Access to Credit and Growth of Small and Medium Scale Enterprises in the Ho Municipality of Ghana

Anthony K. Ahiawodzi
Department of Banking and Finance, University of Professional Studies, Accra, Ghana
E-mail: akahiwodzi@yahoo.co.uk
Mobile: +233 244 7783 05

Thomas C. Adade
Department of Accountancy, Ho Polytechnic, Ho, Ghana
E-mail: adadethomasclarkson@yahoo.com
Mobile: +233 243270371

ABSTRACT

The study examines the effect of access to credit on the growth of Small and Medium Scale Enterprises (SMEs) in the Ho Municipality of Volta Region of Ghana by using both survey and econometric methods. The survey involved a sample of 78 SMEs in the manufacturing sector from the Ho Municipality. The specified econometric model has firm growth as the dependent variable, and the independent variables include access to credit, total current investment, age of the firm, start-up capital, education level and annual turnover of the firm. Both survey and econometric results show that access to credit exerts a significant positive effect on growth of SMEs in the Ho-Municipality of Ghana-the main policy implication of the study therefore is that the government should try hard to meet the credit needs of the SMEs in the country for a speedy economic growth.

Keywords: Access to credit, small and medium scale enterprises, firm growth, start-up capital, survey method, econometric method.

1.0 INTRODUCTION

Small and medium scale enterprises (SMEs) are lifeblood of most economies. On the average SMEs represent over 90% of the enterprises and account for 50 to 60% of employment in most African countries. According to Abor & Quartey, (2010), SMEs in Ghana have been noted to provide about 85% of manufacturing employment in Ghana. SMEs are also believed to contribute about 70% to Ghana’s Gross Domestic Product (GDP) and account for about 92% of businesses in Ghana. Cobbold et. al, (2008) argue that SMEs are particularly important in supporting economic growth and livelihoods in developing countries. There is also a consensus that if all stakeholders are to show serious commitment to the development of the SMEs sub-sector, it follows that the economy must necessarily witness meaningful transformation and prosperity.

SMEs are described as efficient prolific job creator, the seed of big businesses and the fuel of national economic engine (Abor & Quartey, 2010). In Ghana available data from the Registrar General’s Department indicate that 90% of the companies registered are micro, small and medium enterprises. These target groups have been identified as catalyst for economic growth of the country as they are major sources of income and employment (Mensah, 2004). Aside from providing opportunities for employment generation, SMEs help to provide effective means of curtailing rural-urban migration and resource utilization. By largely producing intermediate products for use in large-scale companies, SMEs contribute to the strengthening of industrial inter-linkages and integration. A vibrant, efficient and
effective SMEs sub-sector generates many resultant benefits for stakeholders, employees, customers, employers as well as the entire economy’s benefits.

In recognition of these potential roles of the sector, successive governments in Ghana have continued to articulate policy measures and programs to achieve industrial growth and development, including direct participation, alone or jointly with the private sector, interest groups, assistance from external agencies, provision of industrial incentives and adequate finance as stated in the Ghana’s Economic Recovery Programme. However, the poor performance of the industrial sector, especially when emphasis was on large scale enterprises in the course of implementing the strategy of the Ghana government, led to the renewed emphasis or focus on the small and medium enterprises (SMEs) as the driving force in the industrial sector.

Despite these contributions of SMEs, their major barriers to growth and development appear to be shortage of both equity financing and debt. Thus, according to Lader (1996), one other important problem that SMEs often face is access to capital. Lack of adequate financial resources also places significant constraints on SMEs growth and development.

Based on the significance contribution made by SMEs to National growth and development the government of Ghana in 1985 established the National Board for Small-Scale Industries (NBSS1) for the promotion and development of SMEs.

The activities of NBSS1 fall into two broad categories, financial and non financial services. The financial services activities include extending credit through its loan schemes to entrepreneurs for both working capital and acquisition of fixed assets. In fulfillment of its mandate of credit provision to SMEs, the Board of NBSS1 in 2010 facilitated access to credit for seven hundred and fifty five (755) SMEs in Ghana (Okine, 2011).

The Government of Ghana recognizing the major role of SMEs in the economy introduced various micro financing schemes such as Micro Finance and Small Loan Centre (MASLOC), Venture Capital Trust Fund and Export Development and Investment Fund (EDIF) to support SMEs Growth and Development (Mensah, 2004).

However, the current status of SMEs access to credit, to reflect the effort the government put in a promoting SMEs growth and development is yet to yield the desired result. According to Mensah, (2004) there are many who believe that the single most important factor constraining the growth of SMEs sector is the lack of finance. There are many factors that can be accounted for this lack of finance. Some of these factors are a relatively undeveloped financial sector with low levels of intermediation, lack of institutional and legal structures that facilitate the management of SME lending risk, and high borrowing cost and rigidities in interest rates.

Due to the persistent financing gap, many interventions have been launched by the government and development partners to stimulate the flow of financing to SMEs over the and above what is available from existing private sector financial institutions. Existing SMEs access to credit interventions can be classified under (a) Official Financial Credit Schemes and (b) Donor Partners.

