

## PROJECT ABSTRACT

Master of Business Administration  
Finance Option

Adventist University of Africa

School of Postgraduate Studies

**TITLE: STRATEGIES TO HELP SMALL AND MEDIUM ENTERPRISES  
ACCESS FUNDING: A CASE OF COTONOU-BENIN**

Researcher: Kodjo Elom Agbodza

Primary Adviser: Josephine Ganu, PhD

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The main objective of this study was to examine the accessibility of funding of selected small and medium enterprises (SMEs) in Cotonou. A descriptive research design was adopted to carry out the study. The population of our research includes the SMEs of Benin, resulting from the various branches of industry. The size of our sample was 100. This study utilized primary data. Data was collected using a structured questionnaire and the data was analyzed for descriptive statistics (frequencies and percentages).

The study revealed that many SMEs depend on their own personal savings as a major source for funding and 72% of the respondents indicated that access to finance is their major challenge. Also, about 72% said that it is during the start-up and growth stages that accessing fund for their business poses the greatest challenge. The SMEs also face several factors that block them from getting the needed funds. The factors include absence of collateral, insufficient capital, insufficient profitability and

lack of business plan. According to the SMEs, they don't get funding because of high interest rates and perceived risks associated with their business and some unfavorable credit policies by the banks. Besides, the banks do not support their business. Also, more than 90% of the sampled SMEs said they do not enjoy any form of support from the Government of Benin.

The study, therefore, concludes that SMEs in Benin largely depend on personal savings as a source of funding their business and access to funding is a major challenge confronting the SMEs as a result of lack of collateral and business plans. In addition, the study concludes that financial institutions' stringent loan conditions also inhibit SMEs access to financing. Finally, the findings show that the government is not supporting the SMEs. The study concludes that the lack of government interventions such as giving subsidies, recognitions, funds, trainings and some tax reliefs, among other factors, may affect SMEs access to funding.

Adventist University of Africa  
School of Postgraduate Studies

STRATEGIES TO HELP SMALL AND MEDIUM ENTERPRISES  
ACCESS FUNDING: A CASE OF COTONOU-BENIN

A project  
presented in partial fulfillment  
of the requirements for the degree  
Master of Business Administration

by  
Agbodza Kodjo Elom

April 2018

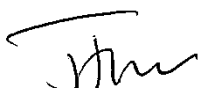



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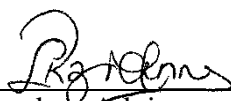
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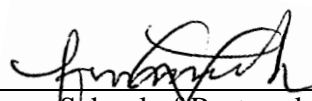
by  
Agbodza Kodjo Elom

APPROVAL BY THE COMMITTEE:

  
\_\_\_\_\_  
Primary Adviser:  
Josephine Ganu, PhD

  
\_\_\_\_\_  
Programme Director, MBA  
Josephine Ganu, PhD

  
\_\_\_\_\_  
Secondary Adviser:  
Marie Anne Razafiarivony, PhD

  
\_\_\_\_\_  
Dean, School of Postgraduate Studies  
Daniel Ganu, DrPH

Extension Site: Valley View University

Date: April 2018

This project is dedicated to my wife, family and friends for their unwavering support throughout my Master's degree and their encouragement that helped me complete this research project.

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## CHAPTER 1

### INTRODUCTION

#### **Background of the Study**

Small and Medium Enterprises (SMEs) play a crucial role in the economic and social development of both developed and developing countries. In Africa, these small businesses create around 80% of the region's employment (de Sousa dos Santos, 2015). According to the IMF's Regional Economic Outlook for Sub-Saharan Africa, released in April 2015, "Over the next 20 years ... sub-Saharan Africa will become the home of new entrants in to the global labor force." Hence, the presence of SMEs would signify their critical role in steering development and supporting this future growth. Aware of the contribution of SMEs in achieving the objectives of economic policy, researchers and policy makers have a strong interest in the creation, growth and competitiveness of SMEs.

In recent years, the governments of the countries of the Economic and Monetary Union of West Africa (EMUWA) are making efforts for the promotion and financing of SMEs by creating ministries in charge of them. The mission of promotion and SME financing also occupies a leading position among the major strategic directions of the West African Development Bank (WADB). Similarly, several researchers, professional organizations and development partners recognize the important role of SMEs as the heart of job creation and the fight against poverty.

In spite of the significant contributions of SMEs, there are several factors that hinder the development of SME in general and more precisely in Benin. Though there

are several hindrances, access to SMEs financing seems to be the greatest challenge in Benin. In Benin, in the context of economic liberalization, the authorities have undertaken institutional and regulatory reforms to create a more favorable environment for the development and hatching of SMEs. However, SMEs operating in Benin face many challenges that deter their growth as envisioned. Benin's SMEs are characterized by extreme fragility which seems to explain their early disappearance and low survival rate.

Among the challenges which affect the development of SME in Benin, financing deserves a detail attention. The resulting effect to this problem is the establishment of credit institutions such as the Association for Promotion and the Support with the Development of Micro Companies (PADME) in Benin. The main role of this institution is to increase the effectiveness and efficiency of the existing SMEs and also to ensure their transition into the formal sector by consolidating the jobs created in this sector. To all this is added the crucial role of creating a favorable environment for the mobilization of financial resources. However, despite the efforts of the PADME, SMEs face severe challenge in search of funding. Indeed, obtaining loans from financial institutions is a very difficult task. Most banks remain unsupportive to SME financial request and the explanation is simple – risk.

