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Narrowing the Gap in SME Financing in Developing Countries: a Case of Retail Pharmaceutical Companies in Ashanti Region, Ghana

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Abstract

Access to finance remains a key constraint to SME development in emerging economies. Comprehensive data on the SME finance gap is still more consistently collected and monitored over time; however various data sources and studies indicate that small firms rely on internal financing much more than large firms do. The main objective of the study is to evaluate the challenges and the extent of financing of SMEs within the Ashanti Region of Ghana, taking cognizance of the role and contributions of Retail pharmaceutical industries. The sources of materials for the study were both primary and secondary. The purposive sampling technique was used to select a sample size of 250 Pharmaceutical Small and Medium Enterprise owners who operate in and around Kumasi. Primary data were collected by the use of structured questionnaires and interviews were administered to Pharmaceutical Small and Medium Enterprise owners and employees of the companies alike. Secondary materials were extracted from relevant textbooks, newspapers, reports/articles, journals, bulletins and documents presented by corporate financial analysts and policy planners. The study showed that although the pharmaceutical industries were aware of the presence of other financing firms, they could not access loans due to procedures used to source the loans. They are also of the view that government must be actively involved in helping these retail industries get loans. In order to bridge the gap, the populace must be educated on the presence of these other firms and ways they can use to access those funds. In view of the findings, it was concluded that there should be a national policy on SMEs by the government in respect of funding among others in other to educate SMEs in the efficient and effective financial management of their businesses. This, the researchers believe will help SMEs to grow into much bigger industries in the near future.

Keywords: Government of Ghana (GoG), Small and Medium scale Enterprise (SME)

Introduction

Access to finance remains a key constraint to SME development in emerging economies. Comprehensive data on the SME finance gap is still more consistently collected and monitored over time; however various data sources and studies indicate that small firms rely on internal financing much more than large firms do, and that the likelihood of a small firm having access to a bank loan in low-income countries is about a third of what it is for a medium-sized firm, and less than half of what it is for a larger firm.

Despite their dominant numbers in job creation and the contributions the sector makes, SMEs are faced with many challenges. Every year several thousands of these enterprises collapse as a result of these challenges. Among these challenges are corruption, which is affecting cost of doing business and inability to compete regularly, unregulated importation of goods that can be produced locally which is killing the local industries, inadequate infrastructure, multiplicity of regulatory agencies, inadequate credit facilities, and the likes. There are many who believe that the single most important factor constraining the growth of the SME sector is the lack of finance. In a developing country like Ghana, lack of capital for Small and Medium size Enterprises has been considered as the most basic problem hampering the growth of the sector. They face difficulty in obtaining formal credit or equity. Majority of commercial bank loans extended to Small and Medium size Enterprises are often limited to a period too short to pay off any sizeable investment. Access to competitive interest rates is reserved for only a few selected blue- chip companies whiles loan interest rates offered to SMEs remain high. As a result, banks are generally biased towards large corporate borrowers, who provide better business plans, have credit ratings, more reliable financial information, better chances of success and higher profitability for the banks. When banks do lend to SMEs they turn to charge them a commission for assuming higher risk and apply tougher measures which drive up cost on all sides. Banks in developing countries often prefer to lend to government and thus the public-sector where small scale enterprises operate. Many governments and international financial institutions have tried to address the problems of high transaction costs and risks by creating subsidized credit programmers and/or providing loan guarantees. Such projects have often fostered a culture of non-repayment and failed to reach the target group or achieve financial self-sustainability. Well-functioning and sustainable mechanisms for small scale enterprises financing require institution building and a market approach. Lending institutions must improve their ability to provide financial services to small scale enterprises through commercial mechanisms that lower costs and minimize their risk exposure. Only in this way will financial institutions find small scale enterprises lending to be more profitable, and thus be encouraged to construct lending programmes targeted at small scale enterprises. Against this background the researchers would like to examine how best this financing gap can be narrowed to ensure that SMEs get better access to finance to improve upon their business.

The focus of the study was;

- To mainly identify the challenges faced by SMEs in assessing funds with reference to the Kumasi Metropolis.

Specifically the study hopes to achieve the following:

- To identify the possible reasons for SME financing.
- To determine the awareness level of SME owners on financing schemes.
- To determine the causes of the financial gap.
- To find ways of reducing the financial gap

A number of studies have been carried out to identify the needs of SMEs in Ghana. Notable among them is the one by Tweneboa-Boateng (2008). According to Tweneboa-Boateng (2008), the major needs of SMEs include lack of enabling environment (political instability, micro-economic instability, and poor physical infrastructure), lack of entrepreneurial skills, and lack of access to finance. Similarly, Mensah (2004), in exploring the SMEs financing schemes in Ghana, has suggested that various schemes exist for financing SMEs operations. There are many who believe that the single most important factor constraining the growth of the SME sector is the lack of finance. There are many factors that can be adduced for this lack of finance:

- A relatively undeveloped financial sector with low levels of intermediation
- Lack of institutional and legal structures that facilitate the management of SME lending risk
- High cost of borrowing and rigidities interest rates.