(a) Official Financial Credit Schemes: This was introduced by the government of Ghana, either alone, or with the support of donor agencies to increase the flow of financing to SMEs. Government in the past attempted to implement a number of such direct lending schemes to SMEs either out of government funds or funds contracted from donor agencies. These funds were usually managed by the Aid and Debt Management unit of Ministry of Finance and Economic Planning. Most of the on-lent facilities were obtained under specific programme with bilateral organizations such as

(b) Donor Partners: Many donor activities concentrate on various credit schemes through both commercial banks and micro-finance institutions, and also on strengthening of micro, small and medium-scale MSMEs through training and business support services. Some of these are DANIDA Private Sector...
Programme Business linkages between Ghana and Denmark; DANIDA Business Sector Development Lending to SMEs, front-runner legal reform (pilot), GTZ Promotion of Private Sector promotes German investments in Ghana and GTZ Promotion of Small and Micro Enterprises.

Despite these roles played by NBSS1, Non – Government Agencies and the Government of Ghana to promote the growth and development of SMEs in order to accelerate economic growth and in so doing alleviate poverty; SMEs are still constrained by many challenges in Ghana. These challenges include equipment and technology, managerial skills, regulatory constraints and lack of data regulation and collective action to defend their insufficient credit information and more importantly lack of access to credit (Bunting, 2010).

It is based on this that the researchers wishes to examine access to credit and growth of SMEs in Ghana and more especially Ho Municipality.

**Hypothesis**

In line with the objectives of the study, the following hypothesis was stated by the researchers.

*Access to credit does not promote growth of SMEs in the Ho Municipality of the Volta Region in Ghana.*

The paper is structured into five sections; section one is the introduction. Section two is literature review. In this part the related literature on the topic was reviewed, theoretical frame work and conceptual issues were discussed to establish the linkages between access to credit, and SMEs growth. Various empirical works done on the topic were also reviewed. Section three is methodology which addressed, research design, target population, data collection method, study instrument, as well as data analysis technique. Section four is presentation and analysis of data from the field of survey and discussion of result. Section five comprises the summary of major findings, recommendations and limitations of the study.

### 2.0 LITERATURE REVIEW

#### 2.1 Conceptual Framework

**2.1.1 Small and Medium Scale Enterprises.**

In attempting to conceptualize small and medium enterprises (SMEs) in Ghana, some points need to be stressed. First, there is no generally accepted definition of small or medium businesses because of the classification of businesses into large, medium or small scale is a subjective and qualitative judgment (Ogboru, 2007). Secondly, small businesses are generally quite responsive to their environment and our environment changes fast. Changes in the environment therefore affect what constitutes a small business at a particular point in time. Thirdly, what the definition aims at is to set some limits (lower and upper) that will assist in achieving the set purpose. Such limits can be in terms of level of capitalization, sales volume, number of employees, etc. A clear definition may be useful in a particular national context but it may not be practical to attempt a universal definition. An attempt is made to present some definitions of SMEs to demonstrate the divergence in definition across countries.

**The Ghanaian Situation**

There have been various definitions given for small-scale enterprises in Ghana but the most commonly used criterion is the number of employees of the enterprise (Kayanula & Quartey, 2000). In applying this definition, confusion often arises in respect of the arbitrariness and cut off points used by the various official sources. In its Industrial Statistics, the Ghana Statistical Service (GSS) considers firms with fewer than 10 employees as small-scale enterprises and their counterparts with more than 10 employees as medium and large-sized enterprises. Ironically, the GSS in its national accounts considered companies with up to 9 employees as SMEs (Kayanula & Quartey, 2000).
The value of fixed assets in the firm has also been used as an alternative criterion for defining SMEs. However, the National Board for Small Scale Industries (NBSSI) in Ghana applies both the “fixed asset and number of employees” criteria. It defines a small-scale enterprise as a firm with not more than 9 workers, and has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Ghanaian cedis. The Ghana Enterprise Development Commission (GEDC), on the other hand, uses a 10 million Ghanaian cedis upper limit definition for plant and machinery. It is important to caution that the process of valuing fixed assets poses a problem. Secondly, the continuous depreciation of the local currency as against major trading currencies often makes such definitions outdated (Kayanula & Quartey, 2000).

In defining small-scale enterprises in Ghana, Steel & Webster (1991), and Osei et al (1993) used an employment cut-off point of 30 employees. Osei et al (1993), however, classified small-scale enterprises into three categories. These are: (i) micro - employing less than 6 people; (ii) very small - employing 6-9 people; (iii) small - between 10 and 29 employees. A more recent definition is the one given by the Regional Project on Enterprise Development Ghana manufacturing survey paper. The survey report classified firms into: (i) micro enterprise, less than 5 employees; (ii) small enterprise, 5 - 29 employees; (iii) medium enterprise, 30 – 99 employees; (iv) large enterprise, 100 and more employees (see Teal, 2002).

