

The Impacts of Interest Rate Fluctuations on the Growth of Small and Medium Enterprises (SMEs) In Accra

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Abstract *The establishment and the sustenance of SMEs in Ghana is a perennial problem. The owners and managers of the sector believe that they face difficulty in operating in the period of slow economic growth. Despite a whole range of measures introduced over the years from 1993 to date in order to control the interest rate fluctuations by governments for accelerated growth, the country had rather recorded the opposite. This paper investigates the impacts of interest rate fluctuations on the growth of Small and Medium Enterprises in Accra. Lack of government's vision for SMEs sector, limited access to finance, trade liberalization, high collateral demand by banks are some of the challenges facing SMEs. The data used was a balanced data of six SMEs randomly selected. The primary and secondary data were analysed using SPSS and Microfit software respectively, and ARDL technique was also employed, with the application of tables in percentage. The study began with a unit root test. The ARDL technique of co-integration and F-Statistic compared to the critical values indicating a co-integration relationship between EBIT and interest rate and other variables. The results indicate that there is interdependence between the SMEs profitability and interest rate, bank loans and the size of business. The paper recommends the re-introduction of minimum credit allocation by banks, clear-cut policy for the sector and many more.*

Key words Interest rate, SMEs, EBIT, credit, capital structure, collateral security

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1. Introduction

Small and Medium Enterprises (SMEs) play a very vital role in economic development, as a result are often described as efficient and prolific job creators, the seeds of businesses and the fuel of national economic engines. Even in the industrial economies, it is the SME sector rather than the multinationals that is the largest employer of workers (Mullineux, 1997).

Governments at various levels have undertaken many initiatives to promote the growth of SMEs (Feeney and Riding, 1997). Generally, the development of SMEs is seen as accelerating the achievement of wider economic and socio-economic objectives, including poverty alleviation (Cook and Nixon, 2000). Small enterprises in Ghana are said to be a characteristic feature of the production landscape and have been noted to provide about 85% of manufacturing employment in Ghana, and contribute about 70% to Ghana's GDP and account for about 92% of businesses in Ghana (Steel and Webster, 1991). Since independence, the economic system adopted by Ghana was the State-led, for instance, the interest rate is purely determined by the Bank of Ghana. For instance, in 2000 the interest rate was around 40% and growth close to 3% (Bank of Ghana, 2002). In view of the fluctuations of the interest rate, the SMEs were discouraged to take up the challenge to expand and increase productivity leading to the closure of operation, because of their huge financial obligations. Against these backgrounds this study was conducted to appraise the impacts of interest rates and capital of selected SMEs from the economy of Ghana from 2001 to 2008. Focus is on the impacts of interest rates fluctuations on the performance of the SMEs, the use of the fluctuations on the performance of the SMEs and also the accessibility and the use of funds by the SMEs within the period under review.

2. Literature review

The issue of what constitutes a small or medium enterprise is a major concern in the literature. Different authors have usually given different categories of business.

The European Commission (EC) defined SMEs largely in terms of the number of employees - firms with 0-9 employees (micro enterprises); 10-99 employees (small enterprises) and 100-499 employees (medium enterprises). In effect, the EC definitions are based solely on employment rather than a multiplicity of criteria. For instance, the relationship between size and performance matters when assessing the impact of a credit programme on a target group (Storey, 1994). 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 and Quartey, 2000). 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. The National Board for Small Scale Industries (NBSSI) defines a small-scale enterprise as a firm with not more than 9 workers and has plant and machinery (excluding land, building and vehicles) not exceeding 10 million Ghanaian Cedis, and it is this definition that has been adopted and used in the course of the study.