Because of the persistent financing gap, many interventions have been launched by governments and development partners to stimulate the flow of financing to SMEs over and above what is available from exiting private sector financial institutions. Existing SME financing interventions can be classified under:

- Official Schemes
- Financing provided by financial institutions

Access to Finance SMES

Access to finance has been identified as a dominant constraint facing SMEs (Lader, 1996). A World Bank study found that about 90% of small enterprises surveyed stated that credit was a major constraint to new investment (Parker et al., 1995). Levy (1993) also found that, there is limited access to financial resources available to smaller enterprises compared to larger organizations and the consequences for their low growth and development. This stems from the fact that SMEs have limited access to capital markets partly due to the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms. In Sub-Saharan Africa, most small businesses fail in their first year due to lack of support from government and traditional banks (Biekpe, 2004). In Ghana, the idea that problems in financing small firms have significantly hindered the role they play in the overall macroeconomic performance of the Ghanaian economy is deeply rooted since the overthrow of the first President of the Republic of Ghana Dr. Kwame Nkrumah (Boapeah, 1993). Previous studies have identified a growing gap in the financial support offered to Ghanaian SMEs. The high interest rates, collateral requirements and the cumbersome processes have often been mentioned as the main impediments to SMEs' access to bank loans in Ghana (see Sowa et al., 1992; Aryeetey et al., 1994; Bigsten et al., 2000; Buatsi, 2002). These studies however focused mainly on the difficulties SMEs face in accessing commercial credit from conventional banks and other financial institutions. The present study examines how the finance gap for SMEs might be addressed by means of policies to support other financing initiatives other than commercial finance by the conventional financial institutions. The study seeks to investigate the awareness and use of these various financing schemes (quasi-commercial credit) available to SMEs in Ghana. The issue is of critical significance given the important role SMEs play in the Ghanaian economy. SMEs have been noted to contribute about 85% of manufacturing employment (Steel and Webster, 1991). They represent about 80% of the private sector and also account for about 92% of businesses in Ghana. For the current Ghana government's slogan of "Golden Age of Business" to succeed and for the country to reach the per capita income of US $1,000 by 2012, there is the need to steadily increase the rate of economic growth from the present level of 4-5% to 7-10%. Given that SMEs represent a vast portion of the firm tissue in Ghana, they have an important role to play in spurring growth.

The Pharmaceutical industry in Ghana

In general, the pharmaceutical industry or sector in any country consists of different companies that manufacture pharmaceuticals, package pharmaceuticals, serve the public in dispensing pharmaceuticals, and manage employers and employees and various consumer benefit schemes including insurance products (Rentmeester & Garis, 2008). For Ghana, the pharmaceutical sector comprises of producers of drugs, wholesalers, distributors, retailers and consumers. According to the Centre for Pharmaceutical Management (2003), the pharmaceutical market in Ghana on the demand side was worth about 90 million United States dollars (US$) in the year 2001. The size of the pharmaceutical industry was estimated by Seiter and Gyansa-Lutterodt (2009) to be of the magnitude of US$300 million in terms of sales for both locally and imported pharmaceuticals in the year 2008. Within this market, the government of Ghana is a major player, both as a regulator of the market and as a buyer involved directly in the wholesale and supply of drugs and healthcare services. Concerns about the provision of relatively cheap and effective drugs to the mass population have led to several government-led and/or private sector-led initiatives in the pharmaceutical sector of Ghana. A recent initiative is the Medicine Transparency Alliance (MeTA) which is a multi-stakeholder organization aimed at increasing the transparency related to the selection, regulation, procurement, distribution and sale of medicines in the developing world. MeTA, initiated by the Government of the United Kingdom, has been launched as a pilot project in seven countries including Ghana. The Ghana MeTA pilot programme ran from September 2008 to October 2010.