Given this overview of SMEs definition the general consensus has been that the statistical definition of SMEs differs by country and mostly based on the number of employees or the value of assets. However, one should be overly concerned about the lack of consistency in employment based SMEs definitions, since the number of employees, viewed in isolation from the size of markets or the economy, may be misleading. For example, a 50 employee firm in the advance countries like U.S. would be considered ‘smaller’ (relative to the size of the economy) than a 50 employees firm in developing countries like South Africa or Ghana. Moreover, other characteristics of the firm, such as the degree of informality or the level of technological sophistication, may matter more than the number of employees as a segmentation factor in advanced countries.

It is clear from the exposition of the various definitions that there is not a general consensus over what constitutes an SME. Definitions vary across industries and also across countries. In this study, the definition of the National Board for Small scale Industries (NBSSI) was adopted for the purpose of this research. This is because it satisfies the indicators the researchers wanted to use for measurement of growth of SMEs in Ho Municipality. These indicators are fixed assets and number of employees.

2.2 Review of Theoretical Literature

2.2.1 Theories of Growth of Small and Medium Enterprises.

Various theoretical models have been developed which describe the growth of SMEs.

One class of theoretical models focuses on the learning process, either active or passive, and the other models refer to the stochastic and deterministic approaches.

Passive Learning Model:
In the Passive Learning Model (PLM) (Jovanic 1982 cited in Agaje 2004), a firm enters a market without knowing its own potential growth. Only after entry does the firm start to learn about the distribution of its own profitability based on information from realized profits. By continually updating such learning, the firm decides to expand, contract, or to exit. This learning model states that firms and managers of firms learn about their efficiency once they are established in the industry. Firms expand their activities when
managers observe that their estimation of managerial efficiency has understated actual levels of efficiency. As firm ages, the owner’s estimation of efficiency becomes more accurate, decreasing the probability that the output will widely differ from one year to another. The implication of this theoretical model is that smaller and younger firms should have higher and more viable growth rates (Stranova, 2001, Cunningham and Maloney 2001 and Goedhuys, 2002).

**Stochastic and Deterministic Approaches:**
The other set of growth theories of firms include the Stochastic and Deterministic Approaches. The stochastic model, which is also known as the Gibrat's Law, argues that all changes in size are due to chance. Thus, the size and age of firms has no effect on the growth of SMEs. According to Becchetti and Trovato (undated) empirical of the law has indicated that it only considers size and age as potential variables which may significantly affect firm growth by neglecting other explanatory variables which may significantly affect firm growth. The deterministic approach assumes, on the contrary, that differences in the rates of growth across firms depend on a set of observable industry and firm specific characteristics (Becchetti and Trovato, undated and Pier Giovanni et al 2002).

**2.3 Empirical Literature.**
**2.3.1 Growth of Enterprises**
According to USAID (2002), the standard measure of growth used in studies of SMEs firms is the change in the number of workers since start up. This variable is relatively easy for respondents to remember and does not need to be deflated. In addition, Liedholm and Mead (1999) contend that job creation is an important social goal and development objective and policies to support small enterprises are frequently justified on their supposed employment effects (Liedholm and Mead, 1999; Voulgaris et al 2003). This study also emphasizes employment growth.

The definition of employment includes working owners (entrepreneurs) because of job creation for owners may be equally valuable as jobs created for others from a social welfare point of view. Workers on external contracts are also included. It also includes paid part-time and full time family members. On the other hand, unpaid family helpers and apprentices are excluded, because their relationship is more frequently part time and casual and because they cannot be reliably measured in all years (USAID 2002).

Some studies, however, show the biases that might arise from use of employment as an exclusive measure of growth instead of alternative indicators such as changes in sales, outputs, or assets (USAID 2001). This is because of the seasonal nature of most SMEs employment, from the prevalence of part time work and from the extensive use of unpaid family labor including children as well as the slowly growing nature of employment, which appears to increase with a lag after a sizeable growth in real sales (USAID 2001). Some critics also raise the issue of job quality to the foregoing argument against using employment as a measure of growth. They contend that most Small Medium sector employment is presumed to bring less pay and fewer benefit.

Accordingly, Acs and Audretsch (1990) cited in Ajare (2004) define SMEs growth as an average change in sales. However, according to Gupta (1996) cited in Voulgaris et al 2003, enterprise performance and profitability is not related to growth of sales, since some companies may be able to maintain high profits, even with a declining growth rate. Some analysts of the growth of small businesses suggest the need to define employment effects to the context and aspirations of the potential beneficiaries’. Poor jobs, which require few skills, and are short term, intermittent and lowly paid may
still be better than nothing for the unemployed and underemployed. In addition, they can provide flexible options for individuals, such as women, who have extensive competing obligations. They may also provide opportunities for men to live with their families, rather than migrating for work.

Liedholm and Mead (1999), contend that the growth of employment remains to be a substantial measure of firm growth. If there is a need for an objective, neutral, and relatively easily applied definition for use in research, employee number is probably the best unit of measurement. Studies, which took employment as an indicator of enterprise growth, indicate that small firms are contributing to a greater degree for annual number of jobs created.