Besides, decentralized financial institutions who were created and developed to provide local financial services usually offer short-term loans and high interest rates often higher than the rate of return on activities to be financed. In Benin, the SME financing problem has become very worrying and is one of the root causes of their low survival rates. The reluctance of banks to finance SMEs investment is as a result of fear of increasing the share of bad loans in their loan portfolio.

The difficult access of SME to financing can also be related to the absence of specialized financial institutions for SME. In response, at the Council of Ministers in April 23, 2001 at Cotonou, the Government of Benin decided to include in its Action Programme (PAG 2), the development and implementation of a special program to promote SMEs / SMIs. But to date, this political will does not seem to be concretely manifested to alleviate the barriers to financing Benin's SMEs.

### **Problem Statement**

Generally, Small and Medium Enterprises (SMEs) are widely recognized as big drivers of economic growth, innovation, and job creation. Despite the undisputed importance of SMEs, small businesses in the Republic of Benin face numerous challenges. Access to SMEs financing is a key concern and setback affecting the sector's growth and long-term sustainability of the sector. The main objective of this study therefore, was to examine the accessibility of funding in selected SMEs in Cotonou, Benin and consequently propose strategies to increase their access to funding.

### **Research Questions**

1. What are the sources of SMEs funding in Benin?
2. What are the challenges confronting SMEs in Benin?
3. At what stage of the life-cycle do SMEs lack of funding poses the most challenge?
4. What are the factors that hinder funding from the viewpoint of SMEs and Financial Institutions?
5. To what extent are SMEs supported by the government?
6. What can be done to improve SME's access to funding?

## Conceptual Framework of the Study

Figure 1 below has been developed to show the conceptual framework of the study. The framework shows that SMEs funding can be supported by the SMEs, the government and financial institutions. Every SME is shaped by certain characteristics such as the legal status of the business, the number of employees and funding sources. Also, the government has an important role to support SMEs by creating special institutions that can fund and train SMEs operators. The government is also responsible to create a stable business environment and favorable policies to support SMES. Also, financial institutions can fund SMEs through crediting financing and training programs as well.

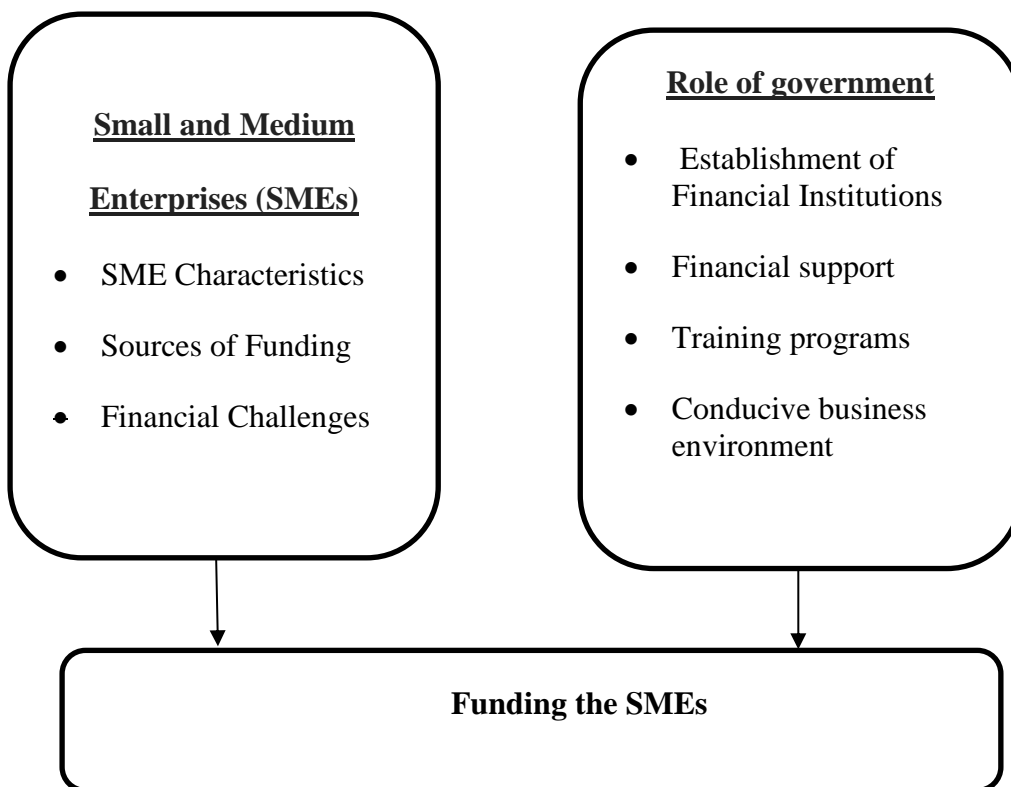


Figure 1. Conceptual Framework of the Study

### **Significance of the Study**

The findings of this research will be beneficial to political leaders, funders and economic decision-makers. The study will bring out the Benin SME financing difficulties and how to overcome or minimize the challenges.

