Collins Peprah

CHALLENGES SMEs FACE IN ACQUIRING LOANS FROM BANKS

A Comparative Study between Finland and Ghana

Thesis
CENTRIA UNIVERSITY OF APPLIED SCIENCES
Degree Programme in Business Management
April 2016

Small and Medium-sized Enterprises make significant contribution to the socio-economic and political infrastructure of developed and developing countries. The ability of SMEs to develop, grow, sustain and strengthen themselves is heavily dependent on their capacity to access and manage finance. The ability to access finance is a major factor affecting the growth and success of SMEs. Many businesses face a lot of challenges acquiring loans from banks and SMEs are the most affected. This thesis reviews the debt options available to SMEs, the determining factors banks consider before granting loans to SMEs and make comparative analysis of the challenges SMEs face in accessing bank loans between Finland and Ghana, and recommend solutions in averting the challenges.

The findings of the thesis shows that banks in general perceive SMEs to have high credit risk as compared to big corporations. Banks consider managerial character, capacity, environmental condition and collateral guarantee before making loan decisions. Banks in Ghana are strict on the collateral guarantee due to the high risk of loan default by their SME customers. Poor business proposal/plan, unprofitable investment decisions, unfavorable governmental economic policies and insufficient collateral are some of the challenges SMEs face in accessing bank loans. Information asymmetry and high interest rate are unique loan challenges for SMEs accessing loans from Ghana. Low interest which makes loans unprofitable to banks in Euro Area is also specific challenge to Finnish SMEs.

Recommendations such as managerial skills workshops for SMEs, favorable economic and monetary policies and governmental support are suggested to avert some of the challenges the SMEs face in accessing loans.

ABSTRACT
TABLE OF CONTENTS

TABLES

GRAPHS

1. INTRODUCTION

Small and Medium-sized Enterprises make significant contribution to the socio-economic and political infrastructure of developed and developing countries. Vibrant and expanding SMEs sector is very important for continual competitive advantage and economic growth for nations. (Berger and Udell 2006.)

In the current corporate environment, every organization with the goal of maximizing profit and minimizing losses require some kind of financing to enable it to increase the value of the owners' investment. Financing in this context is the funds or capital raised by investors or lenders into a business to effectively conduct its activities to achieve its goal (Farlex 2003). Berger and Udell (2006) suggested that transactional returns of SMEs do not adequately meet their financial needs. The ability of SMEs to develop, grow, sustain and strengthen themselves is heavily dependent on their capacity to access and manage finance. One of the most reliable means for businesses especially Small and Medium-sized Enterprises to raise capital to achieve their goals is through bank loans. (Moro, Fink, and Kautonen 2014).

The ability to access finance is a major factor affecting the growth and success of SMEs. Thus, the availability of sufficient access to finance ensures the ability of SMEs contribution to the economic growth of a country. Many businesses face a lot of challenges acquiring loans from banks and SMEs are the most affected (Moro et al. 2014). This is not just because banks are not ready to grant loans to SMEs, there are a lot of factors that limit the readiness of banks to grant loans to SMEs to help them grow their businesses (Abor and Biekpe 2005).

Earlier studies suggest that Banks and other financial institutions find it difficult to acquire information from SMEs to assist them in assessing their businesses before granting loans to them (McMahon and Holmes 1991; Mason and Stark 2004). SMEs in different economies (developed and developing markets) confront varying challenges in acquiring loans from lending institutions.

The purpose of this research is to study the factors that make it difficult for SMEs obtain loans from Banks. What do banks expect from the SMEs before granting loans to them? What risk do banks consider in the markets before granting loans? Make the comparison and contrast the mechanisms banks use in the different markets (developed and developing markets) in granting loans to SMEs. Also, the study will base on its findings gathered to recommend possible solutions that will reduce or eliminate the challenges SMEs and Banks in transacting loan facilities. This thesis will focus on studying the challenges SMEs face in obtaining loans from banks in different markets and what banks in different markets consider in granting loans to SMEs.

The research is conducted basically on interviews. The choice of qualitative research method is because of the nature of this research topic. The interviews provide the researcher the opportunity to ask to follow up questions based on the topic to get clarity of the responses given by the respondents. The purpose of this research is not to accept or reject a hypothesis but to understand the research subject from the perceptive of the respondents. The theories and concepts that are reviewed are the bases on which the main research is conducted. Corporate Finance is a topic and research on a branch of the topic needs theoretical conceptualization through literature review on concepts, theories related to the studies to form the framework of the research. The second part of the research is the interviews on which the two selected banks from the different markets is examined to evaluate the challenges confronting the SMEs in accessing loans from banks. The interview method is used for this research because it gives an accurate data from the sources on which the research is conducted. It will reduce speculations on the research topic and draw more precise conclusions and recommendations of the topic.

2. CORPORATE FINANCE

Enterprises whether small, medium or large make decisions that affect their daily busi-
ness activities and finance. The term Corporate Finance is one of the most complex
subjects in the business environment. There are numerous definitions that try to ex-
plain corporate Finance. These difference vary across the world. Brooks (2013, 5)
defines corporate Finance as "set of financial activities that support the operations of
a corporation or business, its use of money, and those decisions that affect the wealth
of the owners." These financial activities have the sole aim of maximizing owner's
returns on investments and minimize losses (risk management).

Firms make numerous decisions. Decisions and strategies made by firms to have fi-
nancial implication on the business are said to be corporate finance decisions. The
expansion and growth of firms are dependent on their ability to identify their financial
needs, make decisions on the best option available for financing and make the right
capital investment to maximize profit. One of the most challenging financial decision
facing businesses especially SMEs is the choice between debt and equity investment
(Glen and Pinto 1994).

The decision of a firm's financial structure is very important because such decisions
gives the firm an edge to be competitive in the market and maximize returns on all the
departments of the firm (Abor and Biekpe 2005). Corporate finance is very important
to assist firms choose the right financial portfolio to maximize returns on owners in-
vestment and ensure the growth of the firm (Abor 2007).

2.1 Small and Medium-sized Enterprises (SMEs)

Small and Medium-sized Enterprises (SMEs) are one of the major contributors of global economic growth and job creation. They are viewed as the backbone of the economic development for both developed and developing countries (Abor 2007). SMEs constitute about 90% of all businesses in the European Union communities (European Union 2003). Similarly, in the developing countries, due to the lack of large firms, it has made SMEs the main engine for the needed economic growth and development (Floyd and McManus 2005).

Although Small and Medium–sized Enterprises play a vital role in every countries economic growth and development, there is no generally accepted definition for SMEs. Different countries, agencies and institutions have defined SMEs differently to suite their own concepts and operations. Authorities and scholars of this subject defines SME on the basis of size of business, capital assets, working capital, number of employees and turnover. Among these definitions (World Bank, International Monetary Fund (IMF), African Development Bank (AFDB), Asian Development Bank, European Union (EU) and many others) the most widely used is the European Union definition (Gibson and Vart 2008). The EU defines SMEs in terms of employee size, turnover and/or total balance sheet (European Union 2003).

TABLE 1. European Union Definition of SMEs (European Union 2003)

Company Category	Staff headcount	Turnover	or	Balance sheet total
Medium-sized	<250	≤ € 50 m		≤ € 43 m
Small	<50	≤ € 10 m		≤ € 10 m
Micro	<10	≤ € 2 m		≤ € 2 m

Notwithstanding the economic importance of SMEs in providing employment, technology, innovation and supporting economic growth and development, they face a lot of difficulties in accessing the needed finance for growth (Pissarides 1999). Bank financing is very critical for supporting the growth SMEs need but banks are hesitant in granting loans to SMEs in sustaining their development (Wonghimpiyarat 2015). This problem leads to untimely liquation of most SMEs.

2.2. Capital Structure

When a firm chooses the line of business and product mix, it is very important to raise funds for the business activities. The selection of where to raise funds for business operations can be classified as Capital Structure (Brooks 2013). Abor (2007) defines capital structure as the definite mixture of debt and equity that a firm uses to finance it business activities. Firms' capital structure decisions are highly influenced by its growth opportunities (Myers 1977) and also the environment (economy, stock market, size of the banking sector, etc.) in which the firm is operating (Autoniou, Guney and Paudyal 2002). The capital structure decisions main interest is the mix of internal and external financing the firms operations and new investments (Guzelyurt 2015).