In analyzing employment growth, some researchers choose to use annual compound growth rates or simple annual employment growth while others use the rate of total the number of employment change since start up. The compound annual growth is usually preferred. (Liedholm and Mead 1999, Liedholm 2001, Goedhuys 2002 and USAID 2001).

2.3.2 SMEs and Economic Growth Development
There is a general consensus that the performance of SMEs is important for both economic and social development of developing countries. From the economic perspective, SMEs provide a number of benefits (Advani, 1997). SMEs have been noted to be one of the major areas of concern to many policymakers in an attempt to accelerate the rate of growth in low-income countries. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries.

SMEs seem to have advantages over their large-scale competitors in that they are able to adapt more easily to market conditions, given their broadly skilled technologies. They are able to withstand adverse economic conditions because of their flexible nature (Kayanula & Quartey, 2000). SMEs are more labour intensive than larger firms and therefore have lower capital costs associated with job creation (Anheier & Seibel, 1987; Liedholm & Mead, 1987; Schmitz, 1995). They perform useful roles in ensuring income stability, growth and employment. Since SMEs are labour intensive, they are more likely to succeed in smaller urban centres and rural areas, where they can contribute to a more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Due to their regional dispersion and their labour intensity, it is argued, small-scale production units can promote a more equitable distribution of income than large firms. They also improve the efficiency of domestic markets and make productive use of scarce resources, thus facilitating long-term economic growth (Kayanula & Quartey, 2000).

SMEs contribute to a country’s national product by either manufacturing goods of value, or through the provision of services to both consumers and/or other enterprises. This encompasses the provision of products and, to a lesser extent, services to foreign clients, thereby contributing to overall export performance. In Ghana and South Africa, SMEs represent a vast portion of businesses. They represent about 92% of Ghanaian businesses and contribute about 70% to Ghana’s GDP and over 80% to employment. SMEs also account for about 91% of the formal business entities in South Africa, contributing between 52% and 57% of GDP and providing about 61% of employment (CSS, 1998; Ntsika, 1999; Gumede, 2000; Berry et al., 2002).
From an economic perspective, however, enterprises are not just suppliers, but also consumers. This plays an important role if they are able to position themselves in a market with purchasing power: their demand for industrial or consumer goods will stimulate the activity of their suppliers, just as their own activity is stimulated by the demands of their clients. Demand in the form of investment plays a dual role, both from a demand-side (with regard to the suppliers of industrial goods) and on the supply side (through the potential for new production arising from upgraded equipment). In addition, demand is important to the income-generation potential of SMEs and their ability to stimulate the demand for both consumer and capital goods (Berry et al., 2002).

In a study conducted on evaluation of funding SMEs in Nigeria by Ogboru, (2007). It was found out that SMEs were fully recognized by governments and development experts as the main engine of economic growth and a major factor in promoting private sector development and partnership. The development of the SME sector therefore represents an essential element in the growth strategy of most economies and holds particular significance in the case of Nigeria. SMEs not only contribute significantly to improved living standards, employment generation and poverty reduction but they also bring about substantial domestic or local capital formation and achieve high levels of productivity and capability.

2.3.3 General Constraints to SME Development

Despite the potential role of SMEs to accelerated growth and job creation in developing countries, a number of bottlenecks affect their ability to realize their full potential. SME development is hampered by a number of factors, including finance, lack of managerial skills, equipment and technology, regulatory issues, and access to international markets (Anheier and Seibel, 1987; Steel and Webster, 1991; Aryeetey et al., 1994; Gockel and Akoena, 2002). The lack of managerial know-how places significant constraints on SME development. Even though SMEs tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, prevalent in most countries in the region, has a magnified impact on SMEs. The lack of support services or their relatively higher unit cost can hamper SMEs’ efforts to improve their management, because consulting firms are often not equipped with appropriate cost-effective management solutions for SMEs. Besides, despite the numerous institutions providing training and advisory services like National Board For Small scale Industries (NBSSI), there is still a skills gap in the SME sector as a whole (Kayanula & Quartey, 2000). This is because entrepreneurs cannot afford the high cost of training and advisory services while others do not see the need to upgrade their skills due to complacency. In terms of technology, SMEs often have difficulties in gaining access to appropriate technologies and information on available techniques (Aryeetey et al., 1994). In most cases, SMEs utilize foreign technology with a scarce percentage of shared ownership or leasing. They usually acquire foreign licenses, because local patents are difficult to obtain.

Regulatory constraints also pose serious challenges to SME development and although wide ranging structural reforms have led to some improvements, prospects for enterprise development remain to be addressed at the firm-level. The high start-up costs for firms, including licensing and registration requirements, can impose excessive and unnecessary burdens on SMEs. The high cost of settling legal claims, and excessive delays in court proceedings adversely affect SME operations. In the case of Ghana, the cumbersome procedure for registering and commencing business are key issues often cited. The World Bank Doing Business Report (2006) cited in Abor & Quartey(2010), indicated that it takes 127 days to deal with licensing issues and there are 16 procedures involved in licensing a business in Ghana. It takes longer (176 days) in South Africa and there were 18 procedures involved in dealing with licensing issues. Meanwhile, the absence of antitrust legislation favours larger firms, while the lack of protection for property rights limits SMEs’ access to foreign technologies (Kayanula & Quartey, 2000).
Previously insulated from international competition, many SMEs are now faced with greater external competition and the need to expand market share. However, their limited international marketing experience, poor quality control and product standardisation, and little access to international partners, continue to impede SMEs’ expansion into international markets (Aryeetey et al., 1994). They also lack the necessary information about foreign markets.

