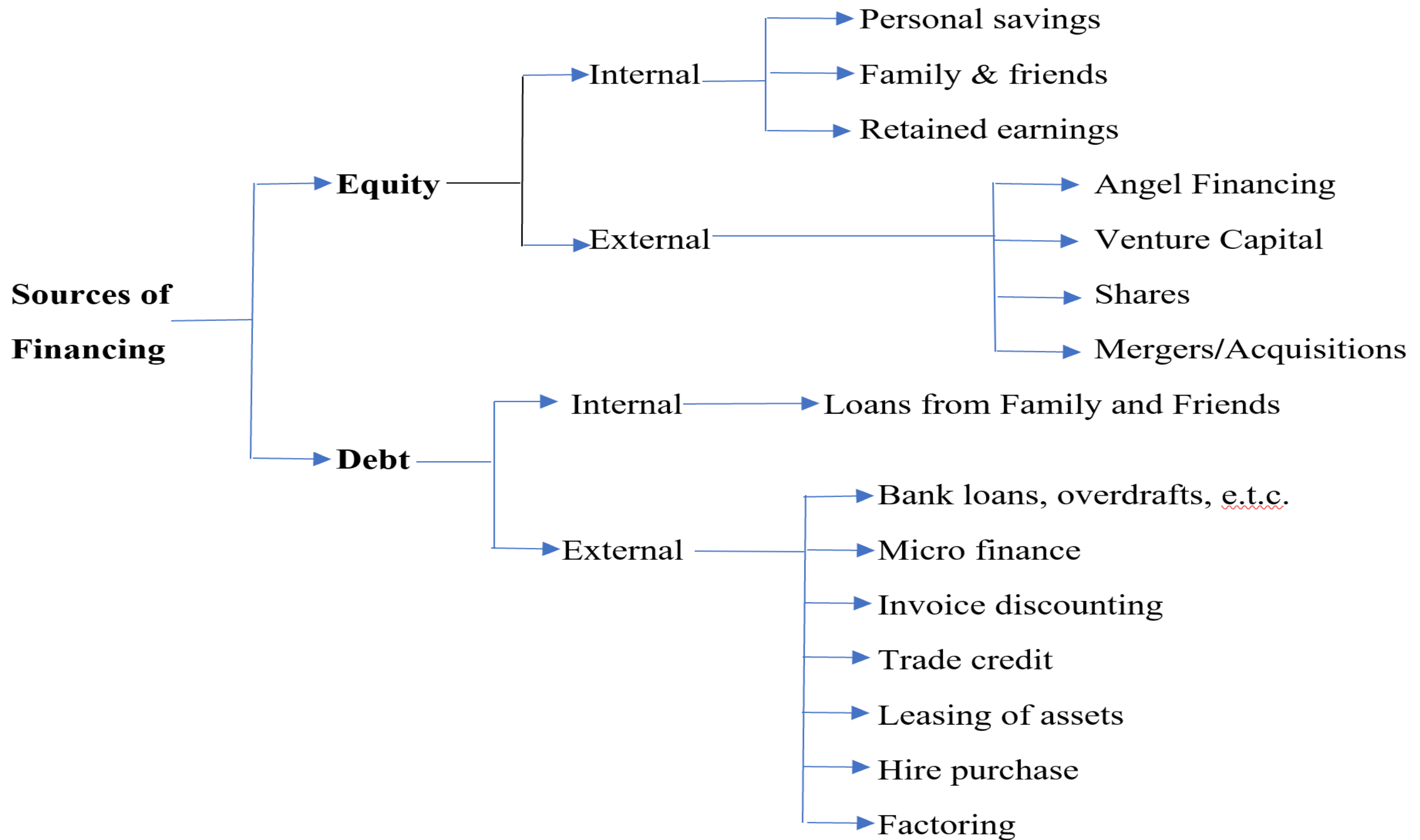

Figure 3.1: Sources of finance for SMEs

Source: Author's construct based on literature

3.4 FINANCIAL INSTITUTION RISK ASSESSMENT APPROACHES

Financial lending decisions comprise all the risk assessments carried out by lenders before funds are granted to borrowers. These assessments involve both the business and owner assessment and considered as a caution at the early stages of lending decisions in order to avoid any dangers in the future (Onyiriuba, 2016). Spuchľáková, Valašková and Adamko (2015) explain that the intent of such risk management or monitoring system is to enhance the continuity of business and to evaluate the creditworthiness of borrowers. Moreover, financial lending decisions are one of the many important tasks financial institutions, particularly banks, handle. In determining financial lending decisions on SMEs, financial institutions, typically banks, consider many factors before making final decisions to give a credit or loan facility. These have been discussed in the next section.

3.4.1 The Five Cs of Lending

Boushnak et al. (2018) discuss the Five Cs as a framework employed by credit officers to examine the reliability of a borrower. This is a useful and simple risk assessment technique encompassing five main critical factors in one indicator, namely, Character, Collateral, Capacity, Capital and Conditions. The authors recommend financial organisations to evaluate credit risk by utilising the Five Cs to control the delinquency rate. The authors state that the Five Cs is predominant in several countries in Africa and the Middle East. The Five Cs form an integral part of financial institutions lending decisions as indicated the conceptual framework of this study.

3.4.1.1 Character

The first component of the Five Cs is the owner/manager character assessment. Character is defined as *"the complex of mental and ethical traits marking and often individualising a person, group, or nation"p47* and typically ranks the first C in determining creditworthiness (Strischek, 2009). Abbadi and Karsh (2013) describe the character as the obligation a borrower feels to repay a loan but find it difficult to judge this. Therefore, lenders subjectively decide if a borrower is trustworthy enough to repay a loan. Strischek (2009) further argues that, although the other Cs matter, unless the financier is satisfied with the borrower's willingness to repay the credit, the remaining Cs does not matter in the credit decision. Part of the character assessment decision-makers relies on in the lending decision-making process includes education, experience, age, gender and ethnicity (Boushnak et al., 2018). Additionally, character is assessed to include

management behaviour, credit history, management (education and experience), good corporate governance, innovation, loan purpose and relationship (Rizyamesa and Rahadi, 2020).

In this study, financial institutions' decisions to lend to SMEs have been assessed, as well as such personal attributes of SME owners/managers as age, gender, education and their influence on access to finance.

3.4.1.2 Collateral

Collateral assessment alludes to the assets and properties the borrower owns. This is to provide assurance in case the borrower defaults in paying the obligation. According to Blazy and Weill (2013), banks solicit for collateral to reduce loss in the event of default, for adverse selection and moral hazard. Their study revealed that collateral and interest rate charged are positively correlated such that riskier businesses are charged higher loan rates. Duarte, Gama and Esperanca (2017) and Wang, Han and Huang (2020b) affirm collateral guarantee enhances bank efficiency and assures the security of loans and shares credit facilities risk to banks. Osano and Languitone (2016) affirm there is a relationship between collateral existence and access to finance by SMEs. Nevertheless, in many banks, the collateral must be greater than or equal to a hundred percent of the loan due to the high risk of default associated with lending.

In emerging economies, the use of collateral influences the ability to obtain financing as it tends to make financiers more comfortable in lending and connotes a commitment to repay the credit facility on the part of the borrower (Agostino and Trivieri, 2017; Duarte, Gama and Esperanca, 2017). The collateral requirements of banks continue to be one of the main hinderances SMEs encounter in their quest to accessing credit from banks (Bencheikh and Boulila, 2017). The extant literature identifies a variety of collateral requirements of financial institutions. There is the less traditional forms of collateral such as group collateral through group scheme lending, but these have been embedded with defaults and hence the gradual shift towards the use of other forms of collateral, including personal guarantee, post-dated cheques, promissory notes and gold (Aslam and Azmat, 2012).

However, Shang, Ma and Wang (2020) suggests that SMEs will have opportunity to gain more credit from commercial banks if they use the mutual-guarantee or group guarantee method of collateral. This approach is mutually beneficial to both financial institutions and the SME group. Other known types of collateral are land title documents, houses, shops or motor vehicles and these

when utilized, tend to increase SMEs' access to funding (Hanedar, Broccardo and Bazzana, 2013; Yaldız, Broccardo and Bazzana, 2014). The type of financial institution also determines their collateral requirement. Universal banks prefer secure property titles to other forms of collateral compared to Micro Finance Institutions, and this influences SMEs' credit access (Domeher, Abdulai and Yeboah, 2016). Yang, Gu and Yang (2021) reveal that the use of patent as collateral is prevalent among start-up businesses at their inception but for older start-ups whose financing options have improved, this type of collateral is not relied upon. In addition, there is an interdependent relationship between the use of collateral together with banking relationships with SMEs that positively relate to SMEs' ability to gain financing, although neither of the two approaches alone markedly influence an SME's access to credit (Fanta, 2016).

3.4.1.3 Capacity

The capacity measures a borrower's likelihood to repay a loan by ensuring that the source of repayment for the loan is clearly outlined in the business' cashflow projections and can be clearly separated from the core business (Muhammad and Melemi, 2021). According to Kessey (2014), in the credit evaluation process, banks give credence for the repayment capacity by measuring the source of reimbursement and future cash flow to guarantee they are enough to offset the intended debt. Hence, the real measure of the ability of a business to generate adequate cash flow to repay its loan obligations forms the basis of the capacity to repay. According to Peprah and Agyei (2017), banks in Ghana rank the Five Cs according to its importance in their lending decision-making as follows: Capacity, Character, Collateral, Condition and Capital. This suggests the capacity of the business to repay the loan from its own resources is far more important in the lending decision than the remaining Cs. However, there are slight variations in the ranking of the Cs as foreign-controlled banks rank Condition third and Collateral fourth.

3.4.1.4 Capital

Capital is ownership and it shows commitment and confidence in the business as depicted by equity ratio and debt to equity ratio (Noradiva, Parastou and Azlina, 2016). According to Greenbaum, Thakor and Boot (2015), a higher amount of capital lessens moral hazard and better the signal the firm's owners send about the trust they have in the business' future prospects. Furthermore, capital acts as a cushion of protection for the lender and without this, the borrower knows it has a valuable call option – if the project does not perform, the lender incurs the loss (the

worst the borrower can do is to get nothing), whereas if the project succeeds, the lender gets only its contractual payment, and the borrower earns a profit. However, SMEs lack adequate capital or equity invested in their business, especially in the developing economies and, therefore, they choose internal forms of financing compared to external forms such as banks (Mohamed Zabri, Ahmad and Adonia, 2021). Quartey et al. (2017a) argue that a business' ability to gain financing is influenced by their size and ownership.

3.4.1.5 Conditions

Peprah and Agyei (2017) explain that conditions constitute the purpose of the loan outlined in the business plan, the industry or market in which the SME operates, such as the state of the economy at large and the regulations and government interventions. Whereas certain factors are out of the control of the SME, the capacity of the SME to repay a loan becomes uncertain under some conditions. Additionally, Greenbaum, Thakor and Boot (2015) describe conditions as economic conditions, which affect the borrower's repayment ability, and state that loan repayments are mainly from the income of the business, the sale of assets, the sale of stocks and borrowing from other sources. The authors allude that lenders assess these sources of loan repayments, which also depend on the economic environment, to determine a borrower's ability to repay a loan. Macroeconomic indicators influence bank lending to SMEs in both developing and developed countries. To limit the risk of uncertainty, banks assess the macroeconomic variables and the environment when making lending decisions on SMEs (Barajas et al., 2020; Bongini et al., 2021).

3.4.2 Credit Bureau Report

A credit bureau report is a basic report that provides credit officers with nonfinancial information about SMEs to facilitate the risk assessment processes and in both high- and low-income countries, credit information sharing decreases bank credit risk (Kusi et al., 2017). The importance of building up a strong and reliable credit information coverage and the role of private credit referencing bureau is to improve information asymmetry and to reduce the incidence of multiple borrowing which negatively impacts banks (Soedarmono, Sitorus and Tarazi, 2017). The banking industry in Ghana makes use of varied approaches to alleviate credit risk, including utilising credit referencing bureaus (Kusi et al., 2016). This implies credit bureau reports can facilitate lending decision-making when offering credit to businesses. However, it has been argued that, for a credit referencing bureau to be effective, many elements should be in place, including a dependable

national identification (ID) system for individuals, appropriate policy/regulatory structure, a framework that permits information flow from a combination of players and a system to protect clients' privacy and channels to dispute information. Credit information sharing is still developing in Ghana (SEEP Network, 2015).

3.4.3 Availability of Legal Documents

Business documentation is an important determinant when making a lending decision for SMEs. The absence or lack of official business registration, license and other related documents is the major problem for accessing credit among SMEs (Zeneli and Zaho, 2014). Nkuah, Paul and Kala (2013) study in Ghana revealed that, official documentation/recording and enterprise registration largely influence SMEs' access to bank loans. Furthermore, the presence of bureaucracies and no clear cooperation between government organisations and ministries, and timelines for securing such legal documents takes a toll on SMEs' ability to apply for such documents. This further hampers their access to finance as banks require this documentation in their assessment of SMEs for credit. Although business registrations have improved, existing challenges requires the needed attention in order to improve SMEs financial inclusion (Biest and Wyss, 2019).

3.4.4 Availability and Credibility of Financial Statements

Berger, Minnis and Sutherland (2017) assert banks' exposure determines their audited financial statements requirements before lending to SMEs to assess their creditworthiness and decrease the risk of default. Motta and Sharma (2020) affirm that access to finance for SMEs in Brazil is influenced by the availability of financial statements and fixed assets as these are significant in determining access to bank finance. Jiangli et al. (2008) find that, across four Asian countries, if firms that must audit their financial statements do so, they get access to loans even if they have poor lending relationships, compared to firms that voluntarily audit their financial statements.

Minnis and Sutherland (2016) posit that, after loan disbursements, financial institutions' requests for financial statements as a means of monitoring small commercial borrowers and borrowers who provide this information tend to attract financing. Therefore, financial statements provide banks with the information required to both lend and monitor loans granted. On the contrary, Sari et al.'s (2020) study in a developing country reveals that SMEs' provision of financial statements to banks does not lead to an increase in financing as banks are uncertain about the quality and reliability of SMEs' financial statements. SMEs, however, have challenges, and one of such is their failure to

audit their financial statements or accounts, which deters banks from lending to them (Asunka, 2017; Huang et al., 2019).

3.5 FINANCIAL INSTITUTIONS LENDING APPROACHES

In the quest to address the availability of external financing for SMEs, several authors, including Berger and Udell (2006), Shaban, Duygun and Fry (2016) and Wang, Han and Huang (2020) propose a framework of lending approaches that include the simplified ‘hard’ (transaction lending) and ‘soft’ (relationship lending) approaches of lending. In these frameworks, financial institutions’ lending approaches include financial statement lending, small business credit scoring, asset-based lending, factoring, fixed-asset lending and leasing. Bengo and Arena (2019) further use lending technologies for SMEs and conclude that the feasibility and profitability of using different lending technologies depend on how well the relationship between banks and SMEs is developed in an economy. However, these lending technologies are not distinctly used from each other but rather, multiple lending approaches are used at the same time, such as fixed asset lending and financial statement lending, which reduced information asymmetry among SMEs in the hospitality sector in Brazil (Motta and Sharma, 2020). These various approaches to lending are further discussed.

3.5.1 Financial Statement Lending

Chakraborty et al. (2018) posit that firms' financial statements are a source of information that financial providers review in the lending process to borrowers and they form a basis for lending decisions. The implication is that the borrower maintains financial records and produces audited accounts with strong financial ratios and supportive cashflow statements with evidence of the ability to repay the loan. On this basis, the financial institutions that collect borrower audited accounts will use this approach to lend to the borrower (Berger, Minnis and Sutherland, 2017). This approach does not always work for all SMEs as they are not obliged by law to submit financial statements unless they are listed on the stock exchange (Kwak, 2020).

Udell (2008) subsequently submits that SMEs that are relatively transparent because they are able to produce financial statements with strong financial ratios are the ones banks underwrite loans for. However, a firm’s business environment and the applicable financial reporting standards can determine the need to produce financial statements (Chakraborty et al., 2018). This suggests, therefore, that banks will not use these transaction technologies for SMEs that are not transparent

if they are unable to provide financial statements. Other lending approaches such as relationship lending may be used for such SMEs (Duqi, Tomaselli and Torluccio, 2018).

3.5.2 Relationship lending

Relationship lending has been one way of lending to overcome credit restrictions typical in small firm lending, and affects credit availability with longer relationship with a bank leading to credit availability compared to multiple relationships with other banks (Kysucky and Norden, 2016; López-Espinosa, Mayordomo and Moreno, 2017). Relationship lending and relationship banking are used commonly by banks in marketing to represent about any service the bank tends to offer its customers. However, relationship lending as proposed by Berger and Udell, (1995) in their seminal paper, point to this as a unique approach to expanding loans or credit to small firms that are usually informationally opaque, as the lender gets to know the firms better. Through longer and stronger banking relationships, small firms can borrow at reduced lending rates with less probability of providing collateral for the loans (Bharath, Dahiya and Saunders, 2011; Suryani et al., 2021).

Calabrese, Degl'Innocenti and Zhou (2020) intimate that such small firms may be firms that are not on the stock market, and they may also have asymmetry challenges which the bank-borrower relationship may resolve as the banks would have gathered private information about the firm over some time. This includes assessing the SME's future prospects compiled through interaction with their suppliers, customers, other businesses and associations and information disclosure. Despite the advantages relationship lending brings to both the SME/borrower and bank, Duqi, Tomaselli and Torluccio (2018) argue that there is the risk of the lender exploiting the relationship and extracting more rent from the borrower. Additionally, relationship lending could be adversely affected by bank competition, the ownership structure, the regulatory environment and the business model of the bank. This means that when relationship banking is used appropriately to influence lending to SMEs, the financial inclusion will be improved.

3.5.3 Credit Scoring

Onay and Öztürk (2018) review credits scoring lending approach as a means by which lenders assess the risks associated with new borrowers before deciding to lend. For existing borrowers, credit scoring relies on existing data on the borrowers to make financing decisions. In this case, the financial history of the existing borrower becomes a means by which a credit score can be

generated to determine the risk of the borrower. The authors further discuss the concept of big data in credit scoring, which aids in making lending decisions. Big data is information gathered on businesses or individuals, which is of high volume. Such information is collected, stored, and analysed with speed and provides high diversity in aid of decision making. Wei et al. (2016) suggest the use of credit scoring based on big data to evaluate borrowers with limited financial history and thereby increasing their chances of accessing financing. This assertion is supported by Aitken (2017), who contributes to the credit scoring debate by using alternative data which is non-financial and includes academic records of borrowers, psychometric testing and behavioural indicators gathered from online social media footprints. The author concludes that this approach contributes to the financial inclusion agenda in lending to the unbanked

Li et al. (2016) affirm credit scoring as a way of enhancing bank competitiveness in the loan market for SMEs. Demma (2017) shows that banks that used credit scoring models in a European country during the financial crisis had higher-quality loans, with large firms showing more significance than smaller firms. The author explains that smaller firms are known to be assessed traditionally on a soft information basis. Credit scoring models tend to be used at the onset of loans, but Young et al. (2017) develop one that predicts the debt-paying ability of recipient firms after the loans have been granted using the behavioural patterns model and application model on technology-based firms. According to the authors, the application model predicts defaults at the onset of the loan application when managing loan repayment and deciding to grant additional loans. The behavioural credit scoring model is useful because it attempts to prevent borrowers from defaulting and lenders from default shocks, hence, leading to a sustainable financing relationship between lenders and borrowers (Sohn and Kim, 2012). Bedin et al. (2019) use credit scoring to evaluate the default probability, recovery rates, and loss of a portfolio of SME securitized loans in an Italian bank context. They conclude that default rates of these loans are lower than the performance of the average loans of the bank. In other words, credit scoring can predict loan defaults.

3.5.4 Fixed Asset Lending

Fixed Asset lending is based on the collateral value assigned to the financial institution (Motta and Sharma, 2020). Amoako-Adu and Eshun (2018) also describe this lending approach as collateral lending or asset-backed lending, where the lender requires collateral in case of default. Such assets include real estate, equipment and motor vehicles. Small businesses are seen as unstable, harder to

value and, therefore, lenders require higher collateral to reduce the impact of defaults (Agostino and Trivieri, 2017). The use of fixed assets has become a means by which SMEs can access financing as in this approach, the risk to the bank is reduced and at the same time the SME is committed to repaying the loan (Duarte, Gama and Esperanca, 2016). This approach is not only challenging but problematic as ownership of fixed asset to be used as collateral has been cited as one of the main challenges SMEs face in accessing financing (Ayyagari, et. al, 2017). This lending approach suggests, therefore, that without fixed asset ownership, SMEs will be challenged in access financing.

3.5.5 Factoring

Do (2018) proposes factoring as an alternative lending technology for certain SMEs because of their information opaqueness, as this means of lending does not depend on the borrower's credibility but on the credibility of the accounts receivables. In other words, the process of factoring is when the bank underwrites the accounts receivables (creditworthy companies) at a discounted rate, extends the credit to the borrower and collects the receivables when due. Kouvelis and Xu (2018) argue factoring can free up cashflow locked up in credit receivables in transactions between suppliers and buyers depending on the supplier's credit rating risk and liquidity and the retailer's credit rating. Though factoring is a growing lending technology, its usage depends on the business of the borrower and the regulations of the financier and can be accessed by SMEs that possess receivables (Onaepemipo et al., 2019).

According to Milenkovic-Kerkovic and Dencic-Mihajlov (2012), factoring is particularly important for firms in the service industry due to their peculiar risks and lack of sufficient collateral, but this lending approach is also fraught with hidden restrictions and costs from the legal environment. Mol-Gómez-Vázquez et al. (2018) suggest from a study of twenty-five countries' legal and institutional determinants of factoring that countries with weaker legal environments are more likely to use factoring than those with strong legal environments and explain further that, in such environments, bank financing could be more restrictive, hence, the choice of factoring as a complementary form of financing for small and medium enterprises.

3.5.6 Leasing

Financial institutions purchase fixed assets such as equipment, motor vehicles, airplanes and real estate for their borrowers through leasing (Mol-Gómez-Vázquez, Hernández-Cánovas and Köeter-

Kant, 2023). The authors assert that in this process, the asset is purchased for the borrower, resulting in a loan contract with a repayment schedule with the option where the lessee can pay an agreed amount at the end of the lease to own the asset. Ivashina, Laeven and Moral-Benitor (2020) argue leasing is used for informationally opaque firms as the transaction is based on the asset's value. The authors further argue that such assets can be repossessed by the lender if the borrower defaults in the monthly instalments. Leasing seems to be among the preferred financing by SMEs in the Ghanaian financial markets as outlined by Osei-Assibey et al. (2012), but argue that this preference rather is because of persistent constraints in accessing formal financing rather than an actual preference if all other constraints were absent. Jabeen, Ali and Ali (2021) confirm leasing as a preference of financing by SMEs in Pakistan. In other words, leasing is preferred by both financiers and borrowers as the risk associated with it is perceived to be less.

3.5.7 Trade Credit

"It is typically less profitable for an opportunistic borrower to divert inputs than to divert cash. Therefore, suppliers may lend more liberally than banks"p1 (Burkart and Ellingsen, 2004). This statement suggests that in trade credit, the role players are suppliers, buyers (borrowers) and banks and that suppliers tend to give more credit to their customers than banks will do. Early researchers such as Emery (1984) and Smith (1987) in their seminal papers explain trade credit as a process where buyers buy goods and services from suppliers on credit and pay later, usually on a short-term basis and the motive could be a financing motive, where the buyer does not have all the funds to make the payment at the time of purchase; or it could be a transaction motive, where it will take time for the goods to be sold and, therefore, payment made later. Burkart and Ellingsen (2004) suggest that, when trade credit is cheaper for buyers, it implies suppliers are willing to extend credit, but when it is more expensive, then it means banks are unwilling to give financing. This further suggests that trade credit and bankers' credit can be complementary or supplementary depending on which is more advantageous for the buyers at a point in time.

Whilst Arcuri and Pisani (2021) argue that trade credit is mainly requested by firms with poor access to bank credit, Mcguinness, Hogan and Powell (2018) argue that trade credit was an important source of finance for constrained SMEs, especially during the financial crisis in Europe and this was key to their survival in those times. Arcuri and Pisani (2021) conclude that trade credit is a more sustainable way of financing businesses than bank financing and suggest that this and

financial inclusion are sustainable approaches to local development. Similarly, Huang et al. (2019) support the assertion that trade credit enables the sustainable growth of firms that particularly face bank financing challenges. These authors, therefore, point out that trade credit is an import form of financing for businesses.

3.6 THE SME OWNER/MANAGER ATTRIBUTES

Several research works on SMEs reveal demographic features such as age, gender, education, experience and ethnicity contribute to SMEs' source of financing and business growth (Abbasi, Wang and Abbasi, 2017; Rahman, Rahman and Belas, 2017; Attrams and Tshehla, 2021), but studies on the effect of owner attributes or characteristics on access to SME loans are limited (Zabri, Ahmad and Adonia, 2021). In this section of the study, the influence of an entrepreneur's characteristics such as age, gender, education on access to finance are discussed. The attributes discussed further influenced the design of the instrument for both the qualitative and quantitative study to address the objectives of this study.

3.6.1 Age of the Owner or Manager

Several scholars have used the age of the SME owner as a characteristic to determine various financing concepts, including SMEs' financing preferences, access to credit, and their ability to repay loans (Yeboah, 2015; Arthur-Aidoo, Aigbavboa and Thwala, 2016; Mandizwidza-Moyo, 2020). The presumption is that the older one is, the more risk-averse they become and, therefore, the preference to rely on own savings or retained earnings rather than borrowing from external sources (Yeboah, 2015). The reverse of this presumption is that younger owners have less risk aversion towards borrowing and are less mature in making prudent financing decisions (Bruine de Bruin, Parker and Fischhoff, 2012). This reflects the perception of financial institutions that regard young owners as possible loan defaulters and, therefore, lend less to this group compared to their older counterparts (Ogubazghi and Muturi, 2014). Zabri, Ahmad and Lean (2015) find this assertion to be true as they argue older owners have more insight, are adept and possess improved management skills than younger owners, making them attractive to bank financing. Nguyen and Luu (2013) agree the younger the age of the owner, the more they rely on informal financings such as family and friends, and the older they are, the more they rely on bank financing.

In sharp contrast, certain scholars find no significance between age and access to bank loans. Amongst such are Domeher, Musah and Hassan (2017) and Domeher, Musah and Poku (2017)

who argue the age of the owner does not influence their credit access to bank loans. Therefore, age as a characteristic of an SME owner or manager is an important variable in assessing SME financing, which this study considers.

3.6.2 Gender of the Owner or Manager

Several scholars have compared access to finance between males and females and show some evidence of gender disparities in financing businesses (Le and Stefańczyk, 2018; Tambunan, 2019; Kijkasiwat, 2021). There is evidence of gender discrimination in studies in Vietnam, which shows that female-owned enterprises have a 34% higher likelihood of loan denials than male-owned firms, with the gap increasing to 67% in male-intensive industries (Le and Stefańczyk, 2018). Moro et al. (2017) argue the perception of bias against female-owned businesses in accessing loans has led to such businesses being financially constrained because the female owners anticipate the rejection and are, hence, less likely to seek a loan. The scholars' assertion is based on studies conducted in 29 countries across Europe and Asia.

Arzu and Mantovani (2017) concur there is a higher percentage of female-managed companies that deserve loans but do not receive, even though there is a lower percentage of these firms which are at risk of default. The scholars assert the reverse is true of male-managed firms which are at risk of default and yet receive loans. Morsy (2020) adds to the discourse on discrimination in financing against female-led businesses in a study that analyses access to finance in 141 countries over a period. The scholar indicates, *"women are more likely to be excluded from the financial sector in countries where: (i) foreign-owned banks have a smaller presence; (ii) state-owned banks have a bigger share in the banking system; (iii) credit information is less available through public and private credit registries; and (iv) gaps between women and men in educational attainment are large" p18.* Morsy's (2020) first three assertions could relate to Ghana, where the financial sector has conditions similar to those outlined (Bank of Ghana, 2019a), implying that female business owners face discrimination in accessing financing. Ali (2019) reports that female-owned businesses in the tourism sector in Ghana are challenged financially and this hinders their potential to grow. Similarly, cultural practices and beliefs place the female-owned SMEs at a disadvantage because females are perceived to be uneducated in business (Anambane and Adom, 2018).

Given the numerous findings that suggest that female-owned businesses face financing constraints, Hewa-Wellalage et al. (2021) contend in a global survey during the COVID-19 pandemic that

female-owned businesses are 2% more likely to obtain financing than males. Gender is, therefore, an important variable in the financing literature and in this study, the gender of an SME owner/manager is included in the assessment of SMEs financial inclusion.

3.6.3 Educational Level of the Owner or Manager

Abdulsaleh and Worthington (2013) find banks consider owners or managers with a higher education degree to be creditworthy. However, there are contradictory findings to this assertion as Ogubazghi and Muturi (2014) report the educational level has no significant effect on the probability of SMEs' access to bank loans. Similarly, Peters et al. (2014) find no significant relationship between an SME owner/manager's education level and business growth, which depends on access to finance. On the contrary, Salifu et al. (2018) show that educational level is used not only in studies on SMEs' access to finance but also to determine the loan repayment performance of such businesses. The author's evidence from a study in Ghana indicates SME owners with tertiary education record the best performance in loan repayment, followed by those with secondary education.

Salifu et al. (2018) deductively show that business owners who have higher educational levels tend to perform better on loan repayments because they have a better appreciation of the business environment, including maintaining financial information and cashflow projections and making good decisions for the business. Moreover, higher educational attainment enhances financial literacy and increases SMEs' demand for financial services (Morsy, 2020). In other words, SME owners with lower levels of education may be deterred from seeking financing from banks. In this study, the educational level of SME owners and the relationship to access to finance has been considered.

3.6.4 Experience of the Owner or Manager

Experience serves as a means of determining the capacity of the human resource of a business. (Zabri, Ahmad and Adonia, 2021). Quartey et al. (2017) discuss the constraints to SME financing in the Sub-Saharan region and find, among other factors, that the experience of the top manager influences accesses to finance. In particular, the more experienced the top manager is, the higher the chances of accessing finance. (Cole and Dietrich, 2017) study credit availability worldwide using data from the World Bank and discover there are discouraging firms and denied firms. The authors explain that discouraged firms are firms with a need for credit but fail to apply for fear that

the credit will not be granted, or due to interest rate scare or they will not be able to meet collateral requirements. Such firms are both younger and smaller and probably run by a less experienced owner or management team. (Cole and Dietrich, 2017) further express denied firms as firms that have applied for credit and are turned down. Such firms are less likely to be run by more experienced management teams. In other words, experience relates directly to credit access. The experience of an SME owner, among other measures, is also found to significantly determine SME's financing preferences (Zabri, Ahmad and Lean, 2015).

3.7 SME FIRM ATTRIBUTES

Studies in SME financing have considered a combination of firm attributes in analysing various financing concepts. Such attributes combinations include age and size (Çera et al., 2019), location, age and size (Eniola, 2018), formal and informal firms (Kasseeah, 2016), and sectoral basis of firms (Domeher, Musah and Hassan, 2017). In this study, the size, formality, and sector of the SMEs have been applied in assessing the influence of the firm attributes on access to finance. These attributes or characteristics have been discussed in the next section.

3.7.1 Size

According to Wellalage and Fernandez (2019), access to external capital for smaller businesses may be limited and one explanation is that financial institutions incur fixed costs associated with appraising the proposal submitted for a loan. This situation alone is enough to create a limitation against this group of businesses right from the onset as the cost of appraising small businesses and large businesses may be the same, but the return on a small business makes it unprofitable. Hence, financing institutions will choose businesses profitable to them. Additionally, small businesses are more prone to idiosyncratic risk, as they may be at the early stages of their growth with little reputation or track record for investors to satisfy themselves of the firms' viability and repayment ability (Xia and Gan, 2020).