Type and Composition of Pharmaceutical Wholesalers in Ghana

As reported by Centre for Pharmaceutical Management (2003), quoting directly from the Gazette of the Republic of Ghana, there were 15 manufacturing wholesalers in Ghana in 2000. Manufacturing wholesalers are defined as those businesses that have both backward and forward linkages in the pharmaceutical manufacturing industry. For example, one company, Kama, was involved in both manufacturing and importation of drugs and was also a registered wholesale retailer. Further, there were 79 wholesalers that also engaged in some retail activities and 280 registered wholesale retailers in the country in the year 2000. The current number of pharmaceutical manufacturers – including those also engaged in importation, wholesale or other areas of the supply chain – is between 25 and 30. Seiter and Gyansa-Lutterodt (2009) outline the structure of the pharmaceutical wholesale market in the year 2008. They indicate that about 150 companies are licensed or registered national or regional wholesalers of pharmaceutical products. Further, about 60 companies act as importers of pharmaceutical products and they sell these products to local distributors based on their own networks. Seiter and Gyansa-Lutterodt (2009) report that the total number of businesses involved in active drug import and distribution is between 200 and 300. These numbers are similar to those of registered wholesalers of pharmaceutical products in Ghana for the year 2000 as reported by Centre for Pharmaceutical Management (2003). Given the moderately high economic growth of Ghana over the last 25 years, the local pharmaceutical market has become increasingly attractive for both wholesale and retail suppliers. Local producers account for about 30% of market share with the remaining 70% share supplied mainly by Indian and Chinese pharmaceutical firms (Buabeng, 2010; Seiter and Gyansa-Lutterodt, 2009). In principle, a retail pharmacy in a small-localized area can act as a wholesaler for local chemical sellers or local clinics and hospitals (Seiter and Gyansa-Lutterodt, 2009). This means that potentially pharmaceutical wholesalers can run into huge numbers given the number of districts and local council areas in Ghana and the dominance of one pharmaceutical retailer in a given area, especially for remote parts of the country. Therefore, from an economic analytical viewpoint, the pharmaceutical wholesale market in Ghana has a monopolistic competitive market structure on the supply side; that is, the market is characterized by many sellers who distinguish themselves from each other through branding and selective advertising.

METHODOLOGY

Research design

This study will use the case study as a research design. A case is defined as a bounded system (Stake 1997) as cited in (Johnson and Christensen, 2012, page 395). The case study aims to understand the case in-depth and in its natural setting, recognizing its complexity and its context.

Population, Sampling technique and Sample size

A research population is a group of individuals, persons, objects or items from which samples are taken for measurement. The target population of the study was Pharmaceutical Small and Medium Enterprise owners who are in and around Kumasi. The purposive sampling techniques was used to select 250 Pharmaceutical Small and Medium Enterprise owners and employees.

Data collection tools and Data analysis techniques

In order to achieve the purpose of the study, questionnaires were administered to the respondents. A Likert Scale questionnaire is adopted to help collect specific data for the study. Data processing is the collection and manipulation of items of data to produce meaningful information. The data analysis was done with Microsoft Excel (MS Excel) and Statistical Package for Social Sciences (SPSS) software.

RESULTS

From the survey, and out of the 250 entrepreneurs interviewed 32 of them which represent 13% falls within the ages of 20-25 years which shows that youth have seriously involved themselves with the entrepreneurial activities and this can serve as a bright future for this sector if all the necessary support are given to the sector and can reduce the rate of the youth unemployment, since a lot of them are now involving themselves in SME activities. This attest to a survey conducted about small scale enterprises in Ghana which revealed that young people owned almost 40 percent of the enterprises .Work by Osei et al. (1993), conclude that younger youth aged 15-25 were employed in only 5.4 percent of enterprises whilst those aged between 26-35 years owned 33.8 percent (Osei, et al., 1993). 90 of the entrepreneurs which also represent 36% falls within the age brackets of 26-35, whiles the remaining 128 falls within the years of 36 and above and this also form 51%. The study revealed that young people are in serious competition with the older generation and compete for their own enterprises in the country; from this it is believed that the pharmaceutical industry has a good future and will help to reduce poverty among the youth in the near future. The table 1 below explains the age groups of respondents.

AGE	Frequency	Percent %
20 - 25	32	13
26 - 30	50	20
31 - 35	40	16
36 AND ABOVE	128	51
Total	250	100

Table 1: Age of Respondents

Majority of the respondents applied to the commercial banks in the country for loans. This was followed by donor partners in the country. Only 4.76% accesses loans from the micro finance companies in the country Respondents can thus be said to be more conversant with dealings with the commercial banks than the other financial institutions which offer funds for the firms. The formal financial sector in Ghana comprises commercial banks (including Merchant Banks and Development Banks), 17 of which operate a network of 303 branches in the country; 115 rural and community banks, savings and loan companies and non-bank financial institutions. Recently, as banks and other financial institutions have sought to broaden their loan portfolio, SMEs have become an increasingly attractive customer group (International Finance Corporation, 2004).