The taxation of businesses in Ghana, according to a study by Afful *et al.* (1997), there is hardly any uniformity in the rates applied; the rates are seldom predictable, thus making SMEs extremely insecure. NBSSI reported that the commonest complaints during their study were the perceived notion of overburdening of taxes. An example cited in the study is the operational fees for mining in the Wassa West District in the Western Region is ₵500,000 while the maximum fees for other industrial activities in Sekondi-Takoradi is ₵180,000 which is almost twice as much as Tamale's maximum figure of ₵100,000. The small scale manufacturers in Ashanti and Western Regions are not charged registration fees but those in Tamale are charged ₵2,000 in addition to the operational fees. Property rate on industrial buildings are 75% in Kumasi and 80% in Tamale.

According to Amonoo *et al.* (2003), interest rate is the premium received by the lender after a stated period of time. From the borrower's point of view, it is the cost of capital at the time of obtaining a loan. Interest rates affect businesses in three significant ways; firstly, rising interest rates increases the total price customers pay that use credits for product and services, therefore, as the interest rate increases the demand for products is likely to decrease. Secondly, most businesses borrow funds to finance their daily business transactions. Therefore managers must raise prices of the product to cover the cost of doing business or accept low profit. The third effect of interest rate is on the expansion of a business, and since the firm must sometimes finance new equipment with credits, interest is of great concern to the manager. Therefore, lower interest rates may mean that it is a good time for the business and a higher interest rate will make a manager consider delaying expansion until the cost of borrowing decreases. In the period of rising and falling interest rate, there is a shift in the demand for and the supply of loanable funds, respectively. Demand decreases periodically where large number of business decides to borrow to finance expansion of their operation leading to a rise in the interest rate. Demand also falls after businesses complete their expansion or if they experience widespread of decline in the sales of final goods and services.

The trade liberalization policies of the 1980s and even later exposed many SMEs to greater external competition than they were used to or could cope with. With this, tailors in Techiman who used to make several pairs of trousers in a month went without any orders with the coming into effect of trade liberalization, coupled with limited international marketing experience, poor quality control, product standardization and little access to international partners. Other constraints to SMEs development include the lack of protection for property rights, limited SMEs' access to foreign technologies, access to land, utility installation and services, high import duties, and licensing and registration.

3. Methodology of research

The Greater Accra Region is the smallest of Ghana's 10 administrative regions in terms of area, occupying a total land surface of 3,245km², with a population of 2,905,726, and also harbours the seat of government in the capital city of Ghana.

Though there has been scarce and no readily available data on SMEs in Ghana, statistics from the Registrar General's Department suggests that 92% of companies registered are micro, small and medium enterprises. The target population of interest for this study is small and medium scale enterprises in Ghana, with the focus on those in Accra.

Out of the total number of SMEs in Accra, six (6) SMEs were selected from Okaishie, Dansoman, Accra-Newtown, Abossey Okai, Opera Square and Accra CMB. Sampling for the SME sector in Ghana was undertaken by using random sampling technique. The survey covered enterprises operating from fixed premises and employing from 5 to 99 employees and used six sector codes namely; (i) Trading (ii) Manufacturing (iii) Education (iv) Finance (v) Retailing and (vi) Agricultural activity.

The study which is a mixed research depended largely on both secondary and primary data. The primary data was collected using a set of questionnaires; designed to capture information of respondents and the impact of interest rates on the performance of SME, and was administered to a sample of small and medium scale enterprises in the various categories; this was analyzed using Statistical Package for Social Sciences (SPSS) while the secondary data was sourced from the library, journal and publication materials obtained from the Statistical Services Department, Bank of Ghana Annual Reports, Board on Small Scale Enterprises, Association of Ghana Industries (AGI) and annual financial statements of the Small and Medium Enterprises studied for the eight (8) years, thus from 2001-2008.