One important problem that SMEs often face is access to capital (Lader, 1996). Lack of adequate financial resources places significant constraints on SME development. Cook and Nixson (2000) observe that, notwithstanding the recognition of the role of SMEs in the development process in many developing countries, SMEs development is always constrained by the limited availability of financial resources to meet a variety of operational and investment needs. A World Bank study found that about 90% of small enterprises surveyed stated that credit was a major constraint to new investment (Parker et al., 1995). Levy (1993) also found that there is limited access to financial resources available to smaller enterprises compared to larger organisations and the consequences for their growth and development. The role of finance has been viewed as a critical element for the development of SMEs (Cook & Nixson, 2000).

A large portion of the SME sector does not have access to adequate and appropriate forms of credit and equity, or indeed to financial services more generally (Parker et al., 1995). In competing for the corporate market, formal financial institutions have structured their products to serve the needs of large corporates.

A cursory analysis of survey and research results of SMEs in South Africa, for instance, reveals common reactions from SME owners interviewed. When asked what they perceive as constraints in their businesses and especially in establishing or expanding their businesses, they answered that access to funds is a major constraint. This is reflected in perception questions answered by SME owners in many surveys (see BEES, 1995; Graham and Quattara, 1996; Rwingema and Karungu, 1999).

The situation is not different in the case of Ghana, access to finance has been identified as a dominant constraint facing the Ghanaian Small and Medium Enterprises (SME) sector. (Abor&Bikpe, 2006). A priori, it might seem surprising that finance should be so important. Requirements such as identifying a product and a market, acquiring any necessary property rights or licenses, and keeping proper records are all in some sense more fundamental to running a small enterprise than is finance (Green et al., 2002). Some studies have consequently shown that a large number of small enterprises fail because of non-financial reasons.

Other constraints SMEs face include: lack of access to appropriate technology; the existence of laws, regulations and rules that impede the development of the sector; weak institutional capacity and lack of management skills and training (see Sowa et al., 1992; Aryeetey et al., 1994; Parker et al., 1995; Kayanula & Quartey, 2000). However, potential providers of finance, whether formal or informal, are unlikely to commit funds to a business which they view as not being on a sound footing, irrespective of the exact nature of the unsoundness. Lack of funds may be the immediate reason for a business failing to start or to progress, even when the more fundamental reason lies elsewhere. Finance is said to be the “glue” that holds together all the diverse aspects involved in small business start-up and development (Green et al., 2002).

There has been little study undertaken in the area of access to credit and it effects on the growth of SMEs in Ghana and more specifically in Ho municipality which is the administrative and commercial capital of
Volta Region in which most the SMEs in the region are situated. This research is aimed to address this gap in the literature.

3.0 METHODOLOGY
3.1 Research Design.
This section deals with the collection and analysis of data to examine access to credit and its effect on the growth of SMEs in Ho Municipality.

The researchers collected both primary and secondary data to make sure that all the relevant materials on information required for the study were acquired and utilized. This study was explorative in nature which used survey method mainly in data collection. The study employed a causal design which aimed at accessing credit on one side and its effect on growth of SMEs.

The inclusive criteria in this study were made up of all the registered and unregistered SMEs in the manufacturing sector in the Ho Municipality. This research work is largely quantitative but also made use of qualitative technique based on views, perceptions and opinions of respondents on what they perceive about growth of SMEs and the challenges they face and how it was resolved.

3.2 Target Population and Sampling Procedure.
3.2.1. Target Population.
Given the nation-wide spread of SMEs in Ghana, the population of interest in this study included all registered SMEs with NBSSI and non-registered SMEs in manufacturing sector of Ho Municipality. The SMEs included all the manufacturing industries engaged in batik tie and dye, dressmaking, furniture production, kente weaving, beamaking, poultry production, wood carvers, bakers and others in the Ho municipality because most of the SMEs in the area engaged in these activities. The study included the non-registered SMEs because some of the potential SMEs in the Ho Municipality were not registered with NBSSI. Hence the registered SMEs with the NBSSI were not representative enough for the study.

3.2.2. Sampling Frame and Sampling Techniques.
The sampling frame for the study included all the manufacturing SMEs in the Ho Municipality. The sampling size of the research was 80 which represented both SMEs that access credit from the formal financial institutions and non-formal financial institutions and those that did not. This helped the researchers to track the effect of credit accessibility and its effect on growth of SMEs. The sampling size of 80 was sampled from the SMEs in the Ho Municipality.

The study used simple random sampling technique which is a probability sampling method which draws a portion of a population so that each member of the population has an equal chance of being selected. In other words, in a random sampling all possible samples of fixed size have the same probability of being selected. A sample drawn at random is unbiased in the sense that no member of the population has any more chance of being selected than any other member.