Firms consider a lot of factors before making capital structure decisions. Determinants such as profitability, tax shield, risk, size, growth, tangibility of asset, volatility of earnings as management of firms to make good capital structure decisions (Guaru 2013). Wonglimpiyarat (2007) based on the life cycle approach to suggest that SMEs Capital structure is closely linked to their life cycle and development. Every stage of a firm's life cycle determines a specific choice of capital structure for financing business operations.
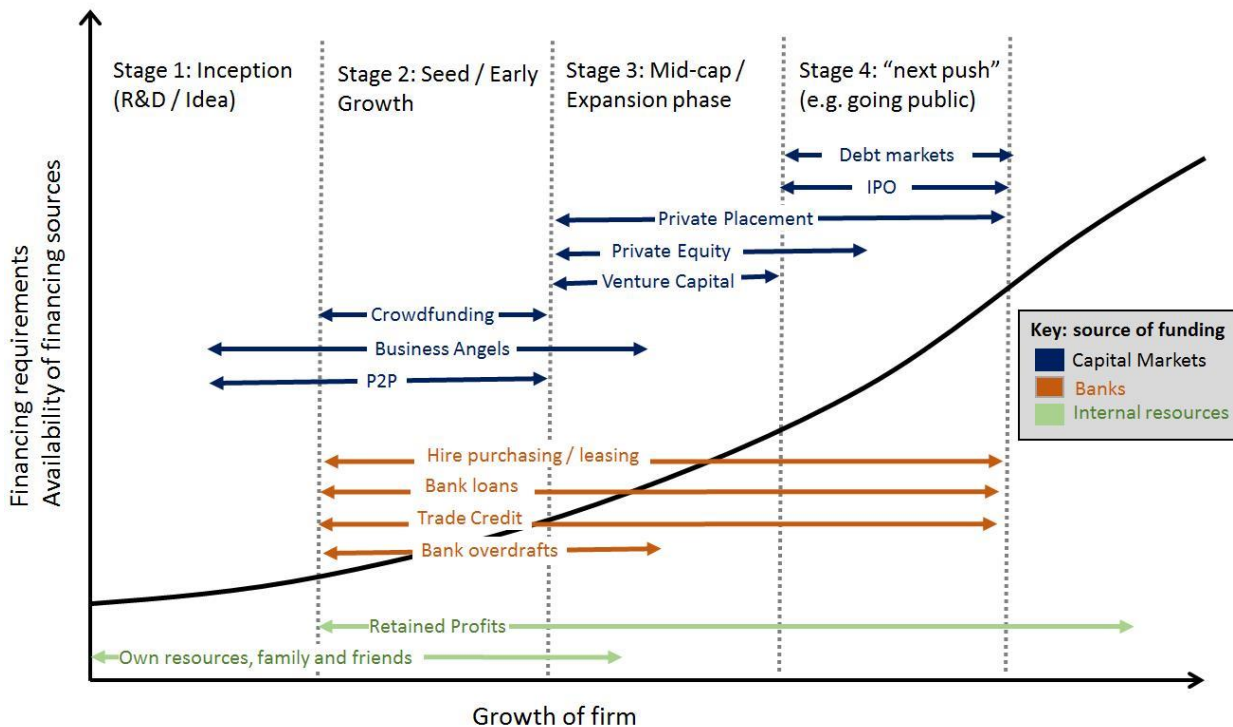
Source: European Commission

GRAPH 1. Firm Life Cycle and Capital Structure (Wonglimpiyarat 2007)

There is a huge missing link between small firms supplying of debt and equity financing and for debt and institutional equity in the financial market. This is due to the fact that SMEs owners are normally unable to have a clear understanding of which type of financing (debt versus equity), they need in any particular stage of business cycle (Copper and Lybrand, 1993). The goal of every firm is to optimal capital structure that will maximize firm value (Drobetez and Fix 2003). Many SMEs have failed because of wrong choices in their financing decisions. The choice between equity and debt financing is of great importance for SMEs in other to achieve needed growth and development (Graham and Harvey 2001).

2.2.1 Equity Financing

Equity is the investment of capital into a firm for a stake of the ownership of the firm and dilute the ownership of the firm. Equity financing can be accessed either internally through retained profits or externally through partnership or capital stock floatation (Haque 2015 [Creamer, Dobrovolsky, Borenstein and Benstein 1960]). A firm's capacity to convince investors about firm's governance quality seems to influence equity financing of a firm. Good corporate governance improves firms' capacity to gain access to equity financing (Gompers, Ishil, Metrick 2003, Haque, 2015). Booth, Aivazian, Demirguc-Kunt and Maksimovic (2013) argued that the development of equity markets makes equity become more preferable in corporate finance.

According to Hussain, Millman and Matlay (2006), SMEs use their personal funds in most cases as their start-up internal equity and if they are in business they rely mostly on their retained profit to expand their business. Also, they involve their family and friends if they need more equity. The involvement of family and friends enhances the firm's ability to obtain finance by virtue of family social equity (Chua, Chrisman, Kellermanns and Wu 2011). As the business grows, SMEs start to seek and rely on business angels, private equity, venture capital, partnerships and mergers as a source of their equity financing (European Commission 2015).

Nassr and Wehinger (2015.), asserted that SMEs that are able to issue public equity benefits not only from long-term access to capital but also enjoy benefits such as increased creditworthiness, transparencies, visibility. Thus their public accountability, transparency and reporting requirements by public equity markets ensure exceptional management practices, governance and performance appraisal. SMEs that have satisfactory size and appreciable level of development also get access to public equity capital. This tends to expand the investment and capital base of such SME companies.

2.2.2 Debt Financing

A debt is an amount owed to an individual or institution through funds borrowing (Brooks 2013, 28). Debt financing refers to when a firm raises funds for working capital or capital expenditure by issuing bonds, bills, or notes to an individual and/or institutional investors. In return for the loan, the individual or organization become a creditor and receives a promise to repay principal (value of loan) and an interest on the debt at a given time (FundingPost 2001). Bank loans and other source of private debt play a crucial part in providing important source of financing for SMEs in their operations (Berger and Udell 1998).

The factors that determine a firm's corporate debt financing choice includes, fixed assets, firm size, growth opportunities, risk, profitability and tax debt shield (Booth et al. 2001 [Rajan and Zingales 1995]). Firms' managerial efficiency also enhances the ability of firms to acquire loans from banks and other financial institutions. When there is adequate information in the financial markets for investors and the financial intermediaries, it increases the accessibility to loans (Bokpin 2010).

Nevertheless, accessing debt financing is very hard for SMEs due to their inability to meet the criteria for accessing loans from financial institutions (Berger and Udell, 1998, Bosse 2009). SMEs failure to easily obtain loans from banks is high in developing economies as compared to developed economies (Cook 2001). The factors of financing constrains include the lack of information flow between the banks and firms, complex application procedure, high collateral, high interest rates and severe repayment terms (Harrison and Mason 1995). Banks and other financial institutions are strict in giving out loans to SMEs because they are seen as high risk organizations and their likelihood to make bad business decisions (Berger and Udell 1998).

2.3 Debt Options

Lenders of capital are more than investors in the corporate finance. Even though debt financing allows business owners to maintain their full ownership, it comes with interest which sometimes is higher if the business has higher risk. Business owners looking for debt capital to finance their business are faced with variety of debt options with different complexity, accessibility and flexibility. Not all these debt capital options will be favorable to a business depending on its nature. Firms tend to opt for debt options favorable to them. (Scarborough 2012.) Among the debt options available to firms include commercial/traditional bank loans, asset-based lenders, vendor financing, commercial finance companies, savings and loans companies, insurance companies, bonds, private placements, microfinance and State-backed loans

Commercial/Traditional Bank Loans – These are commercial banks that gives loans to firms to finance their business activities (Scarborough 2012). Firms prefer commercial loans because they have lower interest rates as compared to other debt options (Gary 2005). Commercial banks gives different kinds of loans to businesses. Short term loans are loans given to firms for less or within a year. It is the most popular type of loan given to SMEs to finance their business operations. Intermediate and Long-term loans are also credit option that traditional banks give to small businesses to finance capital expenditure (fixed assets) and it last between 10 to 30 years for due payment. Another type of Commercial bank loan is Term loans which they release to firms to invest in their business. This type is very insecure loan and it given to firms which are considered to have a highly creditworthy score and some kind of restriction are given to the management of the firm concerning their operations and financial decisions. This type of loan is given to firms without any form of security (Scarborough 2012).

Asset-Based Lenders – These are small commercial banks, commercial finance firms or specialty lenders that give loans to SMEs using idle assets such as account receivables, inventory or purchase orders, fixtures, etc. as collateral. The amount of loan

are normally not the same as the face value of the collateral used and the lenders also put into consideration the risks involve. Firms opt for these form of loans when they are in working capital crisis and need emergency finances to ensure business activities can run smoothly. (Scarborough 2012.)

