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OBSTACLES THAT SMALL AND MEDIUM ENTERPRISES FACE IN OBTAINING FUNDS FROM FINANCIAL INSTITUTIONS IN THEGAMBIA

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ABSTRACT

This paper investigated the obstacles faced by Gambian Small and Medium Enterprises(SMEs) in accessing bank finance. Research evidence was collected through the administration of questionnaires to 80 small and medium scale entrepreneurs in Brikama region. Analysis and processing of data were performed using IBM SPSS 21. The results showed that bank finance for SMEs is rare and many firms attain substantial growth by reinvesting their accrued profits. The results also indicated that lack of collateral security, insufficient sanction, lack of financial deposit and lack of viable business idea were the major obstacles encountered by entrepreneurs in obtaining bank finance. This study made a number of recommendations on how the finance gap for SMEs can be addressed.

Key words*: SMEs, Access to finance, Obstacles, The Gambia.*

1. INTRODUCTION

Globally, Small, and Medium Enterprises (SMEs) have been recognised as the primary vehicle for economic growth and employment generation (Bridge et al. 2009).According to Cerin (2004), SMEs account for over70% of all global economic activities. Moreover, SMEs play a crucial role in the fight against poverty and in addressing the challenges of unemployment (Corral et al. 2005). Therefore, central to the economic growth of any country is the establishment of a thriving SME segment which is the key component for solving a host of societal problems, including unemployment.

Small and medium enterprises constitute an essential pillar of the Gambian economy, not just in terms of their share to the country's Gross Domestic Product (GDP), but especially in terms of job creation. It is approximated that SMEs provide about 60% of employment to the active population in the urban areas (Ministry of Trade, Industry and Employment, 2013). Today, SME organisations are the largest employer of labour in The Gambia (Social Development Fund, 2014). Thus, SMEs represent an important segment of the Gambian economy.

Given the inimitable position that SMEs occupy in the economic landscape of The Gambia, Government has placed the SME sector at the top of its development agenda through interventions such as training, provision of business development services, and facilitation of better access to finance and marketing linkages. The Government has also formulated national micro, small and medium enterprise promotion strategies and has set up a host of supporting institutions to facilitate the implementation of these strategies (MOTIE, 2014).

Regardless of the apparent importance and the numerous policy initiatives and support taken by successive governments, SMEs still continue to face several major challenges, one of which is access to finance. The Ministry of Trade, Industry and Employment in its 2013 survey found that access to credit was the second largest challenge for SMEs, after high levels of taxation. While some banks are increasingly targeting the segment, raising finance can still prove difficult. This problem is more serious for first generation entrepreneurs and micro enterprises requiring small loans to start-up and/or reinforces existing business.

The purpose of this study was to assess thoroughly the challenges experienced by SMEs in their quest to avail credit facilities from banks and hence to better understand the factors that affect the access to credit by small and medium Enterprises (SMEs) in The Gambia and how the underlying challenges might be addressed.

The remaining part of this paper progresses as follows. Second two explore the roles of SMEs in economic development, particularly in developing economies, Section three reviewed related literature, Section four specifies the methodology adopted Section five reports and discussed the empirical results and Section six presented the conclusion and recommendations of the study.

2. ROLE OF SMALL AND MEDIUM ENTERPRISES IN ECONOMIC DEVELOPMENT

The role of Small and Medium Enterprises (SMEs) is crucial in any economy. Audretsch and Keilbach (2004) asserted that the contribution of small and medium enterprises towards employment creation and economic growth in both developed and developing countries are remarkable. Similarly, Ramayahet al. (2016) acknowledged that SMEs are the most effective means of fighting poverty, reducing income disparities and providing the avenue for entrepreneurship development and growth.

It has been recognized that the development of this sector serves as a sure conduit to attaining increased growth and employment as well as higher standard of living. Levy (1993) argued that SMEs contribute to the economy through new ventures, playing a positive role in economic growth and development. The contributions of SMEs include the utilization of local resources, training of workers, provision of opportunities to rural people, contribution to the balance of payments, and reduction of dependence on high- capital investments (Oboh, 2004).