Nevertheless, empirical evidence varies, and conclusions may be limited to specific countries or financial systems. Eniola and Entebang (2017) study the correlation between a firm's size and its access to credit and find that in tough credit times, SMEs in Nigeria are often denied funds due to their size, in favour of a better-quality borrower. Chodorow-reich et al. (2020) equally identify a strong link between a firm's size and external financing and argue that small businesses are limited in their financing options because of the information requirements by funders, whereas large firms

are not restricted in their access to capital markets. According to Mc Namara, O'Donohoe and Murro (2020), credit is probably rationed when there is opaque information between borrowers and lenders which is required for due diligence processes before lending and often, small firms are found wanting in information sharing. Hence, their size limits their credit access.

In the Sub-Saharan African region, access to finance is driven by many factors, including firm size or a number of employees such that, the bigger and older the firm, the likelihood of reliance on retained earnings and ease of access to external financing, and the smaller the firm, the more pronounced the challenge of accessing external financing (Quartey et al., 2017). The scholars find some country variations and specifically, in Ghana, firm size and formality significantly determine access to finance, while in Mali, it is firm size, gender of the owner and formality, and in Senegal, ownership, the experience of the owner, firm performance and formality. Several scholars support the assertion small firms are more financially constrained than bigger firms (Masuluke, 2018; Hosny, 2020; Bauweraerts et al., 2021). In this study, the number of business' employees forms part of the firm characteristics evaluated concerning access to finance.

3.7.2 Formality

There are different interpretations between the formality and informality of businesses in most economies. Kasseeah (2016) argues that formality includes being captured in government records for taxes, registration of businesses with institutions regulated for giving the mandate to operate a business in a country and registration with business associations. Informality, on the other hand, is associated with non-payment of taxes and anything underground. Hart's (1970) seminal work on the urban informal sector in Ghana describes informal businesses as unregulated economic enterprises or activities. A national survey in Ghana on businesses and job creation classifies formal businesses as those with accounts being managed by professionals and informal businesses as those with accounts unmanaged by professionals (GSS, 2015a).

In terms of job creation, the three main sectors in the economy report varied figures. In agriculture, jobs created in the formal represent 57.1% whilst those in the informal represent 42.9%. In industry, formal and informal job engagements represent 37.7% and 62.3%, respectively, whilst those in the service sector comprise 20.4% in formal and 79.6% in informal engagements. The service sector has the largest number of informal engagements. Scholars such as Wangmo (2016), Kabir et al. (2014) and Turkson, Amissah and Gyeke-dako (2020) confirm that the majority of

small and medium enterprises are informal and this status makes it more difficult for the enterprises to access formal financing. To bridge the gap, the current study seeks to introduce a framework for accessing financing for SMEs in the services sector.

Authors such as Mahadea and Zogli (2018) and Musah et al. (2019) discuss the informal sector and its challenges in Ghana. One assertion is that business operators are pushed into the informal sector out of necessity, and since they are both business knowledge and financing challenged, they hardly move from informality to formality (Mahadea and Zogli, 2018). Another assertion is that micro and small businesses are major players in the informal market and they rely on informal financiers whose pricing are high, leading to lower profit generation and the inability of the businesses to grow from informal to formal businesses. Osei-boateng and Ampratwum (2011) categorise the informal sector in Ghana into rural and urban businesses. While the rural consists mainly of businesses engaged in agriculture, fishing and agro-based processing, the urban consists of services, construction and manufacturing. In particular, the scholars outline the informal services sector to comprise various services including wholesalers and retailers, caterers, hairdressers, garages and auto mechanics. The scholars conclude that, whilst the process of financing the formal sector goes through the assessment of creditworthiness, the informal sector is based on the borrower being known by the financiers. The formal registration status of SMEs has been considered as a characteristic in assessing their access to finance in this study.

3.7.3 Sector

Domeher, Musah and Hassan (2017) report in their study on SMEs in Ghana that there are sectoral differences in access to finance across the five sectors included in their study, namely, the agriculture, manufacturing, transport, retail and hospitality and construction sectors. Their findings indicate a strong significance in the loan amounts applied for and the amounts received in the manufacturing, retail, construction and agriculture sectors. The scholars further find that, in Ghana, the construction sector is highly credit-rationed compared to the hospitality, retail and manufacturing sectors. And this is due to the irregular cashflows of construction businesses compared to that of fast-moving consumer goods in the wholesale and retail businesses that generate daily inflows. Banks, therefore, perceive construction as a higher risk than a retail business.

Similarly, Abor (2007) reveals that in Ghana, the agriculture sector and the health sub-sector rely on long-term financing, similar to the manufacturing sector, which relies more on long-term than short-term financing. Abor (2007) intimates that the wholesale and retail trade sub-sectors on the other hand rely more on short-term financing just like the information and communication sector, but the construction and the mining sectors rely less on short-term financing. Asante-Gyabaah et al. (2016) postulate that weak governance structures and poor administrative infrastructure are the main causes of the lack of access to credit among the pharmaceutical retail business in Ghana. This indicates there are even sub-sectoral differences in business financing.

Other scholars have found sectoral differences in credit rationing among small and medium businesses. Chakraborty (2012) finds that sectoral differences among US businesses and discovers manufacturing SMEs are more constrained than the rest of the sectors. Silva and Carreira (2010) argue that businesses in the service sector are more likely to be credit-constrained because, by the nature of their businesses, they use intangibles and may, therefore, lack assets required by financiers as collateral. Manufacturing businesses, in contrast, own assets and, therefore, are likely to experience less credit constraints comparatively. Ratemo et al. (2018) confirm the credit constraint of the services sector businesses in Kenya by discovering that collateral and financial performance is significant in determining credit access in the hospitality business.

Brixiová et al. (2020) examine the sectoral impact of access to finance across 42 countries in Africa and conclude that, when manufacturing firms receive funding, the impact on employment is greater than when the services sector firms receive funding. The scholars suggest, therefore, that policy directives be geared toward access to finance for manufacturing firms. In Ghana, however, the services sector engagement continues to grow with a total of 425,974 establishments representing 79% of all businesses across sectors and engaging greater than 2.3 million people representing 74% of jobs in all the sectors (GSS, 2018). Therefore, the sector plays a significant role in the economy, hence, the focus of the current study on the services sector to bridge the gap in access to finance.

3.8 ALTERNATIVE SOURCES OF FINANCING

Alternative sources of financing businesses are competing with traditional sources such as banks at a fast pace. Saksonova (2018) identifies venture capital and business angel as alternative sources of finance for SMEs. The use of grants from funding agencies has been identified as well (Rupeika-

Apoga, 2014). Thompson, Boschmans and Pissareva (2018) outline various alternative financing for SMEs according to the level of risk associations. While the authors identify factoring and leasing as low-risk alternative means, public listing, crowdfunding, business angel and venture capital are identified as high-risk alternative sources of financing. In between the low and high risk are different types of bonds as alternative sources of financing. In this section, some of these alternative sources of financing have been discussed in line with the aim of SMEs' access to finance.

3.8.1 Venture Capital

Venture capital is a form of funding where investors raise funds and these funds are invested into businesses with potentially high returns (Abdulsaleh and Worthington, 2013). Venture capital is at a more mature stage in developed economies (Tykvová, 2018) than in developing countries (Esho and Verhoef, 2018). Tykvová (2018) finds a positive relationship between the success of venture capital funding and the legal framework of the investee country; hence, the more developed a country is, the more successful the venture capital environment is. Esho and Verhoef (2018) explain that the concept is at the teething stage in developing countries, and hence studies are limited. In developed countries like China, Wu and Xu (2020) find an improvement in SMEs' access to finance when the bank loans are supported with venture capital which leads to the performance of these SMEs with fewer default rates. This assertion is affirmed by Quas, Martí and Reverte (2020), who revealed that entrepreneurial ventures with venture capital backing perform better in job creation, improve assets and increase sales better than non-venture capital-backed entrepreneurs. Other studies have shown that the collaboration intensity between firms and their local partners and foreign partners has an effect on their access to finance through venture capitalists (Trunina et al., 2020).

In Ghana, venture capital is fairly new. The Venture Capital Trust Fund (VCTF) was established in Ghana by an Act of Parliament (Act 680) in November 2004 to provide financial resources for developing and promoting venture capital financing for SMEs in Ghana. This is achieved by providing financing to eligible Venture Capital Finance Companies to support SMEs; and providing monies to support other activities and programmes for promoting venture capital financing (Government of Ghana, 2007). Since its inception, the VCTF has made strides in making financial resources available to SMEs by establishing alternative financing sources, namely: the

Ghanaian Angel Investors Network (GAIN) and the Ghana Alternative Market (GAX) as an alternate listing on Ghana's stock market . Barnett et al. (2018) classify SME beneficiaries of venture capital in Ghana as job creators, service providers and market makers, where the job creators are the least preferred by investors, although they make a greater social impact.

The funding of venture capital comes from diverse sources, including governments, rich individuals and monetary agencies (Wu and Xu, 2020; Kato, 2021). For instance, in Ghana, the National Pensions Regulatory Authority (NPRA) was influenced to direct funds into the venture to promote SME development. Additionally, there were collaborations with the Ghana Stock Exchange to promote SME listing, including assisting with funds to cover upfront costs in listing SMEs on the market (VCTF, 2016). Although the fund has gained some strides, including investing in SMEs in agriculture, health and education, it is challenged in terms of gaining autonomy from government and political influences, ensuring sustainable funding and strengthening the internal technical capacity (VCTF, 2016). Additionally, a more diverse set of investment strategies to include debt, quasi-equity, equity, impact, and growth could benefit growth-oriented SMEs in Ghana (World Bank Group, 2019). In other jurisdictions, venture capital has been a major source of finance for SMEs due to how well structured and funded the ventures have been developed (Lungeanu and Zajac, 2016). Barnett et al. (2018) report that the social impact of the VCTF in Ghana is undervalued, as there are indirect impacts such as indirect job creation, value added to rural and lower-income groups. The authors suggest that the level of investment requirements for SMEs ought to be properly measured. There is a growing interest in venture capital investment into African countries such as Nigeria, South Africa, Ghana and Egypt (Kato, 2021).

3.8.2 The Business Angel

Dibrova (2015) describes business angels or angel investors as wealthy individuals who provide capital or financing for new business ventures, usually a start-up, in return for convertible debt or equity. They are thought of as a bridge between loans from family and friends and venture capital amongst start-ups. According to the European Business Angels Network (EBAN) angel investors invest their time, expertise and connections in the businesses they finance. Business Angels play a similar role and are classified as private investors in start-up businesses who mentor and advise their investees (EBAN, 2021). Business angels may organise their activities in three different

ways: by joining business angel networks or associations, by co-investing with other investors (angels) and by working on their own as independent investors (Dibrova, 2015). Bonini et al. (2018) reveal the investment behaviour of business angels who operate in associations such as EBAN. They conclude that the shared information, networking, monitory, and risk determines how much personal wealth an angel investor commits to a particular venture. SMEs, on the other hand, require funding from different sources, including trade finance, equity financing/angel investor, loans, and informal sources of finance, with trade credit being the strongest form of finance in a developing country contest (Muturi and Njeru, 2019). Jabeen, Ali and Ali (2021) show gender, type of business and sectoral preferences in sources of financing by SMEs in Pakistan, with businesses owned by men prioritizing angel financing, leasing and hire purchase, while partnership entities prefer retained earnings. Service sector businesses prefer to hire purchase, while agricultural entities prefer leasing.

The investment activities of angel investors are limited in developing countries, contributing to SMEs' access to finance challenges (Ayyagari et al., 2017). Particularly, the Ghana Angel Investor Network (GAIN) was the first angel investors' network that resulted from the innovation of the VCTF. GAIN is at its early stage and comprises a network of 25 high net-worth individuals and accomplished entrepreneurs from various industry sectors (VCTF, 2021). This suggests that angel investors are not prevalent and well-developed in Ghana as a key player in financing businesses at various stages. Biest and Wyss (2019) reiterate that few options exist for SMEs in Accra's (Ghana) external financing through business angels or venture capital. However, the role of business angels and the potential in expanding financing options of SMEs in Ghana cannot be over-emphasised (Owusu et al., 2017).

3.8.3 The Stock Market

Gupta and Gregoriou (2018) argue that capital market-based financing for SMEs is progressively becoming an alternative means by which SMEs can access external financing. Hence policymakers are creating an enabling environment for SMEs to meet the stringent requirements. Ullah (2020) shows that there are disparities in the growth of businesses and considers that businesses in countries with a strong stock market presence amongst other conditions face fewer financial constraints than countries with weak stock markets. The flow of remittances has also been used to assess the level of development of bank and stock markets in developing countries such that

countries with low inflows of remittances promote the banking sector development but slow stock market development. In other word, stock markets promote high remittance inflows (Issahaku, Abor and Harvey (2017). Nguyen et al. (2020) argue that countries in the tropical economies are at the developmental stages of the stock markets and the dependent institutions, which requires some level of efficiency to develop.

Johnson and Kotey (2018) assessed the influence of the Ghana Alternative Market on SMEs and the economy and discovered the market was fraught with challenges and stagnated growth. The authors found a lack of knowledge on the part of SMEs on the requirements and the benefits of listing on GAX, whilst at the same time, the stakeholders needed to invest in the education of the SMEs. Acquah-Sam (2019) argues that GAX had not achieved its objective of listing at least 50 SMEs by the end of 2020. The associated challenges are two-fold: first, investors are scared of the failure of startups and existing SMEs and are committing low investments. Secondly, the associated cost of listing and the requirements should be scaled down to suit SMEs. in other words, the stock market has the potential of enabling SMEs to access finance, but the achievement of this objective is far reaching.

3.9 SME CHALLENGES

SMEs face diverse challenges, which the extant literature has elaborated. The challenges have been discussed in this section and other study sections. Although the challenge of access to finance is an integral aspect of the current study, the discussion of the SME challenges in this section provides a holistic view of what this group of businesses faces and how integrated the issues confronting them are.

In the extant literature, SMEs offer an extensive contribution to national employment and GDP across sectors, including the services sector, but one major barrier to SMEs' rapid development is the shortage of debt and equity financing (Ahmad and Atniesha, 2018; Sony and Bhaduri, 2021). According to Toulova, Votoupalova and Kubickova (2015), accessing finance is deemed a key component for SMEs to succeed in their effort to create jobs, compete in the market, build productive capacities and contribute to poverty alleviation strategies, particularly in developing countries. Owing to inadequate access to finance, SMEs are unable to absorb new technologies, expand their businesses to effectively compete in the world market, or enter into collaborative engagements with foreign marketers and investors (Owusu et al., 2017). Sarbah and Quaye (2014)

add that SMEs are frequently avoided by commercial banks because of the perception that they are high-risk borrowers. Therefore, the level of risk associated with the riskiest small business tends to be applied to all SME businesses.

Furthermore, access to credit by SMEs is frequently hampered by lack of collateral, which is often linked to poorly defined property, land use rights, weak land and property markets (Abraham and Schmukler, 2017). Formal lenders' stringent collateral requirements frequently shut out a major segment of SMEs. Because SMEs' survival and growth are inherently uncertain, their asset-backed collateral is typically appraised higher than the loan amount needed to ensure the loan is realistically covered in the event of default (Ackah and Vuvor, 2011). Other scholars assert that, even when SMEs have assets that can be used as collateral, banks are less eager to accept them due to the high costs and long delays in pursuing legal remedies (Bondinuba, 2012; Domeher, Abdulai and Yeboah, 2016; Amoako-Adu and Eshun, 2018). This indicates that small businesses are already at a disadvantage in accessing financing compared to large businesses.

The challenge of reputational effects exists, where SME owners are prevented from applying for debt financing due to their own or other SMEs' experiences in applying for loans from banks. When this happens, certain small business owners may be unable to obtain financing because they are discouraged from applying at some point (Marfo Yiadom, Agyei and Ansong, 2017). To buttress this point, Fraser, Bhaumik and Wright (2015) and Nguyen and Canh (2021) indicate that business owners who are discouraged by perceived bureaucracy or financial requirements, as well as a first refusal, may be reluctant to seek financial support for their business. This suggests that if there are perceived obstacles in applying for bank financing, entrepreneurs do not seek financing. This could be due to a belief that they will be rejected and, hence, see no need in applying, or it could be due to a belief that they will be unable to provide the necessary information and credit history. It has been argued that banks with substantial and intimate contacts in relationship lending with SMEs may be able to alleviate these negative consequences (Udell, 2008; Duqi, Tomaselli and Torluccio, 2018).

Wang (2016) identifies obstacles most significant to SMEs as access to finance, tax rate, competition, electricity, and political factors, with access to finance as the biggest barrier followed by competition. In addition to these obstacles, the author shows a difference in the perception of access to finance as high-growth firms perceive finance as their biggest obstacle, while state-

owned SMEs do not have this challenge presumably due to government interventions. According to Yoshino (2015), the financing challenges SMEs to face equally emanate from their inability to adapt to rapidly changing market demands, increasing market competition, technological change, and capacity constraints in relation to knowledge, innovation, and creativity. Cusmano et al. (2018) add to the debate on SME challenges and intimate that digital technologies and global value chains offer new opportunities for SMEs, but SMEs are lagging behind because they face policy inefficiencies and the lack of a conducive business environment to enable them to achieve their growth potentials in developing regions.

Baporikar et al. (2016) posit there are internal and external hindrances to SMEs. To achieve success in growth and performance, SMEs need to internally improve their customer service delivery and security. External influences of business growth include taxes, sales, location, and expenses, all of which affect business profitability and, hence, growth. Other external constraints to SMEs' access to finance include physical accessibility to sources of finance such as bank branches and the affordability, eligibility and legislative frameworks (Sykes et al., 2016). In a stakeholder engagement with SMEs in Ghana, some of the stated challenges included the cumbersome verification and accreditation process of credit applications, the lack of capacity to bid for opportunities and compete with large businesses, and the cost-focus of the accreditation process that effectively rules them out of the competition (Government of Ghana, 2020b). The business environment contributes to the challenges SMEs face. Abraham and Schmukler (2017) give an example of the impact of the economic environment on business financing and state that if a government runs a fiscal deficit, banks might find it more profitable or less risky to fund the government instead of funding the private sector.

3.10 CHAPTER SUMMARY

This chapter reviewed the literature on the study's objectives and relates to the current study. Commencing with the concept of access to finance, which is the availability and use of different forms of finance expressed as debt and equity financing, both internal and external sources have been discussed and presented in a diagram for ease of view. The financing types included personal savings, family and friends, retained earnings, bank financing, angel investors and venture capitalists. Financing decisions by financial institutions, which include risk assessments of the character, collateral, capacity, capital and conditions, have been discussed. The types of lending

approaches adopted by banks, such as financial statement lending, relationship lending, and the use of credit scoring and others, have been discussed. SME firm characteristics and the owner/manager attributes relating to access to finance have been reviewed. Additionally, alternative lending and the challenges of SMEs have been reviewed. The next chapter is on the methodology of the study.

CHAPTER 4: RESEARCH DESIGN AND METHODOLOGY

4.1 INTRODUCTION

This chapter discusses the methodology employed to achieve the objectives of the study: the methods used to assess financial institutions' lending decisions on SMEs, the evaluation of SMEs' attributes and characteristics on their access to finance, as well as the effect of collateral on access to finance and alternative financing means for SMEs. The chapter has been structured in sections. Section 4.2 and 4.3 outlines the research philosophy and the research strategy respectively. The research design is discussed in section 4.4, whilst section 4.5 outlines the population, sampling technique and sample size. The data collection and data analysis methods are discussed in sections 4.6 and 4.7 respectively. The rest of the chapter outlines the variable description in section 4.8, the reliability and validity of the approaches in section 4.9 and the ethical considerations in section 4.10. Section 4.11 provides a summary of the chapter.

4.2 RESEARCH PHILOSOPHY

Saunders et al. (2008) relate research philosophy to the development of knowledge. Understanding research philosophy clarifies the research, its assumptions, and view of the world. The four main research philosophies proposed by the author are positivism, realism, interpretivism, and pragmatism. Pragmatism argues that the research question is the most important determinant of epistemology, ontology, and axiology. While epistemology is concerned with what constitutes acceptable knowledge in a field of study, ontology is concerned with reality. Ontology raises questions on objectivism and subjectivism relating to the existence of entities in reality and perceptions of social actors (Saunders, Lewis and Thornhill, 2008).

The pragmatism domain envisages that the research question is the most important approach in research and could be quantitative or qualitative approaches. Mixed research method refers to the approach whereby both methods are used. The positivism philosophy aligns with the stance of the natural scientists who relate social reality to law-like generalisations like the physical and natural scientists. The approach uses existing theory to develop hypotheses tested to develop a theory. The realism philosophical domain relates to scientific enquiry that objects to existing independence of the human mind and opposes idealism that rather views that only the mind and its content exist. Realism assumes a scientific approach to the development of knowledge, including the collection and understanding of data in research. The interpretivism philosophy advocates the need for the

researcher to understand the human role as social actors. The researcher must adopt an empathetic stance to understand and interpret the actions of those they interact with while adjusting their own meaning and actions through the process (Saunders, Lewis and Thornhill, 2008). A researcher must determine which domains fit their research. Usually, a study may not fit into a single domain.

The current study follows the pragmatism philosophy in that the research used both qualitative and quantitative research approaches to address the research problem. The approach assumes that, for SMEs financial inclusion, interviewing financial institutions on their decision-making process on financing SMEs (which was the qualitative aspect) and then conducting a survey of SMEs on their access to finance, using questionnaires (a quantitative aspect of the study), offers an in-depth understanding of the issue of access to finance (the phenomenon under investigation).

4.3 RESEARCH STRATEGY/APPROACH

According to Creswell (2013), a research approach involves the plans and procedures to be pursued in a study, spanning the broad assumptions to detailed data collection methods, analysis and interpretation. Therefore, several decisions go into selecting the best approach for a study, including the research problem being addressed and the underlying philosophical assumptions guiding the study. Moreover, the researcher's experiences affect the research approach as well. Saunders et al. (2008) explain that applying a theory at the beginning of a research work determines whether the research will be inductive or deductive. While the deductive approach adopts a theory and hypothesis at the onset and aims at testing the hypothesis, the inductive approach collects data and develops a theory from the analysis. A research work could use a combination of both approaches or either of them. In the current study, both deductive and inductive approaches were used. Existing financing theories, including the information asymmetry theory and the financial inclusion theory were reviewed to verify their applicability in the Ghanaian SME environment and a justification for using the financial inclusion theory as the main theory grounding the study was provided. Simultaneously, the study used the outcome of the study to determine the most appropriate framework to improve the financing of the service sector SMEs in Ghana.

From the foregoing, it was decided that the best method to adopt for the study was a combination of both qualitative and quantitative research approaches to address the research questions in a mixed research study design. Specifically, the exploratory sequential mixed methods research was used, where the qualitative method was first applied, followed by the quantitative method. The in-

depth interviews with financial institutions were first conducted for exploratory purposes to understand financing decisions on SMEs before the survey was conducted through questionnaire administration (Figure 4.1). Therefore, the researcher employed a three-phase procedure recommended by Creswell (2012), with the first being exploratory, the second is the instrument development and the third being the administration of the survey to a sample population of the SMEs.

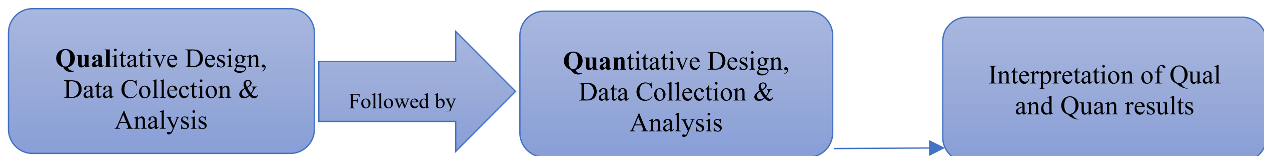

Figure 4.1: Exploratory sequential mixed methods design

The rationale for selecting the mixed research method approach is embedded in various finance research works, which find this method strong in addressing research questions. Dewasiri et al. (2018) argue that finance researchers should apply mixed methods when it is most appropriate as the approach involves the use of both qualitative and quantitative questions and leads to increased reliability and validity of results, as well as addressing inconsistent results.

Mixed research methods have been given other names such as blended research, integrative research, multiple research and triangulation research (Johnson and Onwuegbuzie, 2004). The phrase 'mixed-methods research' does not, however, suggest a limitation of mixing only two methods as suggested by Johnson et al. (2007), but rather a broad interpretation that includes strategies surrounding methods of data collection methods (questionnaires, interviews, observations), of research and related philosophical issues.

4.4 RESEARCH DESIGN

The research design refers to the general plan to guide the answering of the research questions, bearing in mind the purpose of the study and how it can be achieved within a certain timeframe depending on the funds required (Saunders, Lewis and Thornhill, 2008). The scholars have further identified the main research strategies or designs as an experiment, survey, case study, action research, grounded theory, ethnography and archival research. Each of these could be conducted in a longitudinal or cross-sectional study and as mixed methods, mono- or multi-method.

The experiment research design is used mostly in the natural sciences to study how a change in one group (the experimental group) compares with the other group (the control group). On the other hand, survey design is common in business and management research and used in exploratory and descriptive studies. It involves the use of questionnaires to collect data from a sizeable population economically and allows the researcher to compare and provide explanations on the research questions being investigated. The case study strategy, being the exact opposite of the experimental design, involves investigating phenomena in real-life contexts. The action research design involves conducting research in action and the researcher is usually part of the population. Grounded theory designs are typically a qualitative procedure that researchers use to generate explanations from the views and experiences of research participants which explain the behaviour of the subjects being understudied.

The ethnography design describes and explains the social world (also known as the natural setting) the research subjects inhabit in how they would describe and explain it (Saunders, Lewis and Thornhill, 2008). The approach is more inductive and takes a longer period to conduct and may require a period of living among the subjects as done by anthropologists. Archival research uses administrative records and documents, including historical records as the source of data. Such data are originally collected for the organisation for their own purpose, but researchers can use this as part of their secondary data analysis for their research if the research questions focus on the past and changes that have happened over time. However, with this design, the availability and access to the data can affect the research questions being addressed. The researcher may have to modify the research questions just as researchers using the qualitative data collection for primary data sometimes do during the field work.

For the current study, multiple methods were used to collect data, analyse and arrive at conclusions. As a result of time constraints, the cross-sectional approach was adopted for the study, with a combination of qualitative and quantitative data collection techniques in line with the mixed-method design. The aim was to investigate financial institutions lending decisions to finance SMEs by first using in-depth interviews to gather information from the financial institutions, followed by developing a questionnaire for SMEs to investigate their access to finance and administering the survey to a sample of SMEs in the service sector. The study, therefore, used a combination of research designs to optimise the best outcome, as alluded to by research that uses the mixed methods approach (Johnson and Onwuegbuzie, 2004).

4.5 POPULATION, SAMPLING TECHNIQUE AND SAMPLE SIZE

According to Creswell (2012), a population is a group of individuals who have similar characteristics, whilst a sampling frame is a group of individuals or organisations with certain common defining characteristics that the researcher can identify and study. The author further asserts that the sample population is a subgroup of the target population. In this study, the population for the qualitative interviews was the financial institutions in Ghana. The quantitative survey targeted SMEs in Ghana, and the target population was the SMEs operating in the service sector. In this target, a sample of SMEs in two regions of Ghana was surveyed. The population, sampling technique and sample size have been discussed for both the qualitative and quantitative methods.

4.5.1 Population

In the following sub-sections, the population of the qualitative study and the quantitative study have been discussed. A population is referred to as a large group with similar characteristics from which a sample is to be taken for research purposes (Bryman, 2012; Creswell, 2013).

4.5.1.1 Qualitative population

At the time of the start of the study, 23 financial institutions were operating as banks in Ghana (Bank of Ghana, 2019b), and ten were targeted randomly and written to for permission to address the research question on financial institutions' lending decisions on SMEs. Financial institutions contribute over 70% of SME financing and significantly make a difference in their financial inclusion, hence they were the target (Bank of Ghana, 2019b). Because the purpose was exploratory, the target was deemed sufficient.

4.5.1.2 Quantitative population

For the quantitative study, the population of SMEs in the services sector in the two regions was 46,245. The Greater Accra Region, representing the southern sector of Ghana, had 27,836 small and medium size enterprises, and the Ashanti Region, representing the northern sector, had 18,409 small and medium enterprises. The data on the population was based on the Integrated Business Establishments Survey (IBES) conducted by the Ghana Statistical Service in Ghana in 2015 (GSS, 2015b). The IBES data was the most current national data at the onset of the study and during the period of the data collection. The data was further disaggregated by the size of businesses, sector

of business, and regions and this was important for the study. The IBES 2015 data therefore, formed the basis of the population sampling for this study. The researcher set out to target a total of 800 participants from the population for the survey. Table 4.1 indicates the sample of SMEs by the size of business and region.

Table 4.1 Population sample of SMEs in the two regions

Region	Small	Medium	Total
Greater Accra	24,148	3,688	27,836
Ashanti	17,264	1,145	18,409
Total	41,412	4,833	46,245

Source: *Author's construct based on data from the GSS survey*

4.5.2 Sampling Technique and Criteria

Sampling is a sub category of the population being targeted in a research study, since not all the population can be included in the study due to time and resource constraints (Saunders, Lewis and Thornhill, 2008). The researcher must determine the sampling scheme for both the qualitative and quantitative phase of a study (Migiro and Magangi, 2011). In the following sub-sections, the sampling technique and criteria used for the qualitative and quantitative study have been outlined.

4.5.2.1 Qualitative sampling and criteria

In selecting respondents for the qualitative sampling, purposive sampling was used. Bryman (2012) describes purposive sampling in qualitative research as essentially the selection of units, be it departments, people, organisations and so on, having a direct reference to the research questions. The researcher also knows that the purposively sampled study population has information or knowledge about the issue under investigation.

Ten out of the 23 financial institutions operating as banks in Ghana at the time of the study were randomly selected and this is because they all offered banking services to businesses including SMEs. The researcher requested permission from the financial institutions to interview key personnel in departments directly involved in lending credit to SMEs. This included branch managers, heads of SME units and credit risk. Seven financial institutions, representing 70% of the target sample, granted permission for the researcher to conduct the in-depth interviews. The

criteria for inclusion of the financial institutions who were involved in the study was therefore based on the acceptance of the permission to interview them by the researcher.

4.5.2.2 Quantitative sampling and criteria

For the quantitative study, a simple purposive sampling technique was used to select SMEs that operate in the service sector. The two selected cities in the two regions are well known as business hubs in Ghana, especially dominant for the service sector as the two cities are the most densely populated. Comparatively, other regions have agriculture as the dominant activity, whilst others are known for mining and therefore, it was very significant in obtaining the right information from participants in the selected two cities and in drawing conclusions for the study that could be generalized. In addition, they were the most populated in terms of the number of business establishments, and easy access to the sample could be achieved. While the Greater Accra Region had a total of 27,836 SMEs in the service sector (representing 60% of the target population), the Ashanti Region had 18,409 (representing 40% of the target population).

4.5.3 Sample Size

The sample size denotes the number of units selected for the study and this must be clearly distinguished for the qualitative and quantitative study (Migiro and Magangi, 2011). In the following sub-section, how the sample size of the qualitative and quantitative study was determined has been discussed.

4.5.3.1 Qualitative sample size

For the qualitative aspect of the study, purposive sampling was used to select the interview participants. All the financial institutions (23) provide similar services to businesses, and they provide financing for SMEs. Hence the banks were randomly selected. Since the study is exploratory, a sample of ten financial institutions out of the twenty-three in existence at the time of the study was deemed sufficient for gathering information on financial institutions' lending decisions on SMEs. All the financial institutions have their head offices in Accra, the capital of Ghana, and hence the sampling was based on locations in Accra.

4.5.3.2 Quantitative sample size

The quantitative study targeted a total of 46,245 SMEs in the services sector in the two regions. SMEs constitute a greater percentage of businesses in Ghana. Therefore, for cost and time

constraints, outlined as a factor affecting the sample size decision by Sekaran and Bougie (2014), it would be impossible to conduct a survey of the total population of SMEs in the two selected regions. Sekaran and Bougie (2014) developed a standardised population size and sample determination table that indicates that for a population of up to 50,000, a sample size of 381 is adequate for a study. Since it was difficult to have information on the service sector's access to finance rates, a larger sample size was deemed relevant to the current study as Creswell (2012) asserts that to minimise potential errors, researchers should select a large sample from the population. Gomez and Jones' (2010) random sample size calculator was used to arrive at a sample size for the study.