Vendor Financing – This type of debt is where firms borrows from their vendors and suppliers in the form of trade credit. It is usually a short-term, interest free loans firms receive to make purchases for production. It is one of the most important type of loans for small businesses. (Scarborough 2012.)

Commercial Finance Companies – These are lending companies who give the same types of traditional commercial banks loans to businesses especially SMEs but they are willing to tolerate more risk than the traditional banks. Their interest rates are higher than traditional banks and rely heavily on the collateral provided to recover their losses. (Scarborough 2012.)

Savings and Loans Companies – These financial institutions are mostly common in developing countries. These companies give different types of loans to small businesses to finance their businesses. The loans given are not as much as traditional banks and other big financial institutions and the loans are normally short term basis. (Scarborough 2012.)

Insurance Companies – Insurance companies sometimes offer two types of loans for small business. These are policy loans and Mortgage loans. Policy loans are given on the base of the amount of money paid into an insurance policy. Businesses usually borrow up to 95% of their accumulated amount of the policy with an annual low interest rates as compared to other lending companies and traditional banks. (Scarborough 2012.)

Credit Unions – These are non-profit financial cooperatives that promote savings and give credits access to members of the union to sometimes establish or expand their

businesses. Only members of such union qualify to access loans from the union. Their loan terms are similar to other financial institutions but small in value. (Scarborough 2012.)

Bonds – They are debt commitment issued by private and public corporations. The bond issuers become indebted to the holders of the bond. The firm issue the bond makes a legal commitment to pay an interest (coupon) on the principal (the amount the holder bought as the bond) and repay the principal of the bond upon maturity. (Scarborough 2012.)

Private Placements – Firms can also raise money through private placement of their equity. A private placement is the sales of debt to one or a small number of investors with the terms fashioned according to the lenders' needs. Private placements normally have fixed interest on loans and the maturity of the loan is much longer than loans from banks and usually take greater risk. (Scarborough 2012.)

Microfinance – Microfinance institutions provide financial services to low income clients. These institutions are mostly found in developing economies. They give short term loans to micro and small businesses for using as their working capital. They usually charge high interest rates and ready to take greater risk. Some of their loan type also include group loans without any asset collateral but group members are used as collateral for the loan. This type of loan favors small businesses with no or insufficient assets to use as collateral. (Scarborough 2012.)

State-Backed Loans – Governments through their ministries, agencies like FINNERA (Finland), National Youth Employment Programme (Ghana) give soft loans to businesses and start- ups. State backed loans have low or no interest rate and ready to bear greater risk as compared to other lenders. (Scarborough 2012.)

All these debt options have its own advantages and disadvantages. It is very important that SMEs make enough financial analysis before making decision on which debt options that best suits their business objectives and needs.

3. FINANCIAL MARKETS

Since a nation's economic development is dependent on savings and investments (Bagri, Sharma, Wadhwa, Jha and Wadhwa 2007), financial markets are closely linked to the economic growth, innovation and development of a country (Schumpeter 2011). Brooks (2013, 5) defines financial markets as the platform where buyers and sellers of financial assets meet to trade. The basic role of financial market is to ensure the efficient transfer of financial resources from investors to firms that need them for their operations (Bagri et al. 2007). Financial markets are established to be intermediary for transparent pricing, fundamental regulations on financial trading, cost and fees, and the market forces determining the prices of financial assets (Investopedia 2015).

The development of financial markets has a significant role in the growth of firms and the synergy in the financial markets has enormous influence on firms' available choices of finance (Bokpin 2010). King and Levine (1993) suggested that the financial markets have a lot of influence on SMEs that result in increasing the productivity by utilizing the risk associated with doubtful innovative business activities. Sometimes the flaws and imperfection of domestic financial markets risk the ability of SMEs to raise finance from other sources and this make SMEs to depend on high cost of financing (Hussein, Millman and Matlay 2006).

3.1 Developed Markets

Developed Markets are countries that have well established economies and well-developed financial markets. These countries are seen much safer for investment, transparent and open to capital movement and investment is very effective in the market institutions (Investopedia 2015). Developed markets ensures liquidity, diversification, information acquisition, resource mobilization for shareholders of financial markets. A

developed market with low spreads and volatility makes it less difficult and cheaper for firms to finance their operations through equity than debt (Bokpin 2010).

Firms in developed financial markets tend to have quick growth when they rely heavily on external source to finance their operations than firms who rely more on internal source of financing for their operations and capital investment (Rajan and Zingales 1998). Modigliani and Miller (1958) propended a theory of "Separation Principle" that suggests that in a well-developed market, a firm value is separate when financing its production assets. Thus, if firms have the same financial advantage as investors in a perfect and competitive financial market, no information asymmetries between the intermediaries in the markets and similar tax treatments for various forms of finance, then corporate financial policy is not important (Abor and Amo-Yartey 2013).

3.2 Developing Markets

Developing market refers to countries with low per capita, small industrial base and under developed infrastructure with under developed market (Prosser 2012). Developing markets are unstable with little investment opportunities with high risk (Lamb 2008). In developing markets, corruption rates are high in their financial markets and this increases the transaction cost and the risk in the markets (Ciocchini, Durbin and Ng 2013). According to Platt (1998), developing markets have high volatility of returns, greater return autocorrelation, high bond market risk, weak market transparency. The financial markets imperfection and information asymmetry have a negative impact on firms' ability to raise finance for investment in developing markets.

In developing economies, public equity and debt markets are not well developed and this make most firms rely on bank loans as main external source of financing (Hussein et al. 2006). Rajan and Zingales (1998) argued that Firms in underdeveloped financial markets tend to have quick growth when they rely heavily on internal source financing

to finance their operations and capital investment than firms who rely more on external source of financing for their operations and capital investment (Hussein et al. 2006).

Notwithstanding these weakness in the developing markets, there is a lot of reforms and growth in the recent years. The growth in recent years is due to the adoption of trade and financial liberalization policies by most developing countries (Agarwal and Mohtadi 2004). The growth and development in their financial market has expanded firms' financial options in these countries. Development in developing market does not necessarily mean those markets are matured. There are still problems in their markets such as inadequate information flow, questionable transactions in their markets with less developed markets, less financial trading and high risk in these markets (Abor and Amo-Yartey 2013).

3.3 Credit Risk

The corporate world of finance has two-variable of risk and return in choosing an investment and assessing its performance. Investors invest with the aim of earning more (maximize returns) and eliminating all possible losses (minimize potential losses or risk) (Brooks 2013). Brooks (2013, 237) defines Risk as "a measure of the uncertainty in a set of potential outcomes for an event or transaction in which there is a chance of some loss" and Return as "the percentage change in a gain or loss compared with the original investment."

Banks are highly connected to credit risk. Basel Committee on Banking Supervision (BCBS 2000 par 2 p.1) defines Credit Risk as "the potential that a Bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms." Credit risks are usually linked with loans and other securities generating interest on income for banks as their primary revenue source (Gavalas and Syriopoulous 2014).

The quality of loans have a direct effect on the operations of banks, therefore, there is the need for banks to pay more attention to credit risk management. The challenges in the banks such as the enormous number of bad loans steadily cause banks failures notwithstanding the complexity of the financial markets environment. The understanding of the credit risk portfolios of clients do not only have the practical significance of strengthening the risk management of banks but also helps in the building of a strong and a sound financial regulatory system which eventually leads to the development of a better financial environment. (Ziwen and Mi 2012.)

There is an unfair negative perception about the riskiness and profitability of lending to SMEs by banks. This has led to insignificant lending by banks to SMEs especially Europe and most developing countries (Nasr and Wehinger 2015). Tambunan (2011) emphases that SMEs are noted for having inherent credit risk which makes them less attractive for banks to grant loans to them.

Banks have however connected with policy makers, financial experts, academia, and risk management experts who have devised different prudent risk management models to reduce the losses in poor credit portfolios (Bodla and Verma 2009). The basics of credit risk management models are the examination of risk identification, risk measurement, risk monitoring, risk control and risk audit to ensure proper scoring or rating of clients or customers (Bodla and Verma 2009 [Bagchi 2003]).

Lenders have key interest in credit scoring and uses credit risk scoring to measure the credit risk of their customers. Glassman and Wilkins (1997) indicated that Lenders interest in the credit ratings of their customers are motivated by two important factors. These are the desire for increased efficiency and the creation of a logical method of measuring risk. Credit risk decisions based on discretionary decision leads to greater inefficiency in granting loans. Credit risk decisions must be scientific to ensure quality loans to customers and prevent prejudice in accessing their riskiness and profitability. Proper risk modeling ensures a formal, systematic and disciplined framework for banks to evaluate and determine the framework of credit portfolios and help them in

designing proper strategic ways of managing the changes in those risks (Bodla and Verma 2009, [Ferguson 2001]).