For example, the study will unveil the actual sources of SMEs funding and the factors that hinder their access to funding. This will be useful to the policy makers and guide their policy formulation to support SMEs. Also, the SMEs will also come to know the factors that hinder their access to funding. This will help the owners to prepare and overcome those hindrances. Other researchers, unemployed graduates, students, young entrepreneurs and entrepreneurs will also benefit from the results of the study to guide their actions.

### **Scope and Limitations of the Study**

The scope of this study is Cotonou, economic capital of Benin and the Department of Littoral. A major reason for limiting the study to Cotonou is that it's the economic capital of the country with a strong concentration of SMEs and structures of financing institutions. Moreover, this Littoral zone also shelters not only the majority of existing SME, also incipient SMEs. Also, the study primarily focused on the sources of SMEs funding, the factors that block funding opportunities and the role of the government in supporting the SMEs.

In the process of conducting this study, several constrains cropped up such as difficulty in collecting the data. Some of the SMEs were reluctant to participate in the study because they thought the researcher was an agent for tax collection from the government, while the others took the researcher as a spy of their competitors. Another limitation in the unavailability of the right people (SME owners) to respond

to the questionnaires. These factors affected number of people who participated in the study.

### **Definition of Terms**

**A loan** is a contract by which SMEs obtains temporary use of property or the provision of a sum of money and in return agrees to pay interest to the lender.

**Access to Finance** is the formal channels through which SMEs can be able to get finances for their business start-ups and operations at affordable rates or cost.

**Challenges to Financing** are obstacles that SMEs face in accessing the needed funds for operations.

**Financing Strategies** are the mechanisms that SMEs use to access funds for their business, whether formal or informal.

**Funding** is the process to acquire financial resources necessary for business operation.



## CHAPTER 2

### REVIEW OF LITERATURE

#### **Definition of Small and Medium Enterprises (SMEs)**

The definitions of SMEs vary between countries and even according to the specific needs and objectives of researchers and organizations that use them.

Generally, there is no universally accepted definition of small business. Countless efforts have been made to define small business, using yardsticks such as number of employees, sales volume, and value of assets. Some of the frequently used yardsticks include the employee size, total assets, investment and sales level

Small and medium enterprises are considered those enterprises whose total number of employees is less than 500 people, with the following subdivisions: micro-enterprises (1-9 employees), small enterprises (10-99 employees), and medium enterprises (100-499 employees). The type of definition established, strictly on a single criterion – the number of people employed in enterprises – determines its classification in the current statistics of the European Union Abor and Quartey, (2010). The European Commission mentions that an enterprise can be deemed medium indeed, when it meets the following conditions simultaneously: the number of its employees is more than 49 and fewer than 250; the annual turnover does not exceed 40 million Euro or the total of the balance assets is not more than 27 million Euro. Small enterprises are considered those enterprises which have no more than 50 employees and an annual turnover of at least 7 million Euro or whose total balance

assets do not exceed 5 million Euro. Very small enterprises are defined as those with no more than 10 employees. Along with them, a fundamental criterion must be considered, namely the form and modality of distribution of property within the enterprise (the criterion of independence towards the large enterprises). Therefore, it is necessary that the participation of a big enterprise in the ownership of a small or medium enterprise should be of no more than 25% of its share capital. This criterion allows for the differentiation of those enterprises which are really small and medium from those representing parts of big enterprises. Considering the fact that both the turnover and the total amount of the balance are not defined unitarily in all the countries, these two criteria can lead to great difficulties in the classification of the enterprises.

Quantitative definitions of SMEs account for measurable parameters such as number of employees, the amount of investment, market share and revenue. In France, the SME has long been defined as a business with fewer than five hundred (500) employees while in the US the SME is a company that employs five hundred (500) employees. In Belgium and Switzerland, the thresholds are set at two hundred (200) and one hundred (100) employees (Torrès, 1999). According to the International Labor Office, (2015) report, SMEs are "modern industrial enterprises employing up to fifty (50) persons, family units of three (3) or four (4) members, village industries, associations people, companies, cooperatives, owner-operators, micro-enterprises and people working on their own account in the informal sector of the economy. This sector includes small enterprises engaged in non-manufacturing and small scale in the construction, transportation, maintenance and recovery, trade, etc. (International Labor Office, 2015; Lassort & Clavier, 1989).

In West Africa Countries, each country tries to have his definition about these realities. In Niger, companies with investments between \$ 50 million and 250 million CFA francs and at least 5-10 employees of Nigerien nationality. Whereas in Senegal, companies with an investment program between 50 and 200 million CFA francs, with a minimum of three permanent employees of Senegalese nationality are considered SMEs. In Togo, any company creation whose capital is mostly held by Togolese nationals, including the investment program of more than 50 million francs CFA and less than 25 million excluding tax and working capital is a small business. The Central Bank of Nigeria, (2005) defines small-scale business as an enterprise whose annual turnover ranges between N25,000 to N500,000 cited in Ewiwile, Azu, and Owa, (2011). This quantitative approach alone is insufficient; it is important to supplement it with qualitative criteria