In relation to contribution to GDP, Ayyagari et al. (2003) in a study commissioned by the World Bank reviewed data for seventy- six countries and found that there was a strong correlation between the formal SME sector and per capita GDP. They also found that in low- income countries, the formal SME sector contributed16 per cent of GDP while in high- income countries, they contributed over 51 per cent of GDP. The 2011 Dallberg report shows that, in addition to their direct contribution to GDP, the growth of SMEs indirectly supports GDP through increased innovation and macro- economic resilience.

In developing countries, SMEs engage significantly in the development of necessary technology, and contribute greatly to savings and total investments (Schreyer, 1996). Rosli and Sidek (2013) vowed that, most robust and dynamic corporations in developing economies emerged from the small and medium enterprises sector.

Navarro et al. (2012) asserted that, a flourishing SME sector could also serve as a springboard for entrepreneurial development and pave the way for increased innovative activity. Furthermore, the development of the SME sector can also play an efficient role in achieving a more equitable distribution of economic wealth among people and region and thereby help to mitigate some of the problems related to uneven income distribution (Schramm, 2004).

SMEs play an instrumental role towards job creation and in bringing about a more diversified business structure. According to the international Finance Corporation (IFC, 2017), formal SMEs are responsible for 45% employment and about 33% of national income in emerging markets, while in high- income countries they constitute about 62% of overall employment and around 64% of GDP.

In short, SMEs make a major contribution to economies in developing and less- developed countries, where development strategies based on large- scale investments have failed. SMEs use local raw materials, generate employment, encourage rural development, develop entrepreneurship and promote the facilitation of complementary linkages with large firms. They encourage competition, and their capacity to take risks plays an important role in economic growth. SMEs provide a foundation for the development of larger industries (Odeh, 2005).

3. A BRIEF REVIEW OF LITERATURE

This section reviews the literature pertinent to this study and it is arranged in chronological order. Bosa (1969) revealed that lack of access to finance is the biggest inhibitor to SME growth. According to a research conducted by Webster (1991), financial constraint is the biggest problem which small firms are facing. Levy (1993) asserted that access to finance is the primary challenge retarding the performance of SMEs in both developed and developing economies.Kayanula and Quartey (2000) opined that the most common problems encountered by SMEs are availability and cost of finance. Prasad (2004) established that the lack of access to formal finance and problems pertaining to infrastructure, technology and skills are the chief constraints facing Indian SMEs. Bari et al. (2005) noted that inaccessibility to finance, government regulations, tax system, and lack of business facilities are the major constraints that adversely affected the operations of Pakistani small and medium enterprises. Mutezo (2005) opined that the financialstructure of SME sector is the chief factor militating against increased investment in the sector. Naude & Havenga (2005) asserted that due to disproportionate burden of red tape and administrative, most SMEs businesses continue to struggle accessing bank credit. The Organization for Economic Cooperation and Development (2006) inferred that financial constraints impacted heavily on SME growth. Jensen and Uhl (2008) claim that financial obstacles deter SMEs from securing long- term finance and planning. Kayginet et al. (2008) opined that inability of SMEs to access finance from external sources stifled their ability to procure inputs, assets as well as operating efficiency. A research implemented by Philips and Wade (2008) indicated that SMEs without access to credit may struggle to procure necessary technology. Bondinuba (2012) identified factors like lack of institutional capacity of SME sector, strict collateral requirement, poor financial infrastructure and policy regulations as the main obstacles that make it difficult for SMEs to access finance. Chimucheka and Rungani (2012) identified lack of collateralizable assets, ill- defined business plan, lack of financial deposit and lack of knowledge as the main obstacles faced by South African SMEs in their quest to access finance. Kuntchevet et al. (2012) found that SMEs face challenges in securing external funding, because they are not able to prove creditworthiness. An Asian Development Bank Institute survey (2013) found that insufficient collateral, poor business plans and incomplete documentation are the key difficulties that banks faced in financing SMEs. Gangata and Matavire (2013) noted that the inability of SMEs to produce quality collateralizable assets is the main factor that hinders their chances of securing bank finance. Zaidi(2013) in his study identified the challenges relating to inadequate credit from banks, dilapidated infrastructure, lack of knowledge, stiff competition and marketing challenges as attributes to SMEs failure rates in India. Haselip et al. (2014) found that inaccessibility to affordable credit is the key obstacle to starting and nurturing a viable commercial SME segment. The World Bank (2014) found that lack of access to formal credit is one of the main bottlenecks to the functioning of SMEs in Africa.