3.4 Determinants of Loan Decisions

Different factors influence lenders decisions in granting loans to their customers. These factors can be internal or external factors. Before lending institutions like banks consider granting loans to their customers, internal factors like prime interest rate, volume of deposits, domestic and foreign investments, banks liquid ratios, managerial policies, prestige and public recognition of the banks, etc. are accessed by their credit officers (Haron, Said, Jayaraman and Ismail 2013). Apart from the banks own internal assessment of their own capacity to grant loans to their customers, other literatures show that character, capacity, condition and collateral of customers are the external factors that influence loan decisions by credit officers (Haron et al. 2013, Mahanty 2015, Alliance Bank 2016).

Management character is one of the key things that influence loan decisions by banks. Character is the assessment of the likelihood of firms in fulfilling and honoring their credit obligations. Banks assess the key management and business style, business plan, succession, age and health of the business. They seek to know and understand the firm's business experience, past, present and future projects and investments. The firm's past credit repayment records, credibility and commitment to business is evaluated (Haron et al. 2013).

The amount and percentage of capital owners commit to the business or new projects of their business prove their commitment to the firm growth. Most lenders review the credit history of their borrowers for a minimum of four years through institutionalized central credit bureaus and audited financial reports of the borrower. A borrower's careful and well drafted business proposal to the lender indicates the borrower's commitment and confidence about the business plan. (Alliance Bank 2016.)

Banks are uneager to grant loans to SMEs because of the uncertainty in their management forecasts (Haron et al. 2013). Firms' relationship with banks contribute immensely to the decision process of loan approvals and it reduces the negation assumptions by banks about some firms (Haron, Ismail, Ganesan and Mustafa 2012).

Secondly, lenders also consider the financial capacity and ability of the firm to repay the lender granting the loan to firm at the agreed payment period. They basically assess the firm's cash flow and other source of revenue generation by the firm over a period (Haron et al. 2013). Cash flow shows how current cash expenditure corresponds to cash revenue generated by the business. Cash flow cycle from the purchase of inventory through to accounts receivables is key factor banks use to evaluate firms before granting most short-term and working capital loans to firms. Cash flow and income statement assessment gives the lender knowledge into the firm's market demand, management competence, business cycles and relevant changes of the business operations over time (Alliance Bank 2016).

Again, Condition is the external economic, market, social and environmental conditions under which borrowers do business. Banks assess the competitive conditions, supply/cost factors, changing technology and the business cycles which include booms, depression, recession and the recovery period (Mahanty 2015). Previous researches (Bopkin 2010, Prosser 2012, and Lamb 2005) show that developed economies have favorable economic, market, technological conditions as compared to developing and emerging economies whose conditions are fragile. It is therefore more likely to have favorable loans decisions for SMEs in developed economies as compared to developing or emerging economies.

Fourthly, Collateral is the security/guarantee firms offer to creditors to compensate the riskiness of accessing credit or loan from the lenders (Haron et al. 2013). The collateral serves as an attestation that enable banks to eliminate the adverse choice problem which result from the existence of information opaqueness between the banks

and the borrowers during the time of making loan decisions. This ensures good behavior from borrowers knowing that they may lose their property upon credit default (Haron et al. 2013 [Agbion and Bolton 1992]).

In most emerging and some developed economies, it is much harder for SMEs to obtain any form of loan without collateral and sufficient documentations (Airs 2007). From the lenders' point of view, financing SMEs are seemly riskier due to the vagueness of the transactions as compared to larger companies (Berger and Udell 2006), therefore making collateral requirement for granting loans is very essential (Haron et al. 2013). Haron et al. (2013) also asserted that collateral is mostly required from small enterprises and new firms but larger, old and well established firms easily get loans without collateral.

4. THE RESEARCH OF THE FINANCIAL INSTITUTION

This chapter describes the different factors Osuuspankki (Cooperative Bank) Finland and Global Access Savings and Loans Ghana consider before granting loans to SMEs and the challenges their SME customers face in facilitating Loans from them. The research used qualitative method of researching and the tool adopted is in-depth interview. This method was chosen because this research wants to explore and analyze the issues from the professional view point. This research is not meant to approve or disapprove any hypothetical questions rather gain insight on the challenges that confront SMEs in accessing loans from banks, compare these challenges in different economies and suggest managerial solutions that will help SMEs to get loans without much difficulties (Ghauri and Gronhaug 2005).

Two loan portfolio experts from these banks where interviewed to find answers to the questions this paper intend to answer. The interview gave an opportunity to ask fellow up questions for clarity to the interview questions. These banks have many branches around the countries they represent and for the purpose of the research a branch was strategically chosen from each bank respectively. The branch chosen for Osuuspankki is its Kokkola branch where a lot of SME firms are located in Finland and Bantama branch of Global Access Savings and Loans limited a suburb of Kumasi the second capital of Ghana where the country has the highest number of SMEs in the country.

4.1 The Financial Institutions

The financial institutions involved in this research are two banks from Finland and Ghana. The bank from Finland is Osuuspankki (Cooperative Bank) and the bank from Ghana is Global Access Savings and Loans Limited. Both banks give numerous forms

of loans to SMEs and have experts who have much knowledge in SME banking. These banks acknowledge SMEs as their key corporate customers.

This part of the study gives a background overview of the banks on which the research is conducted. These banks history, vision and strategies, products and services, and specific services and loan portfolios given to SMEs are discussed to give a general overview of the banks involved in this research.

4.1.1 Osuuspankki (Cooperative Bank) – Finland

Osuuspankki was established as a fire insurance company in September 1901 as "Palovakuutus-Osakeyhtiö Pohjola." Through the years the company established different financial institutions including Central Lending Fund of the cooperative societies Limited (Osuuskassojen Keskuslainarahasto Osakeyhtiö), Eurooppalainen (European) Insurance Company Limited, and Central Association of Cooperative Funds. In 1979, the cooperative credit societies became a cooperative bank with the name (Osuuspankki – OP). The name changed to OKo Bank when it became a listed company in 1989 (Osuuspankki 2016).

In 2005, the bank also again named as Osuuspankki Group (OP Bank Group). Currently the bank is the leading financial service group in Finland. It has over 180 independent cooperative banks across the country. OP Bank group provides its customers with extensive and diversified range of banking, investment and insurance services. The bank develops services that meet their customers' needs to ensure their loyalty. OP Financial Group has three business segments banking, non-life insurance and wealth management (Osuuspankki 2016).

The banking segment is the largest among the three. The banking segment core services to its customers includes financial management, investment, housing, loans and

financial services to companies. Their main corporate customers are SMEs, big corporations and organizations and associations. Osuuspanki provides financing, payment transactions, cash management, investment, risk management, business development services for its corporate customers. The bank is Finland's leading loan provider facilitating different kinds of loans to its home and corporate customers (Osuuspankki 2016).

4.1.2 Global Access Savings and Loans (GASL) – Ghana

Global Access Savings and Loans limited (GASL) which was formerly Global Access Services Limited is an indigenous private financial institutions owned by PVI Group Inc. It was established basically to provide remittance services (money transfer) to its customers in 1998. GASL money transfer services namely Western union, Vigo, MoneyGram and "Sika ye Mogya" (Money is life) to its customers. In 2008, Global Access Services Limited applied to the Ghanaian Central Bank (Bank of Ghana) to be given the license to operate as non-bank financial institution to provide banking services to its customers. It has over 20 branches all over Ghana (Contact Pages 2016).

Its vision is to be a dependable partner, a household name and a preferred choice for financial services and a mission of becoming the leading savings and loans, and Remittance Company in Ghana through the offering and delivery of customer centered products and services. Its banking products include savings, personal loans, business loans, remittances and trade finance. GASL core corporate customers are SMEs. The bank is one of the fastest growing savings and loans banks in Ghana (Global Access Savings and Loans 2016).

4.2 Results

The findings of the interviews conducted is described in this part of the study. This section discusses the findings of the interviews from both banks. The results are categorized in two sections. These are the Finnish Bank findings and Ghanaian bank findings. Under each of the sections is three other subheadings namely Loan trend, Determining factors of loan decisions and Difficulties SMEs face in accessing loans.

The loan trend subsection describes the different loan portfolios the banks studied give to their SME customers. The determining factors of loan decisions subsection also describes the different factors the individual banks consider before making their loan decisions. Whiles difficulties SMEs face in accessing loans subsection describes the different challenges SMEs face in accessing loans from the banks.