3.1. Theoretical Model

From the theory reviewed, the theoretical model is specified as:

$$SMES(EBIT_i) = \beta_0 + \beta_1(INTR_i) + \beta_2(LOAN_i) + \beta_3(FA_i) + \varepsilon_i \quad (0)$$

Where $i = 1, 2, 3 \dots \dots 32$

Where, EBIT = Earnings Before Interest and Tax, INTR = Interest Rate, LOAN = Capital Structure and FA = Size of the Business $\beta_0, \beta_1, \beta_2$ and β_3 , are constants with ε as the error term. Earnings before Interest and Tax (EBIT) = (EBIT for the 8 years period), Interest Rates = (Interest Rates for the 8 years period), Capital Structure = (the loan taken by SMEs for the 8 years period), Size = (Growth in fixed assets of SMEs for the 8 years period). $\beta_0, \beta_1, \beta_2$ and β_3 are constants with ε as the error term.

3.2. Empirical Model

There are several techniques to verify the relationship in time series analysis. The major objective of the study is to verify if interest rate fluctuations affect corporate earnings. Thus the method selected should seek to expose the relationship between both the long and the short run. The study thus employs the Auto Regressive Distributed Lag (ARDL) technique of co-integration. This method is selected for two key reasons - the data generating process is unknown thus the data may be trended and integrated of different orders and that the sample period is quite small.

In both situations, the ARDL technique (Pesaran *et al.*, 2001) performs better than other techniques.

The study further estimates an ARDL equation to find out whether or not the variables co-move in the long run (are co-integrated). This equation (1) is given as:

$$LEBIT = \beta_0 + \beta_1 T + \beta_2 \sum_{t-i}^n LEBIT_{t-i} + \beta_3 \sum_{t-i}^n LINT_{t-i} + \beta_4 \sum_{t-i}^n LFA_{t-i} + \beta_5 \sum_{t-i}^n LLOAN_{t-i} + \beta_6 LEBIT_{t-1} + \beta_7 LINT_{t-1} + \beta_8 LFA_{t-1} + \beta_9 LLOAN_{t-1} + \varepsilon \quad (1)$$

The study further estimates the equation below to arrive at the long run parameter. Equation (2) is given as:

$$LEBIT = \beta_{21} LEBIT_{t-1} + \beta_{22} INT_{t-1} + \beta_{23} LFA_{t-1} + \beta_{24} LLOAN_{t-1} + \varepsilon \quad (2)$$

Another equation was also estimated to find the short run dynamics and the speed of adjustment back to equilibrium. This equation (3) is stated as:

$$LEBIT = \beta_{11} \sum_{t-i}^n LEBIT_{t-i} + \beta_{12} \sum_{t-i}^n LINT_{t-i} + \beta_{13} \sum_{t-i}^n LFA_{t-i} + \beta_{14} \sum_{t-i}^n LLOAN_{t-i} + ECT_{t-1} + \varepsilon \quad (3)$$

4. Results and discussions

This presents the analysis of data in percentage in a tabular form.

Percentage Results

Table 1. Location of Business

RESPONSE	FREQUENCY	PERCENTAGE (%)
Okaishie	1	16.7
Dansoman	1	16.7
Accra-Newtown	1	16.7
AboseyOkai	1	16.7
Opera Square	1	16.7
Accra CMB	1	16.7
Total	6	100

Source: Field Data

The table above looks at the various locations of SME business operations in Accra, the hub of business activity in Ghana. These areas like Okaishie, Dansoman, Accra-Newtown, Abossey Okai, Opera Square and Accra CMB were noted as centres of SME activities in Ghana. Perhaps this may be due to the background of the residence of these areas - some of them are middle class people.

Table 2. Scale of Business

RESPONSE	FREQUENCY	PERCENTAGE (%)
Small	2	33.3
Medium	4	66.7
Total	6	100

Source: Field Data

It was further revealed in the above table that majority of the businesses interviewed could be said to be medium scale. This could be contrary to some assumptions that majority of Ghanaians are into small business. Although there is not enough evidence about the start-up capital of these businesses, there were admissions of loan contracts from the banks. It could be concluded that these loans may have impacted positively on the growth of these businesses thereby lifting them from small scale activities to medium scale ones and still growing.