$n = \frac{N}{[1+Ne^2]}$, where *'n'* is the sample size, *'N'* is the population and *'e^2'* is the margin of error or confidence level (0.05).

The total number of SMEs in the two regions was 46,245. The sample size for the study is, therefore, calculated as follows:

$$n = \frac{46{,}245}{[1 + 46{,}246 * 0.05^2]} = \frac{46{,}245}{115.6175} = 399.9827 = 400$$

Considering the sample size and suggestions by researchers, a sample size with a minimum of 400 was deemed adequate for the analysis to address the objectives of the study.

4.6 DATA COLLECTION METHODS

Data collection for the study was in two parts: the qualitative and the quantitative. Creswell (2012) states that a qualitative interview occurs when a researcher asks one or more respondents open-ended questions and records the responses and later transcribes this into a computer file for analysis. Patten and Newhart (2016) further allude to interviews as the most widely used type of measure for collecting qualitative data in research. The interview guide could be structured, unstructured, or semi-structured (the most common). While structured interviews may be preferred in certain studies such as longitudinal research where the interviews may be repeated over intervals with the same population, unstructured interviews may be used in exploratory research where flexibility is needed to bring up varied information from the respondents. Sekaran and Bougie (2014) argue that structured interviews are those conducted when, from the onset, it is known to the researcher what information is required, whereas in unstructured interviews, this is the

opposite. In semi-structured interviews, an interview guide is used to solicit information from the participants without necessarily going strictly by the guide.

4.6.1 Qualitative Data Collection

At the onset of the qualitative aspect of the study, an interview guide was developed and pre-tested with one representative each from two financial institutions who were excluded from the final participants selected for the study. The pre-test was conducted to ensure that the guide was easy to understand and achieve the research objectives. Additionally, two experts in the field of SME research were contacted to review the guide to ensure that the questions agreed with the objectives of the study. With the feedback obtained, the interview guide was finalised. The researcher then obtained a list of the financial institutions from the Bank of Ghana website and randomly selected ten out of the twenty-three banks to target for the interviews. This was randomly done because all the financial institutions lend to businesses and were, therefore, deemed capable of responding to the research questions.

The researcher then wrote to the financial institutions requesting permission to conduct the interviews and seven of the institutions granted the permission after some time. Whereas some requested to see the ethical clearance from the researcher's institution, others requested the researcher to sign the organisation's non-disclosure agreement. All the targeted financial institutions had their head offices in Accra, the capital and largest city of Ghana so the interviews were conducted in Accra.

The interview guide was used to gather information from the financial institutions' representatives on a face-to-face basis, which offers the richest responses as alluded to by Patten and Newhart (2016). The interview guide was provided to the financial institutions ahead of the interviews (Appendix A). The interviews were recorded, and the recorded data were later transcribed and typed into a computer file (Microsoft Word) for analysis. The researcher personally undertook the qualitative aspect of the study as discussed above.

4.6.2 Quantitative Data Collection

The study design was cross-sectional, which implies collecting data at one point in time over a short period (Creswell, 2012). A survey method was used in line with Creswell's (2012) description of the method as a procedure in quantitative research in which the researcher administers a survey

instrument such as a questionnaire to a target population to obtain the characteristics, views or behaviour of the population based on the specific research objective and research questions. The instrument development followed that of the qualitative interviews, which informed the structured questionnaire. The instrument for the study was partially adapted from a questionnaire (Enterprise Questionnaire, 2015) used in a study on different development policies in Ghana (Gyeke-Dako et al., 2015) and modified to suit the study and objectives. The questions adapted included the attributes of a firm such as the legal status, ownership type, how the firm was started and the number of employees to address the research question on the firm. Others were a list of sources of funds used by firms for investments, the purpose for the funds, a list of assets owned to address the objective on collateral and a list of obstacles that the SMEs face. A review of literature further informed additional input in the questionnaire to specifically address the objectives of the study, including the concept of access to finance and alternative sources of financing of SMEs.

The purpose of the questionnaire administration was to obtain data from SMEs in the service sector on their access to finance, and this was the most economically convenient approach of collecting data from the sampled SMEs. The questionnaire was comprised mostly of closed-ended questions, with some being Likert scale questions (Appendix B). The objective of the data gathered from the questionnaire was to identify SME owner/manager attributes and firm attributes and their effect on the business' access to finance. Additionally, SMEs' financial inclusion in terms of access to financial services was solicited with questions on external financing, bank account operation, loan application and the loan being granted or not. The questionnaire was, therefore, structured along the objectives of the study to address the research questions adequately.

After the questionnaire was structured, it was peer-reviewed by researchers in the field of SME financing to ensure that the questions could be understood well and answered. A pilot study was undertaken in Nsawam, a town in the Eastern Region of Ghana, which is outside the two regions selected for the study. This is in line with constructing a questionnaire for a study and to ensure the validity of the instrument for the study (Creswell, 2013; Sekaran and Bougie, 2014). The aim was to ensure that the participants understood the questions. Feedback from these two approaches was considered and the questionnaire was revised before the actual data collection was done. Hence, the validity of the instrument was established.

The survey instrument comprised seven sections. The utilised sections were Section A, demographic information on SME owners and included their gender, age, education, training obtained, parents involvement and experience; Section B covered the firm characteristics of the SMEs and included the number of employees, registration status, legal form of the business and financial record keeping; Section D was on collateral requirements and asset ownership of the SMEs; Section E covered access to finance and included questions on the source of finance, the need for external financing and purpose, ownership of bank accounts, loan application and whether or not the loan was granted; Section F was on alternative sources of financing for SMEs and Section G, the final section, solicited information on challenges SMEs face in their businesses.

The Likert scaled questions under each of the sections were clearly placed in table formats with clear instructions on how to answer each set of questions. The respondents were required to tick their responses in the table, which used a horizontal presentation to show the five-point responses in the scales clearly. Responses followed directly after each question. In some cases, the respondents were directed to specific questions based on their response to a particular question. The researcher used these approaches based on Bryman's (2012) recommendations on clearly presenting questionnaires. This further made it easy to code the obtained data and analysed responses using frequency tables in SPSS.

The researcher recruited enumerators and trained them for the data collection. The objectives of the study were explained to them, and a line-by-line explanation of the questionnaire was undertaken. The data were collected between December 2018 and February 2019.

4.7 DATA ANALYSIS METHODS

Creswell (2013) proposes that the steps undertaken for the statistical and logical evaluation of data must be clearly stated in research for clarity to any user. In the following sub-sections, the data analysis methods for the qualitative and quantitative study have been outlined.

4.7.1 Qualitative analysis method

After the data collection, the data were analysed to understand the information and then used to address the research questions. The qualitative data in the form of recorded interviews were transcribed into a Microsoft Word document and afterward, using thematic analysis, the data were categorised into themes for analysis. Following Creswell's (2012) approach to analysing

qualitative data, the data was organised by first developing a table of sources and grouping the interviews according to the participants, followed by typing out the audio recordings into text information in Microsoft Word document. Appendix C indicates some portions of the table of sources. After thoroughly reading through the information to make sense of it, the data was put in themes according to the responses received and thereafter analysed for the writing of the report.

4.7.2 Quantitative analysis method

According to Creswell (2013), an interpretation in quantitative research means the researcher draws conclusions from the results to answer the research questions, hypotheses, and the larger meaning of the results. The target was to obtain 800 responses to the survey. The response rate was 663 after data clean up. The results of the data analysis were presented in the form of descriptive analysis such as frequency tables and interpreted statistically. Binary logistic regression analysis was undertaken to determine the significance of the relationship between or among the variables under study and conclusions were drawn from the results. The binary regression analysis was used to address three of the study objectives quantitatively.

The assumptions for the binary logistic regression analysis are that there were independent variables in each of these objectives and the common dependent variable was access to finance, which was measured by a 'yes' or 'no' response to a loan request being granted or not. The response variable was therefore binary, hence, the use of the binary regression analysis to determine the effect of the independent variables on the dependent variable was justified. The observations are independent because different SMEs were interviewed. Some of the Likert-scaled items were ranked to determine the extent of the importance of the constructs that were measured. Further interpretation of the results, relating them to previous studies, was undertaken.

4.8 VARIABLE DESCRIPTION

The study objectives and research questions, as well as the research instrument and variables measured have been aligned in Table 4.8 and discussed. The dependent variable has been discussed in this section. Subsequently, the independent variables have been discussed according to the research objectives of the study. The first objective was based on the qualitative study, whilst objectives second to fourth were based on the quantitative study and analysed using the binary regression analysis. The fifth objective was assessed using frequencies.

4.8.1 Dependent Variables

The dependent variable in this study is access to finance and it implies access to bank loans (short, medium or long term), or other credit facilities such as Overdrafts, Trade finance, Working Capital Loans and Mortgage loans. Access to finance which also means access to credit or borrowing from a financial institution is an indicator of financial inclusion. The dependent variable was measured as when a respondent's loan application was granted by the bank or not and this was addressed by the question '*...was the loan application granted by the bank?'*. The response was a 'Yes' or 'No' to the question (See Appendix B, question E39). Baporikar, Nambira and Gomxos (2016) and Lu, Wu and Liu (2020) are among several authors who have used access to finance (credit) as a variable for measuring financing of SMEs.

Furthermore, the respondents were required to provide additional information on their access to finance such as the source of financing for their businesses, the purpose for which they seek business financing, if they have a bank account, how many banks they have an account with and if they have received a credit facility such as a loan from a financial institution. Factors that are important for SMEs when seeking financing and obstacles in their quest for financing were obtained in the investigation in order to evaluate SMEs access to financing broadly for the policy concerns to be addressed in the study.

4.8.2 Independent variables

The independent variables were derived from three of the objectives (2 to 4) that analysed the concept of SMEs financial inclusion, using the indicator access to finance (usage of credit) quantitatively and these have been discussed in this section.

- **Objective 1:** Examine what constitutes financial institutions' decisions on financing SMEs

This objective was addressed using a qualitative interview guide. Representatives from seven financial institutions were interviewed using an interview guide (Appendix A). The recorded interviews were transcribed, and themes were drawn out of it to determine what constitutes financial institutions decisions on financing SMEs. In assessing financing of businesses, several authors have used in-depth interviews to gather information on the concept under study (Boateng and Poku, 2019; Attrams and Tshehla, 2022). The interview guide included the demographics of

the respondents and further required for the standard procedures of the financial institution in assessing credit requests, as well as the requirements that need to be met before a credit will be granted. The guide also sought information on the characteristics (personal and firm) of SMEs which influence decision making on their financing, and how collateral requirements influence decisions of lending. Alternatives approaches to SME credit access and the challenges financial institutions face in the lending process were solicited. The qualitative study was integrated in the quantitative study, resulting in an outcome of a framework for financing SMEs in the service sector.

- **Objective 2:** Evaluate the personal attributes of SME owners/managers in the services sector that affect their access to financing

The independent variables measured based on the personal attributes of the SME owner/manager were gender, age, education, experience, parents involvement and business training. Research in the field of SME financing have used some of these variables to determine their effect on SMEs financial inclusion, using the indicator access to finance or usage of credit (Abbasi, Wang and Abbasi, 2017; Rahman, Rahman and Belas, 2017). Table 4.2 outlines the research objectives and variables measured in this study.

- **Objective 3:** Assess the firm characteristics that influence SME financing in the service sector in Ghana

The independent variables measuring SME firm characteristics identified were size, legal form registration status, financial records (daily book-keeping, business plan, cash budget, annual balance sheet, annual income statement, annual cashflow projection, audited accounts). These variables have been commonly used in research to assess their influence on SMEs access to finance. Quartey et al. (2017) determined that the size or number of employees of SME businesses influences their financing. Other scholars support this assertion that a firm's characteristics influence their financing (Masuluke, 2018; Bauweraerts et al., 2021).

- **Objective 4:** Determine the extent to which collateral requirements influence SMEs' access to finance

The independent variables measuring the collateral identified included Land/Buildings, Production machinery, Vehicles, Generators, and Office Equipment. Collateral plays an important role in

SMEs' access to finance as alluded to by several authors (Agostino and Trivieri, 2017; Duarte, Gama and Esperanca, 2017). A subsequent question to their asset ownership and its relationship to access to finance was the SMEs likelihood of providing other assets including group guarantees and personal guarantees. This further strengthened the understanding of factors influencing SMEs' use of credit from financial institutions.

- **Objective 5:** Assess the alternative approaches to SME financing

The alternative approaches to SME financing in this study refer to the other means of financing SMEs apart from Bank financing. These included Venture capital, Mobile data-based lending, Angel investors, Stock market and Factoring or cheque discounting. The respondents were required to select how likely it is for their business to select any of these alternative means of external financing for their businesses. The responses were ranked to determine the most preferred means of alternative financing for SMEs and discussed. Authors such as Saksonova (2018) and Thompson, Boschmans and Pissareva (2018) have identified alternative means of external financing for SMEs including venture capital and angel investors. Table 4.2 outlines the alignment of the research questions and objectives.

Table 4.2 Alignment of research questions and objectives

Research Question and Objectives	Research Instrument	Variables
Question 1: What constitutes financial institutions' lending decisions on SMEs? **Objective 1:** Examine what constitutes financial institutions' decisions on financing SMEs.	**Appendix A** - Interview: Questions 1-12; 15-24	Drawing out themes from the interview to address the research questions.
Question 2: To what extent do the personal attributes of the services sector SME owners/managers in Ghana affect their access to finance? **Objective 2:** Evaluate the personal attributes of SME owner/managers	**Appendix B** - Questionnaire: **Section A:** Statements 1, 2, 3, 5, 6, 7, 8 **Section E:** Q39	• Independent variables • Gender • Age • Education • Experience • Literacy • Parent involvement • Business training

Research Question and Objectives	Research Instrument	Variables
in the services sector that affect their access to financing.		• Outcome measure • Access to finance (Binary outcome variable, 1=yes, 0=No)
Question 3: How do firm characteristics of SMEs in the services sector affect their access to finance? **Objective 3:** Assess the firm characteristics that influence SME financing in the service sector in Ghana.	**Appendix B** - Questionnaire: **Section B:** Statements 13, 16, 20, 23, 28. **Section E:** Q39	• Independent variables Size • Legal form • Registration status • Financial records (daily bookkeeping, business plan, cash budget, annual balance sheet, annual income statement, annual cashflow projection, audited accounts) • Outcome measure • Access to finance (Binary outcome variable, 1=yes, 0=No)
Question 4: How do collateral requirements influence SME external financing? **Objective 4:** Determine the extent to which collateral requirements influence SME external financing.	**Appendix B** - Questionnaire: **Section D:** Q 30 **Section E:** Q39	• Independent variables • Land/Buildings, Production machinery, Vehicles, • Generators, • Office Equipment • Outcome measure Access to finance (Binary • Outcome variable, 1=yes, 0=No)
Question 5: What are the alternative approaches to SME external financing? **Objective 5:** Assess alternative approaches to SME financing.	**Appendix B** - Questionnaire: **Section F:** Statements 46 i, ii, iii, iv, v	• Variables • These were ranked according to the most preferred option: • Venture Capital, • Mobile Data, • Angel Investors, • Stock Market, • Factoring.

4.9 RELIABILITY AND VALIDITY

In the following sub-sections, the how reliability and validity of both the qualitative and quantitative study were achieved have been outlined.

4.9.1 Qualitative trustworthiness and authenticity

According to Sekaran and Bougie (2014), conclusions drawn from a study are verified to ensure that they are plausible, reliable and valid. Measuring reliability and validity in qualitative and quantitative data analysis differ. Reliability in qualitative data analysis includes category reliability and inter judge reliability, whereby the former refers to the ability to develop categories and use them to classify the data. The latter refers to the degree of consistency when there are more coders processing the same data (Sekaran and Bougie, 2014). The validity, on the other hand, is simply the extent to which an instrument measures what it is set out to measure and performs the functions it is purported to perform (Patten and Newhart, 2018). However, in qualitative data analysis, internal validity refers to how the results represent the data collected, while external validity refers to the extent to which the results can be transferred or generalised to other contexts. Scholars such as Bryman (2012) and Lincoln and Guba (1986) propose trustworthiness and authenticity as two criteria for assessing qualitative studies. According to Lincoln and Guba (1986), the measure of qualitative analysis trustworthiness is further classified into credibility, transferability, dependability and confirmability, with their parallels in quantitative analysis, according to Bryman (2012), being internal validity, external validity, reliability and objectivity, respectively. These criteria for analysing qualitative data have been discussed to draw conclusions on how the researcher tested these measurements in the current study to give it rigour and robustness.

First, to ensure credibility, the researcher was involved in interviewing the participants. The researcher ensured heads of SME lending units in the financial institutions were recruited to participate in the study. Therefore, after randomly selecting the financial institutions, the participants were purposively selected. Additionally, the researcher gave the research instrument to professional peers to debrief in order to avoid discrepancies.

For transferability, the researcher recorded and transcribed the interviews in detail to ensure a rich account of the qualitative study. The process of interviewing and recording information on the participants was all written for anyone to ascertain that the participants were qualified to answer the questions. Lincoln and Guba (1986) express this as thick descriptive data and, therefore, a

detailed narrative of the study was undertaken, which allows others to make their own judgements if they wish to apply all or part of the findings elsewhere.

To ensure dependability and reliability, the researcher has maintained records of the research process at every stage in an accessible manner as postulated by Bryman (2012). The research process was, therefore, clear and consistent over time.

For confirmability, the researcher ensured research was driven by the respondents without any pre-emption of what responses were expected of them.

4.9.2 Quantitative reliability and validity

Validity is the extent to which an instrument measures what it is set out to measure (Patten and Newhart, 2018). To ensure the validity of the quantitative aspect of the study, research questions and the design of the questionnaire were articulated based on the literature review to address the objectives of the study (Andrew and Halcomb, 2009). The questionnaire was subjected to peer review to further ensure that it addressed the study objectives. Additionally, the instrument was pre-tested in a pilot study in Nsawam, a town outside the two surveyed regions for feedback to improve the clarity of the questionnaire.

To ensure reliability and consistency of the Likert-scaled items in the questionnaire, the Cronbach's α (CA) coefficient was computed. A coefficient of 0.70 is said to be acceptable in most social science research, even though other scholars suggest a reliability alpha of 0.60 is also acceptable (Cortina, 1993; Peterson, 1994). The Cronbach's coefficient of the scaled items was within the acceptable range. The questionnaire included questions that used a five-point Likert scale to solicit information from SME owners. The measurements included the financial information kept by respondents (B28 – section B, question number 28 on the questionnaire), the collateral use (D31) and alternative approaches to financing (F46). Other measurements which necessitated the understanding of respondents' external financing were the suitability of the types of external financing and the challenges respondents faced. In line with Sekaran and Bougie's (2014) recommendations that a coefficient of 0.70 and above is considered good at portraying internal reliability, the Cronbach's alpha obtained for the five measures was deemed acceptable. Table 4.3 summarises the Cronbach's alpha tests for reliability and consistency of the scales used.

Table 4.3 Summary Table of Cronbach's alpha test of item reliability

Item	Measure	Mean	Minimum	Maximum	Cronbach's alpha	No. of Items	Comment
B28	Business financial record maintenance	2.705	1.994	3.342	0.934	7	Good
D31	Business Collateral use	2.767	2.018	3.554	0.797	8	Good
F46	Alternative approaches to financing	2.696	2.219	3.417	0.694	5	Good
F45	Suitability of external financing types	2.152	1.463	2.686	0.758	9	Good
G49	Challenges businesses face	2.195	1.392	3.044	0.864	16	Good

Source: *Primary data*

The Cronbach's alpha of the individual items was measured. Table 4.4 indicates the Cronbach's alpha test of financial information. Each of the measured items had a Cronbach's alpha of over 0.70, which is deemed good. The overall reliability was 0.934.

Table 4.4 Cronbach's alpha test of item reliability on financial information

Item Total Statistics					
Overall Cronbach's alpha index = 0.934				**Number of items = 7**	
Item	**N**	**Scale Mean if Item Deleted**	**Scale Variance if Item Deleted**	**Corrected Item-Total Correlation**	**Cronbach's alpha if Item Deleted**
Bookkeeping	663	15.59	52.734	.717	.930
Business Plan	663	15.77	52.227	.743	.928
Cash Budget	663	16.10	51.309	.801	.922
Balance Sheet	663	16.36	50.358	.874	.915
Income Statement	663	16.37	50.747	.863	.916
Cashflows	663	16.47	51.452	.876	.915
Audited Accounts	663	16.94	56.755	.633	.936

Source: *Primary data*

The reliability and consistency of the scale measuring the collateral ability of respondents had an overall Cronbach's alpha of 0.799. Table 4.5 outlines the individual scales, which were all over 0.70 and considered good.

Table 4.5 Cronbach's alpha test items on collateral

Item Total Statistics					
Overall Cronbach's alpha index = 0.799				**Number of items = 8**	
Item	**N**	**Scale Mean if Item Deleted**	**Scale Variance if Item Deleted**	**Corrected Item-Total Correlation**	**Cronbach's alpha if Item Deleted**
Group Guarantee	663	19.62	44.639	.234	.816
Personal Guarantee	663	18.58	40.900	.446	.786
Land Only	663	19.52	39.313	.565	.767
Buildings	663	19.35	37.668	.612	.759
Equipment	663	19.43	39.037	.592	.763
Inventory	663	19.47	38.316	.592	.763
Bank Savings Cash	663	18.84	37.600	.577	.765
Stock Market	663	20.11	42.410	.459	.784

Source: *Primary data*

The individual items' reliability of the scale for measuring the alternative approaches to financing has been outlined in Table 4.6. According to Sekaran and Bougie (2014), the closer the coefficient is to 1, the better the measuring instrument. The overall Cronbach's alpha of 0.694 is close to 0.70 and was accepted.

Table 4.6 Cronbach's alpha test items on alternative finance

Item Total Statistics						
Overall Cronbach's alpha index = 0.694					**Number of items = 5**	
Item	**No.**	**Scale Mean if Item Deleted**	**Scale Variance if Item Deleted**	**Corrected Item-Total Correlation**	**Squared Multiple Correlation**	**Cronbach's alpha if Item Deleted**
Venture capital	662	10.55	11.991	.482	.276	.631
Mobile data-based lending	662	11.10	13.044	.480	.251	.633
Angel Investors	662	10.06	12.504	.436	.208	.652
Stock market	662	10.95	12.753	.437	.212	.650
Factoring	662	11.26	13.936	.421	.215	.658

Source: *Primary data*

The suitability of types of external financing to SMEs was measured to understand the external financing needs of respondents. The reliability of the scaled items was analysed and a Cronbach's alpha of 0.758 was obtained, which was acceptable. This is in line with recommendations by Sekaran and Bougie (2014) that a coefficient of 0.70 and above is considered good at portraying internal reliability. The list of items was nine. Table 4.7 indicates the reliability statistics of the scaled items.

Table 4.7 Cronbach's alpha test items on types of financing

Item Total Statistics						
Overall Cronbach's alpha index = 0.758				**Number of items = 9**		
Item	**No.**	**Scale Mean if Item Deleted**	**Scale Variance if Item Deleted**	**Corrected Item-Total Correlation**	**Squared Multiple Correlation**	**Cronbach's Alpha if Item Deleted**
Short- term loan (repayable in one year)	663	16.73	46.452	.205	.208	.774
Medium-term loan (repayable between two to five years)	663	16.92	42.248	.440	.431	.735
Long- term loan (repayable in more than five years)	663	17.13	40.913	.465	.425	.731
Overdraft	663	17.44	42.950	.491	.357	.727
Working capital	663	17.16	41.780	.520	.663	.722
Bridge finance while waiting for expected cash inflow	663	17.58	42.540	.541	.413	.720
Start-up capital	663	17.42	41.743	.594	.692	.712
Hire purchase	663	16.68	42.987	.381	.182	.745
Letters of credit	663	17.91	47.742	.385	.173	.746

Source: *Primary data*

The reliability of the scaled items on obstacles faced by the respondents was measured, and an overall Cronbach's alpha of 0.864 was obtained, which is acceptable according to Sekaran and Bougie (2014). Table 4.8 indicates the individual items on the scale.

Table 4.8 Cronbach's alpha test items on challenges of SMEs

Item Total Statistics

Overall Cronbach's alpha index = 0.864 **Number of items = 16**

Item	No.	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's alpha if Item Deleted
Access to credit	548	32.89	132.811	.284	.175	.866
Access to land	548	32.83	127.581	.433	.281	.860
Business licensing and permit acquisition	548	33.34	126.159	.653	.487	.851
Corruption	548	33.39	129.309	.446	.374	.859
Court delays	548	33.73	132.488	.472	.463	.859
Crime, theft and disorders	548	32.86	128.477	.380	.245	.862
Customs and trade regulations	548	33.30	126.306	.591	.421	.853
Electricity supply	548	32.58	131.638	.253	.148	.870
Inadequate Skilled workforce	548	33.23	131.170	.406	.384	.860
Labour regulations	548	33.38	126.948	.651	.542	.852
Political instability	548	32.80	119.015	.685	.684	.847
Practices of informal competitors	548	32.46	125.090	.465	.409	.858

Item Total Statistics

Overall Cronbach's alpha index = 0.864 **Number of items = 16**

Item	No.	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's alpha if Item Deleted
Tax rates and government laws	548	32.08	121.955	.584	.421	.852
Transport and logistics	548	32.78	120.991	.659	.517	.848
Competition from cheap imports	548	32.61	125.653	.430	.356	.860
Uncertainty about government policies	548	32.63	117.816	.695	.640	.846

Source: *Primary data*

4.10 ETHICAL CONSIDERATIONS

Ethical clearance for the study was approved by the UNISA ethics committee (Appendix D). For the qualitative study, the acceptance letters from the financial institutions were dated between 29 August and 20 September 2018. The study used primary data sources in interviews and questionnaire surveys. Participant information sheet (Appendix E) and informed consent letters (Appendix F) were prepared and provided to the candidate, which was signed before the interviews and surveys. Some of the financial institutions requested the researcher to produce the ethical clearance from UNISA before the interviews would be conducted, and this was done after the approval of the clearance. Others further required the researcher to sign their organisation's non-disclosure agreement. The Participants from the financial institutions were given the interview guide ahead of the interviews and the researcher further booked appointments with each participant for face-to-face interviews. The interviews occurred at the respective head offices of the financial institutions located in the capital city of Accra. The participants were assured of anonymity throughout the study that the information they shared would not be used for any other purpose aside for achieving the objectives of the study. Where a quote from an interview is used to explain the results of the quantitative analysis, a pseudonym was used. Other ethical considerations were used to conceal or protect the identity of the participants. The researcher alone conducted the qualitative aspect of the study to ensure that the highest quality of data could be attained. For the quantitative data collection, the researcher and an expert recruited and trained field workers to administer the questionnaire. The participants were briefed and upon expressing willingness to participate, informed consent was obtained from them. The participants were also assured of anonymity and confidentiality in the study. They were informed that they could withdraw from the study at any point in time without giving any explanation.

4.10.1 Confidentiality

Ethically, researchers are required to ensure confidentiality in the manner in which information is collected, stored and used (Patten and Newhart, 2018). In line with this, the participants were assured through the informed consent form of their anonymity in participating in the study and that the information pertaining to their identity would be kept confidential. The research records have been kept in a locked file and the stored electronic information from the data collected has been password protected on the researcher's computer. During reporting, the identities of the

participants were presented using pseudonyms to avoid the information being traced to a participant. Information that would lead to identifying a participant will not be included in any reports.

4.10.2 Informed Consent

An informed consent form was provided to the participants prior to taking part in the survey. On the form, the research participants were informed of the general purpose of the study and the expectations from them. There was neither a risk involved in their participation nor compensation for participating. The participants could decide to withdraw from the survey at any point in time without facing any consequences. The participants were further assured of the confidentiality of information they provide and the anonymity of their identity. The participants were required to sign the informed consent form after agreeing to the outlined information on the consent form which are in line with Patten and Newhart's (2018) ethical principles in research.

4.11 CHAPTER SUMMARY

The chapter discussed the research philosophy, approaches, and methodology used for the study. The exploratory sequential mixed methods design was adopted for the study. Ten out of twenty-three financial institutions were targeted for the qualitative study, which involved the use of an interview guide to gather information. For the quantitative study, a minimum of 400 participants were targeted based on the sample size calculations and a questionnaire was developed, pre-tested and utilized to gather information from SMEs. Thematic analysis was used to analyse the qualitative data, while frequencies were used to analyse the quantitative data. The chapter presented a table that consisted of the alignment of the research objectives, research questions, the specific research instrument questions and the variables measured for ease of clarity. The ethical considerations were outlined. The next chapter presents the findings of the study, detailing the qualitative findings, and the quantitative analysis.

CHAPTER 5: ANALYSIS AND DISCUSSIONS OF RESULTS

5.1 INTRODUCTION

This chapter presents an analysis of the results, which was done according to the empirical objectives that guided the study and supported with literature. The qualitative and quantitative results were used to address the research questions and objectives. The sections are divided according to the objectives of the study. Section 5.2 presents the qualitative results including the data collection process, and themes emerging from the qualitative study. The section ends with a summary of the qualitative results. Section 5.3 presents the quantitative results, and it includes the data collection process and a discussion on access to finance in the context of this study. The challenges of SMEs have been presented in section 5.4. This section ends with a summary of the quantitative results in section 5.5. Section 5.6 presents a discussion on the findings of the study and relates it to literature. A chapter summary is presented in section 5.7.

5.2 QUALITATIVE RESULTS – OBJECTIVE 1

To examine what constitutes financial institutions' decisions on financing SMEs.

5.2.1 Qualitative Data Collection Process

In line with the exploratory sequential mixed methods design, the qualitative method was first employed to understand SME financing from the financial institutions' perspective before embarking on the survey of SMEs through questionnaire administration. For the study, ten out of the twenty-three financial institutions at the time of the data collection (Bank of Ghana, 2019b) were approached for permission to interview key personnel who deal with SME lending. Out of the ten financial institutions, seven, representing 70%, agreed to participate in the interviews. This number was deemed adequate since the approach was exploratory to understand SME financing. In their qualitative studies, Franco and Haase (2011) and Sakti et al. (2016) used a sample of eight and five respondents, respectively, who were specialised and experienced in the field of study and this supports the adequacy of the number of participants involved in the qualitative study. Using an interview guide, the researcher personally conducted and recorded each of the interviews. The interviews were conducted at different times at the business premises of the participants' institutions at a time of their convenience.

The questions were open-ended to solicit information from the participants. The recorded interviews were transcribed into Microsoft Word and analysed using thematic analysis. From the interviews with the financial institutions, a codebook was developed, out of which themes were drawn for the qualitative analysis. Given that SMEs rely on external financing for their businesses and a bulk of this comes from financial institutions (Kwak, 2020), understanding what goes into financial institutions' financing decisions will improve the financing gap of SMEs in the services sector.

5.2.2 How Reliability and Validity Were Achieved

To ensure validity and reliability of the qualitative study, following the design of the interview guide, the researcher debriefed professional peers, including two researchers in the field of SME financing and two key personnel in two financial institutions who were not part of the sample for the qualitative study. Their feedback ensured the interview guide achieved the objectives of the study. In addition, the description of the qualitative study process was in-depth to ensure anyone who wishes to transfer or replicate the study could validate the results and the process as Sekaran and Bougie (2014) suggested.

5.2.3 Demographics of the Participants

Only key personnel responsible for handling SME lending were interviewed to obtain information required to address the objectives of the study and to understand financial institutions' decision-making processes in lending to the SME client. The participants have been named as Financial Institution A (FIA), Financial Institution B (FIB), and so on to protect their identity as well as that of their institutions.

The participants in the qualitative study represents their institutions and their responses were therefore not their personal responses but that of the institutions they represent. Their demographics has been presented in Table 5.1. The participants comprised six males and one female, with five of them having up to 5 years' experience on the job and two with 5 to 10 years' experience. All the participants had at least undergraduate degrees and worked in departments that processed loans for SMEs. The majority were heads of their units in the local branch of their bank and two were heads of units at the regional level of their banks. Table 5.1 indicates the characteristics of the participants from the financial institutions.