4.2.1 Finnish Bank Findings

The Finnish Bank findings describes the results of the interview with Osuuspankki Kokkola on the issues this research tries to answer. The findings are categorized into 3 parts loan trend, determining factors of loan decisions and the difficulties SMEs in accessing bank loans. This findings are specific to the Osuuspankki dealing with their SMEs customers of which the paper used to represent the banking sector in Finland for its analysis and discussions in the next chapter.

4.2.1.1 Loan Trend

Osuuspankki gives all kinds of loans to their customers. These include Short term loans (i.e. Working Capital Loans), Long –term loans (i.e. investment of fixed assets), Bank guarantees (the bank issues a guarantee on behalf of a company, the bank,

therefore assumes the monetary liability), Leasing and factoring. In corporate financing the bank treats both SMEs and big corporations the same when they apply for a loan facility and the bank gives loans to every client who meets the loan requirement without preferential treatment. The bank observes that debt financing is common financing option for Finnish SMEs. The SMEs mostly apply for start –up capital loans, working capital loan and long term loans for capital investment.

4.2.1.2 Determining factors for making Loan Decisions

Before a loan decision is made, the bank considers different factors and make different evaluations before granting or refusing loan to an SME. These factors influences the loan decision of the bank.

The profitability of the business is considered. The bank focuses on financing profitable and healthy businesses. The bank check the history of the SME's cash flow, the overall financial condition and financial solvency through the evaluation of the company's financial statements over the period. The bank's credit officer assesses the ability of the company to generate enough cash flow each month to easily make payments of interest and amortization. This is one of the important factors the bank considers when making loan decisions.

The SMEs debt ratio is also a factor the bank considers. A debt ratio is simply the percentage of a company's assets that are financed by debt. It is expressed as the ratio of total liabilities (short and long term) to total assets (Investopedia 2016). The bank has debt percentage or debt ratio a SME must fall within when considering its solvency.

The company's managerial character is also evaluated. Thus, the entrepreneur's financial situation, commitment to the business and the financial forecast of the business by the entrepreneur. The firm's business plan and loan proposal is assessed. This enable the bank to make a proper forecast of their investment into the company.

The bank also make an industry forecast of the company. Some industries like the construction industry are seen as risky, uncertain and seasonal industry in Finland. The credit officer makes sure it investigate the present and future of the industry the bank is about to invest its money to prevent default payment.

Collateral is one of the most important factors that influence the bank's loan decisions. The bank see it as the security pledge for the repayment of the loan. Some of the collateral requested include mortgage on building, mortgage on the company's assets or the owner's personal guarantees. Sometimes when the firm seeking the loan do not have collateral but have a promising business or loan proposal that the bank directs them to FINNVERA for them to provide guarantee for the firm. The value of collateral is determined by the credit rating of the company, amount of loan requested and the riskiness of the business.

4.2.1.3 Difficulties SMEs face in Accessing Loans

Poor credit rating of some SMEs makes it difficult for banks to grant loans to them. The bank questions the creditworthiness of the firm if it has poor credit history. If the firm has a history of defaulting or delaying its payment, it makes it very difficult for the bank to grant a loan to the firm.

Unprofitable business is another challenge SMEs face. If the bank sees the business as unprofitable venture, it is difficult for the bank to grant loan to such firm. Also, firms with weak solvency or unstable financial solidity find it difficult access loans. If the

bank evaluates the firm and sees that it cannot meet its long term fixed expenditure and is unlikely to grow and expand, the bank deny such a firm a loan request.

Most of the SMEs are refused loans because they have insufficient guarantees. Start-up and young firms are those which are mostly affected. The bank set high requirement for own equity and collaterals in new investments which new businesses might not be able to provide.

The bank's policy and risk management also makes it difficult for some SMEs in certain sectors to access loan facility. The bank sets strict requirement for certain sectors acknowledged as risky sectors.

Unfavorable government policies also hinder SMEs access to loan facility. A lot of risk management regulations (Basel demand and requirements for capitalizations) for banks from supervising authorities (the European commission and Finland Central bank) hinder the banks from giving loans to their SME clients. Also, low-interest rate (an average of 0-5%) within the European Area hinders the bank from giving cheap loans to SMEs which are sometimes risky.

4.2.2 The Ghanaian Bank Findings

The Ghanaian Bank findings describes the results of the interview with Global Access Savings and Loans Limited Bantama branch Ghana on the issues this study tries to answer. The findings are categorized into 3 parts loan trend, determining factors of loan decisions and the difficulties SMEs face in accessing bank loans. This findings are specific to the Global Access Savings and Loans Limited dealing with their SMEs customers of which the study used to represent the banking sector in Ghana for its analysis and discussions.

4.2.2.1 Loan Trend

Global Access Savings and Loans Limited gives out short, medium and long term loans. Some of the loan packages include Asset finance, receivable finance, overdraft, commercial paper, project finance, etc. As with the many savings and loans companies, the bank loans products are mostly meant for SMEs. The bank's corporate customers are basically SMEs (about 70%) and therefore the bank has loan products purposely for the Ghanaian SMEs. These loans given mainly to SMEs include business loan (working capital loans, Import/Export loans, Auto Loans (Vehicle loans for business purposes), "Susu" Loans (the bank asks the business to make a daily savings of a certain amount over a period of time mostly not less than 3months. The bank then multiplies the amount saved by 2 or 3 and the amount calculated is given out as loan to the customer to grow his/her business. The bank sometimes uses the saved Susu as collateral for loyal customers). The bank also sees loans as the main source of revenue even though it is risky lending in Ghana.

4.2.2.2 Determining factors for making Loan Decisions

Loans are one of the core services that fetches the bank revenue. A mistake in the decision on a loan means the bank is losing portion of that period's revenue for the bank. Global Access Savings and Loans Limited credit officers and executives consider some factors before making decisions on corporate loans.

First, the nature of business the corporate customer is investing the loan is very important. In Ghana, agriculture (i.e. production of vegetables which are perishable) is very risky to invest because the country do not have plenty storage to store food stuffs and this makes most farmers run at lost during harvest. This makes the bank very reluctant to give loans to businesses of that nature. The nature of business that the bank most of the time gives them loans are trading business (traders in electronics

(i.e. televisions, mobile phones, and computers), construction hardware, garments and clothing, and grocery.

Again, the financial report (income and cash flow statements) of the business for at least a period of 2 years is used to evaluate the financial position of the firm. The bank uses the financial report to ascertain the amount of loan the customer deserve as compared the client applies. The financial report also evaluates the capacity of the business to repay the loan with its interest at the agreed time schedule.

Also, the SME's loan proposal is also considered. The bank ascertains the reason why the client is applying for the loan through the analysis of the loan proposal. The bank put much seriousness in the loan proposal because when the bank do not consider the loan proposal very careful, the bank might give out loans for investments that will eventually be unprofitable.

The credit history of the business is considered to verify its creditworthiness. The Central Bank of Ghana has established a Credit Bureau where licensed financial institutions register every history, payment terms, payment schedules, defaults of loans and every information concerning every loans given to their customers. These information gives the credit rating of every customer who seek institutionalized loans. The lower the rating, the higher the credit risk. Loans with higher credit risk mostly have high interest rates. This ratings according to the bank is not a true reflection of their clients because some of them access loans from people or financial institutions that are not licensed by the central bank and do not register the credit history of their customers to the credit bureau data.

The experience of the business is also considered. The bank also consider the number of years the SME has been in operation, their growth rate, their management style, commitment of the owner or the partners. The bank also consider the number of years the customer has been working with them as their bankers. If the SME has no banking relationship with bank or changed their bank less than three months the credit officer

makes enquires from the other bank about their new client. Customers known to be switching banks just to access loans are sometimes not creditworthy. New businesses passes through a lot of scrutinizing before loans are eventually granted.

Collateral guarantee is the most important factor the bank consider before making loan decision. Giving out loans is one of the most unstable and risky services the bank renders to SMEs and its other customers in the country due to the economic instability and constant market shifts. The bank therefore uses the collateral as one of the assured guarantees to mitigate loan defaults. Properties alone are not just enough as a collateral. The bank also request from their clients to bring a third party respected in the community, wealthy or have a long good standing with the bank to serve as a third party guarantor in addition to the collateral provided. In case of a loan default and all effort to retrieve the money is futile, the next person the bank contacts is the third party guarantor. The third party guarantor is sometime asked to pay the loan if the customer vanishes without fulfilling its loan obligations.