The qualitative criteria used to define SME stress primarily the human aspect. According to Wtterwulghe, (1998), SME is a distribution or manufacturing unit, a unit of direction and management, under the authority of a leader entirely responsible for the company of which he is often owner and who is directly related to the life of the company. According to the General Conference of SME in France, “SMEs are those in which the heads of companies ensure personally and directly the financial responsibilities, technical, social and morals of the company whatever its legal form” Bizaguet A., 2001, p. 9). The Central Bank of the States of West Africa (BCEAO) also defines SME as “a company actually managed by the nationals which uses at least five national employees, who hold at least 51% of the capital and of which incur it credit is lower than thirty million (30 000 000) francs CFA” (Report of the National Seminar on the SME from 25 to April 29, 2008). A new definition of SME was retained at the time of a workshop which brought together African western political

decision-makers in Lome in Togo July the 16 and 17, 2003 around the topic: "*the promotion and financing of SME*". Thus, SME is defined as a company having manpower from 5 to 250 permanent employees, an annual sales turnover between 50 million and 2 billion. In consideration of all these definitions, we retain for our research that SME is an independent business with less than two hundred (200) employees with an investment program between 50 and 200 million CFA francs.

### **Role of SMES**

The private sector is the key engine of job creation accounting for 90 percent of all jobs in the developing world, International Finance Corporation (2013). Small and medium Enterprises (or SMEs) account for the vast majority of these jobs. It is estimated that 122 million new jobs will be needed in Africa by 2020 to absorb a growing Workforce and address unemployment McKinsey Global Institute (2012). SMEs are regarded as facilitators of economic growth and for enhancing development. Its main benefit is its employment creation potential and low capital requirement. Most jobs, including for women and the youth, are expected to come from SMEs that form over 95% of businesses in Africa. At present, Africa accounts for just 1% of global manufacturing sector. Despite having 27% of the world's arable land, many African countries import food and agricultural products from outside the continent, Economic Development in Africa (2013).

Governments play a vital role by ensuring that the favorable conditions are in place for strong private-sector led growth, and by alleviating the constraints that hinder the private sector from creating good jobs for development. It is essential for Africa to have a vibrant private sector by providing SMEs with adequate support to access finance, markets and improve their productivity and competitiveness.

Experience from other parts of the world show that SMEs are capable of creating

productive jobs, which is critical for Africa to achieve its human capital potential, improve the performance of the economy, strengthen domestic markets and exports, and achieve food security. Job creation in emerging markets is stunted by lack of finance, lack of adequate electricity, poor business environment and investment climate with skills mismatch from lack of coordination between industry and all forms of tertiary education.

For big companies, the SMEs represent the world from which they came and where from their future competition will come. For individuals, SMEs often represent the first job, the first step in the career. They are also a first step to the world of entrepreneurs. For the economy in whole, the SMEs are launchers of new ideas and assemblage of new processes accelerating the increase based on a more effective use of resources (Zaman & Vîlceanu, 1999).

An important involvement of the external impact of small and medium enterprises is the fact that their contribution in the development is not limited to the sector of SMEs of the economy, but more than that, it is extended as impact on the enterprises not in this sector, with significant influences. The statistics in almost all the countries show that the SMEs are absolutely predominant in the economy, representing more than 99% of all the companies, having substantial influence on obtaining the gross domestic product and the supply of jobs.

An essential attribute of small and medium enterprises consists in the fact that they constitute an important source of jobs. Two thirds of the newly created jobs are owed to the small and medium sector. The costs associated to the creation of a job in a small or medium enterprise is reduced compared to the ones involved in the creation of a job in a big enterprise. The accomplishment of products and services at lower costs than the big companies; the main factors determining this difference are the

lower conventional lower expenses, a higher work productivity under the circumstances of the permanent presence of the entrepreneur in the company. The small and medium enterprises represent a factor of balance at the micro and macroeconomic level. Having as correspondent the middle class in the society, the small and medium enterprises counter-balance the monopolies and oligopolies, reducing the capacity of the big companies of controlling the market (Savlovschi & Robu, 2011).

Also, the SMEs are flexible and they have a great capacity of adjustment, encouraged by the low dimensions and the fast-decisional process. They adapt easily to the requirement and demands of the consumers, being closer to the market. Another important aspect is the fact that they generate to a greater extent the technical innovation applicable in the economy. Many of the jobs will come from the innovation and the new discoveries will bring about new entrepreneurial adventures. Paul Almeida, Professor at Georgetown University, thinks that SMEs play a unique, active and critical role in the innovation process by their ability to invent in the new technological space and to improve the high technology information networks Almeida, (2004). This assertion is based on the empirical research in the avant-garde industries, carried out on a 10-year period (1994-2004). The specialists agree that the social networks, formal and informal, are vital to the innovation process in SMEs. The small companies establish regional networks more easily than big companies do. The creativity of small companies is the fuel of the entrepreneurial spirit and the economic growth. John W. Snow – Secretary of the U.S. Treasury, praising the entrepreneurial spirit in the USA, declares: “They are a category full of bravery ... no one works like them and no one takes greater risks” (Savlovschi & Robu, 2011).

In the new context of the revolution of knowledge, of the passage from the economy dominated by the physical, tangible resources to the economy dominated by knowledge, the small and medium company becomes the main microeconomic strategy. The small number of components, the low dimensions of the tangible assets, the smaller complexity of the activities and simple structures make it easier to situate in the foreground the preoccupations, decisions and actions of the knowledge resource. The entrepreneurial spirit, the intense interpersonal relations and the pronounced group cohesion, the versatility, flexibility and organizational dynamism are defining elements for the economy and the company based on knowledge, which are found traditionally in the small, dynamic companies. Therefore, there is a high harmonization between the small company and the economy based on knowledge (Nicolescu, 2001).