Table 5.1 Characteristics of Participants from financial institutions

	Gender	Years of experience on current job	Educational Qualifications	Department	Job Position
Male	6				
Female	1				
0 to 5 years		5			
6 to 10 years		2			
Undergraduate Degree			2		
Masters			4		
Professional			1		
Retail and Commercial banking				4	
Operations				1	
Finance and Management				2	
Local head of unit					5
Regional head of unit					2

Source: *Author's based on interviews*

5.2.4 Themes Emerging from The Qualitative Study

Participants were required to respond to the interview questions using an interview guide. Themes were drawn for the qualitative analysis upon which conclusions were drawn. Table 5.2 indicates the themes from the qualitative study, which form the basis for the discussions of the qualitative findings. The discussions have been outlined according to the themes emerging from the interviews. From Table 5.2, the constructs of the study are presented in the first column, whilst the questions in the interview guide that addressed the constructs are in the second column. The third column presents the emerging themes from the in-depth interviews. These have been further discussed in the subsequent sections according to the constructs of the qualitative study.

Table 5.2 Themes used in the qualitative analysis

Constructs	Interview Guide Questions	Emerging Themes
Credit procedures of financial institutions for SMEs	Questions 9 and 12	• Credit policies guide lending decisions. • Having a bank account with the institution for six to eighteen months. • Financial information - financial accounts, cashflow projections, business plan. • Risk Assessment on repayment ability, the need for the request and credit reference bureau checks. • Meeting eligibility criteria including experience in operating the business, must have minimum of two customers, keep records of operations, be formally registered. • A visit to the client's business premises.
SME owner/manager characteristics	Questions 7 and 8	• The characteristics of the owner. • Integrity/trustworthiness and consistency in business dealings. • Competence: knowledge and experience in the field of business. • Gender - Female SME owners are more prone to repaying loans than male SME owners. • Age of SME owners/managers. • Marital status of owner: couples preferred.
Firm's financial records	Questions 10 and 11	• Business registration. • Business or governance structure. • Financial record keeping including daily bookkeeping, cash budgets, cashflow statements and audited accounts. • Industry sector SME operation influences access to finance. • Lack of succession planning.

Constructs	Interview Guide Questions	Emerging Themes
Asset requirements	Questions 15, 16 and 17	• No collateral depending on the amount and institutional credit policy. • Cash or investments preferred. • Guarantees – personal or group. • Movable assets – vehicles, furniture, equipment, home assets. • Bare land in prime locations. • Landed property in prime locations.
Financing alternatives	Questions 18 and 21	• Tie lending to receivables. • Use grants from funding organisations. • Form Start-up clubs. • Financing from investments or savings. • Use Lending Schemes.

Source: *Author's based on interviews*

5.2.4.1 Standard Credit Procedures in SME Lending

Participants were asked to describe the standard procedures their institutions undertook before advancing credit to SMEs. The emerging theme was that all the institutions' credit policies guided the procedure of lending to SMEs. All the participants had an initial interview with the SMEs to understand the purpose of the loan and to assess the integrity, trustworthiness, and in general, the character of the SME owner. Moreover, such informal discussions enabled the participants to know the customer better. Beyond these discussions, the SME client was required to complete the application forms, which for some, form further served as a credit scorecard. Some participants also consulted credit reference bureaux to ascertain the borrowers' indebtedness with other banks. Aside these, the decision to lend was further influenced by the experience of the SME owner, based on their track record in borrowing and repayment. Participants' statements on their procedures are stated below.

> "…we have what we call in the credit policy the client risk. We have separated or segregated the aspect of the appraisal into various risk components. And the first of the risk components is what we can talk about as the client risk. Client risk on the appraisal form is dedicated to cross-checking or confirming the morality or characteristics of the person you want to deal with. So, we will ask questions like where have they lived? Are they married or not? How long they have lived in their residence. How long they have been operating their business in the location, what people around them say about them and are they consistent with the information they give us? **(FIG)**."

> "…the SMEs, the owners, mainly sole proprietorships, we engage them, we interview them, we look at their bank statements to be sure of what they are using the money for … **(FIA)**."

Beyond the initial interviews, participants visit the applicant's business premises to understand the nature of the business and interact with their employees. The credit application form and the report on the visit are then processed for the credit review committee of the institution. Depending on the loan amount requested, the application approval process could go to the risk manager or the committee and take from forty-eight hours to two months for final decisions to be made. The client then gets an offer they have to accept by signing within a specified period. Thereafter, the loan is

disbursed into the client’s account or directly to the client's supplier. The participants ensure the conditions of the loan offer are adhered to.

> “…we expect the branch manager or the relationship manager to go to the client to verify the residence, verify the address for the business and the person. Then we try to see if we can have evidence of the intended purpose. So, this person is telling us he wants to expand his farm, or he wants to now process the crops that he grows into something else. We want to see the intent, so we go in there and then we want to see the farm, so we consider the facility you are coming in for as something that is going to be used for or invested in the farm ... then they process whatever findings they have, sometimes they even attach photographs, videos and interview reports. If it is an SME with more than ten or twenty staff you want to interview one of the staff to see if it is a genuine business, then they forward it for a credit review.” **(FIF)**

On requirements to be met by SMEs in order to qualify for a loan facility, participants indicated their credit procedures were influenced by their institutions’ credit policy. For one participant, the institution was more corporate-inclined and, therefore, tended to treat SMEs’ applications with the same set of parameters which was a disadvantage to the SME client. Corporate businesses are likely to be well structured, have financial accounts, and are more likely to receive loans than SMEs since the institution uses the same criteria for corporate and SME customers. Other financial institutions also lend to SMEs based on the institutions’ products tailored for SME clients. The basic requirement for such a product is that the SME must have banked with the institution for a minimum of six months, the client’s bank statement is assessed, and a loan decision is made thereafter. An SME with a loan request falling outside the product is less likely to receive financing, whereas an SME with a loan request within the tailored banking product is more likely to receive the loan. Some participants further indicated they profiled the SME client with their eligibility criteria which included formal registration, record keeping and operation of a bank account for some months before granting the loan. Below are some statements from participants.

> “…so, you must have banked with us for a minimum of six months, and based on your turnover, we understand how your business cycle is and it will inform us on how much we can support you with. The typical thing is to operate with us for six months, we look at your request for loan application, and like I told you, the appraisal is very, very simple.

We do not ask for a lot of things just the bank statement analysis that we do and based on that we actually go ahead and advance the facility to you." **(FIB)**

"…the key is that the person must have been operating the business for 18 months, must have owned the business for that long themselves, must have experience in running the business for a year and half. The company must be Ghanaian owned, it must have at least two private customers, it must be able to show, as an SME, that it keeps some form of records, so that you can talk about bank statements, records on their operational expenses, purchase records, especially if we deal with people who travel abroad. We deal with duty documents, customs, freight, purchase invoices, these are the kinds of things we require. Now the entrepreneur should be able to provide us with at least twelve months information about what they do. The business has to be formally registered for SMEs." **(FIG)**

From the above discussions, financial institutions rely on their credit policies in making lending decisions on SMEs. Hence, policies that are more corporate inclined reduce the chances of lending to SMEs that are unable to meet the requirements. The standard credit procedures discussed in this section are in line with Abbadi and Karsh's (2013) approach of evaluating credit risk by banks. The findings are consistent with Boushnak et al.'s (2018)banks credit risk assessment process and the recommendation to make the process more efficient.

5.2.4.2 The Character of the SME Owner/Manager

Participants were asked if SME owners/managers' attributes influenced access to credit in their institutions and all the participants indicated the attributes influenced credit applications. Participants were then asked what characteristics affected their credit applications. The emerging theme from the question was that SME owner/managers' character influenced lending decisions. Here, a character referred to the business owner's integrity. Financial institutions looked out for owners who were consistent in their business engagement and loan repayment, as illustrated in the following quotes:

"…what I will look out for in somebody I am giving credit to, somebody will say character is important, it probably scores about 60% on my decision to give you the loan or not. Character in terms of your previous repayment, if you check on the credit reference bureau website you will then see the consistency, that is, if the person is consistent with

previous repayment, or the person is not a consistently late payer. Also, character, in terms of the person's knowledge on the role he or she plays on the job. What I mean by that is you really want to lend to somebody who is really well versed with what he's doing." **(FID)**

"Client risk on the appraisal form is dedicated to cross checking or confirming the morality or characteristics of the person you want to deal with. So, we will ask questions like where have they lived? Are they married or not? Because if someone is married or not you will be able to tell whether they are ss or not. How long they've lived in their residence. How long they have been operating their business in the location in which they said they are operating in. What do people around them say about them and are they consistent with the information they give us." **(FIG)**

While certain participants looked at the perceived lifestyle of the applicants to determine whether they will be responsible for the credit facilities if granted, others tried to determine the trustworthiness of their SME customers through their interactions with them. This included checking their records with loan repayments for existing customers and checking their bank statements from other banks. The appearance of the SME owner, the language used in the conversations and crosschecking stated facts are all approaches participants used in determining the initial lending decisions. The SME owner's age was one of the characteristics the participants noted as influencing lending decisions. The common age range was between 25 and 48 years. The SME owner's literacy level, gender and marital status also influence lending decisions. Below are some quotes from the participants.

"…and you will normally see ages between 25 to 48 years... we are beginning to see a lot of literates; in the past you actually saw people who you thought were illiterates. …. One of the things I have seen with the SMEs is, in 90% of the cases, if the husband and wife come to you for a facility, that facility will perform very well. If the husband comes alone, it is a danger. If the woman comes alone - 70% - they will pay. So, I am more comfortable giving loans to the women than giving it to men." **(FIB)**

Consistent with Makani, Letsina and Ewane (2020), who found that the SME owner's education and training relate to competence and influence their credit access, this study states the competence of management as one of the influencing attributes participants looked out for in lending to the

SME owner. Competence in the chosen area of the business, the qualifications of the owner and their training or exposure in the field of business influence confidence in the lending decisions. SME owners tend to play every role in their business instead of employing such key personnel as accountants, auditors, marketers and human resource managers. Their businesses are not well managed, and this influences participants' lending decisions as supported by the following narratives:

> "The SMEs have been going through this phase when people see them as (they are) not stable, so (we) people won't go and work for them. And they also always justify that so when they come in for any help from the bank and you ask them about (what is) their management team, when they come you realise that giving your money to these guys is not going to yield you any good." **(FIF)**

> "…So, because of the largely informalized nature the sector, most SMEs don't keep proper books and a lot of SMEs may not have the needed competencies and experience in the areas they are looking at and they have not been running businesses for long." **(FIC)**

From the above discussion, financial institutions lend to SMEs if the institutions are satisfied the SME owner's character, repayment tract record, etc are reliable.

5.2.4.3 Governance Structure and Financial Information

Participants were asked about SME firm characteristics that influence access to credit. Most SME clients are sole proprietorships or 'one-man' businesses, as one participant put it. Typically, SME owners are unable to differentiate between business revenue and personal income and make ad hoc decisions which makes it challenging to lend to them. Some participants identified sole proprietorships as unstructured as the owners play different roles in the business. They are the main decision-makers, they are the accountants, the marketers, and in most cases family members may be working in the business. This informal structure does not give participants the comfort to lend to them as stated in their quotes as follows:

> "… usually it is a one-man business, what the owner says is the final thing. It is difficult to differentiate between the business and the owner…." **(FIB)**

> "…… they find it difficult to disassociate themselves from their business, so you will find a typical case where someone starts a business and then it grows, he employs people, it is

registered as a limited liability and then the person is still in charge. Having seen its growth, it is considered success but at the risk or credit review we see that as your risk exposure that has increased because when you are growing you venture into bigger things, you go in for things that ordinarily you wouldn't have been able to have access to if you are an individual, but you realise that they carry that individual character that they had, so if the owner used to take money at source as in the sales or revenue that comes in, it is still the same practice." **(FIF)**

The majority of the participants identified poor book-keeping as a typical characteristic of SMEs. This is consistent with studies that found that SMEs lack the financial information required for assessing their business for financing(Abraham and Schmukler, 2017; Boateng and Poku, 2019). Financial institutions depend on financial records to make lending decisions. These include records of activities such as purchases and sales and audited accounts, income statements, balance sheet statements and bank statements. In view of this challenge, certain participants opted to use the SME business bank statements by analysing the turnovers and the business cycle to give them credit. Such SMEs must have banked with the institutions for a minimum of six months.

"…book-keeping is poor, they find it difficult to differentiate between what is my own money in the business and what is the business money, so they just mix the two up and then they don't keep proper records." **(FIA)**

"…bookkeeping is one because most of them do not have records of what they do…so even though they might be doing some good job, there is no proper record. So, for you lending to the person you do not know, the only way out is to judge from the books whether they are making money or they are not making money and if that is non-existent then it becomes a problem." **(FID)**

Some participants stated that weak SME governance structure is a characteristic that affects access to finance as financial institutions lookout for businesses with proper governance structures in place, an underlying business model, whether the business is an existing business or a start-up and the profitability of the business. This is consistent with Crovini, Ossola and Britzelmaier (2021) and Franco and Haase (2011), who found SME owners lacked a sense of risk mindfulness and knowledge. Furthermore, the competence of the staff and management, the experience of the firm within the industry sector and their business reputation become critical to the decision to finance

them. For some participants, the industry sector to finance is determined by the institution at the onset of every strategic year, and so whilst such industry sectors as mining, in a particular year, may be determined as risky, the financial institution would avoid lending to businesses operating in that industry. Other industry sectors such as the Fast-Moving Consumer Goods (FMCG) are perceived to be less risky; the players are more likely to receive loans. Consistent with Raimi (2021), who found the lack of succession planning as a challenge to SMEs' sustainability, some participants in this study also mentioned the lack of succession planning as a characteristic of SMEs that affects access to finance.

> "In terms of characteristics, I think the governance structures, and I also mentioned the industry, some industries are riskier, it is not to say that they will not get the credit but if the industry is riskier, and the firm's governance structures are very weak you may be more averse to lending to such a business." **(FIC)**

> "…you will always typically see there are no succession plans in place unlike your very organised businesses …" **(FIB)**

5.2.4.4 Collateral Requirements

Participants stated collateral played a key role in SMEs' access to finance and that collateral was a criterion for lending to SMEs, which is consistent with several studies on SME financing (Duarte, Gama and Esperanca, 2016, 2017; Attrams and Tshehla, 2022) For some participants in this study, collateral was not a requirement if the loan amount was below the threshold the institution's credit policy allowed. For the majority of the participants, collateral is mandatory to accessing finance as it becomes a fall-back plan if the credit facility goes bad. Cash collaterals seem the most readily acceptable form of collateral for participants. Besides this, guarantees and the use of landed property as collateral were accepted by all participants. However, the landed property must be owned by the SME owner or the business and not a third party. Others also accepted movable assets such as vehicles, equipment and household assets.

> "I mean, we don't ask for collateral at all. So, we've got very flexible collateral terms unless they are asking for facilities beyond what our risk appetite is; then we tell them we can't go above this, so you need to bring us security. We will ask for a landed property." **(FIB)**

> "…for every facility that I would book, I want some security for it. In case it goes bad, what is my fall-back plan?" **(FID)**

> "Our credit scheme is modelled around corporate banking, and it is strictly landed property, even certain locations are not accepted. Landed property in saleable locations, like regional capitals and a few selected district capitals … we don't even take uncompleted buildings, it has to be complete." **(FIA)**

For most participants, collateral is not the first thing they discuss with a prospective SME borrower because they would rather want to be satisfied the client risk, the commercial risk and the risk concerning the market, have all been mitigated; that the SME can manage the business and knows what it is doing, and also that the business is profitable. Collateral then becomes a means of protecting the institution if the client is unable to pay.

> "Collateral does improve their access, but fundamentally the cashflow transactions of the business has to be able to pay for the facility, and the going concern should be, should I say, robust enough for the business to pay for itself. So that is the primary concern. Without that, collateral does not suffice, even if you have cash collateral …" **(FIC)**

> "…the most flexible one now is when you (SME) have an investment which is cash or cash equivalent. We can liquidate it very easily. So, like a fixed deposit with us or with another bank which the bank will confirm it's with them and it is maturing on this date. A treasury bill which is the best with zero risk and if you have money in your house and you want to come and fix it too, that will also be fine. So those are the criteria for the collateral." **(FIF)**

From the foregoing, collateral plays a key role in SMEs' access to finance. Although in this study, financial institutions tend not to lend against collateral only, it forms an integral part of the lending decision because of the uncertainty of SME businesses. Collateral tends to be a source of comfort in the worst-case scenarios (Agostino, 2017; Amoako-Adu & Eshun, 2018). However, depending on the loan size, some financial institutions can lend at no collateral but rather on the underlying transaction basis and the ability of the underlying transaction to repay the loan. From the analysis of the financial institutions' interviews, a collateral pyramid was developed, as indicated in Figure 5.1.

Some financial institutions lend at no collateral if the loan amount is within the limit the credit policy allows. This further depends on the banking relationship with the SME as well as how long the SME has banked with the institution. Beyond this, financial institutions readily accept cash-backed collaterals to lend to SMEs. This could be in the form of such investments as treasury bills or fixed deposits. However, from the study, financial institutions would want to have cash collaterals that cover 120% of the required loan amount, which could prove challenging for SMEs to provide. Another form of security that financial institutions accept is guarantees, which are easy for them to take after being satisfied with the guarantor's ability to fulfil the obligation for the SME borrower. Financial institutions also accept movable assets such as vehicles, equipment, stocks and home assets as collateral against lending. However, mostly, the required form of collateral financial institutions request is landed property in prime locations or bare land also in prime locations, all registered with title certificates.

On the other hand, some of the respondents indicated their institutions were moved away from accepting vehicles as collateral.

> "…we are moving away from some of the types of securities or collateral, landed properties, motor vehicles…because you realise that it becomes a trend, where SMEs who claim to be dealing in vehicles just come, use the vehicles as collateral, take the money and they go away. Whatever happens you can go for the vehicles and just sell, so some banks started having car ports where they sell cars…" **(FIF)**

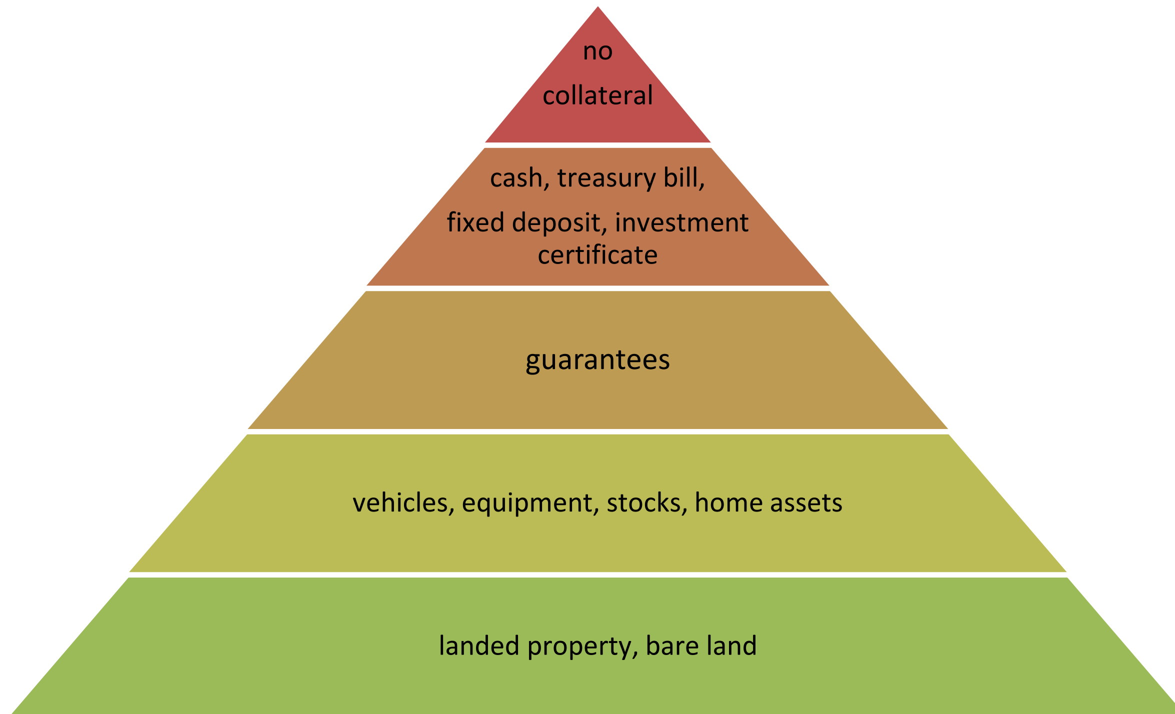

Figure 5.1: Collateral pyramid of financial institutions collateral requirements

Source: *Author's construct*

5.2.4.5 Alternative Approaches to Financing

Participants were asked to describe the types of financing they offered to SMEs, how banks can increase SMEs' access to finance, and to suggest alternative approaches of financing used to extend credit to SMEs. The findings are discussed in this section. The various types of financing the financial institutions provide to SMEs include SME loans (short-, medium- and long-term loans), personal loans to SME owners, microloans, working capital loans, overdrafts, investment financing, credit guarantees, and asset financing. The participants admitted their institutions offered these credit facilities depending on their mandate as a bank and their focus on lending in a particular year. The suggested means by which SME financing can be increased and the alternative approaches to SME lending are outlined below.

5.2.5 Suggestions on increasing SMEs' access to finance

The study aimed to determine how financial institutions help SMEs to increase their access to finance. Some of the suggestions have been outlined below.

i. **Organize SME clinics** – Having identified that SMEs have challenges, four of the financial institutions indicated that they do organize SME clinics for their customers. This is when they educate their customers on how to do basic book-keeping by recording sales and purchases, stock taking and using technology in their activities. The clinics also help SMEs in the areas of accounting, marketing, good management practices, and taking their revenues to the bank in order to build a history with their bankers. One respondent stated that SMEs have a notion of not repaying loans and so the clinics and training programmes organized for them also include trying to change that mindset. Advice is also given on the lack of succession planning associated with SMEs and any challenges that Financial Institutions identify with SMEs. These clinics are used as an opportunity to discuss best practices. Other financial institutions call SME clinics *help stations* as they provide diverse assistance to their SME customers.

ii. **Focus on women-owned SMEs** – Two of the financial institutions indicated that they would rather lend to women-owned businesses than male-owned, as women repay their loans more than men, and this is consistent with several studies on female-owned SMEs (Ali, 2018; Pergelova et al., 2019; Naegels, Mori and D'Espallier, 2022). One financial institution has a banking product specifically for women, where they groom the women to grow their businesses and link them up to stakeholders in their businesses to encourage them. The Financial Institutions provide credit facilities to them at various stages of their businesses. Their statement is captured below:

> "We also identified that most of these SMEs who are more reliable are run by women. The women traders are much more disciplined than the male businesspeople, so we also try to focus more attention on the women, develop special products to assist the woman" (FIA).

The SME ownership was stated as a factor that determines access to finance by one respondent. The statement is captured below:

> "One of the things I have seen with the SMEs is, in 90% of the cases, if the husband and wife come to you for a facility, that facility will perform very well. If the husband comes alone it's a danger. If the woman comes alone - 70% they will pay. So, I am more comfortable giving loans to the women than giving it to men" (FIB).

The findings from the interviews suggests that Financial Institutions are more willing to give credit facilities to women-owned SMEs than male-owned SMEs.

iii. **Develop Product Papers** – The financial institutions develop a product paper for specific segments or sectors of businesses by understanding the general activities and the business cycle. Instead of assessing the SMEs within a particular segment on a case-by-case basis, the general characteristics are used to develop a product paper to suit them to make it easy to avail funds to them when any business within that segment approaches the institution for a credit facility. Other Financial Institutions also call these product papers as *schemes.* One financial institution has a pharma scheme (for pharmacists) and a distributor scheme for their SMEs and other schemes based on their segment. The product paper becomes generic so that when any SME meet the qualifications, the process of assessing the customer becomes short (checking boxes) and quick decisions are made within twenty-four hours for some or within thirty-six hours for others.

iv. **Cheap sources of funds** – From the interviews, it was gathered that financial institutions could also help SMEs by obtaining cheap sources of funding, specifically meant for SMEs or, better still, grants aimed at helping the SME have access to finance. Some respondents suggested these:

> "…I think that the banks themselves must have access to cheap sources of funds first of all, so that they can give the loan out at very attractive rates so that the loan doesn't become a burden on the client" (FIE).

One respondent sums up all the above assistance to SMEs to improve their credit access in this way:

> "… change their (SME's) mentality of not paying for loans, get their books in order, banks need to understand the sector better, set funds aside for lending to SMEs without collateral, profile customers well…" (FID).

5.2.6 Alternative means to SME financing

In the following sub-sections, financial institutions' alternative means of financing SMEs have been outlined. These include tie lending to receivables, the use of grants from funding organizations, forming startup clubs, financing from the business' investments and the use of

lending schemes. These alternative means of financing are particularly used when SMEs are unable to meet all the credit policy requirements of the financial institutions.

5.2.6.1 Tie lending to receivables:

A suggestion from a participant was to lend mainly on a transactional basis, where the receivables from the transaction come in to pay for the credit facility when it is due. This is consistent with Duqi, Tomaselli and Torluccio's (2018) study on lending technologies. The participant cited an instance that, if one of their SME customers had a contract with a service provider that was in the institution's good books, and the SME customer raised an invoice to the client, it took the client 30 to 45 days to make the payment. This way, the bank could discount that invoice (at 75%, for instance) and hold it as security. The client, however, must be reputable with a good track record (Duqi, Tomaselli and Torluccio, 2018).

> "If it is also based on a contract and a contract that we have checked and are okay with, we can go ahead and advance money or maybe the contract employer is going to guarantee it, then we will consider that." **(FIA)**

5.2.6.2 Grants from funding organisations

According to participants, donor organisations sometimes provide funding for SMEs through their banks. Therefore, if an SME falls within the specific sector and meets the other criteria the grant is set out for, they can qualify for funding. However, the funding organisations expect the financial institutions to take the SMEs through the banks' risk assessment before lending to them. It is the participating institution's responsibility to ensure such grants are repaid. And for an institution that is more corporate or large businesses inclined, the SME business will also be assessed on that same basis. SMEs that pass the risk assessment and fall in the category of funding from a grant are more likely to receive financing.

> "Currently, we do not provide any grants. Again, it is all set out in the credit arrangement because even when we have partnership with donor organisations who want to support SMEs, they still channel it through our credit processes." **(FIC)**

5.2.6.3 Start-up clubs

According to a participant, SMEs should be able to form associations to help one another to get financing. Most of the participating financial institutions required SMEs to open and operate bank

accounts with them for at least six months and up to eighteen months before they could apply for a credit facility. This leaves out start-up SMEs. In the start-up clubs, SMEs get to know what each member does, and they rely on one another for services they can obtain from within the club. SMEs that join start-up clubs in financial institutions are more likely to receive alternative sources of financing through the club than those that do not belong to any start-up club.

> "…so that is why we formed the Start-up club, so what we encourage them to do is to know what everybody does in the group, so you only come to us when you really need it. …the barter system… if this SME needs money for building they can partner another SME who is into building but would need other services (e.g., with computers) …" **(FIF)**

5.2.6.4 Financing from investments or savings

One of the suggestions from the financial institutions regarding alternative approaches to SME financing was that the SMEs should invest in the business by using their equity earnings before approaching a bank for financing. One respondent put it this way;

> "I feel they themselves should be able to help by putting in some equity. Again, you can save small. If you come to me and say I have 60%, give me 40%, it's more reasonable than saying: give me 100%." **(FID)**

5.2.6.5 Lending Schemes

Participants intimated they had various schemes for their SMEs. These were based on the business type; for instance, a pharma scheme for SMEs in pharmaceuticals, a distributor scheme for distributors, and so on. These products meet the specific financing needs of the SMEs that fall within those specific segments. The participants had developed these schemes based on experience in dealing with SMEs and in meeting their specific needs. The participants also encouraged SMEs to form group schemes where members could contribute to, and members could borrow amounts from the group and approach a bank for financing when the required amounts were beyond the group scheme.

> "If it's a pharmacy, we have a pharma scheme; if it's a distributor, we have a distributor scheme for them… in all those areas we've mentioned that come with SMEs, we do have products for them." **(FIF)**

> “Among themselves they can come together to form associations that will cater for these needs. From monthly contributions if members need help, they can do that to help them. Like a group scheme, they themselves can help themselves, not necessarily going to a bank to borrow.” **(FIF)**

5.2.7 Challenges in lending to SMEs in the services sector

Participants discussed challenges they encountered with lending to SMEs. They found SMEs profitable to their business and found ways around the challenges to lend to them as some participants stated:

> “It is really a good area (SME banking) to make money. The good thing is that if they default you don’t get all of them defaulting at the same time unlike one big company that will default huge... but these people you need to get about 20 people defaulting to even make up to even GH₵20 million loan.” **(FIA)**

> “But they (SMEs) tend to churn out a lot of local currency deposits. I mean they are the engine of not just the economy but the engine of every bank. Once you have SMEs and you understand how they do their business, and you can have a model that addresses that then you are in a very good business.” **(FIB)**

The participants identified such challenges as diversion of funds, inconsistency in business dealings, lack of succession planning, lack of documentation, poor management and the informal structure of SMEs. Several authors have identified challenges SMEs face (Asunka, 2017; Abiodun Anthony Eniola, 2018). Table 5.3 indicates the challenges, quotes from participants and various solutions to overcome the challenges in order to still lend to SMEs. Some of the participants stated that overcoming the challenges included using mobile banking, using insurance cover, improving banking relationships with SMEs, developing basic financial information, and improving due diligence and monitoring.

Table 5.3 Challenges and solutions to lending to SMEs by financial institutions

No.	SME Challenges	Participants' Quotes	Solutions to challenges	Participants' Quotes
1	Diversion of funds	"… the biggest threat that bankers face when we deal with SMEs is the diversion of funds, they tend to take facilities from different banks." **(FIB)** "When they have access to credit, before you know it, they have engaged in one or two things that will constitute what we call diversion of funds, and this is a major risk for us, because this will cause or create an opportunity for them not to pay their loans on time." **(FIG)**	• Use Of Mobile Banking	"…So, what we have done with the new product that we are launching is to have mobile banking collectors who walk from one business to another business to collect physical cash. We try to put up what we call the automated teller machines in the markets where after each day when you collect your cash you do not need to walk up to the bank, you just go to the ATM inside the market, put it in there and then you can go on." **(FIB)**
2	Inconsistency in business dealings	"The other thing is because they are owner-managed, they wake up and their whims really influence the business decision." **(FIG)** "Sometimes somebody says, 'I am a distributor of cement', you look in his bank statement and you see purchases or monies going into certain activities that are not related to the cement business so that raises red flags." **(FIA)**		
3	Lack of succession planning	"The biggest threat to SMEs is the lack of succession planning, so we are beginning to help them to get other people involved." **(FIB)** "There is also this culture of continuity with the SMEs which has been one of the biggest headaches." **(FIF)**	• Use Of Insurance Cover	"…And then also we have insurance on the loans. That also covers the death or loss of property of the borrower." **(FIE)**
4	Lack of documentation	"…documentation is a huge one, from the client, as I said, it's a fairly rigid lending structure or credit framework, they are supposed to provide financial statements, they are supposed to provide registration documents, sometimes even stock and debtor lists	• Improving banking relationships with SMEs	

No.	SME Challenges	Participants' Quotes	Solutions to challenges	Participants' Quotes
		and all that, and a lot of SMEs have not built that kind of rigour into their lives." **(FIC)** "…book-keeping is one because most of them don't have records of what they do and as a bank, even though they might be doing a good job, there is no proper record. So, for you lending to the person you don't know, the only way out is to judge from the books whether they are making money or they are not making money and if that is non-existent then it becomes a problem." **(FID)**	• Developing Basic Financial Information	"…we can find ways of serving these SMEs using digital platforms in terms of educating them on how to use either mobile banking or card business and all these things so that they do less of cash transactions." **(FIA)**
5	Poor management	"The SMEs have been going through this phase when people see them as they are not stable, so we won't go and work for them. And they also always justify that so when they come in for any help from the bank and you ask them what is their management team, when they come you realise that giving your money to these guys is not going to yield you any good." **(FIF)** "…yes, one of the biggest challenges is the ability to assess the management capacity of the person that you are giving the money to." **(FIG)**	• Improving Due Diligence and Monitoring	"…one of the things we can do in terms of mitigating diversion is to improve upon our follow-up and loan monitoring… because what monitoring does is that it may not solve the problem entirely, but you have the opportunity to see a risk coming before it actually gets worse or out of hand." **(FIG)**
6	Informal structure	"…the challenge is for them to see money as money and know when to rejoice when profit comes in because some SMEs go around giving testimonies when we give them loans." **(FIF)** "Aside their regulatory things, some do not even get registered." **(FIF)**		

Source: *Data from interviews*

5.2.8 Summary of qualitative results

The qualitative study revealed financial institutions' lending decisions for SMEs are affected by the institutions' credit policies. Therefore, once an SME meets all the eligibility criteria, the loan request will be granted. Furthermore, the character of the SME owner and the ability of the firm to maintain financial information influence lending decisions. Apart from standard credit facilities such as loans and overdrafts, financial institutions use alternative approaches such as tying lending to receivables and grants to extend loans to SMEs. Financial institutions have evolved from SME lending challenges into solutions such as the use of mobile banking, insurance cover and deepening relationship banking to extend credit to SMEs. Figure 5.2 presents a summary chart of the qualitative study.