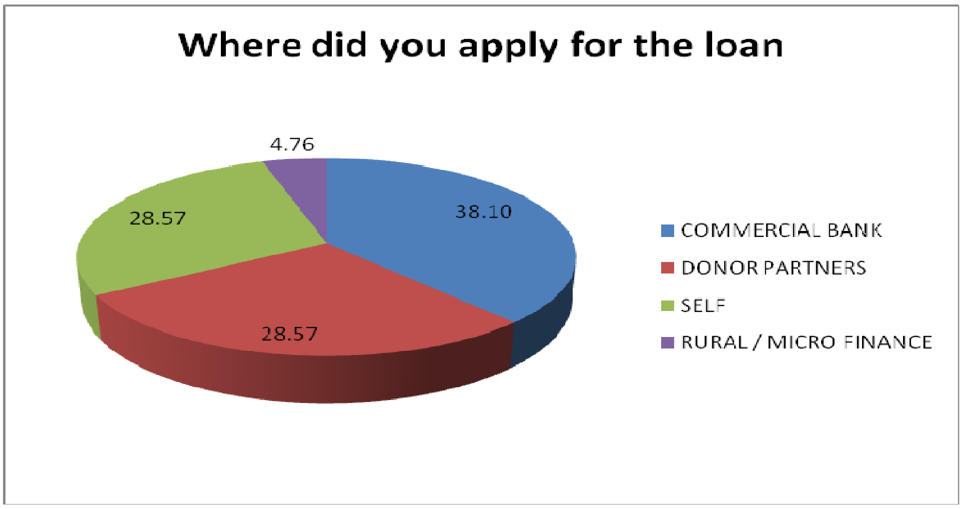

Fig 3: Location of loan application

One critical focus of the study was to determine the purpose of the loan in the lives of beneficiaries. The factors considered included to start a business, pay fees, and expand business. Information gathered indicated that most of the respondents (80%) used the loan to expand their businesses. The remaining used the loan to import or purchase goods (9.5%) and also for their own personal reasons (4.7%).

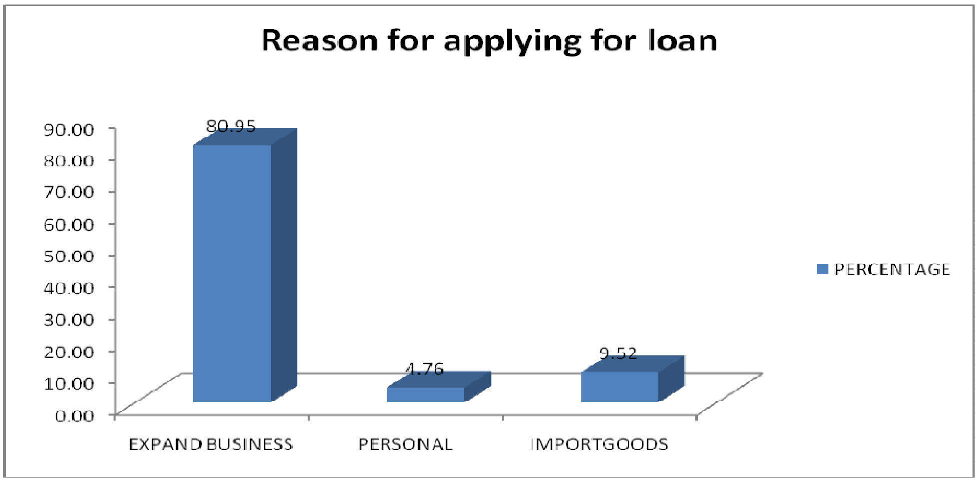

Fig. 4: Purpose of Loan

Knowledge of other financing schemes

There are many who believe that the single most important factor constraining the growth of the SME sector is the lack of finance. It was therefore important to seek the knowledge of respondents on other financing schemes in the country. The survey concludes that 85.71% of the respondents had knowledge of the existence of other financing schemes. Only 14.29% were not aware of such institutions (Fig 5). This is in contrast with work by Joshua (2006) who concludes that most firms are unaware of these financing schemes. The education level of persons in this category could be as a result of them having knowledge about other financing schemes.

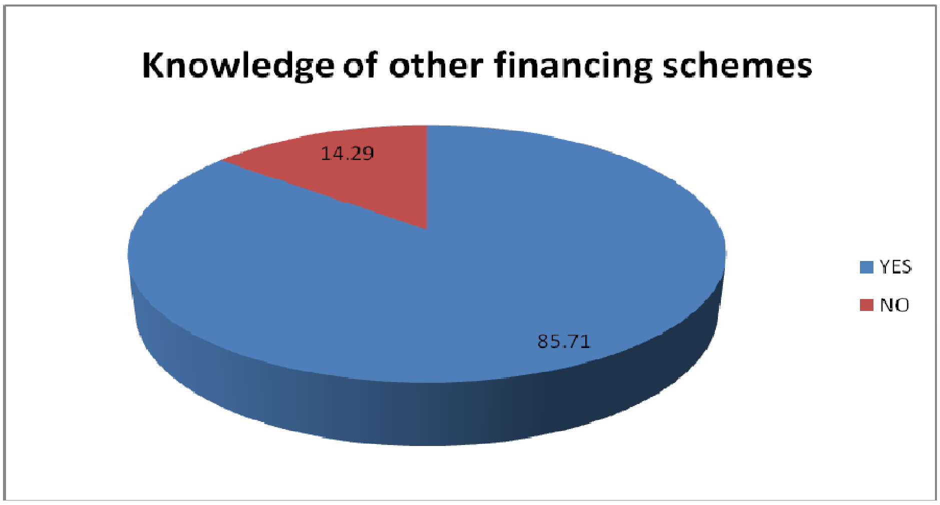

Fig. 5: Knowledge of other financing schemes

Respondents from the retail pharmaceutical industries conclude that they get most of their information from their colleagues in the business (38.1%). The remaining acquires information through advertisement (33.33%) and seminars (19.05%). This is not surprising since persons involved in such business are highly educated and therefore it is easy to share information among themselves.