Table 3. Type of Business or Economic Interest

RESPONSE	FREQUENCY	PERCENTAGE (%)
Trading	1	16.7
Manufacturing	1	16.7
Education	1	16.7
Finance	1	16.7
Retailing	1	16.7
Agriculture	1	16.7
Total	6	100

Source: Field Data

Again it must be seen from the perspective that contrary to the popular notion that Ghanaians prefer *buying and selling* ventures to any other form of business, there is overwhelming evidence that suggests that some other business ventures are equally liked and practiced by Ghanaian residents. Moreover, 16.7% were into manufacturing of certain products largely for the domestic market, while 16.7% were into trading, which we may classify as buying and selling. Another 16.7% were into private school business or

education while 16.7% also were into finance, or savings and loans business, an evidence of small/medium scale activities all over.

Table 4. Educational Attainment of Respondents

RESPONSE	FREQUENCY	PERCENTAGE (%)
Middle School/JHS	1	16.7
SSCE	1	16.7
Technical/Vocational	2	33.3
Degree	1	16.7
Postgraduate	1	16.7
Total	6	100

Source: Field Data

Even though there is the view that the SME sector is dominated by people with no or very little formal educational background, it has been found out that there are people with all kinds of educational attainments - postgraduate, degree, SSCE and technical/vocational are in the field. Like several other sectors of our economy that is seeing growth in the educational attainment of operators, the SME sector is equally undergoing educational revolution and must be respected as such by all stakeholders operating in the field of SME. This also calls for some policy changes as well as financial arrangements and training; such as workshops, seminars, symposia, conferences etc. in the field. There was a 50% distribution of each gender; the significance of this is that the sector may not have been dominated by any particular gender group despite the visible presence of women largely in the area of buying and selling because of its convenience.

Table 5. Loan Acquisition

RESPONSE	FREQUENCY	PERCENTAGE (%)
Yes	6	100
Total	6	100

Source: Field Data

Generally, all the respondents, 100%, agreed that they had ever contracted banks for loan before in the name of their businesses. This is an indication that capital is very vital and helpful for the sustenance of SMEs. This brings to mind policies that needed to be formulated to ensure credit allocation to the sector, as agriculture sector is the priority of the State to the extent that a percentage of the national budget is allocated for agriculture sector yearly (GOG Budget, 2015). To find out whether they had ever contracted for loan, it was revealed by the respondents that banks such as the Stanbic Bank, ADB, UT Bank, Barclays Bank, SG-SSB, Unibank and ProCredit have been their main lending banks especially in recent times.

Table 6. Amount of Loan Approved

RESPONSE (GH ₵)	FREQUENCY	PERCENTAGE (%)
1000-4000	2	33.3
5000-9000	2	33.3
10000-14000	1	16.7
Over 14000	1	16.7
Total	6	100

Source: Field Data

Surprisingly, relating to the amount of loan approved all the respondents were given up to one hundred percent of what they had applied for. This could be associated to the fact that though banks have some degree of confidence in the amortization of the credit by the SMEs, the high demand for collateral is

a major obstacle. This may be due to trust, credible collateral guarantee and a thorough assessment of profit worthiness.

Table 7. Timing of Granting the Loan Request

RESPONSE	FREQUENCY	PERCENTAGE (%)
Yes	2	33.3
No	4	66.7
Total	6	100

Source: Field Data

Although there was a balanced view between satisfied and dissatisfied applicants in terms of the loans, 66.7% complained that their banks delayed unnecessarily in granting their loan request. Only 33.3% spoke in favour of the banks when it came to the time of approving loan requests. Some banks also expressed mixed opinions of the fact that due diligence had to be done before approving the loan, especially when it comes to eligibility assessment. On duration of granting the loan, 33.3% said it took their banks less than a month to have their applications approved, whilst 66.7% said it took their banks between one and two months to approve their loan requests. Respondents response on the duration of delay of granting the loan indicated that this often put their plans off gear as they were unable to meet their target of buying new stocks, paying for goods and services as well as doing any effective planning. With the uses of the loan, all these sentiments notwithstanding, fifty percent (50%) of respondents agreed that bank loans assisted them in fixed assets acquisition, raw material purchases and reinvestments into other portfolios, whilst another fifty percent also said banks had aided them to increase the capital base of their respective businesses.

