

FACTORS AFFECTING ACCESS TO EXTERNAL FINANCING FOR SMALL AND MEDIUM-SIZED ENTERPRISES IN GHANA.

NAME: Emmanuel Nii Armah Tackie.

Abstract

Acquisition of capital remains the biggest challenge facing Small and Medium Sized Enterprises (SMEs) in Ghana. The over reliance of internal capital makes it difficult for SMEs to expand. It is for this reason that the study sought to find out the factors affecting access to external financing for SMEs in Ghana. The research further assessed the moderating role of regulatory policies of the government in helping SMEs to get easy access to external financing. A quantitative approach was adopted for this study by using explanatory research design. A sample of six (600) employees and stakeholders of SMEs were targeted randomly for the study. A case study was conducted with an SME to understand the results in their perspective. The quantitative data was analysed using the Statistical Package for Social Sciences (SPSS) Program to generate descriptive and inferential statistics. A total of 12 hypotheses were tested, out of which 6 were supported. Findings from the regression analysis showed that terms and conditions, information asymmetry, documentation and collateral, and internal business risk were significant predictors of access to external financing, while government regulatory policies moderated three of the variables, namely information asymmetry, cost of capital and documentation and collateral. The research recommended, among other things, that government should create the right environment to enhance the capacity of local banks and other financial providers to grant loans for SMEs. The study recommends that there should not be over-emphasis on banks. There is the need to explore other avenues such as the Micro-finance and Small Loans Centre (MASLOC), Ghana Venture Capital Trust Funds and other non-bank financial institutions to access loans and other financial support. Finally, the study recommends to other researchers to delve into the possible causes of the insignificant relationship between cost of credit and access to external capital as well as the relationship between external business risk and access to external financing.

Keywords: External financing, SMEs, Cost of capital, Information asymmetry, Documentation and collateral.