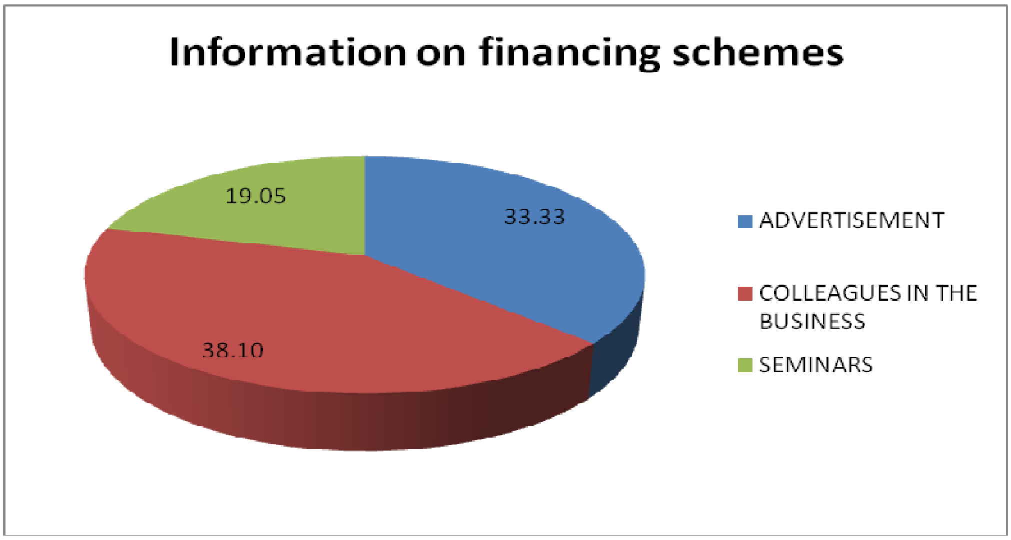

Fig. 6: Source of information on financing schemes

Fig. 7 concludes that aside the commercial banks in Ghana, the other financial schemes they are familiar with are DANIDA, EDIF, EGF, JICA, GIF and TIP. This is not surprising since most of the respondents are educated and therefore getting information is easy for them. The results generally show a very low dependence on these sources of financing.

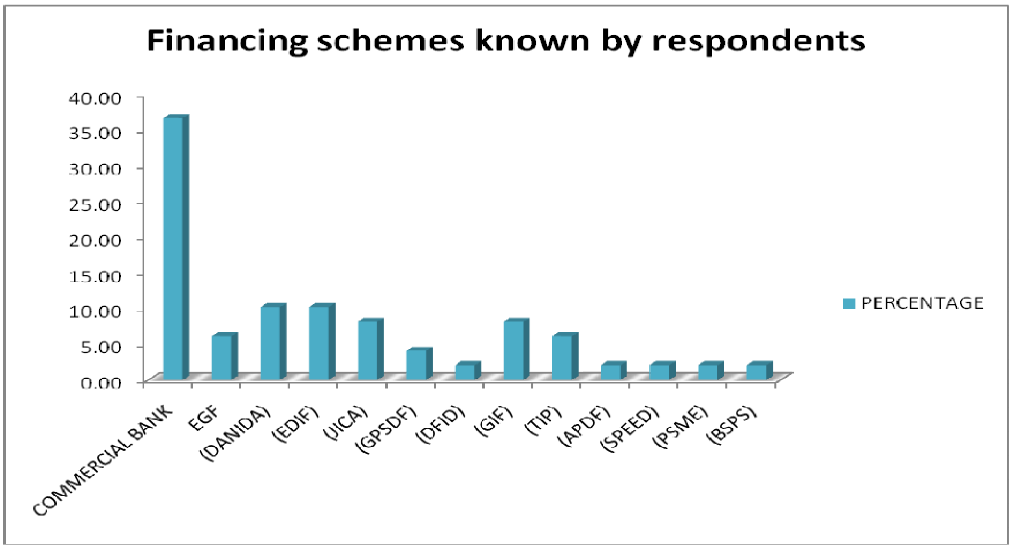

Fig. 7: Financing Schemes known by respondents

The presence of the 'finance gap' is mainly a result of the existence of information asymmetries between finance providers and borrowers. Information asymmetries refer to the disparity between the information available to businesses seeking capital and suppliers of capital who are typically assumed to be at an informational disadvantage with respect to insiders of the business (Stiglitz and Weiss, 1981; Bester, 1987). Privately held firms such as the Pharmaceutical retail shops do not publish the same quantity or quality of financial information that publicly held firms are required to produce. As a result, information on their financial condition, earnings, and earnings prospects may be incomplete or inaccurate. Faced with this type of uncertainty, a lender may deny credit, sometimes to firms that are creditworthy but unable to document it (Coleman, 2000). In a perfect markets setting, with perfect and costless information available to both the small firm (i.e. the agent) and the finance provider (i.e. the principal), and no uncertainties regarding present and future trading conditions, the principal-agent relationship does not suffer from the market failure of information asymmetry. However, information in the real world is neither perfect nor costless, and additionally the small business finance market is characterized by risk and uncertainty regarding future conditions. Information is distributed asymmetrically between the bank or finance provider and the firm (Tucker and Lean, 2003).