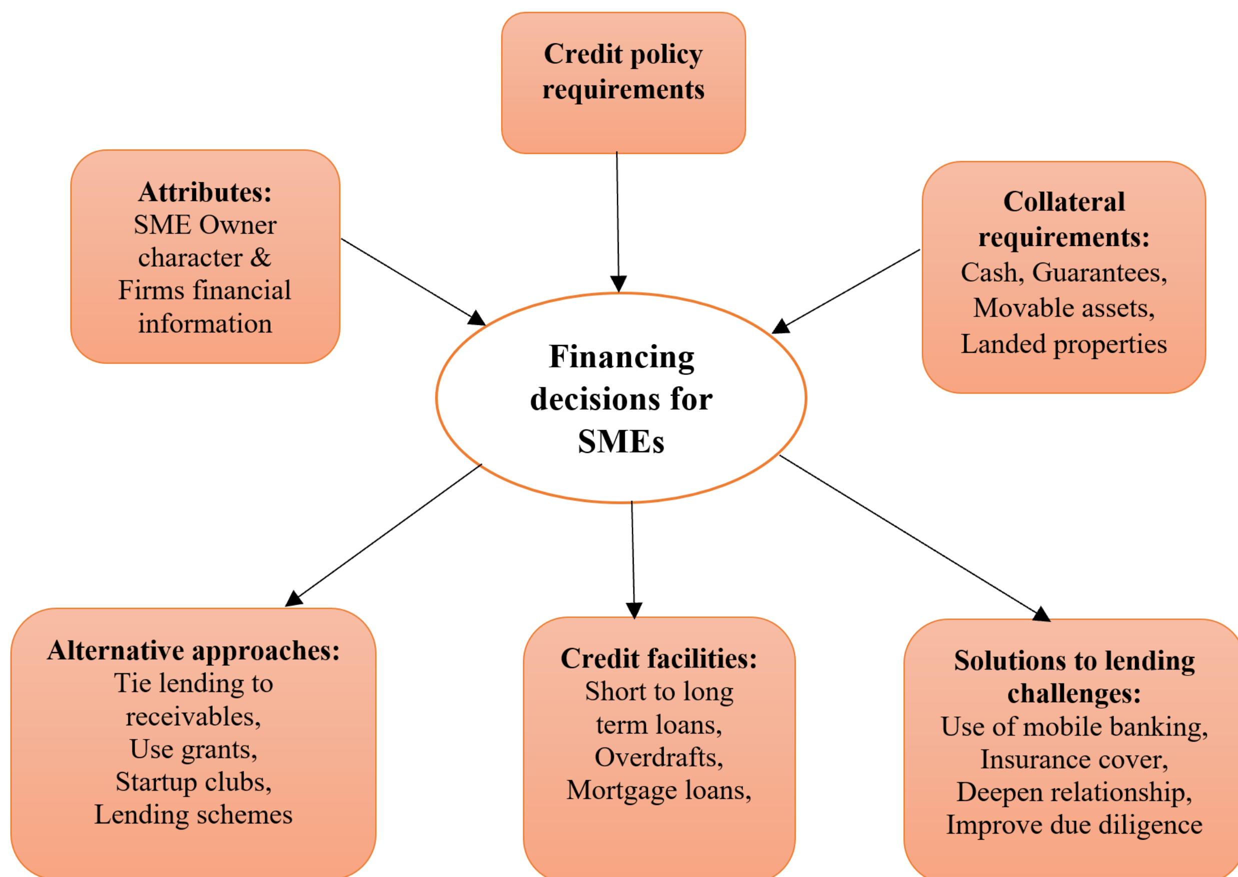

Figure 5.2: Summary chart of qualitative findings

Source: *Author's construct*

5.3 QUANTITATIVE RESULTS

In this section, the quantitative survey results are presented in line with the objectives of the study. The response rate of the participants, the data collection process and the background characteristics of the participants have been presented in this section.

5.3.1 Response Rate

A total of 663 participants responded to the questionnaire from the services sector only and, therefore, included in the analysis. This represented a response rate of 82.9% based on the target of 800 participants. Of the 663 respondents, 55.4% were in the Accra/Tema (Greater Accra Region) locality and the remaining 44.6% were in the Kumasi (Ashanti Region) locality.

5.3.2 Quantitative Data Collection Process

A questionnaire was developed for SME owners/managers based on the objectives of the study and was divided into sections to ensure each objective was adequately and clearly addressed. Experts in the field of study peer-reviewed the survey instrument to ensure the questions were appropriate to address the objectives. A pilot study aimed at exploring and mapping out the sample was conducted to identify gaps in the instrument and test the data analysis techniques to optimise the success of the study. The questionnaire was tested on twenty SMEs in Nsawam, outside the study areas. At the end of the pilot study, the length of the questionnaire was reduced, and some terms were removed for easy understanding. The data was assessed in order to ascertain what questions to add to or remove from the instrument and which techniques of analysis best suited the study. The outcome of the pilot study improved the overall study.

Field workers were recruited and trained to administer the survey in the two regions. The researcher trained the field workers and explained the objectives of the study and the purpose of the questionnaire. An experienced academic in social sciences supported the researcher in training the field workers for data collection. The field workers in the Ashanti region (Kumasi) used printed survey instruments to administer the questionnaire face-to-face. Data collection in the Greater Accra Region (Accra/Tema) was mostly undertaken using the Computer Assisted Personal Interview (CAPI) software on mobile tablets as this was available to the field workers. The data was captured in Microsoft Excel and imported into the Statistical Package for the Social Sciences (SPSS) version 22 for analysis.

5.3.3 Background characteristics of SME owners/managers

There were 338 males (51%) and 325 females (49%); 39.4% of the respondents were within the age group of 30 to 39 years, whilst 14.3% were in the age group of 18 to 29 years. Respondents aged 40 to 49 and over 50 years represented 28.5% and 17.8%, respectively. A total of 38.8% of the respondents had basic education, 22.8% had secondary education, 33% had tertiary education and 5.4% had no education.

In terms of experience, 53.7% had between 1 and 5 years of experience, 15.5% had 6 to 10 years of experience, and 15.7% had no experience. Furthermore, 15.1% of the respondents had over 10 years of experience. Regarding literacy, 92.8% of the respondents were literate whilst the remaining 7.2% were illiterate. SME owners who did not operate their businesses with their parents represented 67% while 33% engaged their parents. Another character that was measured was owner's level of training and it was found 70% of the respondents had no business training whilst 30% had. From the characteristics of the SME owners, it can be concluded that the majority of SME owners/managers are aged over 30 years, educated and literate and do not have their parents engaged in their business but have no business training. Details of the demographics of the participants are in Table 5.4.

Table 5.4 Demographics of Respondents

Demographics of Respondents	Frequency	Percent (%)
Region		
Greater	367	55.4
Ashanti	296	44.6
Gender		
Male	338	51
Female	325	49
Age Group		
18-29	95	14.3
30-39	261	39.4

Demographics of Respondents	Frequency	Percent (%)
40-49	189	28.5
50	118	17.8
Education		
None	36	5.4
Basic	257	38.8
Secondary	151	22.8
Tertiary	219	33.0
Experience		
None	104	15.7
1-5 years	356	53.7
6-10 years	103	15.5
more than 10years	100	15.1
Literacy		
Yes	615	92.8
No	48	7.2
Parents engaged in business		
Yes	219	33.0
No	444	67.0
Business Training		
Yes	199	30
No	464	70

Source: *Survey data*

5.3.4 Characteristics of the SME businesses

The total number of participating businesses in the services sector was 663, with 87.9% being sole proprietorships, 10% being partnerships and 2.1% being limited liability companies. In terms of area of business operations, 33.2% operated as traders, 15.7% operated in accommodation, and 5.4%, 2.6% and 4.4% operated in education, transport and entertainment, respectively. A total of 37% of the participating businesses operated in other services which comprised information technology, hairdressing/barbering salons, vehicle repair services and printing services. Most (96.2%) of the businesses were owned by Ghanaians, 3.5% were jointly owned by Ghanaians and foreigners and 0.3% were owned by foreigners. Businesses belonging to a business association represented 38.3%, but the remaining 61.7% were not in any association. With registration, 82.5% were formally registered but 17.5% were not and of those registered, 37.6% were registered with the Registrar-General's Department and the Metropolitan, Municipal and District Assemblies. The results also show that 92.2% of the businesses were founded by their owners, 5.9% were inherited and 1.8% were bought. In terms of location, 52.2% of businesses were located by the roadside, 18.6% in the markets, 14.5% in commercial areas, 11.6% in the owners' residences and 0.6% were located in other locations.

The characteristics of the businesses indicate most businesses in the services sector were Ghanaian-owned and registered sole proprietorships, with the majority being in the trading sub-sector and the business set up by the owners. The firm characteristics of the businesses have been outlined in Table 5.5.

Table 5.5 Firm characteristics of businesses

Firm Characteristics	Category	Frequency (No.)	Percent (%)
Business in the services sector	None	663	100
Size (Median No. of Employees)	6(6,9)		
Type of business	Sole Proprietorship	583	87.9
	Partnership	66	10.0
	Limited liability company	14	2.1

Firm Characteristics	Category	Frequency (No.)	Percent (%)
Business specialisation	Accommodation	104	15.7
	Transport	17	2.6
	Education	36	5.4
	Health	12	1.8
	Entertainment	29	4.4
	Trader	220	33.2
	Other	245	37.0
Nationality of ownership	Ghanaian	638	96.2
	Ghanaian and foreign	23	3.5
	Foreign	2	0.3
Business/trade association	Yes	254	38.3
	No	409	61.7
Business formally registered	Yes	547	82.5
	No	116	17.5
Have registered business address	Yes	421	63.5
	No	242	36.5
How business was started	Founded	611	92.2
	Inherited	39	5.9
	Bought	12	1.8
	Other	1	0.15
Business location	Industrial	17	2.6
	Commercial	96	14.5
	Market	123	18.6
	Owner’s residence	77	11.6

Firm Characteristics	Category	Frequency (No.)	Percent (%)
	Roadside	346	52.2
	Other	4	0.6

Source: *Survey data*

5.3.5 Access to Finance and SMEs' External Financing in the Context of this Study

Access to finance in this context is described as the approval of an SME loan application by the financial institution. Information on account ownership and loan applications was obtained through the survey. A total of 73.6% of the respondents had bank accounts; 29.7% had applied to a bank for a loan while most of the participants (70.3%) had not applied for a bank loan. Of the respondents who had applied for a bank loan, 92.4% were granted the business loan, and the loan application of 7.6% was declined. Table 5.6 presents the information on loan applications.

Table 5.6 Loan application information

Category	Variable	Frequency (N)	Percent (%)
Does your business have a bank account?	Yes	488	73.6
	No	175	26.4
How many banks does your business have accounts with?	One	262	53.7
	Two	135	27.7
	Three	57	11.7
	More than three	34	7.0
Has your business ever applied for a loan from a bank before?	Yes	197	29.7
	No	466	70.3
Was the loan application granted by the bank?	Yes	182	92.4
	No	15	7.6

Source: *Survey data*

The source of finance for participants was part of the process of understanding the concept of financing SMEs in the services sector. Participants were asked their source of finance for their businesses at the start-up stage, for daily operations and business expansion stages. Participants used multiple sources of finance for their businesses for any of the three instances. It was found 91.6% of the respondents used their own savings at the start-up stage and the remaining 8.4% did not. For daily operations, 72.5% used own savings, but 27.5% did not, and for business expansion, 70.9% used their own savings but 29.1% did not. The majority of respondents used their own savings for their businesses at all three stages. The use of financing from family and friends at the start-up stage was admitted by 29.7% of respondents, while 70.3% did not use this means. For daily operations, 11.2% used funds from family and friends, but 88.8% did not; 12.2% resorted to this source for business expansion while 87.8% did not. Equity savings was used by 4.5% of respondents at the start-up stage but 95.5% did not. For daily operations, 34.1% used equity savings but 65.9% not, and for business expansion, 35.0% used equity savings but 65.0% did not. Own savings, family and friends and equity savings are internal sources of financing SMEs mostly use (Baker, Kumar and Rao, 2020) as revealed in this study.

It was revealed 2.9% of respondents used bank financing at the start-up stage and 97.1% did not use this source. For daily operations, 3.6% used bank financing, but 96.4% did not. A majority (86%) of respondents did not use bank financing for business expansion, but 14.0% did. Interestingly, the majority of respondents did not rely on bank financing for their businesses at all three stages. This trend is similar to the other forms of external financing as Adegboye and Iweriebor (2018) and Osei-Assibey (2013) find, such as microfinance institutions, government agencies, savings, and loans institutions, private non-bank institutions and venture capital. For daily operations, informal money lenders (Susu) were used by 7.8% of respondents, compared to 0.9% and 1.5% who used this external source at the start-up and expansion stages, respectively. Suppliers' credit and buyers' credit were used by few respondents at all three stages. Participants hardly relied on venture capital or government agencies for financing their businesses at all stages. This finding is in line with studies that reveal SMEs prefer internal financing to external financing or debt (Osei-Assibey, Godfred A Bokpin and Twerefou, 2012; Ahmad and Atniesha, 2018). Table 5.7 shows the sources of finance used at the start-up stage for daily operations and business expansion.

Table 5.7 Sources of finance used for start-up, daily operations and expansion of business

Source of finance	Start-up		Daily Operations		Expansion of Business	
	Yes N (%)	No N (%)	Yes N (%)	No N (%)	Yes N (%)	No N (%)
Own savings	607 (91.6%)	54 (8.4%)	481 (72.5%)	182 (27.5%)	470 (70.9%)	193 (29.1%)
Family/friends	197 (29.7%)	466 (70.3%)	74 (11.2%)	589 (88.8%)	81 (12.2%)	582 (87.8%)
Informal Susu/money lenders	6 (0.9%)	657 (99.1%)	52 (7.8%)	661(92.2%)	10 (1.5%)	653 (98.5%)
Credit Union	3 (0.5%)	660 (99.5%)	9 (1.4%)	654 (98.6%)	7 (1.1)	656 (98.9%)
Micro finance institutions	3 (0.5%)	660 (99.5%)	12 (1.8%)	651 (98.2%)	21 (3.2%)	642 (96.8%)
Banks	19 (2.9%)	644 (97.1%)	24 (3.6%)	639 (96.4%)	93 (14.0%)	570 (86.0%)
Government agency	0 (0%)	663(100%)	0 (0%)	663 (100%)	3 (0.5%)	660 (99.5%)
Venture capital	2 (0.3%)	661 (99.7%)	3 (0.5%)	660 (99.5%)	15 (2.3%)	648 (97.7%)
Private Non-Bank Financial Institutions	1 (0.2%)	662 (99.8%)	0 (0%)	663 (100%)	8 (1.2%)	655 (98.8%)
Savings and Loans	10 (1.5%)	653 (98.5%)	23 (3.5%)	640 (96.5%)	73 (11%)	590 (89.0%)
Suppliers' credit	3 (0.5%)	660 (99.5%)	38 (5.7%)	625 (94.3%)	57 (8.6%)	606 (91.4%)
Buyers' credit	0 (0%)	663 (100%)	19 (2.9%)	644 (97.1%)	15 (2.3%)	648 (97.7%)
NGO	0 (0%)	663 (100%)	2 (0.3%)	661 (99.7%)	5 (0.8%)	658 (99.2%)
Equity savings (retained earnings)	30 (4.5%)	633 (95.5%)	226(34.1%)	437 (65.9%)	232 (35.0%)	431 (65.0%)
Other	1 (0.2%)	662 (99.8%)	0 (0%)	663 (100%)	1 (0.2%)	662 (99.8%)

Source: *Survey data*

Participants clarified the need and purpose for external financing to help understand SME financing further. A total of 66.8% of the respondents indicated the need for an external source of finance. Out of this, 55% stated they required external funding for business expansion while 45% did not; 28% required it for working capital while 72% did not; and 27% required it for purchase of fixed assets while 73% did not. Other purposes for external funding included training workers and starting new businesses. Table 5.8 outlines the purposes for external financing. In this study, external financing was mostly needed for business expansion, working capital, and the purchase of fixed assets.

Table 5.8 Purpose for an external source of financing

The purpose for external financing	Needed		Not Needed	
	N	%	N	%
Working capital	186	28.1	477	71.9
Purchasing fixed assets	179	27.0	484	73.0
Purchasing vehicle	67	10.1	596	89.9
Export/import	74	11.2	589	88.8
Paying rent	44	6.6	619	93.4
Expansion of business	367	55.4	296	44.6
Business travel	29	4.4	634	95.6
Other	8	1.2	655	98.8

Source: *Survey data*

Participants were required to select from a list of types of external financing that suited their businesses most. The selection of the suitability of the type of financing was on a five-point Likert scale from 'not suitable' to 'very suitable'. The reliability of the scaled items was analysed, and a Cronbach's alpha of 0.758 was obtained. This is in line with recommendations by Sekaran and Bougie (2014) that a coefficient of 0.70 and above is considered good at portraying internal reliability and consistency. The types of external financing included short-term loans (payable in one year), medium-term loans (payable between two and five years) and long-term loan (payable in five or more years). Others included overdraft, working capital and bridge finance.

Start-up capital, hire purchase and letters of credit were all listed as types of external financing for participants to select how suitable they were to their businesses. A total of 40% of the respondents

did not find a short-term loan suitable for their businesses but 60% varied in finding the suitability of short-term loans for their businesses. The medium-term loan was not suitable for 45.7%; however, 54.3% varied between slightly suitable and very suitable. Working capital was not suitable for 48.6% but 51.4% varied between slightly suitable and very suitable. While hire purchase was not suitable to 34.7%, the remaining 65.3% found it suitable but varied between slightly suitable and very suitable. Table 5.9 indicates the suitability of external financing types to participants.

Table 5.9 Suitability of external financing types

External financing Type	Mean	Standard Deviation	Not suitable	Slightly Suitable	Moderately suitable	Suitable	very suitable
			n (%)	n (%)	n (%)	n (%)	n (%)
Short-term loan (repayable in one year)	2.64	1.542	266 (40.1)	56 (8.4)	84 (12.7)	163 (24.6)	94 (14.2)
Medium-term loan (repayable between two to five years)	2.45	1.506	303 (45.7)	51 (7.7)	85 (12.8)	153 (23.1)	71 (10.7)
Long-term loan (repayable in more than five years)	2.24	1.616	380 (57.3)	48 (7.2)	53 (8.0)	61 (9.2)	121 (18.3)
Overdraft	1.94	1.316	388 (58.5)	90 (13.6)	73 (11.0)	64 (9.7)	48 (7.2)
Working capital	2.21	1.399	322 (48.6)	96 (14.5)	79 (11.9)	114 (17.2)	52 (7.8)
Bridge finance while waiting for expected cash inflow	1.79	1.272	424 (64.0)	97 (14.6)	52 (7.8)	37 (5.6)	53 (8.0)
Start-up capital	1.95	1.274	377 (56.9)	84 (12.7)	98 (14.8)	67 (10.1)	37 (5.6)
Hire purchase	2.69	1.551	230 (34.7)	114 (17.2)	82 (12.4)	108 (16.3)	129 (19.5)
Letters of credit	1.46	.872	474 (71.5)	110 (16.6)	52 (7.8)	15 (2.3)	12 (1.8)

Reliability statistics: Cronbach’s alpha = 0.785, Standardized Item = 0.768

Measurement of access to finance and external financing for the services sector indicates a smaller number of participants apply for loans and out of this a greater number are granted the loans. In addition, SMEs rely on their own savings or internal sources of finance for their businesses at all stages as attested to by several scholars such as Abor and Biekpe (2009), Boadi et al. (2017) and Patrizia and Rossi (2017). The majority of SMEs in the services sector require external sources of finance to expand their businesses, which is alluded to by such scholars as Osei-Assibey (2013) and Winborg and Landstrom (2000). The level of reliance on external sources such as microfinance, credit unions, non-bank financial institutions and savings and loans were all below 12% at the three stages of the businesses. This suggests that, at the start-up phase, SMEs are very much constrained with financing from external sources. This assertion is supported by Biest and Wyss (2019) in their start-up ecosystem study on Accra-Ghana, where financing start-up businesses had a low score. External funding is mostly found to be suitable for short-term loan and hire purchases. The next section presents the quantitative findings according to the objectives of the study.

5.3.6 SME Owner/Manager Attributes and Access to Finance – Objective 2

In assessing the effects of SME owner/manager characteristics on their access to finance, the binary logistic regression technique was employed because the dependent variable was categorical, rendering other methods inappropriate. The dependent variable was access to finance and the response was either 'yes' loan granted or 'no' not granted. The binary regression was used to analyse the likelihood of a loan being granted or not based on the independent variables: the SME owner/manager attributes such as gender, age, education, experience, literacy, and parents involved in business and business training. The data used for the analysis was the 197 (29.7%) SMEs who applied for loans from banks. The remaining 466 (70.3%) who did not apply were excluded from the analysis. In reporting the results of the binary logistic regression analysis, the estimated odds ratio, the Chi-square values and p-values were also reported. The confidence interval was at 95%. Table 5.10 presents the results of the logistic regression.

Table 5.10 Logistic Regression analysis of personal attributes and access to finance

Variable	Categories	Access to finance				Chi-square	p-value	OR
		No		Yes				
		n	%	n	%			
Gender	Female	6	5.9%	95	94.1%	0.825	0.364	
	Male	9	9.4%	87	90.6%			0.61
Age Group	18-29	1	6.3%	15	93.8%	0.654	0.884	
	30-39	7	8.8%	73	91.3%			0.70
	40-49	4	5.8%	65	94.2%			1.08
	50 and above	3	9.4%	29	90.6%			0.64
Education Level	No Formal	0	0.0%	9	100.0%	1.685	0.640	
	Basic	5	6.8%	69	93.2%			1.19
	Secondary	3	6.4%	44	93.6%			1.34
	Tertiary	7	10.4%	60	89.6%			0.73
Experience	None	6	16.2%	31	83.8%	4.851	0.183	
	1-5 years	5	5.2%	91	94.8%			2.26
	6-10 years	2	6.3%	30	93.8%			2.90
	>10 years	2	6.3%	30	93.8%			2.90
Literacy Status	No	1	7.1%	13	92.9%	0.005	0.945	
	Yes	14	7.7%	169	92.3%			0.93
Parents in Business	No	11	8.9%	113	91.1%	0.751	0.386	
	Yes	4	5.5%	69	94.5%			1.68
Business Training	No	12	10.1%	107	89.9%	2.606	0.106	
	Yes	3	3.8%	75	96.2%			2.80

The odds ratio for gender was 0.61and the p-value was 0.364, with a Chi-square value of 0.825. This indicates females are 0.61 times more likely to have their loan granted than males. The statistical significance, however, was not strong. In other words, being female or male does not

matter in the loan being granted or not. Similarly, the odds ratio for age group was 0.70, 1.08 and 0.64 for the groups 30-39, 40-49 and 50 and above, respectively, while the Chi-square value was 0.654 and the p-value was 0.884. This indicates being in the age group of 40-49 gives a likelihood of 1.08 times of loan being granted. The p-value was not statistically significant, meaning the age group did not matter in accessing financing from a bank. Literacy had a Chi-square value of 0.005; although strong, the p-value was not significant, and the odds ratio indicated a likelihood of 0.93 times of getting a loan based on being literate. The rest of the variables did not show enough statistical evidence that any of the SME owner attributes measured had a statistically significant ($p>0.05$) effect on one's access to a business loan. The results are not consistent with Campanella and Serino's (2019) findings where the personal characteristics of SME owners such as age, gender and education are significant in influencing their access to finance. In contrast, Rahman et al. (2017) find gender affects access to finance as women-owned firms experience more constraints in accessing financing than male-owned firms.

The SME owners or managers are closely linked to the business operations and their characteristics and attitudes tend to impact the business (Arthur-Aidoo, Aigbavboa and Thwala, 2016). Domeher et al. (2017) confirm some SME owner characteristics that influence their loan applications as gender, size, age of the business, sector of the business and collateral requirements. The scholars, however, indicate age of the SME owner and level of education do not influence their credit access. Similarly, Campanella and Serino (2019) find gender and age of SME owners influence loan approval, whilst education does not. In this study, the assessed SME owners' personal characteristics did not significantly influence their access to finance.

5.3.7 Firm Characteristics' Influence on SME's Access to Finance – Objective 3

To assess the effect of SME firm characteristics on access to finance, the binary logistic regression was used to analyse the likelihood of a loan being granted or not based on the firm's characteristics such as size, the form of business, registration status and maintaining financial information in the form of bookkeeping, business plan, cash budget, balance sheet, income statement, cashflow statement and audited accounts. Only participants who had applied to banks for a loan were included in the analysis. In reporting the binary logistic regression results, the estimated odd ratios, the Chi-square values and associated p-values were also presented. Table 5.11 presents the regression analysis of the firm characteristics and access to finance.

The odds ratio for firm size or a number of employees of an SME business was 1.09, which indicates that an increase in the firm size by one employee makes it 1.09 times more likely to access finance. The p-value was not statistically significant (p=0.225), meaning size does not matter in loan access. In terms of the form of business, sole proprietorships were 2.39 times more likely to have their loans granted compared to limited liability companies. The p-value was, however, not significant. The variables balance sheet, cashflows and income statement had p-values that were statistically significant. Participants who agreed they maintained a balance sheet were 3.79 times more likely to have their loans granted than those who did not agree to prepare balance sheet.

Table 5.11 Logistics regression model of firm characteristics

Variable	Categories	Access to finance				Chi-square	p-value	OR
		No		Yes				
		N	%	N	%			
Size	No. of employees	15	7.6%	182	92.4%	2.571	0.225	1.09
Form of business	Ltd Company	0	0.0%	4	100.0%			
	Partnership	2	10.0%	18	90.0%	0.494	0.781	2.06
	Sole proprietorship	13	7.5%	160	92.5%			2.39
Registration status	No	3	13.0%	20	87.0%	1.091	0.296	
	Yes	12	6.9%	162	93.1%			2.03
Bookkeeping	Do not Agree	7	11.5%	54	88.5%	1.873	0.171	
	Agree	8	5.9%	128	94.1%			2.07
Business Plan	Do not Agree	9	10.5%	77	89.5%	1.764	0.184	
	Agree	6	5.4%	105	94.6%			2.05
Cash Budget	Do not Agree	9	8.7%	94	91.3%	0.387	0.534	
	Agree	6	6.4%	88	93.6%			1.40
Balance Sheet	Do not Agree	13	10.2%	115	89.8%	3.357	0.067**	
	Agree	2	2.9%	67	97.1%			3.79

Variable	Categories	Access to finance				Chi-square	p-value	OR
		No		Yes				
		N	%	N	%			
Income Statement	Do not Agree	13	10.9%	106	89.1%	4.682	0.030*	
	Agree	2	2.6%	76	97.4%			4.66
Cashflows	Do not Agree	14	10.9%	114	89.1%	5.738	0.017*	
	Agree	1	1.4%	68	98.6%			8.35
Audited Accounts	Do not Agree	14	9.0%	142	91.0%	1.971	0.160	
	Agree	1	2.4%	40	97.6%			3.94

*5%, **10% significance level

The Chi-square test for association between balance sheet and access to finance gave a test statistic of 3.357 and the p-value of .067 which shows a statistically significant association. Similarly, participants who agreed to prepare income statements were 4.66 times more likely to get their loans granted than those who did not. The Chi-square value was 4.682 with a p=0.030 which is statistically significant at 95% confidence interval. The variable cashflows had an odds ratio of 8.35, meaning those who agreed to prepare cashflow statements had 8.35 times more chances of getting loans granted than those who did not. The Chi-square test statistic is 5.738 with p-value of 0.017, which implies a statistically significant association. Having annual audited accounts had 3.94 times the odds of having loans granted than those who did not agree to prepare audited accounts. The Chi-square value was 1.971 and the p-value was 0.160, which showed the association with access to finance was not statistically significant. The qualitative study that preceded the quantitative study supported the findings that maintaining financial information is important in financing decisions on SMEs.

Since about 70% of participants did not apply for loans from banks, the reasons for not applying were important to understand to contribute to the development of the framework for expanding financing to SMEs in the services sector and further ensure financial inclusion of the SMEs. Participants selected from a list of reasons that they did not apply for loans, and this was ranked from the highest reason to the least. On top of this list was high-interest rate as the reason for not applying to a bank for a loan and this was stated by 50.5% of participants. A total of 43.1% stated

their businesses did not need a loan as the second highest reason. The third highest reason for not applying for a loan was cumbersome application procedures and this was stated by 20.1%. Table 5.12 outlines the rankings of participants' reasons for not applying for a loan.

Table 5.12 Participants' reasons for not applying for a loan

Reason for not applying for a loan	Frequency N	Percent (%)	Ranking
High interest rates	246	50.5	1st
My business does not need a loan	210	43.1	2nd
Cumbersome application procedures	98	20.1	3rd
My business has enough capital	95	19.5	4th
My business is already over-indebted	92	18.9	5th
Other	91	18.6	6th
Inadequate collateral	53	10.9	7th
Religious reasons	38	7.8	8th
I did not think that a loan application would be successful	35	7.2	9th
Cultural reasons	31	6.4	10th

Source: *Survey data*

Financial information in the form of cashflow statements, income statements and balance sheet statements are important in SMEs' loan applications being granted and this is affirmed by Motta and Sharma's (2020) study where availability of such information influenced loan access. Furthermore, Odhiambo's (2018) assertion that information sharing reduces information asymmetry and leads to financial access affirms the findings on financial information being significant in loan access. The study found the majority of participants did not maintain audited accounts, although Boushnak et al. (2018) found this to be significant in loan decisions. This suggests financial institutions do not rely only on audited accounts in making decisions to lend but on other approaches, including relationship lending, as affirmed by Kysucky and Norden (2016) and López-Espinosa, Mayordomo and Moreno (2017). The study found high-interest rates as the

highest reason for not applying for a loan and this is consistent with scholars such as Owens and Wilhelm (2017) and Shang, Ma and Wang (2020), who similarly found this assertion to be so. This was followed by businesses not needing loans and cumbersome application procedures, which supports similar assertions by Eniola (2018) and the MSME Policy (2019).

5.3.8 Collateral Requirements Influence on SMEs' Access to Finance – Objective 4

To achieve the objective of the extent to which collateral requirements influence SMEs' access to finance, the collateral ability of SMEs was used as the independent variable and access to finance as the dependent variable in a binary logistic regression analysis. In presenting the binary logistic regression analysis, both the Chi-square values and odds ratios were presented, as well as the significance values of the variables. The dependent variable was the likelihood of a loan application being granted or not. The independent variables measured against the dependent variable were group guarantee, personal guarantee, land only, buildings, equipment, inventory, bank/cash savings and stock market shares. From the analysis, those who were likely to use personal guarantees were 1.77 times more likely to have their loans granted than those who were not likely to provide this type of security.