3.3 Data Collection.
The study used both primary and secondary data, data collected for a specific purpose are known as primary data. The essence of obtaining such data is to ensure that the exact information wanted for the study was obtained. The secondary data was obtained from other sources such as; articles, journals which were relevant to the study, past research work, dissertation and thesis containing the necessary data relevant to the study.
3.4 Study Instrument.
The instrument employed for this study was a well structured questionnaire. The questionnaires were administered by means of interview and mail methods. Ten enumerators conducted the interview. The enumerators were well trained by the researchers. The questionnaires were administered to the owner of SMEs in the Ho Municipality to ascertain whether the credit accessibility could lead to the growth of SMEs.

The questionnaires for this study were designed in two parts. Parts one for the Bio data, this requires such details of the respondents as sex, age marital status, level of education, position of the respondent in the enterprise and the working experience of the respondents in the Enterprise.

The second part contained the questions relating to the business background information. The responses for the second part form the basis of the data presentation and analysis.

The questions were both open and closed ended questions. The open ended questions gave the respondents freedom to decide the detail and the length of his/her answer. It enabled the respondents to give a more adequate presentation of his/her particular case and convey flexibility in his choice. The closed ended questions, however, were designed to keep the questionnaire to a reasonable length and this encouraged response and validity in terms of the representativeness of the return. It also minimizes the risk of misinterpretation unlike the open ended question. Lastly, it permitted easier tabulation and interpretation by the researcher.

The question on whether to use either of the questionnaires can be resolved on the basis of validity and reliability. This study employed the use of both open and closed questions.

3.5 Specification of the Model
A Statistical model was specified here to examine the effect of access to credit on the growth of the SMEs in Ho Municipality. It is a multiple regression model where the growth of the firm is made the dependent variable with a host of independent variables. Among the independent variables are; total investment, access to credit, startup capital, age of the firm, educational level and annual turnover.

Thus we have; the multiple regression model of the form;

\[ FG_i = B_0 + B_1 AC + B_2 TCI + B_3 AF + B_4 SUC + B_5 EL + B_6 AT + e_i \]

Where:
- \( FG \) = Firms Growth
- \( AC \) = Access to Credit
- \( TCI \) = Total Current Investment
- \( AF \) = Age of the Firm
- \( SUC \) = Start-up Capital
- \( EL \) = Educational Level
- \( AT \) = annual Turnover
- \( e \) = the error term
- \( i = 1 \ldots n \), where \( n \) is the number of firms

The expected signs \( B_1 > 0, B_2 > 0, B_3 > 0, B_4 > 0, B_5 > 0 \) and \( B_5 > 0 \)

The determinants of growth of SMEs include; access to credit, age of firm, number of employees, total investment, total income, sales output, educational level, startup capital, asset base etc. All these enhance
growth of an Enterprise but in this study the researcher used number of employees. This was because these indicators were more feasible and can be easily remembered by the owners of SMEs. In order to test the validity of the choice of indicators of growth of SMEs, a pilot survey was conducted in other to ascertain and detect any ambiguity in the choice of these indicators of growth. Those that were irrelevant and scaring to the respondents were removed.

3.6 Justification of independent variables

Total current investment: It is believed that, for firm to growth there must be an investment; this may include infrastructural development, human resources, and government bonds. This means that total current investment will have positive relationship with the growth of SMEs.

Access to credit: Availability of credit from formal sector like financial institutions and banks and also availability of credit from the informal sector like personal savings and family assistance for the last two years. Those SMEs that have access to credit from formal and informal sector are expected to grow. A value of one (1) was given to a firm that had access to credit and zero (0) to a firm that never had access to credit.

Age of the firm: Firm age is defined as the absolute number of years of existence since the start up. Older firms grow faster than the younger ones because of the experience over the years. Thus there prevail a positive relationship between the enterprise grow and its age.

Start – up capital: The amount of paid up capital in Ghana cedis during the start – up. The amount of paid up capital to start a business is negatively related with growth in employment of SMEs because it an injection at the start up and cannot be used solely for growth employment.

The level of education of the entrepreneur: It is expected that entrepreneurs with higher level of education would be more likely to grow than those with however level of educations (indicator variables, one for JHS/Elementary school, two for SHS/Secondary, three for HND/ Degree and four for Master Degree and above.

Annual Turnover: It is the total sales value at the time of the study. It is expected to have a positive relation with growth of the SMEs. This is because the more the sales output the more the production of the good, and hence growth in SMEs.

3.7 Estimation Techniques

The Ordinary Least Squares (OLS) technique was used in estimating the specified econometric model. Apart from its simplicity, it gives reliable estimates. The estimation software was Microfit Version 4.0.

3.8 Evaluation Techniques

Statistical techniques were used to evaluate the estimated specified model. The Adjusted coefficient of determination (R-bar squared) was used to test the best fit line. The R-bar squared also measures the explanatory power of the specified model.

The t-ratio was used to determine the significance of the stated variables. The F-Statistic was also used to test the joint significance of the independent variables. It must be pointed out that in a cross section data analysis of this nature, the significance of the F-statistic is crucial as compared to the value of the R-bar squared.