Challenges in accessing funds

The challenges faced by the retail SME's in sourcing funds range from governmental issues to private issues (Fig. 12).

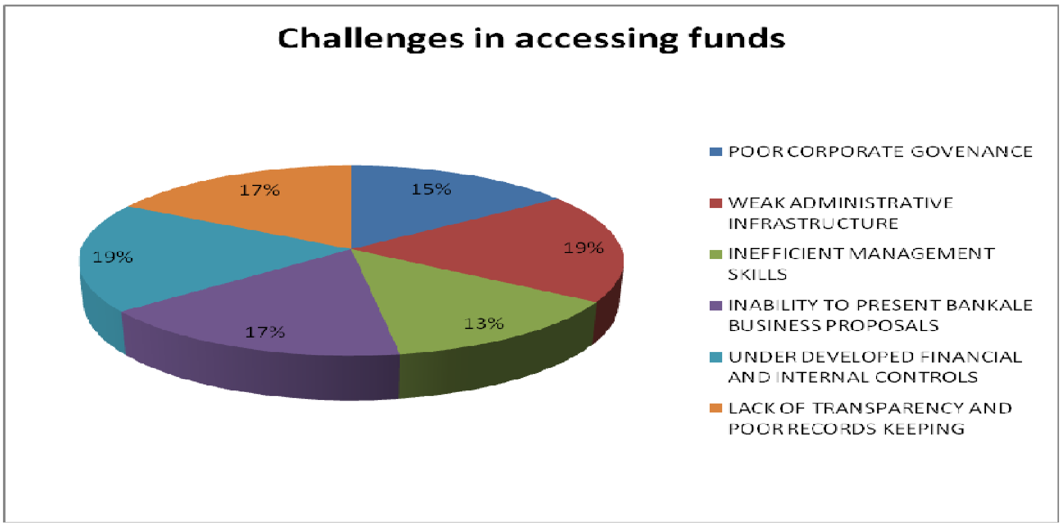

Fig. 12: Challenges in accessing funds

Data from the Social Security & National Insurance Trust (SSNIT) reflects that, by size classifications, the Ghanaian private sector is highly skewed, with 90% of companies employing less than 20 persons, and a small number of large-scale enterprises. A typical profile of this target group is as follows; they are, dominated by one person, with the owner/manager taking all major decisions. The entrepreneur possesses limited formal education, access to and use of new technologies, market information, and access to credit from the banking sector is severely limited. Management skills are weak, thus inhibiting the development of a strategic plan for sustainable growth. This target group experiences extreme working capital volatility. The lack of technical know-how and inability to acquire skills and modern technology impede growth opportunities (SSNIT, 2000). Many non-financial constraints inhibit the success of such enterprises. SME owners are reluctant to be transparent or open up involvement of their businesses to outsiders. They seem to be unaware of or oblivious to the obligations and responsibilities they have toward capital providers, and the need to acquire or seek support for technical services like accounting, management, marketing, strategy development and establishment of business linkages. Management and support services are perceived to be cost prohibitive and non-value adding. SMEs have not taken full advantage of Government-sponsored business support services such as the National Board for Small Scale Industries (NBSSI), which operates in all regional capitals under the Ministry of Trade and Industries and the Ghana Regional Appropriate Technology and Industrial Service (GRATIS), a foundation that provides skill training and basic working capital tools for start-ups.

Reducing the financial gap

Respondents are of the view that when government put good policies into play, the financial gap can be bridged. Another section also believes these firms must be open in their dealings. They need to employ competent persons to manage their accounting and general management of their firms. This when done can be used to bridge the gap.