4.2.2.3 Difficulties SMEs face in Accessing Loans

The bank sometimes find difficult in accessing management and financial information from SMEs to evaluate their riskiness and creditworthiness through their credit history, management priorities and style and financial reports over some years. When the bank is unable to access these information from SMEs seeking loans, the bank eventually denies the SME the loan because it could not access and assess the business information.

Most SMEs lack the management capacity to draft a well-planned and researched loan proposal for the bank loan. The first thing the bank considers before granting any kind of loan to SMEs is their loan proposal. Because most SMEs lack the skill personnel who can draft professional loan proposals for them, they tend to draft proposals which are unattractive to the bank to grant loans to them. Most of these SMEs might

have a very good prospect for growth but because of their bad loan proposal, they are denied a loan that would have enabled their growth.

Again, many of the SMEs do not have the collateral that the bank might need to grant them the loan they have applied. Due to the high-risk rating of most SMEs, the bank usually demand big collateral as a form of the guarantee before giving out loans to the customer. With the size of the SMEs, they are most of the time unable to provide the required collateral to access the loan they requested. One big challenge with guarantee is the third party which is very difficult for majority of the SMEs to find. The SME must be highly connected or the owner of the business have a reputation before it can find a third party who will be more will to guarantee.

More so, unstable economic condition and government policies also makes it very challenging for SMEs to access loans. The high cost of living, unemployment, unstable utility supply makes it very difficult for the SME markets and it is much risky for banks to grant loans to SMEs. Currently, the country (Ghana) is facing unreliable power crisis which has slow down business and businesses who rely strongly on the electricity is very risky to lend to them. This condition makes the bank skeptical lending to businesses.

Lastly, high interest rate is one the biggest challenge SMEs in Ghana is facing. Due to the high inflation rate and the countries monetary policy, the central bank's base rate is pegged around a yearly average of 28%. This makes the bank's interest rate high. The average annual interest rate of the bank is between 27% - 38% depending on the nature of the loan. This makes the loan facilities very expensive for the SMEs. This makes the repayment of the loan in addition to the interest very challenging for the SMEs.

5. ANALYSIS OF THE RESEARCH

The chapter analyses the results of findings of the interviews made with the loan experts in Osuuspankki of Kokkola Finland and the Global Access Savings and Loans Limited – Bantama, Ghana. A comparative analysis is made to evaluate the similarities and differences in the determining factors of loan decisions in the two economies. It also analyses the challenges SMEs face in the two countries and closely evaluate similarities and differences in the challenges. Thus which of the challenges heavily affect SMEs in Finland or Ghana. Also, the economic impact of the challenges the SMEs face in accessing bank loans is also analyzed to evaluate its effect on the SMEs, banks and the two economies.

5.1 Comparative Analysis of the Determinants of Loan Decisions

Haron et al. (2013) asserts managerial character as one of the determinants of banks loan decisions. Osuuspankki (Cooperative Bank Finland) and Global Access Savings and Loans make loan decisions considering the managerial character of the SMEs. Osuuspankki managerial character assessment include business and loan proposal, management commitment and style, the business history, Global Access Bank also put emphasis on the same factors in considering the managerial character expect GASL extra emphasis on the SMEs relationship with the bank over some period to ascertain its creditworthiness with the bank (Haron et al 2012).

The credit ratings of the SMEs are also used by these banks to evaluate the creditworthiness of the SME customers. But due to the lack of participation of some financial institutions in providing credit data of their customers in Ghana, Global Access Savings and Loans dependent on the ratings in their decisions is not significant as compared to Osuuspankki (Bodla and Verma 2009, [Ferguson 2001]).

This proves that in loan decision making banks from both developed and developing economies consider management character of the SMEs before making decisions on their loan applications even though the dependence and method of evaluation vary in nature.

The evaluation of the SMEs capacity to repay the loan is a universal banking determination of loan decisions. Both banks use the financial reports over a period to ascertain firms applying for loans financial capacity to fulfill the loan obligations. Banks operate to get profit on returns and therefore consider profitability of investment very seriously in irrespective of the location of the bank.

Again, the banks in both developed and developing economies consider external conditions as one of the important factors when making loan decisions. Osuuspankki considers external condition of the industry from which the SME operates as an important factor. The future of the industry and the current performance of the industry is evaluated. Global Access bank also considers the nature of the business, the industry of the business as one of the determining factors of loan decisions. Non-performing industry like Agriculture in developing countries and construction in developed economies predicts high risk in investing in those areas (Mahanty 2015, Bopkin 2010).

More so, the key determinant in the loan decisions by Osuuspankki and Global Access Bank is the collateral security to offset their losses in case the SME client default in the loan payment. There is however difference in the strictness of this collateral guarantee. Whiles in Finland, the bank can accept a guarantee from public institutions on behave of SMEs who do not have sufficient collateral because of the perfection of their financial markets, the bank in Ghana hardly accepts guarantees from third parties as collateral. They require both substantial collateral and strict third party guarantee. This is because of the high corruption rate, lack of transparency and high risk in the financial markets of the developing countries (Ciocchini et al. 2013, Abor and Amo-Yartey, 2013).

5.2 Comparative Analysis of SMEs Challenges in Accessing Bank Loans

Unlike Osuuspankki where its SME customers readily supply the information need by the bank to make its loan decisions, Information asymmetry between the banks, the SMEs, and other intermediaries tends to be a challenge factor for granting loans to SMEs in Ghana. This supports Bopkins (2010) assertion that the reluctance of SMEs to release the necessary information needed for banks to make fair decisions on their loan application reduces the readiness of the bank to grant loans to them.

More so, the governmental economic and monetary policies is a challenge for accessing SMEs loans in the two economies, its components is inversely opposite to the two economies. As the Finnish banks have strict and capitalization regulation for granting loans and the low interest loan policy which tends to be a disincentive for banks to grant loans to SMEs, the economic and monetary policy coupled with high inflation rate and high base interest (Berger and Udell 2006, Ciocchini et al. 2013) make it very expensive for SMEs to seek bank loans. This also asserts the imperfection of the financial markets of developing economies where the transactional cost of financing is very high (Ciocchini et al. 2013).

Though the findings suggest that the banks in the two economies require collateral security from the SMEs before granting loans to their SMEs which sometimes become a challenge for the SMEs to provide such collateral, the strictness to such principle is somehow different. Banks in Finland accepts guarantees from third party public institutions (i.e. FINNVERA) as a collateral for SMEs with the promise of prospects and has seek guarantee from such institution but Banks in Ghana hardly accept guarantees from third parties due to lack of trust in their public institution, corruption, lack of transparency and high risk involved in the debt financing and the instability of the developing countries financial markets. They rather require third party guarantee in addition to the collateral provided. This imperfection is supported by the early assertions by Abor and Amo-Yartey (2013) that less developed financial policies and transactions are risky and questionable.

5.3 Economic Impact of the Analysis

The growth of the world economy is closely linked to the expansion of SMEs. They employee about 70% of the world's working population. When SMEs face challenges in loan financing as discussed above it has a lot of impact on the global economies. The GDP growth rate will be decrease since productivity cannot increase at the same level with population growth rate. Unemployment rate will increase since the SMEs will not get the needed finance to expand to meet the growing employment population. There will also be a continuous budget deficit since the governments will not be able to accumulate the needed tax revenue to meet their public expenditure. When nations are hit with budget deficit it eventually leads them to recession.

The main source of revenue for banks is debt financing. SMEs are banks biggest corporate customers who seek bank loan as their major source of financing for their business operations and investments. The challenges SMEs face in obtaining loans in these economies reduces the percentage of loans given to them by the SMEs. Banks revenue reduces because of these challenges and this affects their profitability. Reduction in profits have negative effect on the shareholders dividends. When the shareholders dividends reduces most lose confidence in the bank and sell their shares. When there is loss of confidence in the shares of banks value of these shares reduces. When investor confidence reduces, companies starts to face liquidity crisis which forces then to lay-off staffs. These lay-off staffs add up to the global unemployment rate. Governments' tax revenue also reduces and GDP of the country also reduces which negatively affects the economies of such banks.

Most SMEs lack the capacity to be enlisted in the equity markets for sourcing funds for startup capital, expansion and investment projects. Apart from the family and friends financing which is inadequate for the investment SMEs need, their main source of finance is loan financing. The difficulties the SMEs face in accessing loans hinders their development, growth and expansion. Since they employ higher percentage of the working population, lack of finding means inability to accommodate the increasing

working class which increase the economies population dependence ratio. High dependence ratio puts much burden on governments' recurrent expenditure. SMEs inadequate investment due to lack of funding leads to reduction in national productivity and GDP growth rate. Many SMEs inventions, innovations and technological breakthroughs for socio-economic development did not come to reality because of lack of funding. Many SMEs has been liquidated because of the inability to source funding to rejuvenate their struggle businesses which has the prospect of growing into big corporations with little financial push.