The International Finance Corporation declares that: “in many countries in course of development, the private economy is almost entirely comprised in the SMEs” and that “they are the only realist possibility of employment for the millions of poor people in the entire world” ([www.prospects.ac.uk/SMEs/A\\_worldview](http://www.prospects.ac.uk/SMEs/A_worldview)). Therefore, Small and medium-sized enterprises (SMEs) play a very important economic and social role, both through their importance in the economy and in job creation, a role which is greatly appreciated in these times of crisis and rising unemployment in Africa. The development of SMEs can help to face many challenges linked with economic development, inequalities, very high unemployment, demographic developments and the need for structural change.

In particular, SME development offers many job opportunities which can help to lower the unemployment rate and address the demographic challenges posed by growing populations. In addition, the development of the SME sector can help to

increase competition and productivity and thus stimulate the growth of income both overall and per capita. This development will also stimulate structural change, since a healthy SME sector is associated with innovation and technological upgrading. In return, this process contributes to regional and local development and to social cohesion as it helps to reduce inequalities, since a rise in the incomes of a wider section of the population should create a greater demand for better governance. All these positive developments should help create better opportunities, both economically and politically, that will transform discouraging and potentially aggravating demographic projections of increasing poverty and instability into a force for positive change. It is therefore no exaggeration to say that SMEs have the potential to act as key drivers of development for the entire Mediterranean region.

Small and medium enterprises (SMEs) form significant sectors in most world economies and therefore their development is regarded as an important issue for most governments. The significance of the sector is due to the contribution made to job and wealth creation in the world economies Kuratko & Hodgetts, (1995). In Australia, SMEs produce about one-third of total Gross Domestic Product of the economy (Meredith 2000) and represent about 85.5% of all Australian enterprises including public trading and general government organizations (cited in Kiriri, 2008). In the United States of America, small enterprises employ 57 percent of the private sector workforce and produce approximately 45 percent of the nation's gross national product (Helms & Renfrow, 1994). Contributions to world economies by SMEs include providing opportunities for innovation and breeding grounds for new business ventures Meredith, (2000); Producing national output and exports Perry and Pendleton, (1990); Acting as a transfer agent from big business to the consumers of products and services Perry and Pendleton, (1990); Helping curb rural-urban



migration through decentralisation and employment generation Republic of Kenya, (1992); Creation of competition (amongst small businesses and with large enterprises) and outlets for entrepreneurial activities (Meredith, 1988).

### **Challenges of SMEs**

According to Lefilleur (2008), access to finance proves to be the main constraint faced by small and medium-sized businesses in sub-Saharan Africa. Three reasons keep the traditional players – banks, investment funds and development finance institutions – away from this market: a distorted perception of risks, high transaction costs and the difficulty of adequately securing credits. Improving small and medium-sized business financing mainly depends on whether the private sector is able to develop financial systems that are better suited to the local business environment. Adapting microfinance principles to small and medium-sized business financing may well hold promise. Likewise, developing credit products that allow lenders to be better secured or, alternatively, encouraging guarantee funds would also certainly help improve access to finance for small and medium-sized businesses.

According to Kauffmann (2005), Africa's SMEs have little access to finance, which thus hampers their emergence and eventual growth. Their main sources of capital are their retained earnings and informal savings and loan associations, which are unpredictable, not very secure and have little scope for risk sharing because of their regional or sectoral focus. Access to formal finance is poor because of the high risk of default among SMEs and due to inadequate financial facilities. Small business in Africa can rarely meet the conditions set by financial institutions, which see SMEs as a risk because of poor guarantees and lack of information about their ability to repay loans. Besides, the financial system in most of Africa is under-developed and so provides few financial instruments. Capital markets are in their infancy, shareholding

is rare and no long-term financing is available for SMEs. Non-bank financial intermediaries, such as microcredit institutions, could be a big help in lending money to the smallest SMEs but they do not have the resources to follow up their customers when they expand.

Limited access to finance is a major obstacle to development of SMEs in Africa as their inherent higher perceived risk makes financial institutions reluctant to lend to them and adequate financial instruments lack. Kauffmann (2005) proposes four approaches for increasing SME Access to finance: boosting the capacity of SMEs, helping SMEs meet the requirements of formal financing, making the financial system more accessible to SMEs, and expanding the supply of finance through the non-financial private sector. In the words of Hoppenot (2009), to increase volumes of financing offered is not enough to improve the financing of SMEs. SMEs need to satisfy the criteria of eligibility of the bankers and other investors.”

Given the difficulties encountered by the promoters, it is necessary to propose, under certain conditions, not only of the own capital stocks and the loans, but also a technical aid. For SMEs financing difficulties in Africa: the question is who is to blame? For that Derreumaux (2009) argued that the insufficiency of financing of SMEs in sub-Saharan Africa concerns as much the responsibility for the SMEs as well as the banks. If the first present significant gaps compared to the requirements of the banking environment, the second could deploy more means to penetrate the segment of SMEs. The experiment of the group Bank of Africa shows indeed that these customers can represent a profitable outlet for the banks.