4. METHODOLOGY

This study employed a questionnaire based survey to elicit the required information from the SME respondents. Brikama region was selected as the study center because it is a region with a relatively high concentration of small enterprises. The sampling frame was prepared using the list of SMEs obtained from the Attorney General’s Chambers. A Stratified sampling method was utilized in selecting a sample of 80 SME owners and managers in the area understudy. The data collected from the sample units were analyzed and presented using statistical tables.

5. RESULTS AND DISCUSSION

This section presented the results and discussion of the questions posed to the respondents. In total, a set of 100 questionnaires was circulated and 80 were completed and returned, which represents a response rate of 80%. Thus, the analysis of data that follows is based on the 80 returned questionnaires.

5.1. Application for Credit Facilities

Table 1 illustrates the opinions of the respondents on whether they had ever applied for credit from banks.

Table 1. Application for Credit Facilities

Application for Credit Facilities	Frequency	Percentage
Yes	24	30.0
No	56	70.0
Total	**80**	**100**

Source; Field Survey, 2017

The result presented in Table 1 indicated that 70% of the survey respondents had never applied to banks for finance while only 30% did. This implies that the entrepreneurs were reluctant to approach banks for finance.

5.2Accessibility to Credit

Table 2 summarizes the responses of the entrepreneurs that once applied for bank finance on whether they were successful in getting the financing after applying for it.

Table 2. Accessibility to Credit

Credit Access	Frequency	Percentage
Yes	6	25.0
No	18	75.0
Total	**24**	**100**

Source; Field Survey, 2017

As can be seen from Table 2, 75% of the respondents in the survey reported that they had no access to credit facilities from any bank while only 25% reported that they had secured bank credits for their business operations and expansion. This survey result revealed that SMEs still suffer from shortage of credit in spite of the presence of numerous indigenous financial institutions that extend credit facilities.

5.3. Reasons for not applying for loans from Banks

Table 3reflects the entrepreneur's opinions on reasons why they never made a request for bank-aided financing.

Table 3: Reasons for not applying for loans from Banks

Reasons	Frequency	Percentage
Procedure is Complex	18	32.14
Don't Know Sources of Finance Available	16	28.57
High Interest Rate	14	25.0
Had Enough Capital to Start and Run My Business	8	14.29
Total	**56**	**100**

Source; Field Survey, 2017

As shown in Table 3, 32.14 % of the respondents mentioned that they never applied for a bank loan because the procedures for obtaining credit were cumbersome. 28.57 % admitted their lack of awareness about existence of bank financing sources available to the SME sector. 25.0 % reported that they were discouraged by interest rate charged by banks. The rest 14.29 % mentioned that they had sufficient capital to start and run their businesses. This analysis discloses that complex procedures involved in accessing credit and lack of awareness about existing sources of finance available at banks were the major factors that deterred entrepreneurs from applying for bank loans.

5.4 Reasons for Failures in Securing Credit from Banks

Table 4 depicted the responses from entrepreneurs that had applied to the banks for assistance but their applications were denied.

Table 4: Reasons for Credit Failures

Reasons	Frequency	Percentage
Lack of Collateral	8	44.44
Business idea not Viable	3	16.67
Lack of Financial Deposit	4	22.22
Poor Business Plan	1	5.56
Lack of Financial Information	2	11.11
Total	**18**	**100**

Source; Field Survey, 2017

The results summarized in Table 4 demonstrate that 44.44% of SMEs failed to access finance because they lacked the collateral requirements of the banks. This was followed by the lack of financial deposit (22.22%). Other reasons that excluded entrepreneurs from accessing credit from banks were lack of viable business plan (16.67%), lack of financial information (11.11%) and poor business plan (5.56%).Thus, the need for collateral and lack of financial deposit were the reasons why SMEs were not funded by banks.

5.5: Purpose of the Credit

Table 5 showed the respondents responses with regard to the purpose for which credit was sought from banks.