4.0 RESULTS AND DISCUSSION

4.1 Results

4.1.1 Survey Results

Bio Data of Respondents
A total of 80 questionnaires were administered out of which 78 were completed and retrieved representing 97.5% of retrieval rate. The gender distribution of the sampled SMEs are contained in the table below.

### Table 1. Gender Distribution of Respondents

<table>
<thead>
<tr>
<th>Age</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-29</td>
<td>5</td>
<td>11</td>
<td>16</td>
</tr>
<tr>
<td>30-39</td>
<td>14</td>
<td>23</td>
<td>37</td>
</tr>
<tr>
<td>40 and above</td>
<td>15</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>44</td>
<td>78</td>
</tr>
</tbody>
</table>

**Source: Field Study 2012**

Among the respondents, 44 were female representing 56.4%. This supports the study by Kayanula & Quartey, (2000) that majority of the SMEs are female owned businesses. Thirty-four (34) of the respondents were male representing 43.6%. The age distribution from the survey shows that the highest number of respondents (modal age group) was between 30-39 years representing 47.4%, followed by 40 years and above representing 32.1%.

**Effect of Access to Credit on Economic Growth**

### Table 2. Access to Credit and Growth of SMEs

<table>
<thead>
<tr>
<th>Promotion</th>
<th>No. Of Respondents</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>45</td>
<td>57.69</td>
</tr>
<tr>
<td>No</td>
<td>33</td>
<td>42.31</td>
</tr>
<tr>
<td>Total</td>
<td>78</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source: Field Study 2012**

As to whether access to credit promoted growth of SMEs business operations in the Ho municipality, it is seen from Table 2 that 45 of the respondents representing 57.69% indicated that access to credit actually
promotes growth of SMEs in the Ho Municipality of the Volta Region of Ghana. While 33 of them representing 33.31% stated that access to credit does not promote growth SMEs in the Ho Municipality.

4.1.2 Econometric Results
The econometric results are reported in Table 2. The field work provided data on the variables for the specified model.

Table 2. Regression Results of the Firm Growth Function

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>T-Ratio (Probability)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONSTANT</td>
<td>75.6515</td>
<td>54.8900</td>
<td>1.3782 (0.172)</td>
</tr>
<tr>
<td>AC</td>
<td>10.4683</td>
<td>5.0970</td>
<td>2.0500 (0.051) **</td>
</tr>
<tr>
<td>TCI</td>
<td>0.0059606</td>
<td>0.0033817</td>
<td>1.7626 (0.082) ***</td>
</tr>
<tr>
<td>AF</td>
<td>-2.3544</td>
<td>2.9770</td>
<td>-0.79085 (0.432)</td>
</tr>
<tr>
<td>SUC</td>
<td>0.043939</td>
<td>0.015518</td>
<td>2.8314 (0.006)*</td>
</tr>
<tr>
<td>EL</td>
<td>35.1804</td>
<td>22.5085</td>
<td>1.56301 (0.123)</td>
</tr>
<tr>
<td>AT</td>
<td>0.037424</td>
<td>0.015764</td>
<td>2.3740 (0.002) *</td>
</tr>
</tbody>
</table>

* = Significant at 1%
** = Significant at 5%
*** = Significant at 10%

R-Squared 0.5602
F-Statistics F (1063) 2.0033 (0.048)
DW-Statistics 1.9690

Discussion of the Regression Results
The estimated result showed R-Squared of 0.5602. This indicates that 56% of the variations in the growth of SMEs are explained by the independent variables. This percentage shows a modest fit of the model.

The F-Statistic which is a key statistic in this cross-section study is 2.0033 (0.048) and is significant at 95% confident level. This implies that almost all the independent variables in the model have jointly contributed to the growth of the SMEs in the Ho Municipality.

Durbin Watson (DW) – Statistics is 1.9690. This figure is close to two and an indication that successive error terms are not correlated.

Access to credit:
With regard to access to credit (AC), which is a key variable in this study, the result from the regression model shows that there is positive relationship between the growth of the SMEs and access to credit in Ho Municipality. This means that access to credit and the growth of SMEs is significant at 5% confidence level. A unit increase in access to credit leads to growth of SMEs by 10.5 units. In this regard we fail to accept our stated hypothesis that access to credit does not promote growth of SMEs in the Ho Municipality of Volta Region of Ghana.
Total current investment:
From the multiple regressions results total current investment (TCI) is statistically significant at 10% confidence level and positive. This indicates that there is positive relationship between Total Current Investment and growth of SMEs. This means that, other things being equal, as total current investment increases by one unit, growth of SMEs also increases by 0.0060.

Start-up capital:
Also, Start-up capital (SUC) is significant at 1% and has a positive relationship with the growth of SMEs. This means that as start-up capital increases by one unit, the firms also grow by 0.044.

Annual turnover:
In addition, annual turnover (AT) is significant at 1% confidence level and positive. This means that when annual turnover increases by a unit growth of SMEs also increases by 0.037.