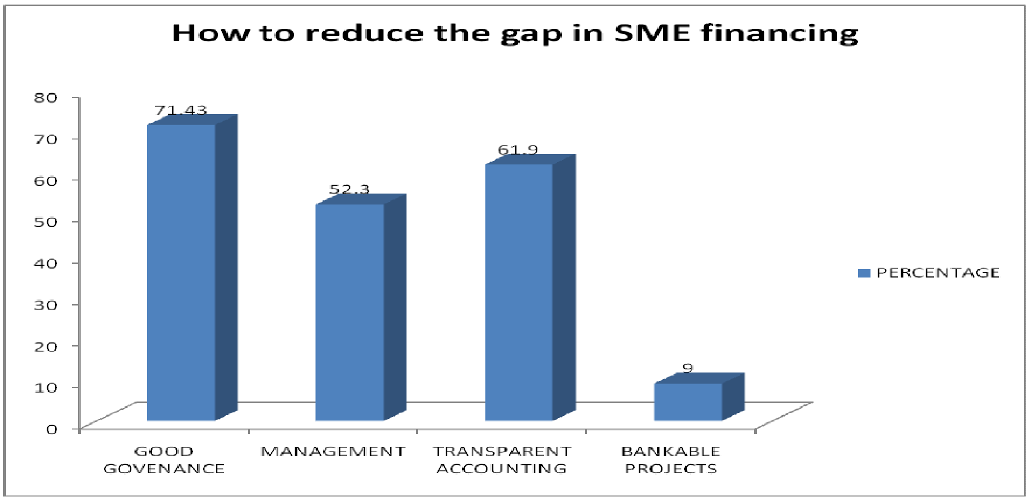

Fig 13: Reducing the financial gap

Policy interventions for the promotion of SMEs have generally had the broad themes which include; Adequate support structure, transfer of appropriate technology, entrepreneurial training and labour skills development, access to sources of funds including reducing collateral requirements, and providing safeguards for the credit delivery system and promoting linkages between large and small industries (Aryeetey, 1994). Based on the above, we start with the cautionary note that access to financing should be seen as only one component of a national SME policy. Without a holistic approach covering the key developmental constraints of SMEs, SME financing schemes implemented in isolation are unlikely to be effective.

Government role in making funds accessible

When funds are made available, companies can be expanded and the level of unemployment reduced. Various reasons have been given by respondents to help in the achievement of this process.

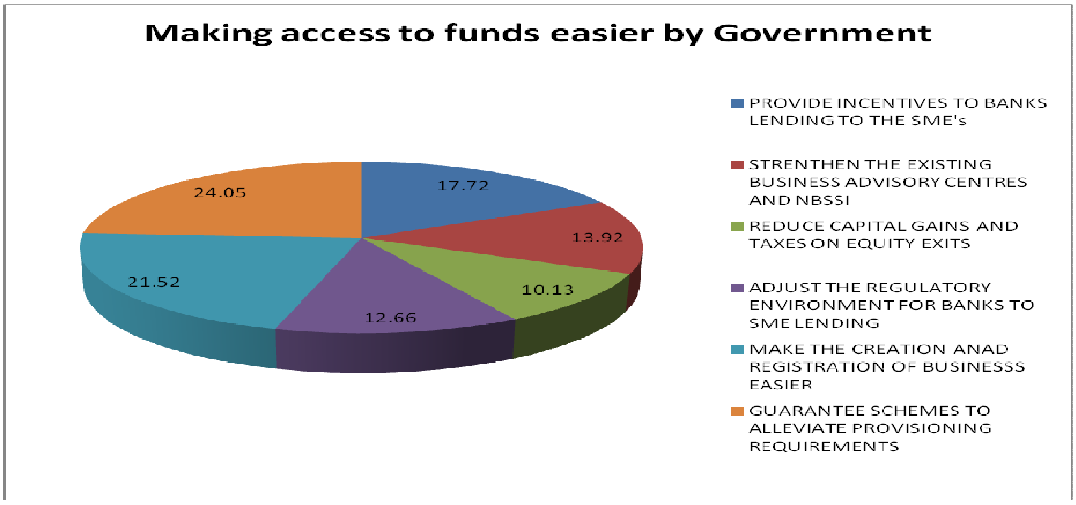

Fig. 14: Government role in making funds accessible

Respondents have concluded from Figure 16 that government can make funds easy to access when they have guaranteed schemes to alleviate provisioning requirements (24.05%), provide incentives to banks lending to the SME's (21.52%) and make the creation and registration of businesses easier (17.72%).

There are many who believe that the single most important factor constraining the growth of the SME sector is the lack of finance. Factors which are adduced for lack of finance include; 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 cost of borrowing and rigidities interest rates. Because of the persistent financing gap, many interventions have been launched by governments and development partners to stimulate the flow of financing to SMEs over and above what is available from exiting private sector financial institutions (Binks and Ennew, 1996). Official schemes are schemes introduced by government, either alone, or with the support of donor agencies to increase the flow of financing to SMEs. Government has in the past attempted to implement a number of such direct lending schemes to SMEs either out of government funds or with funds contracted from donor agencies. These funds were usually managed by the Aid and Debt Management Unit of the Ministry of Finance and Economic Planning. Most of the on-lent facilities were obtained under specific programs with bilateral organizations in support of the Government of Ghana's Economic Recovery Program and Structural Adjustment Program. Examples of such schemes are: Austrian Import Program (1990), Japanese Non-Project Grants (1987-2000) and Canadian Structural Adjustment Fund and Support for Public Expenditure Reforms (SPER) (Boapeah, 1993). In all cases, the funds were designed to assist importers. For example, under the Austrian Import Support Program (AIP), the beneficiaries were to use the facility to procure equipment, machinery, raw materials and related services from Austria. The Export Finance Company, a quasi-public institution was made the sole administrator of the facility. The Japanese and Canadian facilities were similarly designed to support imports from the respective countries. While these schemes were not specifically targeted to SMEs, there were no restrictions with respect to minimum company size and many companies that would fit the SME definition were beneficiaries. The results of the direct lending schemes operated by government have been mixed. For example, under AIP, 20 companies of varying sizes benefited from the scheme. Beneficiaries were given six years made up of a one-year moratorium and a five-year repayment period. Since the loans were disbursed in 1990, the borrowers should have completely liquidated their loans by the end of 1996. However as at December 2001, only 1 out of 20 beneficiaries had fully paid. The results for the Japanese and CIDA schemes were much more encouraging from a recovery perspective because repayments were guaranteed by various financial institutions, although the Government has had to hire 18 debt collectors to recover outstanding indebtedness under both schemes. In addition to donor-supported schemes for direct lending, government has attempted at various times to operate lending schemes for SMEs. The schemes have included the following:

Business Assistance Fund: The Business Assistance Fund was operated in the 1990s to provide direct government lending to the SME sector. The program was widely seen to have been abused politically, with most of the loans going to perceived government supporters.

Ghana Investment Fund: In 2002, the Ghana investment Fund Act (Act 616) was passed to establish a fund to provide for the grant of credit facilities by designated financial institutions to companies. However, the scheme was never implemented.

Export Development and Investment Fund (EDIF): Under this scheme, companies with export programs can borrow up to $500,000 over a five-year period at a subsidized cedi interest rate of 15%. While the scheme is administered through banks, the EDI board maintains

Governments role: Section 13 of the Loans Act of 1970 (Act 335) empowers the Government of Ghana (GoG) to provide government guarantee to any external financiers who wish to advance funds to any Ghanaian organization and the terms of such facility require the provision of guarantee from the Government. Guarantee facilities are contingent liabilities of the Government. The onus for repaying the facility lies with the borrower and not the Government. The facility crystallizes and becomes liability due from GoG if the borrower is unable to honour his/her loan obligation and the Government is called upon to settle the facility as a guarantor. In that case the borrower is required to subsequently reimburse the Government for the amount involved. Although GoG in exercise of the relevant provisions in the Loans Act, has provided guarantees to a number of bilateral and multilateral organizations in the past on behalf of selected Ghanaian organizations in both the private and public sectors of the economy, no targeted SME guarantee facilities has been introduced. A Loan Guarantee Scheme was announced by the Ministry of Trade and Industries in 2001 but was not implemented. Currently, the only government-supported loan guarantee scheme in operation is operated by Exim guaranty Company which is majority-owned by the Bank of Ghana. However, the company's operations are limited by the size of its guarantee fund. Although ¢10 billion was voted in the 2004 budget to augment the guarantee fund, it is small relative to the needs of the SME sector. Perhaps, as a result of the unpleasant experience of direct lending by government in the recent past, more recent donor interventions in SME finance have used exiting financial institutions to channel funds to SMEs. Appendix 1 provides a summary of available credit facilities for SMEs in Ghana. A number of lending programs are undertaken as partnerships between government and donors are listed such as:

- Trade and Investment Program (TIP), operated by USAID and the Ministry of Finance
- Private Enterprise and Export Development Fund (PEED) managed by bank of Ghana but administered through banks.

Increasingly, however, donors have implemented lending programs directly with financial institutions. Examples of such schemes are: Small Business Loan Portfolio Guarantee (USAID) and European Investment Bank Facility. It is generally accepted that the broad goal of SME policy is to accelerate economic growth and in so doing alleviate poverty. While there are many developmental constraints on the SME sector, bridging the financing gap between SMEs and larger enterprises is considered critical to economic growth.

CONCLUSION

In conclusion, the presence of the finance gap is mainly a result of the existence of information asymmetries between finance providers and borrowers. The challenges faced by the retail SME's in sourcing funds include poor corporate governance, weak administrative infrastructure, and lack of transparency and poor record keeping. Policy interventions for the promotion of SMEs to help them gain funds include; Adequate support structure, transfer of appropriate technology, entrepreneurial training and labour skills development, access to sources of funds including reducing collateral requirements, and providing safeguards for the credit delivery system and promoting linkages between large and small industries. When funds are made available, companies can be expanded and the level of unemployment reduced. Various reasons have been given by respondents to help in the achievement of this process. Government should take the lead in financing SMEs, if it believes that over 65% of Ghana's GDP is contributed by the SMEs in the private sector. A national policy for SME including financing strategies should be formulated, implemented and monitored. It is expected that the government should provide resources to create an incentive scheme for financial institutions to make flexible loans available to SMEs in Ghana. The government should also make available enough loanable funds to the institutions set up to help finance the small – scale industries. Again the government should take bold initiative to introduce more financial schemes into the system with appropriate policy objectives. The insurance companies should be actively involved in SME financing by providing credit guarantee for any credit delivery by the formal institutions. The insurance companies must have a sense of partnership with the banks and SMEs in areas of credit insurance and guarantee facilities. Educational workshops and training should be organized by the bank for the SME operators to ensure efficient and effective management of financial resources. Again, lack of knowledge by most industrialists on the activities and requirements of the established institution set up to help finance SME can be eliminated through such education.

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