Similarly, those who were likely to use buildings as collateral had 1.04 odds of being granted the loan than those who were not likely to give buildings as collateral. There was no significance as the p-values (p=0.940) did not show statistical significance. The rest of the collaterals did not show a statistical significance in influencing SMEs' access to finance. Collateral tends to be a source of comfort in the worst-case scenarios (Agostino, 2017; Amoako-Adu & Eshun, 2018). However, the qualitative study revealed that depending on the loan size, some financial institutions can lend at no collateral but rather on the underlying transaction basis and the ability of the underlying transaction to repay the loan. Table 5.13 indicates the binary logistic regression analysis of collateral and access to finance.

Table 5.13 Binary Logistic regression of collateral ability of SMEs and access to finance

Variable	Categories	Access to finance				Chi-square	p-value	OR
		No		Yes				
		N	%	N	%			
Group Guarantee	Not Likely	8	6.8%	110	93.2%	0.291	0.589	
	Likely	7	8.9%	72	91.1%			0.75
Personal Guarantee	Not Likely	4	11.4%	31	88.6%	0.880	0.348	
	Likely	11	6.8%	151	93.2%			1.77
Land Only	Not Likely	7	6.7%	97	93.3%	0.244	0.621	
	Likely	8	8.6%	85	91.4%			0.77
Buildings	Not Likely	6	7.8%	71	92.2%	0.006	0.940	
	Likely	9	7.5%	111	92.5%			1.04
Equipment	Not Likely	9	8.2%	101	91.8%	0.114	0.736	
	Likely	6	6.9%	81	93.1%			1.20
Inventory	Not Likely	9	7.9%	105	92.1%	0.030	0.862	
	Likely	6	7.2%	77	92.8%			1.10
Bank and Cash Savings	Not Likely	6	8.2%	67	91.8%	0.060	0.806	
	Likely	9	7.3%	115	92.7%			1.14
Stock Market	Not Likely	11	6.8%	151	93.2%	0.880	0.348	
	Likely	4	11.4%	31	88.6%			0.56

Source: *Survey data*

The asset ownership of SMEs during the survey revealed 49.8% of SMEs owned assets such as production machinery and equipment. This was followed by 43% who owned land and buildings while the majority representing 57% did not own land and buildings. A total of 32.4% of the SMEs owned vehicles and 67.6% did not own this asset. Office equipment was owned by 27.1% of participants. Power generators were the assets that were least owned as only 21.1% of participants claimed they owned. The asset ownership is outlined in Table 5.14.

Table 5.14 Asset ownership

Assets owned	Yes	No
Land & Buildings	285(43.0%)	378 (57.0%)
Production Machinery and Equipment	330 (49.8%)	333 (50.2%)
Vehicles	215 (32.4%)	448 (67.6%)
Power Generators	144 (21.1%)	523 (78.9%)
Office Equipment	180 (27.1%)	483 (72.9%)

Source: *Survey data*

Despite SMEs' asset ownership, their ability to provide collateral to access loan facilities differed. The SMEs' collateral ability was ascertained as indicated in Table 5.22. Out of the respondents, 67.1% were likely to provide a personal guarantee as a form of security to access a loan and the remaining 32.9% were unlikely to do this. Similarly, 55.2% were likely to use cash savings as collateral and 44.8% were unlikely to use this. However, the qualitative study revealed financial institutions accepted cash collateral coverage of 120% from SMEs for cash collaterals. In the use of property/building as collateral, 42.4% of participants were likely to use this but 57.6% were unlikely to use property/building as collateral. Regarding security, 72.3% of participants were unlikely to use group guarantee while 27.7% were likely to do so. Similarly, 85.6% of participants were unlikely to use shares on the stock market as collateral but 14.4% were likely to use this. Table 5.15 outlines the collateral ability of businesses.

Table 5.15 Collateral ability of SMEs in the services sector

Collateral type	Mean	STD	Very Unlikely	Unlikely	Neutral	Likely	Very Likely
			n (%)	n (%)	n (%)	n (%)	n (%)
Personal guarantee	3.55	1.390	98 (14.8)	73 (11.0)	47 (7.1)	254 (38.3)	191 (28.8)
Bank savings/Cash	3.29	1.530	142 (21.4)	86 (13.0)	69 (10.4)	171 (25.8)	195 (29.4)
Property/buildings	2.78	1.460	196 (29.6)	118 (17.8)	68 (10.3)	195 (29.4)	86 (13.0)
Inventory (stocks/goods)	2.66	1.422	200 (30.2)	134 (20.2)	102 (15.4)	143 (21.6)	84 (12.7)

Collateral type	Mean	STD	Very Unlikely	Unlikely	Neutral	Likely	Very Likely
			n (%)	n (%)	n (%)	n (%)	n (%)
Land only (bare land)	2.61	1.356	185 (27.9)	174 (26.2)	81 (12.2)	162 (24.4)	61 (9.2)
Equipment	2.70	1.341	169 (25.5)	146 (22.0)	133 (20.1)	144 (21.7)	71 (10.7)
Group guarantee	2.52	1.365	196 (29.6)	190 (28.7)	93 (14.0)	107 (16.1)	77 (11.6)
Stock market shares	2.02	1.168	309 (46.6)	149 (22.5)	110 (16.6)	74 (11.2)	21 (3.2)

Source: *Survey data*

Participants owned assets such as land, buildings and equipment. However, in terms of the ability to offer these as collateral, participants were likely to use personal guarantees and bank/cash as collateral. Participants who owned land and buildings (43%) were likely to use them as collateral (42.4%). In the analysis, collateral did not significantly influence a loan being granted. The qualitative study partly supported this as some of the financial institutions indicated the underlying transaction and the ability to repay the loan was more important than collateral. Others stated they would require collateral for every transaction. Several authors have indicated the strong relationship between collateral and loan access (Duarte, Gama and Esperanca, 2017; Rahman, Rahman and Belas, 2017; Amoako-Adu and Eshun, 2018) but this analysis did not support the assertion.

5.3.9 Assessing Alternative Approaches to SME financing – Objective 5

Alternative financing was assessed, and participants had the option of choosing the likelihood of their firms using an alternative source of financing besides financial institutions. The alternative sources listed were venture capital, stock market, mobile data-based funding, angel investors and factoring. To test the reliability of the items in the scale, the reliability analysis was done and a Cronbach's alpha of 0.694 was obtained.

In the discussion, the responses for 'likely' and 'very likely' were reported as 'Likely' and responses for 'very unlikely', 'unlikely' and 'neutral' were reported as 'Unlikely'. Financing through angel investors was likely to be used by 57.3% of participants, and 42.7% were unlikely to use angel investors as a form of alternative financing for their businesses. Venture capital was likely to be used by 41.3% of respondents, but 58.7% were unlikely to use this as an alternative

form of financing. Both angel investors and venture capital have been used in other developing economies as alternative financing approaches (Rupeika-Apoga, 2014; Thompson, Boschmans and Pissareva, 2018). Twenty-seven percent of participants were likely to use financing through the stock exchange but 73% were unlikely to use financing from the stock exchange. Gupta and Gregoriou (2018) suggest that, though it is difficult for SMEs to be listed on the stock exchange due to stringent requirements, governments have reduced the measures. For SMEs that are listed, they have better access to finance and improved information asymmetry. Mobile data-based lending and factoring were unlikely to be used by 80.3% and 88.5% of respondents, respectively. Table 5.16 indicates the alternative financing sources for SMEs in the services sector.

Table 5.16 Alternative financing sources

Alternative Financing	Mean	STD	Very Unlikely	Unlikely	Neutral	Likely	Very Likely
			n (%)	n (%)	n (%)	n (%)	n (%)
Angel Investors	3.42	1.376	93 (14.0)	92 (13.9)	98 (14.8)	205 (30.9)	175 (26.4)
Venture capital	2.93	1.403	145 (21.9)	135 (20.4)	109 (16.4)	168 (25.3)	106 (16.0)
Stock market	2.53	1.325	202 (30.5)	144 (21.7)	138 (20.8)	120 (18.1)	59 (8.9)
Mobile data-based lending	2.38	1.200	203 (30.6)	168 (25.3)	160 (24.1)	99 (14.9)	32 (4.8)
Factoring (cheque discounting)	2.22	1.107	231 (34.8)	152 (22.9)	204 (30.8)	55 (8.3)	21 (3.2)

Source: *Survey data*

From the analysis, service sector SMEs prefer angel investors and venture capital as alternative financing. Angel investors bring relief to business financing. In many countries, they are supported by governments whose macro-economic and institutional factors influence SMEs' access to such financing (Bongini et al., 2021; Ding and Li, 2021). Whereas the Venture Capital Trust Fund in Ghana is in its growing stage, the impact on businesses in such areas as growth, reducing unemployment rate and information asymmetry challenges cannot be over-emphasised (Felix, Pires and Gulamhussen, 2013; Barnett et al., 2018).

5.4 CHALLENGES OF SMES

In this study, the challenges that financial institutions face in lending to SMEs were ascertained at the qualitative stage. Similarly, the challenges SMEs faced were obtained for a holistic approach

to the framework for expanding SME financing. The survey instrument, therefore, gathered data on challenges participants faced in their businesses. The researcher used a list of sixteen statements and asked participants to select how they perceived the obstacles to their businesses on a five-point Likert scale, from 'no obstacle' to 'very severe obstacle'. To ascertain the reliability of the sixteen scaled items, the reliability analysis was done and a Cronbach's alpha of 0.864 was obtained.

A total of 551 participants responded to this question, representing a response rate 83.1%. In the discussion, the responses for 'severe obstacle' and 'very severe obstacle' were reported as 'Severe Obstacle', and responses for 'minor obstacle' and 'moderate obstacle' were reported as 'Moderate Obstacle'. Tax rates and government laws were perceived as severe obstacles by 46.1% and 29.4% of participants perceived this as a moderate obstacle. Furthermore, 24.5% perceived this as no obstacle to their businesses. Regarding how practices of informal competitors challenged their business operations, 37% perceived this variable as a severe obstacle while 30.2% and 35.8% perceived this as a moderate obstacle and no obstacle, respectively.

Uncertainties about government policies were perceived by 32.6% as a severe obstacle, while 23.7% and 43.6% perceived this as moderate and no obstacles, respectively. Competition from cheap imports was perceived as a severe obstacle by 30.9% of participants, as a moderate obstacle by 27.4% and as no obstacle by 41.8%. In the bigger scheme of challenges, access to finance was perceived by 20.3% of participants as a severe obstacle and 40.3% perceived it as a moderate obstacle. Additionally, 39.4% perceived access to finance as no obstacle to their businesses. With court delays, 77.9% perceived it as no obstacle to their business, while 16.9% and 5.3% perceived it as a moderate obstacle and severe obstacle, respectively. Table 5.17 indicates participants' perception of obstacles in their businesses.

Participants suggested ways in which the obstacles could be curbed. Some of the suggestions included government reducing taxes, government being consistent with policies and control of the importation of inferior goods. Other suggestions were the government dealing with the inflation rate, stability of the Cedi, access to cheap sources of funds and the ability to market goods and services.

Table 5.17 Perceived obstacles to businesses

Challenges	Number		Mean	STD	No Obstacle	Minor Obstacle	Moderate Obstacle	Severe Obstacle	Very Severe Obstacle
How do you perceive	Valid	Missing			n (%)	n (%)	n (%)	n (%)	n (%)
Tax rates and government laws as potential obstacle to your business?	551	112	3.04	1.439	134 (24.5)	57 (10.4)	104 (19.0)	157 (28.6)	96 (17.5)
Practices of informal competitors as potential obstacle to your business?	551	112	2.66	1.476	197 (35.8)	67 (15.1)	83 (15.1)	136 (24.7)	68 (12.3)
Uncertainty about government policies as potential obstacle to your business?	551	112	2.48	1.495	240 (43.6)	47 (8.5)	84 (15.2)	117 (21.2)	63 (11.4)
Competition from cheap imports as potential obstacle to your business?	551	112	2.51	1.518	229 (41.8)	59 (10.8)	91 (16.6)	87 (15.9)	82 (15.0)
Electricity supply as potential obstacle to your business?	551	112	2.54	1.501	216 (39.2)	69 (12.5)	101 (18.3)	80 (14.5)	85 (15.4)
Political instability as potential obstacle to your business?	551	112	2.32	1.439	262 (47.5)	55 (10.0)	69 (12.5)	124 (22.5)	41 (7.4)
Access to land as potential obstacle to your business?	551	112	2.29	1.350	229 (41.6)	106 (19.2)	83 (15.1)	92 (16.7)	41 (7.4)
Crime, theft and disorders as potential obstacle to your business?	551	112	2.26	1.408	253 (45.9)	87 (15.8)	78 (14.2)	80 (14.5)	53 (9.6)
Access to credit as potential obstacle to your business?	551	112	2.24	1.254	217 (39.4)	126 (22.9)	96 (17.4)	85 (15.4)	27 (4.9)
Transport and logistics as potential obstacle to your business?	551	112	2.35	1.363	236 (43.1)	46 (8.4)	156 (28.5)	60 (10.9)	50 (9.1)

Challenges	Number		Mean	STD	No Obstacle	Minor Obstacle	Moderate Obstacle	Severe Obstacle	Very Severe Obstacle
How do you perceive	**Valid**	**Missing**			**n (%)**	**n (%)**	**n (%)**	**n (%)**	**n (%)**
Corruption as potential obstacle to your business?	551	112	1.74	1.173	355 (64.4)	78 (14.2)	49 (8.9)	46 (8.3)	23 (4.2)
Inadequate skilled workforce as potential obstacle to your business?	551	112	1.89	1.098	282 (51.2)	121 (22.0)	88 (16.0)	48 (8.7)	12 (2.2)
Customs and trade regulations as potential obstacle to your business?	551	112	1.82	1.129	314 (57.0)	99 (18.0)	79 (14.3)	41 (7.4)	18 (3.3)
Business licensing and permit acquisition as potential obstacle to your business?	551	112	1.78	1.044	316 (57.4)	88 (16.0)	106 (19.2)	33 (6.0)	8 (1.5)
Labour regulations as potential obstacle to your business?	551	112	1.75	.997	314 (57.0)	104 (18.9)	98 (17.8)	29 (5.3)	6 (1.1)
Court delays as potential obstacle to your business?	551	112	1.39	.860	429 (77.9)	66 (12.0)	27 (4.9)	21 (3.8)	8 (1.5)

Source: *Survey data*

The obstacles discussed were related to government and policies that governed the operations of the SMEs. SMEs are known globally to be engines of economic development in developing countries especially but they are also known to be disproportionately affected by trade barriers, policy inefficiencies and market failures which are issues to be tackled by governments if SMEs are to thrive (Cusmano, Miriam and Pissareva, 2018; Mamman et al., 2019). Invariably, SMEs are affected by the financial institutions' micro variables such as their size and profitability and inflation, limiting their access to credit (Boadi, 2016).

5.5 SUMMARY OF QUANTITATIVE RESULTS

The quantitative study addressed four of the study objectives and revealed that the majority (70%) of the SMEs did not apply for loans and their main challenge was high-interest rates by the financial institutions. However, of the 30% who applied for loans, the majority were granted. The quantitative results showed a relationship between SME owner/manager attributes and their access to finance, although not statistically significant. However, SME financial information was important in their loans being granted. In addition, SMEs owned various assets, including land and buildings, but personal guarantees as a form of security for loans were preferred. Collateral requirements did not significantly influence access to loans in this study. The quantitative findings further showed SMEs were likely to use angel investors and venture capital as alternative sources of financing for their businesses. SMEs' challenges bordered on government policies and regulations and ought to be addressed from a policy perspective.

5.6 DISCUSSION

The study used the exploratory sequential mixed methods design, which involves the researcher first exploring qualitative data and analysis and then using the findings in a second quantitative phase. The researcher, therefore, employed a three-phase procedure by Creswell (2012), with the first being exploratory, the second being instrument development, and the third being administering the survey to a sample population of SMEs. The integration of both the qualitative and quantitative analysis makes this study a mixed methods study. During the qualitative study phase, the in-depth interview guide was reviewed by two experts in the financial sector to ensure that the questions were aligned with the study's objectives and could be understood. After that, seven out of ten targeted financial institutions were interviewed on SME financing. Subsequently, a survey instrument was developed, and a pilot study was conducted outside the two selected

regions to pre-test the instrument. The instrument was partially adopted and modified from a previous survey conducted in Ghana on enterprises (Gyeke-Dako et al., 2015). The survey had a total of 663 responses. The study aimed to develop a framework to improve the financial inclusion of SMEs in the service sector after investigating the challenges of their financial inclusion.

Financial inclusion has been in the development strategies of several economies, especially those in developing countries that have low financial inclusion indicators, and it is especially so because it is seen as a means to poverty alleviation and a channel to achieve the SDGs (Fernando and Newnham, 2015; Government of Ghana, 2018; Government of Tanzania, 2018; Government of the Phillipines, 2022). These strategies have used approaches such as improving the financial literacy of those who are financially excluded (World Bank, 2017), and other strategies have been to fund businesses through public and private financial institutions (Zeqiraj, Sohag and Hammoudeh, 2022). In the past decade, mobile money has been one of the indicators that have significantly improved the financial inclusion of individuals and businesses in several countries, especially in the Sub-Saharan region (Ahmad, Green and Jiang, 2020; Kulu et al., 2022; Avom, Bangaké and Ndoya, 2023).

In spite of the strategies in place to achieve full financial inclusion for SMEs (Government of Ghana, 2018), fewer of these businesses get access to bank credit facilities which is an indicator of financial inclusion of businesses (World Bank, 2018). The services sector's share of bank credit is about 20% on average (Bank of Ghana, 2020), in addition to collateral requirement to get financed which most businesses are unable to provide (Abraham and Schmukler, 2017). Hence, the challenge of SMEs' access to credit persists. Therefore, there is a need for further research and investigations that will help improve SMEs' financial inclusion in Ghana. This study contributes to this gap by using a mixed methods design to investigate the concept of access to finance by interviewing financial institutions in a qualitative study first, followed by a survey of SMEs.

The study revealed that financial institutions are guided by their credit policies in lending to businesses, and some of the policies are more corporate inclined than SME inclined as large businesses are more capable of providing the requirements. And the requirements are mainly information on the businesses, including financial accounts, cashflow statements and business plans. Financial institutions further require that SMEs have bank accounts with their institutions and operate the account for a minimum of six months before they can request a credit facility. One

of the key indicators of financial inclusion is account ownership, which aligns with access to financial services. The quantitative study revealed that 73.6% of the respondents owned a bank account, and this represents a high financial inclusion of SMEs in the service sector in terms of ownership of bank accounts. Another 26.4% did not have a bank account and were therefore financially excluded from financial services, which is a basic indicator of financial inclusion. For the businesses that had bank accounts, only 30% applied for loans and a greater number (92.4%) of the loan applicants were successfully granted the loans.

The qualitative study revealed that credit policies provide eligibility criteria for businesses when applying for loans, including the owner's experience in operating the business, having a minimum of two customers, keeping records of operations, and being formally registered. The implication is that, although businesses have bank accounts, most do not meet the eligibility criteria and therefore do not apply for credit, leading to a low financial inclusion usage among SMEs in the service sector. Some SMEs also do not need a loan and are therefore voluntarily excluded from financial inclusion usage. For others, the study revealed that they find the loan application process cumbersome. For businesses that are financially excluded from the usage of financial services, the study aimed to develop a framework to guide their financial inclusion usage.

The study investigated the characteristics of SME owners/managers and how they influence the credit decision of financial institutions. The financial institutions were keen on knowing the character of an SME borrower to be able to make a lending decision on their repayment capability. Boushnak et al. (2018) and Isaga (2017) assert that personality traits significantly influence SMEs' performance. Financial institutions interview the SME owner/manager during the process of a loan application and, in the process, decipher the integrity, consistency in business dealings and competence in operating the business by the owner/manager. These further influence their decision to lend. The study revealed that financial institutions are more inclined toward female business owners as they find that they repay their business loans and even more so if she is married. The findings are in line with Hansen and Rand (2013) study on female small business owners who are less likely to be credit constrained. Adesua-Lincoln (2011) on the contrary, found female owned business owners in Nigeria are more constrained in accessing financing at various stages of the businesses, including startup and expansion and tend to instead rely on internal sources of finance.

Financial institutions further consider the age of the business owner/manager in their assessment and conclude that they prefer middle-aged owners as the younger ones are overly enthusiastic. The quantitative study assessed the influence of SME owner characteristics, including gender, age, education, experience, training, and parental involvement in the business and found the low significance of the attributes on their financial inclusion usage. The quantitative study, therefore, did not support the qualitative assertion of SME personal characteristics influencing their ability to access bank credit. However, other studies by Neeley and Van Auken (2009) analyse SME owner-manager characteristics using education, age and gender to assess their decisions on the use of bootstrap financing and show that these characteristics have an effect on their financing. Similarly, the variables age, gender, education and ethnicity were used in analysing the effect of these on an SME manager's ability to access loans from banks and indicate that there is a significant effect of these variables on their access to finance (Campanella and Serino, 2019).

Information on the SME business forms an integral part of financial institutions' process of assessing an SME business for a loan. The study revealed that the financial record keeping of the SME business, including daily bookkeeping, cash budgets, cashflow statements and audited accounts, is key in this assessment. In addition to this, the industry sector and SMEs operate in influence access to finance. The lack of succession planning in a business is a factor that financial institutions consider in the process of lending decisions. The qualitative study explained the significance of financial information in the SME loan application being granted or otherwise. The variables that were statistically significant included the SMEs balance sheet, the income statement and the cash flow statement. This means that when an SME owner applies for a loan and is unable to provide financial information, their loan application will not be granted. Studies such as Kira and He (2017) find a positive relationship between the following SME characteristics: SME industry type, firm size, firm’s business information, age of the firm, legal status, availability of collateral and access to debt financing.

In addition to the influence of firm information on loan application decisions, collateral is an important factor in SME financing and the financial inclusion of businesses in accessing credit. Several studies indicate that the use of collateral plays a key role in access to finance as it tends to reduce the bank's or the lender's risk and increase the commitment to repayment (Menkhoff, Neuberger and Rungruxsirivorn, 2012; Hanedar, Broccardo and Bazzana, 2014; Duarte, Gama and Esperanca, 2016; Agostino and Trivieri, 2017) and particularly for SMEs, the pledging of

collateral is a necessary condition to access to finance (Hanedar, Broccardo and Bazzana, 2013). These studies support the qualitative findings as the study revealed that financial institutions' collateral requirements differ, and they include personal or group guarantees; movable assets such as vehicles, furniture, equipment, home assets; bare land and landed properties in prime locations and investments in cash. The study further revealed that some financial institutions do not request collateral from SMEs if the loan request is small and the account operations indicate the business' ability to support the loan.

Some informal financiers rely on a not-so-stringent collateral requirement of no collateral because they use a form of efficient local enforcement by relying on informal networks (Distinguin, Rugemintwari and Tacneng, 2016). The quantitative study did not show a statistical significance between collateral and access to credit. However, the majority of SMEs in the service sector own assets such as office equipment, generators, and vehicles, with a little more than half owning land and buildings. Their ability to use their assets as collateral to access loans differed. The majority of them preferred to use personal guarantees. Less than half of the respondents were likely to use land/buildings as collateral. Asset registration in Ghana, in particular, landed properties are a challenge and hinder individuals from registering their assets due to the cumbersome process and ownership challenges (Quaye et al., 2014; Domeher, Abdulai and Yeboah, 2016).

Financial institutions find SMEs profitable for their business as they bring in continuous deposits and interest income (Shihadeh et al., 2018) and therefore, in spite of their inability to fully meet the eligibility criteria for loans, the banks have found alternative means to lend to SMEs. The study revealed that some financial institutions receive funding in the form of grants from external organisations with specific purposes relating to SMEs, and in such circumstances, lending to SMEs may not go through the eligibility criteria of the financial institutions. In some cases, financial institutions form startup clubs in order to groom them and provide financing for their businesses. The use of group scheme lending is another alternative approach used to extend financing to SMEs. These internal approaches further extend the financial inclusion of SMEs in the sector. The quantitative study showed that SMEs, on the other hand, are more likely to use angel investors as an alternative means of external financing, followed by venture capital funding. Although these are means by which SMEs' financial inclusion can be improved, both approaches are now developing in Ghana as a means of external financing that will significantly change their financial

inclusion in the near future and can, therefore, not be ignored (VCTF, 2016, 2021; Barnett et al., 2018).

The study revealed that, although financial institutions face diverse challenges with SMEs in the service sector, they have been able to find solutions to deal with the challenges and continue to have lending relationships with them, thereby improving the financial inclusion of SMEs in access to finance. One of the biggest threats is the diversion of funds. To overcome this challenge, some financial institutions use mobile banking, where they go to businesses to pick up cash and deposit on mobile banking devices on a daily basis. Inconsistency in business dealings is another identified challenge, and some of the financial institutions have put in place insurance covers on SME loans to cover the loss of property or the death of the borrower. This ensures that the banks do not lose out completely in case of a challenge and further gives them the comfort to extend financing to SMEs.

The lack of SME succession planning is a threat to financial institutions. In addition, the lack of documentation and poor management of SME businesses hinders financial institutions in lending to them. As a resolve, financial institutions provide training to SME owners/managers, use digital platforms and improve due diligence and monitoring of loans in order to identify risks early and mitigate them quickly. SME challenges are known in the extant literature, and they include what has been identified in this study (Nkuah, Paul and Kala, 2013; Asare, 2014; Madrid-guijarro et al., 2016; Ferreira de Araújo Lima, Crema and Verbano, 2020). This study, however, went a step further to obtain solutions to the challenges from the financial institutions that are key stakeholders in SMEs' financial inclusion. The quantitative survey obtained information on obstacles or challenges SMEs face in their businesses in order to have a holistic approach to SMEs' financial inclusion, mainly because the achievement of financial inclusion as outlined in strategies of economies involves government as a critical stakeholder and leading proponent of the agenda (Government of Ghana, 2018; Government of Nigeria, 2018; Government of Tanzania, 2018). More than half of the top ten obstacles SMEs face in their businesses are related to concerns from the government, with the top obstacle being tax rates and government laws on businesses. Uncertainty about government policies and competition from cheap imports, as well as electricity supply and access to land, are all concerns which government is the key stakeholder to resolve and make it easier for businesses to thrive.

The important role of government in addressing SME obstacles cannot be overemphasised. Several researchers point to this assertion because SMEs play a significant role in economies in the form of employment creation and contribution to the GDP (Huda, 2012; Govori, 2013; Abbasi, Wang and Abbasi, 2017). Access to finance is stated as an obstacle to SMEs' business. This assertion supports several past researches on SME financing in which access to finance is a major challenge (Ardic, Mylenko and Saltane, 2012; Nkuah, Paul and Kala, 2013; Matamanda et al., 2017). The findings and outcomes of the study influenced the development of a framework for the financial inclusion of SMEs in the service sector in Ghana.

5.7 CHAPTER SUMMARY

In this chapter, the results were presented, commencing with the qualitative results, followed by the quantitative analysis addressing each of the study objectives. The qualitative findings revealed the assessments financial institutions undertake in order to make lending decisions on SMEs. In spite of the challenges of information asymmetries, innovative approaches have been used to overcome these. Both the characteristics of the owner and the firm influence the decisions of the financial institutions, in addition to collateral requirements. Several quotes from the participating financial institutions were used in presenting the qualitative study. A summary of the qualitative study was presented. The quantitative phase of the study was presented after the qualitative study, as the research design was an exploratory sequential design. The analysis of the effect of SME owner/manager personal characteristics, the firm attributes and collateral on access to finance were presented. Where access to finance in this analysis was based on whether a loan application was granted or not. While about a third of participants had their loans granted, the majority could not access loans for various reasons. The alternative approaches to SMEs' external financing were presented in a holistic approach to SMEs' financial inclusion. Discussions of the findings were presented in this chapter, relating the findings to past research findings that the study affirms or otherwise. The need to improve financing to SMEs in the services sector was evident. The next chapter presents the framework for SMEs' financial inclusion in the services sector.

CHAPTER 6: THE FINANCIAL INCLUSION FRAMEWORK

6.1 INTRODUCTION

This chapter develops a financial inclusion framework for SMEs in the service sector of Ghana. The framework is based on input from the results and findings of the study and has implications for three key stakeholders in the SME financial inclusion: the SMEs, financial institutions and government policymakers. This is in response to the primary objective of this study to investigate the challenges of SMEs financing from a sector specific point and to develop a framework that will improve their financial inclusion. Section 6.2 indicates the framework, whilst sector 6.3 indicates the elements of the framework. The importance of the framework is in Section 6.4 and Section 6.5 provides a summary of the chapter.

6.2 THE DEVELOPED FRAMEWORK

The framework is based on the results of the study. Both the qualitative findings and the quantitative results have been integrated in the framework. It is a framework for the financial inclusion of SMEs in the Service Sector. Three main components are identified. Firstly, the SME component comprises the owner/manager characteristics, the firm attributes, collateral and alternative financing. These represent four of the five research objectives of the study. Second is the financial institutions or financiers or funders component comprising the decisions of financial institutions, which is one of the objectives of the study, financial inclusion and financial exclusion. The third component is the government and stakeholders, which includes solutions to the challenges of the three main stakeholders; banks, SMEs and government. Each of these components is not standalone; rather, they flow into the other and are integrated, interrelated and interdependent with a financial inclusion goal. The Financial Inclusion Framework for SMEs in the Services Sector, as it is named in Figure 6.1, will help stakeholders achieve a common goal of improving financing for SMEs. Section 6.3 outlines the elements of the framework according to the three main components and how it works.

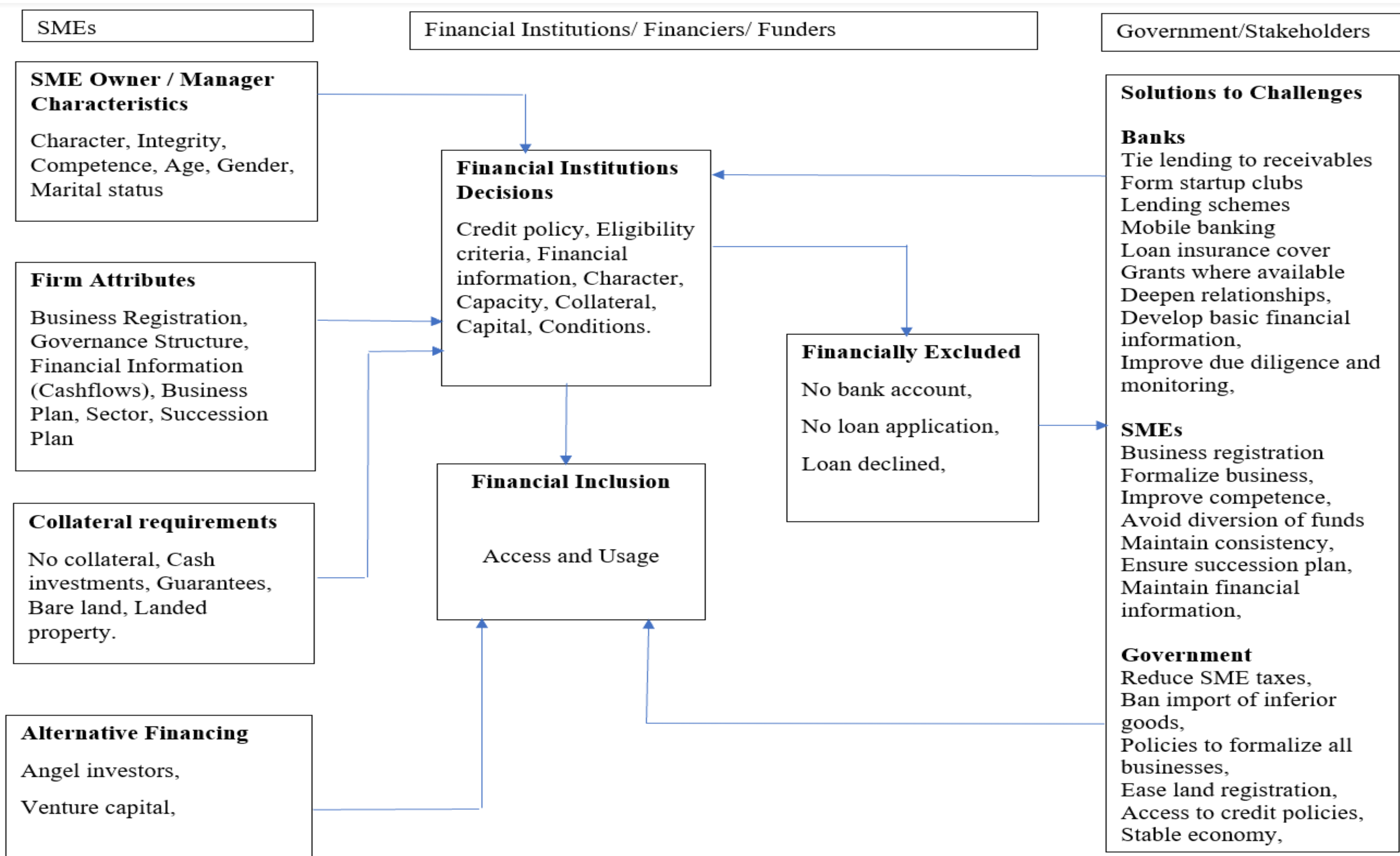

Figure 6.1: A Financial Inclusion Framework for SMEs in the Services Sector

Source: *Author's construct*

6.3 ELEMENTS OF THE FRAMWORK

In the following sub-sections, the elements of the developed framework have been discussed. The three main components include the SMEs, the financial institutions and the government/stakeholder's component.