According to Tadesse (2009), Vice President in charge of operations at the Development Bank of Southern Africa, whereas SMEs represent the majority of the companies in sub-Saharan Africa, they only contribute very little to the GDP. The

constraints of financing with which they are confronted are partly responsible for this situation. However, SMEs have significant socio-economic impact and it is thus necessary to support their development. With this intention, the bankers and other supporters must creatively support SMEs and accompany their financings by technical aid.

Beyond financing, at the early stages of development, SMEs also face other challenges, including lack of advisory support services, weak corporate governance, mentoring skills and talent development, incubation support, research centers, networking, market access, etc. In addition, there is a lack of affordable professional services (consulting, law, accounting, etc.) and other support programs including governmental, formal and informal business networks. A well---functioning network of Credit Bureaus can alleviate this problem if properly set up with sustainable funding. Many countries also have weak enabling environment for SMEs, such as regulatory constraints, complicated tax laws, complex process for permits & registration, insolvency and creditor rights, and often unfavorable secured transaction bylaws. In some cultures in Africa, entrepreneurship is sometimes not seen as a valuable career, with bankruptcy and failure considered to be a taboo.

### **Sources of SMEs Funding**

There are many sources of finance for start-up companies. The first step is to calculate how much money that would be needed and when the money would be needed. The financial requirements of a business will differ depending on the type and size of the business.

Enterprises are financed either by debt, equity or a combination of the two. The two types of financing are derived from either the formal or informal financial sector. In the formal sector, commercial banks and development banks are the main

sources of financing for businesses, while the informal sector comprises of loans from friends, relatives and cooperative societies. In Nigeria, banks such as commercial, microfinance, and central bank, as well as international development agencies are some of the institutions in the formal financial sector that have played important roles in financing small businesses in Nigeria Badulescu (2011). According to Ewiwile et al. (2011), the sources of finance accessible to small businesses include personal savings of the business owner as well as friends and family who may be business associates; business partners and associates; banks and financial institutions; the small business administration and financial assistance program, suppliers, etc.

In Benin for instance, the government provides grant credit through institutions like ANPME (National Agency of SMEs), PADME (Promotion and the Support of the Development of Micro Companies), CLCAM (local Cashbox of agricultural credit mutual insurance Company), FNM (National Funds of the microfinance), and FNPEJ (National Funds of the Promotion of the Employment of the Young people).

From the above listed sources, personal savings is the most accessible to a lot of people. The other options available for financing small businesses such as loans from financial institutions are virtually not accessible. Insufficient access to finance has been recognized as part of the main limitations to the development of small businesses. Therefore, many SMEs resort to microfinance and microcredit facilities. Microfinance refers to the provision of financial services tailored to the requirements of low income people like micro-entrepreneurs, particularly the delivery of small loans, the provision of small loans, receipt of small savings deposits and easy payment services required by micro-entrepreneurs and other poor people. Hence, it caters for customers who are omitted from the conventional financial system because

of their low economic status. According to Ojo (2007), microfinance is described as small scale financial services that are granted to informal small business operators in order to take part in any other creative or distributive activities.

Microfinance lending had not been very successful from the formal as observed Arogundade, (2010). Diagne and Zeller, (2001) stated that inadequate access to loans may negatively affect SMEs and have negative consequences for SMEs and general welfare. The primary aim of microcredit according to Maruthi, Smith and Laxmi (2011) is to enhance the wellbeing of the underprivileged through improved access to small loans which are not provided by the formal business institutions. Microfinance involves making a wide range of financial services available, like, deposits, loans, transfers and insurance services to small businesses. It also involves making available financial services to small businesses that are usually not catered for by the commercial banks. Oladokun (2006) is of the opinion that microfinance should not include collaterals, should offer door-to-door services that provides small loans to people, especially women using easy procedures. In the past, Nigerians have attempted to make available needed finances through informal institutions like self-help groups (SHGs), rotating savings and credit associations, (ROSCAs), accumulating credit and savings associations (ASCAs) and lending from family and friends. The Central Bank of Nigeria (CBN) made reference to this when it mentioned that due to the scarcity of funds, microfinance services have a restricted extent to which they can reach. It was while trying to settle this known paucity of the informal microfinance sector that in 2005, the CBN launched the microfinance policy as a preamble to the issuance of microfinance banks in Nigeria. Consistent with the policy is the objective to establish a microfinance framework that would improve the delivery of a variety of microfinance services for a long-range time period to the

underprivileged and low-income group to sufficiently attend to the financing needs of the low-income groups Oladokun (2006).

### **Factors Affecting SMEs Funding**

According to Oni, (2012) the capacity to build growth capital is dependent on 'whom you know' particularly put as your 'technical know who'. In Nigeria, one of the main problems facing small and medium enterprises is capital required to finance their activities. Agwu and Murray, (2014) stressed that the largest source of finance for SMEs around the world remains the commercial banks. Nevertheless, a lot of commercial banks are not willing to finance small businesses because of the risks and uncertainties involved. Some of the reasons for the reluctance of commercial banks in Nigeria to finance the sector include harsh economic environment, inadequate managerial skills and insufficient availability of modern technology by small businesses. This has led to a constant reduction in financing small businesses in the country.

A number of credit institutions have been created by the government and its agencies over the years. The aim of these credit institutions has been to enhance SMEs access to finance.