Table 5: Purpose of the Credit

Purpose	Frequency	Percentage
Increase Capacity/ Expansion Only	16	66.67
To set up New Business	5	20.83
Up gradation of Facilities	3	12.50
Total	**24**	**100**

Source; Field Survey, 2017

Table 5 revealed that 66.67 % of the sample units had sought credit for increasing the capacity/expansion of business. For 20.83 % entrepreneurs, the loan was sought to set up their businesses and the remaining 12.50 % for up gradation of facilities only. This finding revealed that bulk of the loan applications from SMEs were aimed at undertaking expansion programs.

5.6: Sources of Start- Up Capital

In order to study the entrepreneur's sources of start- up capital, Table 6 has been compiled and presented here.

Table 6: Sources of Start- Up Capital

Sources	Frequency	Percentage
Own Savings	48	60.0
Loan from Friends and Family	26	32.5
Loan from Banks	6	7.5
Total	**80**	**100**

Source; Field Survey, 2017

As can be learnt from Table 6, 60 % units of the sample reported that they relied entirely on their own savings as start- up capital. Further, 32.5 % reported that they were supported by loans from their family and friends and the remaining 7.5% entrepreneurs stated that they were given credit by banks at start-up. On the basis of the preceding analysis, it can be concluded that personal savings is the most commonly used means of obtaining initial financial resources for SMEs.

5.7: Adequacy of the Amount of Credit

Table 7 exhibited the opinions of the entrepreneurs who had access to credit from banks with regard to the adequacy of the amount of credit they had received.

Table 7: Adequacy of the Amount of Credit

Response	Frequency	Percentage
Not Sufficient	3	50.0
Moderate	2	33.33
Sufficient	1	16.67
Total	**6**	**100**

Source; Field Survey, 2017

Table 7showed that 66.67% of the surveyed units that managed to access bank finance stated that the credit amount was not sufficient.33.33%reported that the credit amount was moderate and only 16.67% of them indicated that the credit amount was sufficient. This result indicates that banks were not fulfilling the credit demands of SMEs.

5.8: Challenges Faced By Entrepreneurs Who Were Able To Access Bank Credit

In procuring bank finance, the entrepreneurs reported to have faced numerous difficulties. In order to identify the nature of problems faced by the entrepreneurs in the process of procuring bank finance, they were asked to specify the problems. Table 8showed the nature of problems faced by the entrepreneurs in procuring bank finance.

Table 8: Challenges Faced By Entrepreneurs Who Were Able To Access Bank Credit

Nature of Experience	Frequency	Percentage
Delay in Sanction	2	33.33
Heavy Acquisition Cost of Credit	1	16.67
Insufficient Sanction	3	50.0
Total	**6**	**100**

Source; Field Survey, 2017

The data shown in the above table reveals that 33.33% of the respondents seeking for bank finance had delayed sanction, 16.67% had to spend heavy acquisition cost due to dishonest practices of bank employees while 50% got insufficient sanction. Thus, it is disheartening to note that though the banking industry is expected to play the role of "social banking", yet a vital sector of the economy is faced with serious challenges in procuring bank loans. Such unhelpful attitudes of the banks in granting credit eventually compel many units to default in repayment of the borrowed amount.

6. CONCLUSION AND RECOMMENDATIONS:

The results of this study largely support that entrepreneurs in small enterprises generally find it difficult if not impossible to obtain credit from banks and it is due to a number of factors. Government and financial institutions should take giant steps to support the small business sector for it holds the greatest prospects for most developing economies.

Financial institutions should devise new methods of lending that are more attractive to small business operators. This will be beneficial not only to the national economy and small enterprises, but also to the banks themselves in terms of market position and liquidity.

Operators of Small enterprises should not be dependent on bank credit alone. They need to seek alternative sources of funding. Own funds or borrowed funds from non- institutional sources like relatives and friends can be cultivated profitably in the industry. Contributions from associations and trade credit could also be tapped as important source of finance. Operators of small enterprises should act virtuously and responsible if they are to earn the trust of their clients and bank officials.

Efforts should be taken by the government and it's supporting institutions to support small scale industrial units in a more sustainable way that encourages a spirit of innovation and independency. They should create a climate that is congenial for small business establishments to raise capital without the need to rely on assistance from government or supporting institutions.

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