Table 8. Loan Repayments

RESPONSE (GH ₵) and (%)	FREQUENCY	PERCENTAGE (%)
8000 (100%)	1	16.7
4000 (100%)	1	16.7
10000 (83%)	1	16.7
9000 (100%)	1	16.7
7000 (100%)	1	16.7
4000 (100%)	1	16.7
Total	6	100

Source: Field Data

It was revealed by one hundred percent of the respondents that they had paid in full various amounts of monies they owed their bankers except one customer with less than a year to make full payment. Generally, since everyone was able to make repayments to the banks, no one was able to assign any specific issues that may have prevented him from paying back loans. This and more they said was targeted towards wiping-off the assertion that SMEs have high defaulting rate, and also meant to boost the confidence of the banks in the sector in granting and approving credits. It was also agreed by 66.7% of the respondents that monitoring in the form of visitations often took place on quarterly basis, whilst 16.7% receives yearly visits from the banks. Another 16.7% receives monthly visits from the bank officials. It is a fact that such visits put SME business owners and operators on their toes. It was also observed that the frequent visitation by bank officials reduces the default rate in loan repayment to the barest minimum. Again, such visits also deepen very cordial relations and friendship between the SMEs and the banks since they are working in each other's interest. This perhaps may have accounted for the regularity at which most respondents had paid their loans to the banks.

3.3. Regression Results in Tables

Unit Root Test

The study began by conducting a unit root test on the selected variables to establish that none of the variables are integrated of order higher than unity. This is very important since Outtara (2004) contends

that if variables used in an ARDL model are integrated of order higher than one, the results turn to be spurious. Table 9 shows the results from the unit root test using the ADF test and the PP as a confirmatory test.

Table 9. Unit Root Result

Variable	ADF Test (order of integration)	PP (order of integration)
LEBIT	I (0)	I (0)
LFA	I (0)	I (0)
LINT	I (1)	I (0)
LLOAN	I (0)	I (0)

The results indicate that the variables are all integrated of order equal or less than unity, thus these variables can be conveniently used in the ARDL formulation as proposed by Pesaran and Pesaran (1997), Pesaran and Shin (2001) and Pesaran *et al.* (1996).

Co-Integration Analysis

The study then proceeded to calculate the F-Statistic to which will be compared to the critical values in order to judge if the selected variables are co-integrated. The ARDL equation stated in equation (1) estimated and the F-Statistic is obtained and compared to the critical values tabulated by Pesaran *et al.* (2001). Table 10 shows the co-integration result.

Table 10. Critical Values

CALCULATED F-STATISTIC	k (NO. OF REGRESSORS)	UPPER BOUND CRITICAL VALUES		
		1%	5%	10%
20.1611***	3	5.3	3.63	3.1

***Rejection of the null hypothesis at 1% level;

**Rejection of the null hypothesis at 5% level,

*Rejection of the null hypothesis at 10% level.

The results indicated that the calculated F-Statistic is greater than the critical values at all convectional levels thus there is an indication of a co-integration relationship between earnings of firms proxied by EBIT and the interest rate and the rest of the variables. The critical values used here are for test values where there is no trend and intercept in the model. The study chose this set of values because the order of integrations obtained above is without trend and intercept.

Long-Run and Short-Run Dynamics

The study used an ARDL (4, 1, 0, 1) model selected based on the Schwarz Bayesian Criteria (SBC) to estimate both the short-run and the long-run parameters. The speed of adjustment was also derived in this stage.