**The role of government support.** According to Kadete (2014), many governments in Africa have recognized their role in creating an enabling environment for the emergence of the private sector and participation in economic activities. Therefore, many countries have committed themselves to reduce direct involvement in productive activities. The main government role with respect to SME development include to provide necessary infrastructure for SME development; to set up institutions which support SME activities and to strengthen the existing ones through

the national budget; and to ensure equal access for women, youth, and the disabled (Kirumba, 2002).

The State is a major factor in influencing the nature and pace of SME development, although more is done through its influence on the external environment in which business activities can develop rather than to support directly individual SMEs. Survey evidence suggests that many enterprises are set up, survive and sometimes even grow, because of the creativity of individuals in mobilizing resources and their flexibility in adapting to hostile external environments. The problem is that in such situations the number of firms remain small and their contribution to economic development rather limited. Therefore, government still has to create the framework conditions for private sector development to become embedded and sustaining.

Olomi and Mbise (2001) argues that the government has a major role such as sustaining a favorable macro-economic environment – inflation, exchange rates, low deficit, economic liberty, investor confidence, etc which are considered essential for a well-functioning private sector. This is mainly done at the central government level through good macro-economic management. Sustaining a favorable business environment also includes enhancing awareness of rights and obligations, efficient and reliable infrastructure; transparent laws and regulations including taxation; efficient and fair administrative processes; opportunity to be heard/listened to; promotion of an enterprising culture (one that values private initiative, independence, success, innovation, efficiency, etc) etc. this can be done in both local and central government levels.

Also, the government can provide supportive interventions including quality assurance, recognition, fiscal and other incentive to encourage non-state service

providers of training, incubation, finance, advisory services, clusters, industrial parks, science parks, etc to small firms. In addition, designing SME development policies and strategies such as reforming curriculum of school, college and vocation training systems; co-coordinating reforms, actors and initiatives; and providing information and dialogue platforms. This can be done at both central and local government levels. Sustaining think tanks and processes, which research on the sector, monitor its health; and come up with innovative mechanisms for fast-tracking its development. More so, providing basic infrastructure, such as surveyed and serviced land, water, security, waste disposal, etc. are important role of the local governments. Many local governments in Tanzania do this, although not very well. According to the UNIDO (2013) in Tanzania the SMEs policy structure is built on 7 pillars with corresponding Policy Statements, namely:

1. **Legal and Regulatory Framework:** the Government will enhance implementation of programmes aimed at simplification and rationalization of procedures and regulations as to encourage compliance and minimize transaction costs.
2. **Physical Infrastructure:** the Government will continue to improve the physical infrastructures and provision of utilities in collaboration with Local Authorities, private sector and development partners.
3. **Business Development Services:**
  - a. **Entrepreneurship Development:** the Government will promote entrepreneurship development through facilitating improved access of SMEs to financial and non- providing business training to SMEs; financial services;
  - b. **Business Training:** the Government will enhance the capacity of institutions;
  - c. **Information:** the Government will facilitate and support programmes aimed at increased access of information pertinent to the development of SMEs;
  - d. **Technology:** the Government will facilitate acquisition and adaptation of technologies as well as enhance networking between R&D Institutions and SMEs in a bid to upgrade technologies so as to raise the productivity and competitiveness of the sector;



- e. **Marketing:** the Government is committed to facilitating support programmes aimed at improving SMEs' access to market.
4. **Access to Finance:** the Government will enhance financial reforms aimed at further liberalization of the financial sector and the creation of financial intermediaries to cater for SMEs.
  5. **Institutional Framework for SMEs Development:** the Government will facilitate strengthening of institutions and associations supporting the SME sector.
  6. **Rural Industrialization:** the Government will facilitate the establishment of manufacturing enterprises in rural areas so as to add value to agro products.
  7. **Cross Cutting Issues:**
    - a. **Environmental considerations:** the Government will ensure that environmental considerations are given due emphasis in all SME development interventions;
    - b. **Gender and the Disadvantaged Groups:** the Government will ensure that gender mainstreaming is enhanced in all initiatives pertaining to SME development.

There is a positive correlation between performance and government policies (Kraja, Osmani, & Molla, 2014). This means that supporting policies of the local and central government provide incentives, encouragement to small and medium enterprises.

**The economic environment of SMEs in Benin.** The SME sector in Benin has been exploding over the past three decades mainly as a result of the few formal avenues for pursuing interest-bearing investment options. Most countries within the sub-region have shallow stock markets, whilst at the same time interest rates have not been able to catch up with rising inflation. Under these circumstances entrepreneurship has been the attraction for investing excess money holdings. Unfortunately, the SME sector in Benin is a mixture of self-employment outlets and dynamic enterprises that are involved in an array of activities mainly concentrated in urban areas. In addition, they lack access to the financial resources needed to expand, grow and transform into higher size thresholds.