6.3.1 Small and Medium Enterprises Component

The SME component comprise the owner/manager characteristics, the firm attributes, collateral and alternative financing and these have been discussed in the following sub-sections.

6.3.1.1 Owner/Manager Characteristics

The findings from the interviews with the financial institutions revealed that, in their loan decision process, the personal attributes of the SME owner/manager played a key role. From the qualitative study however, it was revealed that financial institutions thoroughly assess the character of the SME borrower and satisfy themselves that they are dealing with a borrower who is willing to repay the loan. The personal attributes that is taken into decision making by the financial institutions' includes the character of the owner, the owner's integrity/trustworthiness and consistency in business dealings, and the owner's competence in the form of knowledge and experience in the field of business.

Furthermore, the gender of the SME owner mattered to financial institutions who found lending to female-owned SMEs easier because they tended to repay the loans and, therefore, some banks had products specifically for women. Similarly, the marital status of business owners influenced financial institutions decisions as they preferred lending to SME owners who were couples because they found that couple owners tended to repay loans. The age of SME owners/managers further influences as young business owners were seen as a higher risk category. Statistically, the SME personal attributes such as age, gender, education and experience did not influence their access to finance in this study. Studies such as Domeher, Musah and Poku (2017) found no significant relationship between SME attributes and access to finance.

After considering the SME owner characteristics, financing decisions are made to lend to them, leading to financial inclusion usage or their application is declined leading to financial exclusion. For those excluded, the solution is that they have a responsibility to work on themselves to address the perception of their character by equipping themselves with skills that make them trustworthy

and improve their business competence. In this study, most SME owners/managers had no business training. Therefore, they have to take up the responsibility of being equipped with soft skills to acquire a sense of professionalism in their output. This should include attending training programmes organised by stakeholders such as the government, trade associations, banks and NGOs. After this, they can return to the financial institution, and this will improve their financial inclusion.

The above owner/manager characteristics description in the framework is depicted follows: the SME Owner/Manager Characteristics box has an arrow into the Financial Institutions Decisions box, the decisions have two arrows, one to financial inclusion and the other to financial exclusion. There is an arrow from the financial exclusion box to the Solutions to Challenges box and from here when those financially excluded take into consideration the various solutions (Banks, SMEs, Government) based on the study, an arrow points back to Financial Institutions Decisions and then into the Financial Inclusion box or directly from the Solutions box to the Financial Inclusion box. The solutions provided will improve the financial inclusion of SMEs in the service sector. The rest of the objectives of the study are represented similarly in the framework.

6.3.1.2 Firms Attributes

The SMEs are seen as unstructured entities with weak governance structures and poor financial record keeping. The majority of the SMEs disagreed with preparing annual balance sheet records, income statements and cashflow projections. Motta and Sharma's (2020) study supports the need for SMEs to maintain financial information. Furthermore, SME owners and their businesses are said to be difficult to separate (Arthur-Aidoo, Aigbavboa and Thwala, 2016) and, in this study, financial institutions affirmed this assertion as the owners are unable to separate business funds from own funds and consequently, they mixed up their resources, including the loans they borrowed from the banks. In addition, the financial record keeping of SMEs plays an important role in their access to finance as these forms a basis for financial institutions' lending decisions to SMEs. The financial institutions want to be satisfied that the cashflow of the SME seeking to borrow is capable of repaying the loan or credit facility when granted. In this study, the balance sheet, income statement and cash flow statement were all statistically significant in determining the likelihood of access to finance. The financial institutions further take into consideration the

SME firm attributes. They include the business registration, governance structure, financial record keeping, including daily bookkeeping, cash budgets, cash flow statements and audited accounts.

The sector in which SMEs operate influences the financing decision, as well as the succession plan of the business. When these factors are considered together with the SME owner characteristic, it leads to a financial inclusion decision or exclusion decision. To improve financial inclusion, the solution is for SMEs to formalize their businesses, maintain financial information and put in place a succession plan.

On the other hand, financial institutions find SMEs relevant for their banking business and therefore overcome their challenges with lending to SMEs in diverse ways. These are outlined in the solutions component of the framework and includes bringing banking to the doorsteps of SMEs in the form of mobile banking. Additional solutions includes tie lending to receivables, form startup clubs and use Lending schemes approach in financing SMEs. Loan insurance cover provides security to cover both the loss of the owner in the case of death or damage to the business. Financial institutions use grants from funders where available and further deepen their relationships with their SME clients to improve the information asymmetries that exists. Another important approach used is that financial institutions develop basic financial information for SMEs including using their account operations and they further improve due diligence and monitoring.

On the part of the government, SMEs should register their businesses, and this could be a policy directive from the government to ensure all who do business in any form are registered. Financial institutions will deal with registered firms as this reduces the information asymmetry challenge considerably. The solutions for both financial institutions and firms as outlined in the solutions to challenges component means that, businesses that are excluded for not diverse reasons, could be helped to improve their access to finance opportunities and open bank accounts or request for credit and this will leam to an improvement in the financial inclusion of these businesses.

6.3.1.3 Collateral Requirements

The findings of the study revealed financial institutions' collateral requirements to include cash or investments which is preferred, guarantees in the form of personal or group guarantees, movable assets such as vehicles, furniture, equipment and home assets and bare land in prime locations, as well as landed property in prime locations. Some financial institutions however do not ask for collateral depending on the amount and institutional credit policy. This is consistent with several

studies which asserts the need for collateral ownership to access finance (Osano and Languitone, 2016; Agostino and Trivieri, 2017).

However, SMEs own assets and their collateral ability was mostly in the form of personal guarantee. Even though collateral did not have a statistical significance on SMEs access to finance, the qualitative study indicated that the ability of the SME to repay the lending from the business transactions is more important to financial institutions than the presence of collateral which is a last resort to repay the lending if the business fails. Collateral therefore plays a role in SMEs financial inclusion. Asset registration especially in the form of land registration has been a challenge in Ghana and, therefore, requires interventions from the government to ease up the process of acquiring and registering lands in Ghana (Domeher, Abdulai and Yeboah, 2016). Improving the collateral requirements of SMEs will improve their financial inclusion.

6.3.1.4 Alternative financing

Financial institutions face challenges in SME lending and these challenges emanate from the SMEs poor record keeping of financial transactions, diversion of funds by SMEs and inconsistencies in business dealings. Several studies support this assertion (Baporikar, Nambira and Gomxos, 2016; Government of Ghana, 2020a). The financial institutions see SMEs as an important part of their banking and therefore find solutions to the challenges they face in SME lending. These are outlined in the solutions component of the framework and includes lending against receivables, using grants from donor agencies to extend credit to SMEs, forming start-up clubs and using group scheme lending approaches. Additionally, they help SMEs by developing basic financial information in order to assess their loan applications in spite of the SMEs inability to provide cashflow projections and audited accounts. Furthermore, financial institutions improve their due diligence and monitoring as a means to ensure that lending to SMEs are repaid. These alternative approaches are internal to the financial institutions with the aim of improving the financial inclusion of SMEs.

Externally, SMEs in the service sector prefer angel investors and venture capital as an alternative form of financing outside banks. These forms of financing are influenced by government initiatives and policies in the economic environment. The least preferred form of external financing as revealed in this study included factoring and the stock market.

6.3.2 Financial Institutions/Financiers/Funders Component

The second component of the framework is the financial institutions or financiers and comprise of the lending decisions they make on SMEs, the financially excluded SMEs due to their lending decisions, and financial inclusion which refers to successfully booked loan applications. These have been discussed in this section.

6.3.2.1 Decisions

Financial institutions are governed by their respective credit policies, which may not be favourable for the SME customer. The application process includes the SME having a bank account and having been operating it for several months prior to the application for credit. Other eligibility criteria includes the SME being registered as a business entity and maintaining financial records, which form part of the basis for assessing the loan applications. The assessment process further includes the five Cs assessment process to determine the reliability of the borrower which is supported by other authors (Boushnak et al., 2018). The assessment therefore includes the character of the SME owner, the capacity of the business to repay the loan, the capital of the business which shows the owners commitment, the collateral offered and the conditions. In this study, 73% of the SMEs had a bank account, which means that majority were financially included in terms of access to financial services.

The remaining 27% of the SMEs were financially excluded, in that, they did not have a bank account which is a basic financial inclusion indicator. For the SMEs who had a bank account with the financial institutions, only a third applied for a loan or credit and over 90% of those who applied were granted the loans. This implies that, fewer SMEs fulfil the financial inclusion indicator of usage of credit. Majority of SMEs indicated that, the interest rate of banks and cumbersome application process hindered them from applying to banks for credit. Some indicated that they did not need a loan from the banks, and this is because majority of SMEs rely on family and friends for financing at various stages of their businesses. Financial institutions encounter diverse challenges in the lending process with the SMEs and have found solutions to these challenges. The solutions by banks in the solutions component will help financial institutions in to improve the financial inclusion of SMEs.

The framework, therefore, indicates solutions from the study for financial institutions to enhance financial inclusion of SMEs. The alternative ways of lending to SMEs and expanding their

financing is through building a closer banking relationship with SMEs to understand them and allay fears of this segment of businesses and, therefore, reduce the information asymmetry challenges. The use of basic information about SMEs through their account operations by financial institutions and determining their ability to repay from their bank statements will lead to an improved financial inclusion. When movable assets are required by financial institutions as collateral, they could ensure insurance policies cover these assets to reduce the incidence of loss in the event of default. Mobile banking has also been used to transact financial businesses with SMEs at their locations at their convenience and ease. Another means is to tie lending to expected receivables from reputable companies. Forming start-up clubs will help such businesses as otherwise they would not meet the eligibility criteria set out by financial institutions. Group lending schemes will further open up financing to SMEs that are excluded. These solutions will ensure an improvement in the financial inclusion of SMEs who otherwise will be excluded from the external financing system through banks.

6.3.2.2 Financial inclusion

Financial inclusion in the framework consist of two main indicators, namely, access to financial services (bank account ownership) and usage of financial services (loan or credit). In terms of access, 73% of the SMEs had bank accounts, meeting the indicator of account ownership in financial inclusion. However, as revealed from the study 27% of the SMEs had access to credit and therefore financially included in terms of credit. This is consistent with studies on SMEs where the majority of the SMEs did not get access to bank loans (Quartey et al., 2017; Amarteifio and Frimpong, 2019; Calabrese, Girardone and Sclip, 2021). The aim is to improve the financial inclusion of SMEs, not just access to financial services but to improve access to credit. Having a bank account with a financial institution is necessary for getting a loan from the financial institution as revealed from this study.

Other external forms of financing such as angel investors and venture capital are means of SME financial inclusion. Additionally, government policies leads to a strategic agenda to improve financial inclusion of SMEs.

6.3.2.3 Financially excluded

From this study, there are three main groups of financially excluded SMEs, namely, those who do not have bank accounts (totally excluded group), those who have bank accounts but do not apply

for credit (excluded from credit indicator) and those whose loan applications are declined (excluded from credit indicator) by the financial institutions. From the framework, the solutions to financial exclusion include these three categories of SMEs, can be addressed by banks, SMEs themselves and government. Whilst SMEs ought to register and formalize their business if they expect to be financially included, as well as maintain financial records of their businesses, banks can use alternative approaches to extend credit to SMEs and provide training to enhance their eligibility. Government on the other hand is the main proponent of national financial inclusion strategies and can directly fund SMEs and create a conducive economic environment for SMEs to thrive. Concerns from SMEs such as high taxes, import of inferior goods, etc can hamper SME growth and ultimately their financial inclusion.

6.3.3 Government/Stakeholders Component

The third component of the framework is governments/stakeholders in the financial inclusion of SMEs. The component comprise solutions to challenges identified by financial institutions and SMEs during the study and outlined under banks, SMEs and government. These are the three key stakeholders identified in this study to improve SMEs financial inclusion. Solutions under each stakeholder has implications for improving the financial inclusion of SMEs in the service sector. Governments are policymakers and they spearhead policies towards financial inclusion in their nations (Aggarwal and Klapper, 2013; Behr, Foos and Norden, 2017; Nakku et al., 2020). Governments, therefore, play a key role in the financial inclusion strategies for the country. In this study, SMEs identified challenges that emanated from government policies and regulations, which affects their business operations negatively.

The respondents suggested ways of overcoming the obstacles in their business and these included government reducing taxes on SMEs, banning importation of inferior goods and easing land registration so SMEs can own assets that will help in their access to credit. One of the means to improve SMEs financial inclusion is for government to ensure that all SMEs are duly registered and a policy directive to open bank accounts will improve the account ownership indicator of financial inclusion. This action further reduce the opaqueness associated with SMEs. Start-up businesses could be provided with the needed capital through government initiatives as the majority are constrained and are excluded from bank financing because they do not meet the

eligibility criteria of having banked for a minimum of six to eighteen months with a financial institution. Hence, they rely on internal sources of finance and on family and friends support.

Furthermore, the government has the mandate to ensure a congenial business environment for SMEs to thrive. Therefore, some SME challenges such as high taxes, practices of informal competitors and unstable electricity supply ought to be addressed. Uncertainty about government policies and competition from cheap imports are obstacles that SMEs face. Access to credit was cited as a challenge in addition to inadequate workforce and business licensing and permit acquisitions. The obstacles are issues to be tackled with government policy instruments and directives such as reducing taxes for SMEs and rather giving incentives to enable them to thrive, especially as tax incentives are given to foreign investors (Government of Ghana, 2017).

6.4 THE IMPORTANCE OF THE FRAMEWORK

The framework for SME financial inclusion is to contribute to the solutions for the persistent financing gaps of this group of businesses which existing frameworks on SME financing have not addressed. First, it is sector-specific and therefore meets the gap of sector-specific approach in addressing the SME financing challenge. The framework further addresses the gap in Prelipcean & Boscoianu's (2014) framework based on using specialised investment funds through governments that reduce the overall risk of providing financing for SMEs. The financing challenge is addressed from SMEs, financiers and government policy perspectives in this framework, making it more comprehensive and robust. The framework, in addition, addresses the gaps identified in Yahaya, Mansor and Bakar's (2016) framework, which considered only the financial and non-financial factors that can contribute to SMEs accessing finance without considering the financial institutions' perspectives and the policy environment in which the SME can thrive.

Kumar and Rao's (2015) framework affirms SME preference for internal sources of finance as identified in this study but does not address the access to finance challenge. Similarly, the developed framework in this study addresses the gap in the framework developed by Owusu et al. (2017) that focused on the growth of SMEs using their financing preferences without addressing how SMEs can access the financing preferences identified. Nguyen and Canh's (2021) framework is premised on the financing decisions of SMEs but does not lead to financial inclusion, which this study solves. In other words, the developed framework contributes to solving the SME challenge

of access to finance identified in the context of the study and is more comprehensive than the other frameworks discussed.

6.5 CHAPTER SUMMARY

In this chapter, the framework for the financial inclusion of SMEs in the service sector was developed and explained along three main components, namely, SMEs and financial institutions and government policymakers/stakeholders. The elements in the framework further represents the objectives of the study and further includes the solutions that will improve SMEs financial inclusion. The framework proposes that SMEs position themselves to access finance by ensuring that the owners or managers improve their management and skillset, that the firm regularizes its registration and maintains financial information and perfects available collateral. Financial institutions' support SMEs in diverse ways for their mutual benefit. The implication for government or policymakers is to create a congenial environment for financial institutions and businesses to thrive. The framework will improve the financial inclusion of this sector and reduce information asymmetry challenges and lead to access to credit for the service sector. The next chapter covers the conclusions and recommendations on the study.

CHAPTER 7: CONCLUSIONS

7.1 INTRODUCTION

The study developed a financial inclusion framework for SME financing focusing on the service sector. In other words, this is a sector-based approach to improving the scope of SME financing. The framework incorporates the three key stakeholders of SME financing, namely, the financial institutions, the SMEs and the policymakers (government). This chapter concludes by discussing the summary of the research in section 7.2, the research conclusion in section 7.3 and contribution to knowledge in section 7.4. The impact of the study is outlined in section 7.5, whilst section 7.6 presents the recommendations for future research. Section 7.7 is the limitations of the study and section 7.8 is the conclusions.

7.2 SUMMARY OF THE RESEARCH

The study set out is to investigate the challenges of access to finance for SMEs in the services sector in Ghana and to propose a framework for their financial inclusion. The aim was to use a sector-based approach to address the SME financing challenges in the service sector of Ghana. To address the question of the study, five objectives were developed and conclusions under each research objective are summarised. All the six chapters outlined in the study contributed to achieving the objectives of the study.

Chapter one is on the proposal of the study and outlined the objectives, the background of the study, problem statement and the proposed analysis. Chapter two provided a conceptual framework based on two theories – the financial inclusion theory and information asymmetry theory and a justification for the financial inclusion theory as the main theory the study is grounded on. Chapter three covers a review of the literature on SME financing. The methodological approaches to the study and how data were collected to achieve the objectives are presented in the fourth chapter. In chapter five, the findings and analysis of the study were presented, starting with the qualitative study and followed by the quantitative study. A discussion section was further presented at the end of the analysis chapter. The framework was developed and explained in chapter six. Chapter seven is the final chapter and presents the summary of the findings and draws conclusions according to the research objectives.

7.2.1 Summary of literature review

Financial inclusion was discussed in chapter two, referring to the access to financial services for all including individuals and businesses. Financial inclusion indicators discussed included ownership of bank accounts and access to credit. Financial exclusion was discussed as lack of access to financial services which could be voluntary or involuntary. Additionally, strategies of financial inclusion which various governments are using to achieve full financial inclusion were discussed. The literature review in chapter three covered the concept of access to finance in section 3.2, the types of financing (section 3.3), risk assessment approaches (3.4), the characteristics of SMEs (3.6), and alternative approaches in financing for SMEs (3.8). Access to finance was described as the availability and use of financial services including loans and credit (Sykes et al., 2016; Ye and Kulathunga, 2019).

The types of financing for SMEs were discussed as being mainly debt and equity (Brown and Lee, 2017; Quartey et al., 2017; Xia and Gan, 2020). Both debt and equity were found to comprise internal or external forms of financing. The internal sources of finance in terms of equity comprised personal savings, family equity, and retained earnings (Sarbah and Quaye, 2014), whilst the external equity financing includes venture capital, angel investment and stock market investment (Ahmad and Atniesha, 2018; Ferrando and Ruggieri, 2018). In terms of debt, the internal sources include loans from family and friends and the external includes different kinds of bank loans, trade credit, leasing and factoring (Quartey et al., 2017).

The literature review further discussed various risk assessments banks use in making lending decisions and these included the 5 C's of risk assessments namely, the character of the business owner or manager, capital, collateral, capacity and condition (Boushnak et al., 2018). Additionally, financial institutions use different lending approaches to extend credit to SMEs including financial statement lending, relationship lending, credit scoring, fixed asset lending, factoring, leasing and trade credit (Duarte, Gama and Esperanca, 2016; Soedarmono, Sitorus and Tarazi, 2017; Motta and Sharma, 2020; Wang, Han and Huang, 2020). The attributes of the SME owner/manager and the firm characteristics influence on access to finance were discussed. In terms of the owner attributes, the age, gender, education and experience of the owner/manager were discussed. Additionally, the firm size, formality and sector were reviewed (Abbasi, Wang and Abbasi, 2017;

Domeher, Musah and Hassan, 2017; Rahman, Rahman and Belas, 2017; Attrams and Tshehla, 2021).

The alternative sources of financing for SMEs were discussed in section 3.8. This included venture capital, business angel, and listing on the stock market. Challenges SMEs face included the lack of collateral, poor customer service and poor management practices markets (Yoshino, 2015; Wang, 2016; Abraham and Schmukler, 2017). SMEs are further challenged by financial institutions credit application processes which hinders the ability to obtain credit (Government of Ghana, 2020b). The literature review therefore covered the objectives of the study.

7.2.2 Summary of empirical study

The study was a cross sectional study using a sequential exploratory mixed methods research design. It involved first, interviewing representatives of financial institutions for the qualitative aspect of the study in order to understand their lending decisions on SMEs. Data was collected from seven financial institutions for the qualitative study and 663 SMEs for the quantitative.

Participants in the qualitative study were key personnel in the financial institutions in which they worked and were conversant with the SME lending process. The participants therefore had the ability to respond to the questions. The interview guide solicited information on the credit process of the financial institutions when considering lending to SMEs. Additionally, the personal characteristics of SME owners and the firm attributes' influence on getting credit were ascertained. Collateral requirements were solicited to address the effect on access to finance. The alternative means by which financial institutions grant credit to SMEs as well as the challenges lenders face in lending to SMEs formed part of the information gathered for the study. The qualitative data were analysed using thematic analysis.

The qualitative study was followed by a survey of SMEs in the service sector. The quantitative study involved conducting a survey of SMEs in the service sector using a questionnaire administration. The questionnaire solicited information pertaining to the objectives of the study. Hence, information gathered included demographic information of participants such as age, gender, education etc, the firm characteristics such as number of employees, legal form of business, business ownership and financial record keeping. Others included asset ownership and access to finance in the form of a loan being granted or not. The alternative forms of financing and challenges faced by SMEs were obtained.

Reliability tests were conducted for the scaled items to ensure that the information gathered were robust. Pre-test and peer review were further employed to ensure the study achieved the measures for robustness. The empirical study was conducted in an ethically acceptable manner.

7.2.3 Synthesis of research findings

The qualitative findings revealed that financial institutions are guided by their credit policies in lending to SMEs. In the process, the character of the SME owner is assessed on the basis of their competence, consistency in business dealings, and trustworthiness. SME owners who are females and owners who are married couples are seen to be reliable in repaying loans when granted. Firms with the required financial information and governance structures are preferred and this is consistent with existing studies (Odhiambo, 2018; Motta and Sharma, 2020). Collateral plays a key role in accessing financing. Whilst a few financial institutions lend a limited loan size without requesting for collateral, the majority require cash collaterals, guarantees, movable assets and land in secure the lending. Ultimately, financial institutions are interested in the underlying business transaction's ability in repaying the loan more than the security. SMEs are seen as beneficial to the financial institutions and therefore in spite of the challenges faced in the lending process, financial institutions use other approaches such as tie lending to receivables, assist with startup clubs, use grants, relationship lending and group scheme lending to be able to meet SMEs financing needs. FIs further put in efforts to groom their SME clients and bring mobile banking to their doorsteps. Product papers are also developed specifically for the SME.

Aspects of the qualitative findings supported the quantitative study and in particular, financial information which statistically was significant in SMEs loan access. The quantitative study revealed an interesting outcome where out of the total participants of 663, only a third applied to banks for loans and the remaining two-thirds, constituting the majority, did not apply for loans for various reasons. The financing gap of SMEs in the service sector is made evident in the number of loan applicants revealed in this study and this is consistent with studies that show SMEs access to finance challenge. Surprisingly, of the third who applied for loans, majority (92%) had their loans granted. The implication is that those who are able to meet the financing requirements of banks are granted loans. SMEs were also found to own assets and prefer to use personal guarantees as a form of intangible collateral to access finance. Furthermore, SMEs prefer angel investors and venture capital as a means of alternative financing. The challenges identified by SMEs are broad

and include high taxes, informal competition, uncertainty about government policies, access to finance, challenges with electricity to mention but a few. Most of the SME challenges bothers on having a conducive environment which the government is the main stakeholder.

The developed framework was based on the outcome of the study, an integration of both the qualitative and quantitative study incorporated into a framework for the financial inclusion of SMEs in the service sector. The framework has three components which are all integrated, the SME component, financial institutions and government/stakeholders component. The SME owner/manager characteristics and firm attributes, as well as collateral requirements are considered in financial institutions decisions which leads to financial inclusion or exclusion. Alternative financing for SMEs in the form of angel investors and venture capital leads to SME financial inclusion. The framework incorporates a component of solutions from the study by banks, SMEs and government, the three main stakeholders of SMEs financial inclusion. These solutions are to improve the businesses for financial inclusion, from access to financial services to use of credit.

7.3 RESEARCH CONCLUSIONS

In the following sub-sections, the research conclusions have been outlined according to the five research objectives the study set out to investigate.

7.3.1 Research objective 1

The findings of this objective were derived from the qualitative interviews with the financial institutions. The findings show that financial institutions' decisions to lend to SMEs are guided by the institutions' credit policies embedded in a set of eligibility criteria. The SME must have an account with the institution and bank with the institution for a minimum of six to eighteen months so the account operations can be assessed. The application process of completing forms, SME owner character assessment and credit reference bureau verifications are undertaken. The financial institutions try to build a relationship with the SME applicant through interactions, including visits to the business premises. The availability of financial information and the provision of collateral help financial institutions in their decision making on financing SMEs by granting them loans. The financial institutions can lend to SMEs based on the business turnovers of the account operations.

Ayyagari et al. (2017) assert that there ought to be stringent criteria for SMEs and further reiterate the lack of reliable credit information on SMEs and weak legal institutions impede financial institutions' decisions to lend to SMEs. Apart from the credit policy, (Cole and Dietrich, 2017) explain the importance of governance to the availability of credit and conclude that firms in countries with better governance, be it developed or developing countries, are less likely to report credit denial.

The quantitative study on SME owner attributes did not support the qualitative findings as the SME owner attributes had no significant effect on their access to finance. The attributes measured included gender, age, education, experience, training, size and parent being involved in the business. This is in sharp contrast to findings by Abor and Biekpe (2007) and Briozzo et al. (2016) that similar attributes significantly influence access to finance.

7.3.2 Research objective 2

The qualitative findings revealed that financial institutions were influenced by SME owner characteristics in the lending process. The assessment involved looking out for the character of the SME in terms of their integrity and willingness to repay a loan. The borrower's repayment track record further reflected their willingness to repay a loan. Lenders also preferred to lend to female-owned businesses and couples who ran the business together as they tended to repay loans compared to others. However, the results of the quantitative study revealed that SME owner attributes were not statistically significant in their access to finance. Some attributes included gender, education, experience and training. The findings are consistent with Campanella and Serino's (2019) which indicated that the educational level of SME owners does not influence their credit access. The statistics indicated that, of those who applied for loans, more females than males were granted and a higher proportion of those with more years of experience received loans. This is in contrast to Rahman et al.'s (2017), which indicate a shortage of financing to firms owned and operated by women.

7.3.3 Research objective 3

The qualitative study revealed that financial information was important to financial institutions in loan granting decisions. This supported the quantitative results that revealed that financial records in the form of the balance sheet, income statements, and cash flow projections were statistically significant access to finance. The firm's size in terms of the number of employees and the firm's

legal registration did not influence their access to finance. This finding did not support Chodorow-reich et al.'s (2020) study which found out that size significantly influences SME access to loans, with small businesses suffering most. However, to reduce information asymmetry challenges that negatively affect lending decision-making, the solutions for SMEs are to maintain financial information as depicted in the framework. This will lead to SMEs in the service sector's financial inclusion, from access to usage of financial services.

7.3.4 Research objective 4

The findings of the study show that some financial institutions would lend with no requirement for collateral if the loan amount was within the limit that their credit policy allowed. In the absence of this, financial institutions required cash collateral, guarantees and movable assets such as vehicles and home assets. Landed property is required collateral for lending and this gives banks some comfort in the event of the loan going bad. Several scholars support this finding of financial institutions requiring collateral in lending to the SME client (Duarte, Gama and Esperanca, 2016; Fanta, 2016; Agostino and Trivieri, 2017). SME owned assets; however, their collateral ability was mostly in the form of personal guarantees. Furthermore, despite SMEs owning landed properties and buildings, their ability to give these to secure loans was limited because the majority were unable to. However, there are challenges associated with registering land in Ghana and this hinders SMEs in obtaining legal ownership of landed properties and in turn, using these as collateral for loans (Domeher, Abdulai and Yeboah, 2016; Amoako-Adu and Eshun, 2018).

However, the qualitative findings on collateral requirements did not support the quantitative results as collateral was not statistically significant in the loan access. The financial institutions have found other ways of lending to SMEs apart from using collateral as a security to extend credit. This is found in the solutions by banks component of the framework. In order to extend credit to SMEs who would be excluded based on the eligibility criteria, banks use grants where available, deepen relationships with their SME clients to reduce information asymmetries, develop basic financial information, and improve due diligence and monitoring. Several scholars suggest other approaches to lending, including relationship lending and invoice discounting (Fanta, 2016; López-Espinosa, Mayordomo and Moreno, 2017).

7.3.5 Research objective 5

The financial institutions are challenged with SMEs diverting funds and the inconsistencies in business dealings, as well as poor financial record keeping. Other challenges that the financial institutions face with SMEs are the latter's poor management and informal structure in business operations. Despite these challenges, the financial institutions have found alternative approaches internally to financing SMEs. In this study, financial institutions tie lending to receivables for SMEs that had receivables from reputable organisations. Additionally, the financial institutions resorted to using grants from donor agencies for lending to specific sectors and lending to SMEs through group schemes.

Furthermore, the financial institutions have used start-up clubs to finance start-up SMEs. Several scholars suggest alternative means of lending to SMEs, including digital banking and technology, to bring banking to the doorsteps of SMEs (Owens and Wilhelm, 2017; Thompson, Boschmans and Pissareva, 2018; Sheng, 2021). On the other hand, the alternative means of SMEs financial inclusion outside banks were angel investors and venture capital. Venture capital and Angel Investors are at the early stages of growth in Ghana and their impact on SMEs is yet to be fully measured apart from job creation (Barnett et al., 2018).

7.4 CONTRIBUTION TO KNOWLEDGE

To the best of the researcher's knowledge, there is no existing framework that incorporates the outcomes of investigations on key stakeholders of SME financing that seeks to address financial inclusion of SMEs in the service sector in Ghana. The major contribution this study has made to the existing body of knowledge on the subject is developing a framework for the financial inclusion of SMEs in the service sector in Ghana. The framework is expected to direct stakeholders to improve the persistent SME financing gap. From the literature review, SMEs face challenges in accessing finance from banks (Asongu et al., 2020; Ayyagari & Demirgüç-Kunt, 2017) and this has been one of the main challenges which hamper their operations (Tagoe, Nyarko and Anuwa-Amarh, 2005; Asare, 2014; Aduhene and Osei-Assibey, 2021). SMEs are the engines of economic growth in many nations and, particularly in developing countries like Ghana (Kayanula and Quartey, 2000; Abor and Quartey, 2010; Yeboah, 2015) and governments have developed strategies to achieve financial inclusion of individuals and businesses in order to harness the benefits of growth.

SME owners are closely linked to their businesses and, hence, their attributes and the characteristics of the firm influence their access to finance. The question of how financial institutions make lending decisions on SMEs and whether collateral requirements play a role and the alternative approaches to SME financing all seek to address the SME financing challenge that has persisted over the years and how to find solutions to this persistent challenge. A sector-based approach to address the financing challenge was recommended as different sectors faced different challenges in various degrees (Domeher, Musah and Hassan, 2017). This framework therefore contributes to the body on knowledge on financial inclusion of SMEs as an outcome of the investigations on the financing challenges of SMEs.

7.5 IMPACT OF THE STUDY

From the findings of the study, there are implications of the framework for stakeholders, starting with the SME owners/managers, then the financial institutions and government policymakers.