Long-Run Estimates

The study estimated equation (2) to derive the long-run parameters which can be used to judge how the capital structure of a firm (proxied by amount of loans), the interest rate (INTEREST) and the amount of fixed assets held by a firm (FA) influence the earnings of the firm (EBIT) in the long-run. Consider Table 11 for these results.

Table 11. Long-Run Estimates

VARIABLE	COEFFICIENT	STANDARD ERROR	T-RATIO (PROBABILITY)
LFA	-0.11619	0.16001	-0.72613[.477]
LINTEREST	1.1343**	0.40542	2.7979[.012]
LLOAN	0.65953***	0.10177	6.4807[.000]
DIAGNOSTIC TEST			

TEST STATISTICS	LM VERSION	F-VERSION
SERIAL CORRELATION	QHSQ(4)= 15.9106[0.003]	F(4, 5)= 1.7934[0.267]
FUNCTIONAL FORM	QHSQ(1)= 1.3168[0.251]	F(1, 8)= 0.41016[0.540]
NORMALITY	QHSQ(2)= 0.087076[0.957]	N/A
HETEROSCEDASTICITY	QHSQ(1)= 1.4120[0.235]	F(1, 25)= 1.3796[0.251]

***Rejection of the null hypothesis at 1% level; **Rejection of the null hypothesis at 5% level; *Rejection of the null hypothesis at 10% level.

The first part of the table gives estimates of the regression coefficients, the standard error of the regression and the T-ratio (with their respective probabilities). The second part contains a variety of residual diagnostic statistics (such as the LM-statistic for serial correlation, a test for functional form, normality and heteroscedasticity). The test passed all the diagnostic tests except serial correlation; however, the ARDL technique is known to correct autocorrelation between the variables, so the process of serial correlation does not affect the estimates (Pesaran and Pesaran, 1997).

The results show that only the interest rate and the capital structure, proxied by loans are relevant in explaining changes in the earning of the firm in the long-run. The amount of fixed assets held by a firm does not influence the firm's earnings in the long-run. Both the interest rate and the capital structure exert positive influence on the earning of the firm.

Short-Run Estimates

The study derives the estimates of equation (3). This is the short-run coefficients showing the influence of lagged values of earnings, the size of the firm, the interest rate and the capital structure on earnings of the firm. Table 12 shows the estimates.

Table 12. Short-Run Estimates

VARIABLE	COEFFICIENT	STANDARD ERROR	T-RATIO (PROBABILITY)
DLEBIT 1	0.21694***	0.077594	2.7958[.011]
DLEBIT 2	0.22380***	0.082844	2.7015[.014]
DLEBIT 3	0.31393***	0.097731	3.2122[.004]
DLFA	0.22352**	0.09231	-2.4214[.025]
DLINTEREST	-0.39646***	0.091113	4.3512[.000]
DLLOAN	2.3494***	0.22759	10.3232[.000]
ecm (-1)	-0.34951***	0.090237	-3.8732[.001]
ecm= LEBIT + .11619LFA -1.1343LINTEREST -0.65953LLOAN			
R-SQUARED	0.92110	ADJUSTED R-SQUARED	0.88604
STANDARD ERROR OF REGRESSION	0.048224	F STATISTIC (6, 20)	35.0248[0.000]
MEAN OF DEPENDENT VARIABLE	-0.042126	S.D OF DEPENDENT VARIABLE	0.14285
RESIDUAL SUM SQUARED	0.041861	EQUATION LOG LIKELIHOOD	49.0234
AIC	40.0234	SBC	34.1922
DW	1.5317		

***Rejection of the null hypothesis at 1% level; **Rejection of the null hypothesis at 5% level; *Rejection of the null hypothesis at 10% level.

The study indicated that in the short-run, three lags of EBIT, a proxy for earnings, the firm size (FA), the capital structure (LOAN) and interest rate (INTEREST) are all significant in explaining changes in the earnings of firms in the short-run. The three lags of the EBIT positively influenced current earnings. This shows that firms' performance depends on their previous performance. This is logical since an increase in current earnings implies a higher plough back profit for firms which in all things being equal, is expected to generate a positive ripple effect.