6. CONCLUSION

The aim of this study sort to make a comparative studies on the challenges SMEs face in accessing loans from banks in Finland and Ghana. The research attempted to investigate the different challenges SMEs face in soliciting bank loans from different markets (i.e. developed and developing financial markets) using a bank in Finland and a bank in Ghana as a case study.

The literature review indicated that SMEs are undoubtedly the engine of sustained economic growth and development in many countries. In a country where their SMEs sector is active and fast growing enjoys rapid economic growth. SMEs employ significant number of the world's working population. The growth and expansion of SMEs are largely dependent on the ability of the SMEs to access debt financing more easily and less expensive. Bank loans are considered one of the mostly accessed source of capital for many businesses with different debt financing options yet SMEs most of the time find it difficult to access loans from banks.

The study evaluated the different factors banks consider before making loan decisions in developed and developing markets. Some of these factors being internal and others are external. Among the internal factors include prime interest rate, managerial policies and available finance. The external factors that form the core determinants include management character, business capacity, condition and collateral of customers. SMEs can easily access bank loans if they have adequate knowledge of determinants of accessing bank loans.

The study also observed the challenges the SMEs face in facilitating bank loans in these economies. Information asymmetry, high interest rate, perceived high credit risk, poor business and loan proposal, lack of collateral and unfavorable government policies are some of the challenging factors hindering SMEs in accessing bank loans in both Finland and Ghana.

The implication of this study is that it evaluates the economic effects of the inability of SMEs to get ready loans for investment on the national economies, the banks and the SMEs at large. It also provides better understanding for SMEs in different economies to better understand the determining factors banks consider before making loan decision and what challenges they could be facing when applying for bank loans in the different economies. The research looked into the determinants of bank loan decisions and possible challenges the SMEs could face in accessing bank loans in these markets.

Global economic growth is dependent on SMEs and, therefore, there must be ways of addressing the challenges they face in accessing bank loans. Based on the findings on the challenges that SMEs in accessing loans from banks, some managerial recommendations and strategies are needed to address these challenges.

6.1 Recommendations

From the findings of the study, the following recommendations are suggested as ways of mitigating the challenges SMEs face in accessing bank loans.

SMEs with the financial capacity to employ skilled workforce should endeavor to employ skilled management team who can effectively and efficiently run the business. Thus SMEs which lack managerial and financial skills should employ or contract management and financial experts who can effectively take care of the routine management, accounting and financial responsibilities of the business and make strategic management and financial decisions (cash flow management, investments, etc.) that can help the business to grow and access financing for investments.

SMEs should study the business environment in which they operate or about to operate and prepare a strategic business plan with set out objectives, means of acquiring

the needed resources, possible risk involved in the sector in which they are operating, ways of handling those risks and effective implementation of their business plan to ensure desire growth and profitability and reliability of banks in their business plan.

More so, governments, NGOs, banks and other stakeholders should frequently organize managerial training workshops and seminars for SMEs on effective management styles and judicious use of financial resources to minimize waste and maximize productivity.

Governments in both economies should make favorable economic and monetary policies and regulations. The European Union and the Finnish government should lessen their financial institutions capitalization regulation and requirements and increase the Euro area interest rate a little high to make banks more will to give out profitable loans to SMEs. In developing economies like Ghana, the government should seek to strength her economies and monetary policies to reduce inflation and the high interest rates to make bank loans less expensive to SMEs. Governments from these economies can initiate tax incentives for banks who give more loans to SMEs.

Again, SMEs should be sensitized to be more willing to release business information needed by the banks to make their loan decisions. The government of Ghana Right to Information Bill must be passed into Act as quick as possible to enable banks to easily access the needed business information of their customers to make loan decisions. This will reduce the information asymmetry between banks and their SME customers in Ghana.

Lastly, public agencies and other stakeholders (i.e. insurance companies, business angels, NGO, etc.) should actively be involved in guaranteeing loans for SMEs with promising prospects but don't have the sufficient collateral to access loans from banks. Public institutions in developing countries (e.g. Ghana) in charge of guaranteeing loans for businesses should be transparent, incorruptible, reliable and credible

like their counterparts in developed economies (Finnish FINVERA) to allow banks to accept their loan guarantees for some SMEs in utmost good faith.

6.2 Limitations

This research which is a comparative studies between two countries made the analysis based on only two banks one from each country respectively. There could be limitation on the reliability of the generalization of the results since two banks are not representative of the number of banks in these countries. Other banks were not consulted due to time and financial constraints even though the banks consulted are specialized in SME loan financing. Also, SMEs were not consulted to understand from their own perspective, the challenges they face in accessing loans from banks in the different economies.

Further studies is therefore recommended to involve more banks and SMEs in the two countries on similar topic to compare the results and to make the generalization of the results and the recommendations suggested more reliable.

REFERENCES

Abor, J. 2007. Corporate governance and financing decisions of Ghanaian listed firms, Corporate Governance. International Journal of Business in Society, Vol. 7 (1), 83 – 92

Abor, J. and Biekpe, N. 2005. What determines the capital structure of listed firms in Ghana? African Finance Journal, Vol. 7(1), 37-48.

Agarwal, S. and Mohtadi, H. 2004. Financial markets and the financing choice of firms: evidence from developing countries. Global Finance Journal, Vol. 15, 57-70.

Aghion, P and Bolton, P. 1992. An Incomplete Contracts Approach to Financial Contracting. Available: https://www2.bc.edu/~chemmanu/phdfincorp/MF891%20p apers/Aghion%20and%20Bolton%201992.pdf Accessed 1 February 2016

Airs, N M. 2007. SMEs Building Blocks for Economic Growth. Department of Statistics Malaysia.

Alliance Bank 2016. What do bankers look for in a business loan application. Available: https://www.myalliancebank.com/f8web/?uf=.%2FPDFs%2FWhat+Do+Bank-ers+look+for+in+a+Business+%28WebVersion%29.pdf Accessed 1 March 2016.

Amo-Yartey C. and Abor J. 2013. Corporate financial policies in emerging markets: the role of financial market development. American Journal of Business, Vol. 28(2), 123 – 146

Antoniou, A., Guney, Y. and Paudyal, K. 2002. The determinants of corporate capital structure: Evidence from European countries. University of Durham, Department of Economics and Finance.

Bagchi S. K. 2003. Credit Risk Management - A Panacea or Conundrum? SBI Monthly Review, Vol. 42(10), 497-504.

Bagri S., Sharma G. C., Wadhwa A., Jha R. and Palanivel A. 2007. An Introduction to Financial Market Part-I for Class XIth. Central Board of Secondary Education, Dehli.

Basel Committee on Banking Supervision (BCBS) 2000. Principles for the management of credit risk. Bank for International Settlements, Basel, Switzerland.

Berger, A. N. and Udell, G. 1998. The economics of small business finance: the roles of private equity and debt markets in the financial growth cycle. Journal of Banking and Finance, Vol. 22(6-8), 613-673.

Berger A. N. and Udell G F. 2006. A more complete conceptual framework for SME finance. Journal of Banking & Finance Vol. 30, 2945–2966.

Bodla, B. S. and Verma, R. 2009. Credit Risk Management Framework at Banks in India. IUP Journal of Bank Management 8.1 (February), 47-72.

Bokpin G. A. 2010. Financial market development and corporate financing: evidence from emerging market economies. Journal of Economic Studies, Vol. 37(1), 96 – 116

Booth, L., Aivazian, V., Demirguc-Kunt, A. and Maksimovic, V. 2001. Capital structures in developing countries. Journal of Finance, Vol. 56(1), 87-130.

Bosse, D. A. 2009. Bundling governance mechanisms to efficiently organize small firm loans. Journal of Business Venturing, Vol. 24 (2), 183-195.

Brooks, R. M. 2013. Financial Management: Core Concepts (Third Edition). Pearson Higher Education Center, Boston, 5-10, 212-223.

Casey K. M, Ellis T.S., Linn G., and Griffin K. 2009. Post-loan credit risk: an analysis of small business in southern Arkansas. Competitive Review Vol. 19(4), 342 – 348

Chua J. H., Chrisman J J., Kellermanns F. and Wu Z. 2011. Family involvement and new venture debt financing. Journal of Business Venturing, Vol. 26 (4), 472-488.

Ciocchini, F., Durbin E. and Ng D.T. 2003. Does corruption increase emerging market bond spreads? Journal of Economics and Business, Vol. 55, 502-28.