However other independent variables like the age of the firm (AF) and educational level (EL) of the entrepreneur are not significant in the growth of SMEs in this study.

To sum up, considering the independent variables, access to credit, start-up capital, total current investment and annual turnover all have positive relationship with growth of the SMEs and therefore contributed to the growth of SMEs in the Ho Municipality.

5.0 CONCLUSIONS
5.1 Summary
Small and Medium Scale Enterprises play an important role in the Economic Development of both developed and developing nations. Ghana is no exception with SMEs providing about 85% of employment in manufacturing sector, believed to contribute to about 70% to GDP and account for about 92% of businesses in Ghana. However, the SMEs are confronted with challenges of credit accessibility for their expansion and growth.

The above constraints gave rise to the researchers to examine credit accessibility and its effect on the growth of SMEs in Ho Municipality of Volta Region in Ghana.

The objective of the study was to examine access to credit, on growth of SMEs in Ho Municipality. To this end, the study used survey method and secondary data method. A self-administered questionnaire was used to obtain relevant data from a sample of 78 SMEs operators in the manufacturing sector of the Ho Municipality.

In addition, a simple random sampling method was used to select the firms. Both descriptive and multiply regression analysis were used in the analysis of the relevant data. The analyses was done using descriptive statistics including frequency tables and multiply regression analysis to examine the access to credit and its effect on the growth of SMEs in Ho Municipality.

Both survey and econometric results show that access to credit exerts a significant positive effect on growth of SMEs in the Ho - Municipality of Ghana.

The multiple regression analysis results showed that, access to credit, increase in total current investment, start-up capital and annual turnover have significant positive effect on the growth of SMEs in manufacturing sector using employment level of the business as proxy for growth. Specifically, with respect to access to credit, a unit increase access to credit leads to the 10.47 units of SMEs.

In conclusion, any additional access to credit, increase in total current investment, start-up capital, and annual turnover have positive relationship with growth of SMEs in Ho Municipality. Hence increase in credit accessibility, increase in total current investment, start-up capital and annual turnover in Ho Municipality have significantly promoted the growth of SMEs in Ho Municipality based on the research findings.
5.2 Policy Implications

- The main policy implication of the study is that the government of Ghana should try hard to meet the credit needs of the SMEs in the country for a speedy economic growth of the nation. This the government may achieve through the following ways:
  - Easy accessibility to credit through specialized or development oriented banking or financial institutions should be encouraged. This fund should be made available to the SMEs at reduced interest rate.
  - Establishment of a well funded National Credit Guarantee fund that will assist for credit facilities from the banks and other financial institutions. This will help reduce the excessive demand for collateral security.
  - Development of clear national development objectives to meet the needs of the SMEs sector. That is, formal policies and regulations that guarantees achievement of anticipated results of SMEs.

5.3 Limitations of the Study

- Although there were several SMEs in Ghana, this study was limited to selected number SMEs in manufacturing sector in Ho municipality. Owing to the above this study cannot be directly generalized to include all the SMEs in Ghana.
- Improper record keeping: One of the greatest challenges the researchers encountered in this study relates to access to and collection of hard data. This was due to the fact that most of the SMEs operators did not keep proper records of their transactions, which made it difficult to get most of the relevant and accurate information needed for the study.

In spite of the above limitations the results of the study give credible information with respect to the effect access to credit and the growth of SMES in Ho Municipality.

5.4 Further Studies

It would be a useful exercise to further research into the following:
- Evaluation and funding arrangement for SMEs in Ghana
- Problems and prospects of SMEs operation in Ghana
- Replication of the study in other regional capitals in Ghana

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ABOUT THE AUTHORS

PROF. ANTHONY K. AHIAWODZI
Professor Anthony K. Ahiawodzi is an experienced Economist, Researcher and an Educationist. He obtained his First and Second Degrees in Economics at the University of Cape Coast (Ghana), and went for his PhD Programme in Economics at the University of Strathclyde – Glasgow (Scotland). He is a Fellow of the Institute of Chartered Economists of Ghana (ICEG).

His Professional Lectureship career started at the Department of Economics, University of Cape Coast – Ghana in 1985, where he lectured in various aspects of Economics and Statistics from 1985 to 2002. He continued at the Central University College in Accra (Ghana) for 3 years before joining the University of Professional Studies, Accra (UPSA), Ghana in August 2005. He is the brain behind the UPSA Weekend School and currently Dean of the School.

MR. THOMAS C. ADADE
Mr. Thomas C. Adade is a currently a Lecturer and a Researcher. He obtained his first degree at the University of Cape Coast in 1998, with specialization in Accounting. He then proceeded to teach at the New Juaben Senior High Secondary School in Koforidua from October 1998 to March 2008. In April 2008, Mr. Adade joined the Department of Accountancy at Ho Polytechnic as Research Assistant/Tutor in Accounting. He obtained his MBA Accounting and Finance degree from the University of Professional Studies, Accra (UPSA) in 2012 and subsequently became Lecturer at the Department of Accountancy at Ho Polytechnic. Mr. Adade’s flair for academic and research work is highly commendable.