It was also found that in the short-run, the FA a proxy for the size of the firm negatively influenced the earnings of the firm. Even though it is believed that the bigger the firm's assets the higher its earnings but economic theory suggests that for this relationship to be true depends on how these assets are combined and the stage of the production cycle in which the firm is operating. Thus, the negative relationship could be an indication that the marginal product of the firms are negative, thus, the firm operating in a region where there is a decreasing return to factor inputs.

The study again indicated that there is a positive relationship between interest rates and earnings of firm. Theory has a negative relationship between these two variables but the study contradicts theory and found otherwise. The reason for this contradiction is that most firms in Ghana often pass increased interest rates to the final consumers in form of proportionally higher prices, thus even getting higher profit level. This positive relationship is however, in supports of (Olutunla and Obamuyi, 2008) who found out that the interest variable, although statistically significant, had a positive relationship with profitability of SMEs. This implies that the profits of SMEs tend to increase with increasing rate of interest.

That the more debt a firm has in its capital structure, the more earnings the firm makes. This can be looked at from the view point that the tax shield freed for investment by taking on debt outweighs the interest paid on the debt. Thus, debt and earning are positively related which is in line with (Olutunla and Obamuyi, 2008) who found out that bank loan is positively related to firm's profitability and that profits of SMEs tend to increase with increasing amount of loans.

5. Conclusions and recommendations

5.1. Conclusions

The results demonstrate that the interdependence between the SMEs profitability and interest rate, bank loans and the size of business is paramount. A positive relationship between profitability and interest rate, as well as the capital structure but a negative relationship with the size of the business. For high profitability, high interest rates with more loans but low growth in size of business remain important.

Both the banks and the SMEs need each other. SMEs play an important role in the development of the Ghanaian economy. However, their level of growth is often hampered by the limited access to finance among other factors. The results reveal that there is significant relationship between the SMEs EBIT and interest rate, bank loans and the size of business. It is significant to observe that empirically investigation shows that high EBIT goes with high interest rates and high loans in take but low growth in size of business.

The difficulties SMEs often face in accessing these funds include: lack of securable assets, lack of knowledge by finance providers about the nature of respondents business, stringent eligibility criteria, lack of knowledge about lending criteria, difficulty in finding out about available finance, high interest rates on loans and bureaucracy. These really limit SMEs' ability to access funds for their operations.

5.2. Recommendations

In the light of the above findings, the paper recommends that the government should formulate policies that will compel commercial banks to relax their restrictive regulations and operations which discourage borrowing, and offer more credit facilities to SMEs.

Moreover, the government should empower the SMEs to access and get credits from the commercial banks through formal and informal entrepreneurship education for SMEs to develop their managerial capabilities and be more creditworthy. Certificates of attendance obtained from such trainings should be made a prerequisite to obtain loans.

The Government should re-introduce and enforce the mandatory minimum credit allocation by banks to SMEs in the Annual Monetary Policy Circular and Guidelines. In addition, policy actions should include better information provision regarding the various sources of finance. This could involve the financing initiatives, pursuing a more aggressive and continuous marketing communication campaign to inform SMEs of the various financing schemes available to the sector. Eligibility criteria should be made a bit more flexible to enable more SMEs to qualify for access to their funds. Evaluation of applicants proposals could be done by qualified consultants affiliated to these schemes and the banks should rather be appointed as managers of the loan facilities for a fee, in that case, government bears the credit risk. This could further expedite processes and give applicants a better chance of accessing these facilities.

Finally, there could also be policies aimed at encouraging SMEs to access public equity capital through the reduction of listing requirements and subsidizing floating cost. These policy prescriptions could go a long way to improve Ghanaian SMEs' sector to long-term financing to spur up growth.

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