Contact Pages 2016. Global Access Savings and Loans Company Limited – Overview. Available on: http://www.contactpages.info/business/global-access-savings-and-loans-company-limited Accessed on 10th March, 2016.

Cook, P. 2001. Finance and small and medium-sized enterprise in developing countries. Journal of Developmental Entrepreneurship. Vol.6 (1), 17-24.

Creamer D., Dobrovolsky SP, Borenstein I and Benstein M. 1960. Capital in Manufacturing and Mining: Its Formation and Financing. Princeton University Press, Vol. ISBN: 0-870-14104-X, 156 -191 available at http://www.nber.org/chapters/c1393

Drobetz, W. and Fix, R. 2003. What are the determinants of the capital structure: some evidence from Switzerland. Working paper, University of Basel, Basel.

European Commission 2015. Economic Analysis. Available: http://eur-lex.europa.eu/legal-content/hu/TXT/?uri=CELEX:52015SC0183 Accessed 23 November 2015

European Union 2003. What is an SME? http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/index_en.htm Accessed 15 November 2015.

Farlex Inc. 2003. The Free Dictionary: Financing. Available on: http://financial-dictionary.thefreedictionary.com/financing Accessed 1 November, 2015.

FundingPost 2001. Definition of Debt Financing. Available on: http://www.fundingpost.com/glossary/debt-financing.asp. Accessed 2 December, 2015.

Ferguson R. W. 2001. Credit Risk Management - Models and Judgment. PNB Monthly Review, Vol. 23(10), 23-31.

Floyd, D. and McManus, J., 2005. The role of SMEs in improving the competitive position of the European Union. European Business Review, 17(2), 144-150.

Gavalas D. and Syriopoulos T. 2014. Bank Credit Risk Management and Migration Analysis; Conditioning Transition Matrices on the Stage of the Business Cycle. International Advances in Economic Research Vol. 20(2), 151-166.

Glassman, C. A. and Wilkins, H. M. 1997. Credit scoring: probabilities and pitfalls. Journal of Retail Banking Services, Vol. 19 (2), 53-6.

Ghauri P. N. and Grønhaug, K. 2005. Research Methods in business studies – A practical guide. London: Pearson Education Limited

Glen, J. and Pinto, B. 1994, Debt or equity? How firms in developing countries choose. Discussion Paper 22, International Financial Corporation, Washington, DC.

Global Access Bank Company Limited 2016. Global Access Savings and Loans Limited, Ghana – Financial Services 201-500 employees. Available on: https://www.linkedin.com/company/global-access-savings-and-loans-limited Accessed on: 10th March, 2016

Gompers, P. A., Ishii, J. and Metrick, A. 2003. Corporate governance and equity prices. Quarterly Journal of Economics, Vol. 118 (1), 107-155.

Graham, J.R. and Harvey, C.R. 2001. The theory and practices of corporate finance: evidence from the field. Journal of Financial Economics, Vol. 60, 187-243.

Gurau R. B. C. 2013. How do corporate characteristics affect capital structure decisions of French SMEs? International Journal of Entrepreneurial Behavior & Research, Vol. 19(2), 149 – 164

Guzelyurt A. U. M. K. 2015. Impact of firm characteristics on capital structure choice of Turkish SMEs. Managerial Finance, Vol. 41(3), 286 – 300

Haque F. 2015. Corporate governance and equity finance: an emerging economy perspective. Journal of Financial Economic Policy, Vol. 7(3), 233 – 250

Haron H., Ismail I., Ganesan Y. and Mustafa S.M. 2012. Factors Influencing Loan Approval of SMEs. Emerging Markets and Financial Resilience: Decoupling Growth from Turbulence. ISBN: 978-967-394-093-6. 708-729.

Haron H., Said B. T., Jayaraman K. and Ismail I. 2013. Factors influencing Small Medium Enterprises (SMES) in obtaining loan. International Journal of Business and Social Science, Vol. 4(15)

Hussein J. Millman C. and Matlay H. 2006. SME financing in the UK and in China: a comparative perspective. Journal of Small Business and Enterprise Development, Vol. 13 (4), 584-599

Investopedia LLC. 2015. Financial Markets: Definition of Financial Market. Available: http://www.investopedia.com/terms/f/financial-market.asp Accessed 24 November 2015.

Investopedia LLC 2016. Debt Ratio. Available: http://www.investopedia.com/terms/d/debtratio.asp Accessed 12 March 2016.

Lamb K. 2008. Forging Frontier Markets. Available: http://www.investopedia.com/articles/economics/09/frontier-markets.asp Accessed 25 November, 2015.

Madura J. 2010. Financial Markets and Institutions (10thEdition). Cengage Brain, Mason, Ohio OH.

Mahanty S. 2013. Bank's lending decisions to the industrial sector. ISSN Online 2249 – 059 X. Available on: http://ijbssnet.com/journals/Vol_4_No_15_Special_Issue_November_2013/25.pdf Accessed 29 February 2016.

Mason C. and Stark M. 2004. What do Investors Look for in a Business Plan? A Comparison of the Investment Criteria of Bankers, Venture Capitalists and Business Angels." International Small Business Journal Vol. 22, 227-248.

McMahon R.G.P. and Holmes S. 1991. Small Business Financial Management Practices in North America: A Literature Review. Journal of Small Business Management Vol. April, 19-29.

Moro, A. & Fink, M. & Kautonen, T. 2014. How do banks assess entrepreneurial competence? The role of voluntary information disclosure. International Small Business Journal. Vol. 32 (5), 525-544.

Modigliani, F. and Miller, M. 1958. The cost of capital, corporation finance, and the theory of investment. American Economic Review, Vol. 48(3), 261-297.

Myers S. C. 1977. Determinants of Corporate Borrowing. Journal of Financial Economics Vol. 5, 147 – 175

Nassr I.K. and Wehinger G. 2014. Opportunities and limitations of public equity markets for SMEs. OECD Journal: Financial Market Trends, Vol. 2015 (1)

Osuuspankki 2016. OP Financial Group in Brief. Available: https://www.op.fi/op/op-financial-group/op-financial-group?id=80100&srcpl=1&kielikoodi=en Accessed 10 March 2016

Pissarides, F. 1999. Is lack of funds the main obstacle to growth? EBRD's experience with small- and medium-sized businesses in Central and Eastern Europe. Journal of Business Venturing, Vol. 14, 519-39.

Prosser M. 2012. Developed Market, Developing Market and Emerging Market Differences. Available http://learnbonds.com/13370/developed-market-developing-market-and-emerging-market/ Accessed 24 November, 2015.

Rajan, R. G and Zingales, L. 1998. Financial Dependence and Growth. The American Economic Review, 1998, Vol. 88 (3), 559-86.

Reza H. and Chowdhury M. M. 2013. Corporate entrepreneurship and debt financing: evidence from the GCC countries. International Journal of Managerial Finance, Vol. 9(4), 294 – 313

Scarborough N. M. 2012. Essentials of Entrepreneurship and Small Business Management (7th Edition). PHI Learning, New Jersey NJ. 463 – 511.

Smith, N. J., Merna, T. and Jobling, P., 2009. Managing risk: in construction projects. John Wiley & Sons.

Tambunan, T. T. H. 2011. Development of Small and Medium Enterprises in a Developing Country. Journal of Enterprising Communities: People and Places in the Global Economy, Vol. 5 No. 1, pp. 68-82.

Wonglimpiyarat, J. 2007. Management and governance of venture capital: a challenge for commercial bank. Technovation, Vol. 27(12), 721-731.

Wonglimpiyarat J. 2015. Challenges of SMEs innovation and entrepreneurial financing. World Journal of Entrepreneurship, Management and Sustainable Development, Vol. 11(4), 295 – 311

Ziwen J. J. and Mi Y. C. 2012. Commercial bank credit risk management based on grey incidence analysis. Grey Systems: Theory and Application, Vol. 2(3), 385 - 394

APPENDIX

Research Interview

Challenges SMEs face in access loans from banks.

Interview Questions

What is the bank's opinion on Debt financing?

What are types of corporate loans available?

What kind of corporate firms are the bank more willing to grant loans?

What is the determine factors or criteria for granting loans to firms?

What is the bank standards on SMEs debt financing?

Is the bank willing to grant loans to SMEs in Finland?

How risky is it for the bank to grant SME loans?

What is the percentage of corporate loans granted to SMEs?

What difficulties do SMEs face in accessing loans from the bank and banks in Finland?

Why is it difficult for SMEs to access bank loans?

What advice will you give to SMEs in accessing loans from banks?