7.5.1 Implications To SME Owners/Managers

Given that SMEs are the focus of this study, and the aim is to address their persistent financing challenges, they have a responsibility to groom themselves to be eligible for financing. Their largest financiers are banks, and the banks require information to guide their lending decisions, which, unfortunately, the SMEs are unprepared to give when needed. SME owners/managers should, therefore, avail themselves of various kinds of training schemes to meet the information needs of banks, thereby reducing the information asymmetry challenge. They should move away from using business funds to finance their personal needs and avoid the diversion of funds into other businesses that have not been purposely financed by banks. SME owners should maintain financial record keeping, employ qualified personnel and delegate responsibilities to them. In addition, they should have succession plan in place as this helps banks in the financing decisions. Furthermore, they should perfect documentation on assets to increase their chances of securing bank financing. When these solutions are implemented, the financial inclusion will of SMEs in the service sector will be achieved.

7.5.2 Implications To Financial Institutions

To facilitate financing to SMEs in the service sector as depicted in the solutions component of the framework, financial institutions must play their part because they are the main financiers of

businesses. One way is to groom their SME customers to reap the benefits of deposits and income as they find them to be profitable to have in their portfolio. They should reconsider the cumbersome aspects of their application procedures and eligibility criteria to attract SMEs. Moreover, financial institutions must understand the business of SMEs and develop products that suit SMEs' specific needs or make their requirements SME-friendly. Organising free training programmes or SME clinics for their customers on such topics as professionalism, human relations, openness and integrity will enhance the character of the financial institutions' clients. Key topics amongst these should be financial record keeping, where they can help develop basic tools and digital technologies to assist their SME clients to enhance their record-keeping activities.

Lending does not always need to be covered by collateral as most SMEs at early stages may not own assets. While banks can use other means such as deepening their relationship with the SME clients to enhance information sharing, they can use other means of lending such as lending against expected receivables to extend credit to them. Specific credit products such as for schools, traders and hospitals can be developed to suit the specific sub-sector in the service sector after understanding their operations. Banks should also be willing to form start-up clubs to groom such businesses and reap the benefits when they grow. Banks should be concerned that the majority of SMEs owning and operating bank accounts in their institutions do not apply for loans because of high-interest rates. Together with the regulators, banks should address the interest rate challenge to ensure that SME financing improves.

7.5.3 Implications To Government Policymakers

The solutions to SMEs financial inclusion has been depicted in the framework. To expand financing to SMEs in the service sector, government policymakers should implement policies that ensure the financial inclusion of SMEs through registration of all businesses to erase the informality associated with SMEs. Government agencies should draft and facilitate suitable training programmes for SMEs to enhance their skill set, thereby making them attractive to banks for financing. Policies to digitise information on SMEs can improve the information asymmetry challenges. The government's direct interventions in giving funds to SMEs to support their businesses at various stages will enhance financial inclusion of these businesses. The majority of SMEs rely on internal sources of funds from start-ups to business expansion stages, which is

inadequate and, therefore, they require external financing from banks to grow their businesses (Baker, Kumar and Rao, 2020).

Government has a responsibility to create a business environment in which SMEs can perform well and have access to finance. This way, SMEs that are financially excluded both voluntarily or involuntarily can be reached through policy initiatives (Aggarwal and Klapper, 2013). In this regard, policies on SMEs should be clear and must reach the target group to enhance a healthy business environment where informal competition, competition from cheap imports, poor electricity supply and difficult land registration procedures are all addressed to enable SMEs to thrive. Access to finance through venture capitalist and angel investor programmes initiated through government policies and communicated to the target group will accelerate the achievement of the financial inclusion strategies of government. Both financial inclusion achievements and improved information asymmetry of SMEs should be driven partly by government policy decisions.

7.6 RECOMMENDATIONS FOR FUTURE RESEARCH

Two areas for future research are recommended and listed below.

- In this study, the majority of the SME participants had bank accounts, but fewer applied for loans. The survey gave a list of reasons for SMEs to select why they had not applied for a loan even though they had bank accounts and needed external financing. Future research could investigate SMEs that are voluntarily or involuntarily excluded from accessing financing and a framework can be developed to target this group of SMEs for achieving full financial inclusion.
- The majority of the study participants indicated that they were likely to use angel investors and venture capitalists as alternative forms of external financing. There is not much research on these alternative forms of financing for SMEs and what it might take for SMEs to access these successfully. Future research can investigate this to contribute to the knowledge on SME financing.

7.7 LIMITATIONS OF THE RESEARCH

Like any research work, this study has some limitations, and they are listed below:

- In this study, access to finance was based on a loan application being granted by a financial institution, which means that if a loan was not granted then, the SME did not have access to finance. This further implied that the analysis of the quantitative data could be based on a binary regression analysis, hence the assumption of a linear relationship between the variables. The output variable, therefore, limited the kind of analysis that could have been undertaken. Other studies have used multiple regression analysis in assessing access to finance because the output variables were not dichotomous (Moreira, 2016; Asongu, Nnanna and Acha-Anyi, 2020).
- For the qualitative study, the targeted financial institutions could have included the savings and loan companies, rural banks and microfinance institutions that lend at the microlevel in addition to the small and medium enterprises, so that generalisations can be made on financial institutions and not on non-bank financial institutions.

7.8 CONCLUSIONS

The study set out to investigate the challenges of access to finance for SMEs in the services sector in Ghana and to propose a framework of financial inclusion for this group of businesses. The focus was on SMEs in Ghana and in the Greater Accra region and the Ashanti region. Financial institutions were included in the study in a bid to understand the challenge of access to finance since they are the main providers of financing to businesses. Different data collection methods were implemented in the study for both SMEs and financial institutions. The qualitative interviews covered seven financial institutions, followed by questionnaire administration to SMEs which yielded 663 responses.

It was observed that the financial institutions needed SMEs in their portfolio but had various challenges in financing them, yet they found alternative approaches to extend financing to them. The financial institutions are guided by their respective credit policies along with a set of eligibility criteria. On the other hand, SMEs need external financing because most of them rely on internal sources of funding for their businesses, with only a third applying to banks for loans and the majority of those who apply do receive access to business loans. The challenge of fewer SMEs having access to finance was, therefore, affirmed. The study, therefore, emanated from the problem statement, which outlined the persistence of SME financing challenges and how a sector-specific approach would help improve the gap and their financial inclusion as a whole. The solution was,

therefore, to develop a framework to guide stakeholders for SME financial inclusion in a specific sector, in this case, the service sector, in the fulfilment of the primary objective of the study. It is hoped that the framework will guide stakeholders to achieve financial inclusion of SMEs and reduce information asymmetry challenges of SMEs.

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APPENDIX A: INTERVIEW FUIDE FOR FINANCIAL INSTITUTIONS

INTERVIEW SCHEDULE FOR REPRESENTATIVES OF BANKS

SECTION A: DEMOGRAPHIC QUESTIONS
1. In which department do you work?
2. What is your current position?
3. How many years have you worked in your current position?
4. What are your qualifications?
5. Briefly describe your role in the department that you work
6. Are you familiar with the credit management practices of the bank that you are employed in?
SECTION B: EXTENT TO WHICH PERSONAL CHARACTERISTICS INFLUENCE SME'S ACCESS TO FINANCE
7. Do the personal characteristics of owners of SMEs influence their access to credit from the bank that you work for? 8. If yes to question 7, which personal characteristics of owners of SMEs influence their access to credit from the bank that you work for? 9. Can you describe the standard procedures or measures undertaken by the Bank before advancing credit to SMEs?
SECTION C: RELATIONSHIP BETWEEN SMES' CHARACTERISTICS AND ACCESS TO FINANCE
10. Do the firm characteristics of SMEs influence their access to credit from the bank that you work for? 11. If yes to question 7, which firm characteristics of SMEs influence their access to credit from the bank that you work for? 12. What are the requirements that have to be met by an SME to qualify for credit in the bank that you work for?
SECTION D: EXTENT TO WHICH PSYCHOMETRIC TOOLS ARE USED TO DETERMINE SMES ACCESS TO FINANCING
13. Does the bank that you work for using psychometric tools to assess the eligibility of owners of SMEs to credit?

14. If yes to question 13, which psychometric tools are used by the bank to assess the eligibility of owners of SMEs to credit?

SECTION E: EXTENT TO WHICH FLEXIBLE COLLATERAL REQUIREMENTS COULD IMPROVE SMES' ACCESS TO CREDIT

15. Does the bank that you work for require collateral before advancing credit to SMEs?
16. If yes to question 15, what types of collateral are required and how flexible is the bank in terms of the types of collateral required from SMEs?
17. In your opinion, can flexible collateral requirements improve SME's access to credit? please elaborate

SECTION F: ALTERNATIVE APPROACHES TO SMES FINANCING

18. Apart from the credit, does the bank that you work for offer other types of financing to SMEs?
19. If yes to question 18, briefly describe the types of financing that are offered by the bank to SMEs.
20. In your opinion, how can banks in general increase SMEs' access to finance?
21. Can you suggest other alternative approaches that SMEs may use to access finance?

SECTION G: CHALLENGES FACED BY BANKS WHEN PROVIDING FINANCE TO SMES

22. Does the bank that you work for face any challenges with regard to lending to SMEs?
23. If yes to question 22, briefly describe those challenges?
24. If yes to question 22, how has the bank that you work for been able to overcome the challenges faced with regard to lending to SMEs?

APPENDIX B: QUESTIONNAIRE FOR OWNERS OF SMALL AND MEDIUM ENTERPRISES

SURVEY ON A FINANCING MODEL FOR SMALL AND MEDIUM ENTERPRISES IN THE SERVICES SECTOR

QUESTIONNAIRE FOR OWNERS OF SMALL AND MEDIUM ENTERPRISES
SECTION A – DEMOGRAPHIC INFORMATION OF OWNERS OF SMES (Please mark "X" in the appropriate box or fill in your response in the space provided). **Greater Accra [ ] Ashanti Region [ ]**
1. What is your gender? Male [ ] Female [ ]
2. What is your age group? 18-29 [ ] 30-39 [ ] 40-49 [ ] 50 and above [ ]
3. What is your highest level of education completed? None [ ] Primary [ ] MSLC [ ] BECE [ ] Voc / Com [ ] Teacher Training [ ] GCE O Level [ ] SSCE/ GCE A Level [ ] Tech / Prof. Cert [ ] HND [ ] Bachelor [ ] Masters [ ] Other [ ]
4. At what age did you start your business?
5. How many years of experience did you have when you started the business? None [ ] 1–5 years [ ] 6–10 years [ ] >10 years [ ]
6. Can you read and write in English? Yes [ ] No [ ]
7. Were any of your parents engaged in business? Yes my father [ ] Yes my mother [ ] Yes both were involved [ ] No, none [ ]
8. Have you received any form of business training? Yes [ ] No [ ]
9. If yes to question 8, what type of business training did you receive? Information technology [ ] Marketing [ ] Financial Management/ Bookkeeping [ ] Management [ ] Technical/operations [ ] Other [ ]

If other, please specify ________________________________
10. When was the last time you received such training?
11. If yes to question 8, who funded the business training that you receive? Self [ ] Business Association [ ] Government Agency [ ] Local Firm [ ] Foreign Firm [ ] Local NGO [ ] Other [ ] If other, please specify ________________________________

SECTION B – FIRM CHARACTERISTICS (Please mark "X" in the appropriate box)
12. Is your business operating in the service sector? Yes [ ] No [ ]
13. How many employees do you have in your business?
14. Please indicate the number of your employees that are male, and the number that are female in the space provided below Male [ ] Female [ ]
15. How many different businesses do you operate? One [ ] Two [ ] Three [ ] More than three [ ]
16. What is the legal form of your business? Sole proprietorship [ ] Partnership [ ] Limited Company [ ] Other [ ] If other, please specify ________________________
17. In what area does your business specialise in? Accommodation and catering [ ] Transport [ ] Education [ ] Health [ ] Entertainment and recreation [ ] Trader [ ] Other [ ] If other, please specify ________________________
18. Which of the following best describes the nationality of ownership of your business? Ghanaian owned [ ] Ghanaian and foreign-owned [ ] Foreign owned [ ] Other [ ] If other, please specify ________________________

19. Does your business belong to any business/trade association?

Yes [ ] No [ ]

20. Is your business formally registered?

Yes [ ] No [ ]

21. If yes to question 20, which of the following is your business registered with?

Registrar General [ ] District Assembly [ ] Other [ ]

If other, please specify ____________________________

22. Does your business have a registered address?

Yes [ ] No [ ]

23. How was your business started?

Founded [ ] Inherited [ ] Bought [ ] Don't Know [ ] Other [ ]

If other, please specify ____

24. Do you own or lease the premises that the business operates from?

Own [ ] Lease [ ] both [ ] Other [ ]

If other, please specify ____

25. What is the estimated annual turnover of your business(s)?

Please specify: Ghc………………

26. What is the estimated annual profits of your business?

Please specify: Ghc…………………..

27. Where are your business operations located?

Industrial site [ ] Commercial site [ ] Market place [ ] Owner's residence [ ]

Roadside [ ] Other [ ]

If other, please specify ____

Please use the following scale to answer question 28

SD= Strongly Disagree, D = Disagree, N= Neither agree nor disagree, A= Agree, SA= Strongly Agree

28. To what extent do you agree with the following statements about how frequently your business maintains financial records?

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
i.	The business updates its financial records (bookkeeping) daily	SD	D	N	A	SA
ii.	A business plan is prepared before any new venture is launched	SD	D	N	A	SA
iii.	The business prepares cash budgets weekly	SD	D	N	A	SA
iv.	The business prepares a balance sheet annually	SD	D	N	A	SA
v.	The business prepares an income statement annually	SD	D	N	A	SA
vi.	The business prepares a cash flow statement annually	SD	D	N	A	SA
vii.	The financial records of the business are audited by an independent auditor annually	SD	D	N	A	SA

SECTION C – PSYCHOMETRIC TEST (Please mark "X" in the appropriate box)

Please use the following scale to answer question 29

VI= Very Inaccurate, MI = Moderately Inaccurate, N= Neutral (Neither Accurate nor Inaccurate), MA= Moderately Accurate, VA = Very Accurate

29. How accurately do the following statements reflect how you conduct yourself when running your business?

		Very Inaccurate	Moderately Inaccurate	Neutral	Moderately Accurate	Very Accurate
i.	I accomplish my work on time	VI	MI	N	MA	VA
ii.	I do things according to a plan	VI	MI	N	MA	VA
iii.	I am careful to avoid making mistakes	VI	MI	N	MA	VA
iv.	I economise to avoid over expenditure	VI	MI	N	MA	VA
v.	I like to plan ahead	VI	MI	N	MA	VA
vi.	I promptly return borrowed items	VI	MI	N	MA	VA
vii.	I often forget to put things back in their proper place	VI	MI	N	MA	VA
viii.	I often neglect my duties	VI	MI	N	MA	VA
ix.	I take tasks too lightly	VI	MI	N	MA	VA
x.	I often leave my work undone	VI	MI	N	MA	VA
xi.	I often put off unpleasant tasks	VI	MI	N	MA	VA
xii.	I often arrive late at work	VI	MI	N	MA	VA

SECTION D – COLLATERAL REQUIREMENT (Please mark "X" in the appropriate box

30. Does you or your business own any of the following assets?

Land & Buildings [ ] Production Machinery and Equipment [ ] Vehicles [ ]

Power Generators [ ] Office Equipment [ ]

If other, please specify ____

Please use the following scale to answer question 31

VU= Very Unlikely, U = Unlikely, N= Neutral (Neither Likely nor Unlikely), L= Likely, VL = Very Likely

31. How likely is your business to provide each of the following collaterals in order to access a loan from a bank?

		Very Unlikely	**Unlikely**	**Neutral**	**Likely**	**Very Likely**
i.	Group guarantee	VU	MI	N	MA	VA
ii.	Personal Guarantee	VU	MI	N	MA	VA
iii.	Land only (bare land)	VU	MI	N	MA	VA
iv.	Property/buildings/house	VU	MI	N	MA	VA
v.	Equipment	VU	MI	N	MA	VA
vi.	Inventory (stocks/goods)	VU	MI	N	MA	VA
vii.	Bank savings/Cash	VU	MI	N	MA	VA
viii.	Stock market Shares	VU	MI	N	MA	VA

32. What other form of collaterals can the firm provide in order to access financing? please specify as elaborately as possible ____

SECTION E – ACCESS TO FINANCE (Please mark "X" in the appropriate box)				
Use the table below to answer question 33 on the sources of finance of your business for the three activities indicated (Please tick as many boxes as applicable).				
33. What was the source(s) of finance for your business for the following activities?				
	Source of finance	**Start-up of the business**	**Daily operations**	**Expansion of the business**
i.	Own savings			
ii.	Family/friends assistance			
iii.	Informal Susu/money lenders			
iv.	Credit Union			
v.	Micro finance institutions			
vi.	Banks			
vii.	Government agency			
viii.	Venture capital			
ix.	Private - None Bank Financial Institutions			
x.	Savings and Loans			
xi.	Suppliers credit			
xii.	Buyers credit			
xiii.	NGO			
xiv.	Equity savings (retained earnings)			

xv.	Other			
	If other, please specify ______________________			

34. Does your business need external financing at the moment?

Yes [ ] No [ ]

If yes to question 34, use the table below to answer question 35 on the purpose for which your business needs external financing (Please tick as many boxes as applicable).

35. For what purpose does your business need external financing at the moment?

	Purpose	Tick
i.	Working capital	
ii.	Purchasing fixed assets e.g., land, property, equipment,	
iii.	Vehicle	
iv.	Exporting/importing	
v.	Paying rent	
vi.	Expansion of the business	
vii.	Business travel	
viii.	Other (please specify)	
	If other, please specify ______________________	

36. Does your business have a bank account?

Yes [ ] No [ ]

37. If yes to question 36, how many banks does your business have accounts with?

One [ ] Two [ ] Three [ ] More than three [ ]

38. Has your business ever applied for a loan from a Bank before?

Yes [ ] No [ ]

39. If yes to question 38, was the loan application granted by the Bank?

Yes [ ] No [ ]

40. If yes to question 38, on how many different occasions has your business applied for a loan from a Bank in the past 5 years?

Please state the number of times: ………………..

41. If yes to question 39, how many times was the loan application granted by the Bank?

Please state the number of times: ………………..

42. Which of the following financial institutions has your business been granted a loan from in the past 5 years?

Bank [ ] Microfinance [ ] Savings and Loans Co. [ ] Other [ ]

If Other specify please ……………………………………….

If no to question 38, use the table below to answer question 43 on the reasons why your business has never applied for a loan from a Bank (Please tick as many boxes as applicable).
43. What are the reasons why your business has never applied for a loan from a Bank?

	Reason	Tick
i.	My business does not need a loan	
ii.	Religious reasons	
iii.	Cultural reasons	
iv.	My business has enough capital	
v.	I did not think that a loan application would be successful	
vi.	Inadequate collateral	
vii.	Cumbersome application procedures	

viii.	High interest rates
ix.	My business is already over-indebted
x.	Other
	If other, please specify ______________________

44. If no to question 39, what was the reason provided by the Bank for declining to grant the loan application? (tick all boxes where applicable)

Poor business plan [ ] Failure to provide collateral [ ]

Failure to provide the required Documentation [ ] Other [ ]

If other, please specify ______________________

If your business needs external financing at the moment, use the following scale to answer question 45. NS= Not Suitable, SS = Slightly Suitable, MS= Moderately Suitable, S = Suitable, VS = Very Suitable						
45. How suitable are the following sources of external financing to your business at the moment?						
		Not Suitable	**Slightly Suitable**	**Moderately Suitable**	**Suitable**	**Very Suitable**
i.	Short-term loan (repayable in one year)	NS	SS	MS	S	VS
ii.	Medium-term loan (repayable between two to five years)	NS	SS	MS	S	VS
iii.	Long-term loan (repayable in more than five years)	NS	SS	MS	S	VS
iv.	Overdraft	NS	SS	MS	S	VS
v.	Working capital	NS	SS	MS	S	VS
vi.	Bridge finance while waiting for expected cash inflow	NS	SS	MS	S	VS

vii.	Start-up capital	NS	SS	MS	S	VS
viii.	Hire purchase	NS	SS	MS	S	VS
ix.	Letters of credit	NS	SS	MS	S	VS

SECTION F – ALTERNATIVE SOURCES OF FINANCING (Please mark "X" in the appropriate box)

Apart from the external financing sources discussed therefore far, several other alternative external sources of financing are available to Ghanaian businesses some of which are listed below. Use the following scale to answer question 46, about the likelihood of your business to use the alternative sources of external finance listed below in the future.

VU= Very Unlikely, U = Unlikely, N= Neutral (Neither Likely nor Unlikely), L= Likely, VL = Very Likely

46. How likely is your business to use the alternative sources of external finance listed below in the future?

		Very Unlikely	**Unlikely**	**Neutral**	**Likely**	**Very Likely**
i.	Venture capital	VU	MI	N	MA	VA
ii.	Mobile data-based lending	VU	MI	N	MA	VA
iii.	Angel investors	VU	MI	N	MA	VA
iv.	Stock market	VU	MI	N	MA	VA
v.	Factoring (cheque discounting)	VU	MI	N	MA	VA

47. What other alternative sources of external financing are you familiar with that have not been mentioned so far in this questionnaire?

please specify ____

SECTION G – CHALLENGES FACED BY SMES (Please mark "X" in the appropriate box)

Use the following scale to answer question 48, about the obstacles faced by Small and Medium Enterprises (SMEs).

NO= No obstacle, MO = Minor Obstacle, M= Moderate, SO= Severe Obstacle, VSO = Very Severe Obstacle

48. Does your business face any obstacles (challenges) at the moment?

Yes [ ] No [ ]

49. If yes to question 48, how do you perceive the following potential obstacles to your business?

		No Obstacle	**Minor Obstacle**	**Moderate**	**Severe Obstacle**	**Very Severe Obstacle**
i.	Access to credit	NO	MO	M	SO	VSO
ii.	Access to land	NO	MO	M	SO	VSO
iii.	Business licensing and permits acquisition	NO	MO	M	SO	VSO
iv.	Corruption	NO	MO	M	SO	VSO
v.	Court delays	NO	MO	M	SO	VSO
vi.	Crime, theft and disorders	NO	MO	M	SO	VSO
vii.	Customs and trade regulations	NO	MO	M	SO	VSO
viii.	Electricity supply	NO	MO	M	SO	VSO
ix.	Inadequate Skilled workforce	NO	MO	M	SO	VSO
x.	Labour regulations	NO	MO	M	SO	VSO
xi.	Political instability	NO	MO	M	SO	VSO

xii.	Practices of informal competitors	NO	MO	M	SO	VSO
xiii.	Tax rates and government laws	NO	MO	M	SO	VSO
xiv.	Transport and logistics	NO	MO	M	SO	VSO
xv.	Competition from cheap imports	NO	MO	M	SO	VSO
xvi.	Uncertainty about government policies	NO	MO	M	SO	VSO

50. Can you suggest how the above obstacles can be overcome?

Thank you for your participation. If you would like feedback on the findings of this study, please E-mail Afia Attrams using the following E-mail address: afia_ser@yahoo.co.uk.

APPENDIX C: TABLE OF SOURCES

ID	Sex	Department	quote	Position/ role	quotation	Years of experience	quotation	Highest level of education	quotation	Far pra
FIA	male	Retail banking	So I work with retail banking division with specific emphasis on business banking	zonal manager	I've been working in a couple of roles all within the unit but currently I am zonal manager in charge of branches in Accra, retail branches in Accra	2 years	I've been doing this since the second half of this year, since July but I was doing that previously from 2016 then I changed roles then I've come back.	Masters	So I have a degree and an MBA in banking and finance and I have a degree in social studies with diploma in geography	fam
FIB	male	business banking	Business banking actually looks after all local corporates in the country both in the lower segments and upper segments, so what you call the SMEs will normally fall typically in business banking	head of business banking	I'm currently the head of business banking	2 years	I've been in this role for two years. Hitherto I used to be the head of retail business in Barclays and then standard for two and half years before I moved into the current role that I am doing.	MBA in finance, MA economic policy, BSc mathematics	I hold an MBA in finance, an MA in economic policy management, a BSC in mathematics	fam incl
FIC	male	commercial and sme banking	I work with the commercial and sme banking team.	a hub manager	So I work with the commercial and sme banking team. Currently I manage a hub, so essentially a hub is a constituent of RMs who manage clients within the commercial and sme space.	8 years	I've had a little over 8 years, maybe 10 years of banking experience so far. I started working with as a management trainee and after a few years I was posted to another country for four and half years, then I returned and worked with them for another two and half years and I've been with this bank for a little over a year, about a year and three months	BSc Agricultural science	my qualifications, I'm a BSc agricultural science graduate, that's it	fam SM SM

ID	personal characteristics of SMEs	quotation	firm characteristics	quotation	standard credit procedures	quotation
FIA	unstructured, one man business, poor book keeping, inconsisteny with business	end of the SME space which is business banking and what we've observed with our interaction with them is that they are mainly unstructured, one person business, he has his family members, he's the same accountant, he's the same marketer, so that structure does not give us a lot of comfort when it comes to dealing with them especially if we have to avail funds to them. Book keeping is poor, they find it difficult to differentiate between what is my own money in the business and what is the business money so they just mix the	Sole proprietorship	Normally we engage the SMEs, the owners, mainly sole proprietorships	Bank's credit policy: more corporate inclined-certain risk asset criteria, nature of industry, credit history, length of establishment, basic structure control, collateral, the character of the individual, bank statement, off takers,	influenced by the bank' policy. The bank, access more corporate incline treat out SME custome the same set of parame we really use in dealing corporate clients when to advancing loans. So f onset the SME custome
FIB	not run formally, one man business, cannot differentiate between business and owner, age ranges between 25 to 48 years, now more of them are literates, needs quick decisions on loan requests,	one of the things you realise is that these are businesses that are not run formally, So they don't have financials , that is one, usually it is a one man business, what the owner says is the final thing. It is difficult to differentiate between the business and the owner. You will always typically see there are no succession plans in place unlike your very organized businesses.	if owned by both husband and wife then facility does well, husband/man then it's a danger, woman alone then 70% will pay	One of the things I have seen with the smes is in 90% of the cases if the husband and wife come to you for a facility that facility will perform very well . If the husband comes alone it's a danger. If the woman comes alone 70% they will pay. So I am more	enterprise banking product,	We've launched a prod the enterprise banking must have banked with minimum of six months based on your turnover understand how your b cycle is and it will infor
FIC	integrity, competence,	access to credit is integrity. We would need to be sure that whoever we are giving money should be someone who sticks to his word in his business planning or business engagement. Also someone who has competence in his chosen field, so the client should exhibit a high of competence in the field that they run their business in. Once you have SMEs and you understand how they do their business, and you can have a model that addresses that then	governance structure, industry, business financials, management and staff competencies, experience, largely informalized nature, no proper book keeping	business financials, and then generally the competence of the staff and competence of management, experience within the industry. Sometimes also their reputation in that industry is also quite critical to us in doing some of these things. So it is because of the largely	customer writes to the bank, a full memo is done for credit committee, then decision is taken	currently when a client a facility he would write bank So once they come in th process will be we recei letter, the RM will put t a full memo, the credit detailing the client busi detailing the financial
		terms of credit, what I will look out for in somebody I am giving credit to, somebody will say character is important, it		them don't have records of what they do and as a bank, so even though		intercept the applicatio assess the application t

APPENDIX D: ETHICAL CLEARANCE

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SCHOOL OF BUSINESS LEADERSHIP
RESEARCH ETHICS REVIEW COMMITTEE (GSBL CRERC)

22 October 2018

Ref #: 2018_SBL_DBL_007_FA
Name of applicant: Mrs AS Attrams
Student #: 79172040

Dear Mrs Attrams

Decision: Ethics Approval

Student: Mrs AS Attrams, 79172040@mylife.unisa.ac.za, +233244668759

Supervisor: Dr P Kamala, kamalap@cput.ac.za, 021 460 3484

Project Title: A financing model for small medium enterprises in the services sector.

Qualification: Doctor in Business Leadership (DBL)

Expiry Date: September 2022

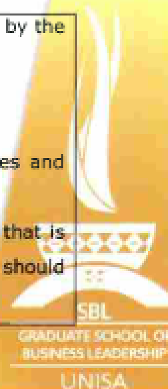
Thank you for applying for research ethics clearance, SBL Research Ethics Review Committee reviewed your application in compliance with the Unisa Policy on Research Ethics.

Outcome of the SBL Research Committee:
Approval is granted for the duration of the Project

The application was reviewed in compliance with the Unisa Policy on Research Ethics by the SBL Research Ethics Review Committee on the 18/10/2018.

The proposed research may now commence with the proviso that:

1) The researcher/s will ensure that the research project adheres to the values and principles expressed in the UNISA Policy on Research Ethics.
2) Any adverse circumstance arising in the undertaking of the research project that is relevant to the ethicality of the study, as well as changes in the methodology, should be communicated in writing to the SBL Research Ethics Review Committee.



45 years Building leaders who go beyond

APPENDIX E: CONSENT TO PARTICIPATE IN A RESEARCH STUDY

Title of Study: A Financing Model for Small Medium Enterprises in the Services Sector

Investigator: Mrs. Afia Serwaa Attrams

Please read this consent document carefully before you decide to participate in this study.

Introduction

The purpose of this study is to *gather information on Small Medium Enterprises (SMEs) access to funding from financial institutions.* The reason why your business has been chosen to participate in this research is because it falls within the category of SMEs operating in the Services sector. SMEs are seen as having a greater challenge in accessing funds from financial institutions. SMEs are key to the growth of the economy and so the idea of assessing various means by which access to financing can be increased to them is what the study is about. We ask that you read this form and ask any questions that you may have before agreeing to be in the study.

Time required: *30 mins*

Risks and Benefits:

There are not reasonably foreseeable (or expected) risks. There may be unknown risks.

Incentive or Compensation:

There is no incentive for participating therefore, you will not be adversely affected in any way if you choose not to participate.

Confidentiality:

This study is anonymous. We will not be collecting or retaining any information about your identity. The records of this study will be kept strictly confidential. Research records will be kept in a locked file, and all electronic information will be coded and secured using a password protected file. We will not include any information in any report we may publish that would make it possible to identify you.

Voluntary participation:

Your participation in this study is completely voluntary. Should you elect to discontinue participation, any information already collected will be discarded. There is no penalty or loss of benefit for choosing not to participate.

Right to withdraw from the study:

You have the right to withdraw from the study at any time without consequence or penalty.

Whom to contact if you have questions about the study:

Mrs. Afia Serwaa Attrams (afia_ser@yahoo.co.uk; 233 244 668759) or Dr. Peter Kamala (Kamalap@cput.ac.za).

This research protocol has been approved by the UNISA Institutional Review Board.

Agreement:

If you wish to participate in this study, please tick the box ☐

By ticking the box means you indicate your agreement to participate.

Business Name: (Print) ____

Participant's Name: (Print) ____

Date: ________________

APPENDIX F: LANGUAGE EDITING

Editing Certificate Date:25 February 2022

Dear Author,

The dissertation titled **"A FRAMEWORK FOR FINANCING SMALL AND MEDIUM ENTERPRISES IN THE SERVICE SECTOR: A CASE FOR GHANA"** was edited by **Mr. Khomotso Moses Leshaba**, a member of the Professional Editor's Guild (Membership number: LES003), European Association of Science Editors (Membership number: 5471), and the South African Translator's Institute (Membership number: 1003722). **Mr. Leshaba** is an independent contractor at the **University of South Africa,** where he provides academic editing in the College of Economic and Management Sciences and Unisa Press. He has an NQF Level 8 certificate in Editing: Principles and Practice from the University of Pretoria and Professional Editing Standards Certificate from Queen's University in Canada.

The services provided include:

1. Ensuring perfect grammar and punctuation to improve readability and clarity
2. Consistency and structural enhancements
3. Appropriate sentence construction and appropriate academic tone
4. Ensuring one-to-one correspondence of in-text citations and references.
5. Formatting of references

Leshaba Khomotso Moses
Associate Member

Membership number: LES003
Membership year: March 2021 to February 2022

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Managing Director