According to Collier, (2009), the lack of access to finance by SMEs in West Africa (including Benin) is unfortunately as a result of two high risk characteristics. First, the provision of finance for West Africa is generally rated as riskier than for other regions. Second, the provision of finance for small firms is globally rated as riskier than for large firms. The ensuing sections discuss some stylized facts on SMEs within ECOWAS regarding access to finance and explore some of the alternatives that have been deployed within the sub-region by various countries to relieve SMEs of their financing constraints. The World Bank's distance to the frontier index of 2014 Quartey, Turkson, Abor and Iddrisu, (2017) shows that with the exception of Ghana and Nigeria, all other West African countries were at best 60 percentage points away from New Zealand (the best performing country in the world). While Ghana and Nigeria were about 35 and 40 percentage points away from the frontier respectively, Ghana's index was higher than the average for OECD high income and Europe and Central Asian countries (World Bank, 2015).

The lack of access to credit by SMEs (who make up over 90% of the private sector) in the developing world is clearly confirmed from data on bank and domestic credit to the private sector in West African countries, and among income groups and sub-regions of the world (as shown in Table 1) between 2000 and 2014. With the exception of high income countries, banks contributed over 90% of domestic credit to the private sector over the period 2000–2014. The proportion of domestic credit to the private sector contributed by banks was even higher for West African countries than other countries. Noticeably in almost all the countries within the sub-region there has been an increase in both domestic and bank credit to the private sector (as % of GDP) over the period, with Cape Verde's ratio more than doubling and Guinea remaining stable at very low levels of less than 6% of GDP. These facts on credit to SMEs in

West Africa necessitated the need for a study of this sort to unpack the factors that explain why SMEs especially in Benin have difficulty in accessing finance.

*Table 1. Bank and Domestic Credit to the Private Sector (ECOWAS, Income and Country Groups)*

Country/region/group	Bank credit to private sector (% of GDP)				Domestic credit to private sector (% of GDP)			
	2000	2005	2010	2014	2000	2005	2010	2014
Benin	11.6	16.3	23.3	25.1	11.6	16.3	23.3	25.1
Burkina Faso	11.6	16.4	17.3	28.0	11.6	16.5	17.3	28.0
Cape Verde	38.2	37.7	61.0	62.4	40.1	39.1	61.9	62.9
Cote d'Ivoire	14.9	13.0	16.5	20.3	15.1	13.2	16.6	20.3
Gambia, The	6.5	9.5	15.2	13.1	6.7	9.6	15.4	13.5
Ghana	13.8	15.4	14.6	15.8	14.0	15.5	15.3	16.8
Guinea	3.9	4.4	5.7	..	4.0	5.7	5.7	..
Guinea-Bissau	4.6	1.1	6.1	12.1	4.6	1.1	6.1	12.1
Liberia	3.1	6.3	14.4	19.5	3.3	6.7	14.8	19.6
Nigeria	12.3	13.2	15.4	14.5	12.4	13.2	15.4	14.6
Senegal	18.6	23.2	25.6	33.3	18.7	23.2	25.7	33.3
Sierra Leone	2.0	3.3	7.8	4.8	2.1	3.4	7.8	4.8
Togo	16.0	17.5	22.8	34.1	16.0	17.5	22.8	34.1
Niger	4.8	6.8	12.3	14.2	4.8	6.8	12.3	14.2
Mali	16.4	17.2	18.0	24.4	16.5	17.2	18.0	24.4
Europe & Central Asia	..	96.0	106.3	93.6	..	96.0	106.6	93.8
Latin America & Caribbean	24.7	24.0	36.7	46.7	25.7	25.5	40.0	52.0
Middle East & North Africa	38.6	42.3	50.7	45.1	38.8	42.8	51.0	45.2
Sub-Saharan Africa	33.0	33.8	32.4	29.1	57.3	62.1	55.4	29.2

Source: World Bank WDI (2015).

Generally, within Sub-saharan Africa (SSA), official schemes (where finance is provided to SMEs by government and/or other international bodies) and informal sources of finance remain the main alternatives to banks and non-bank financial

institutions financing of SMEs. The official schemes are often set up with the primary motive of increasing the flow of finance and credit to SMEs to enable them increase their operational capacities, productivity and competitiveness in the local and international markets. With regards to informal sources of finance, many SMEs in SSA (especially those in Nigeria and Ghana) have made use of sources such as owner's savings, money lenders, friends and relatives, credit and savings associations, 'susu', etc. to finance their business.

CHAPTER 3  
METHODOLOGY

**Research Design**

The research used the cross-sectional descriptive research design. A Descriptive Research is the systematic description of a situation or population. The purpose of the research design is to identify the sources of SMEs funding in Benin, examine the life cycle of the participating SMEs and the roles of both the government and financial institutions. This formed the basis for proposing a solution.

**Population & Sampling Technique**

According to the Minister of Finance and Economic and Minister of Industrie and Trade, there are 542 registered SMEs in Cotonou (Chamber of Commerce and Industry of Benin, 2015). The researcher sampled 100 SMEs (19 SMEs in the Primary Industry sector, 9 SMEs in Secondary Production sector and 72 SMEs in the Service Industry sector) in the town of Cotonou, the economic capital of the Benin Republic for the current study. The respondents were the business owners or directors and some key employees of the SMEs. Table 2 shows the details.

*Table 2. Target Population and Sample of the Study*

SME	Target Population	Sample
Agriculture, hunting, coast fishery	76	10
Art	34	3
Financial activities – transfer money	78	19
Industrie of rubber and plastic	4	1
Industrie of paper, cardboard, and printing house	15	5
Industrie of agriculture and food	27	6
Industrie of manufacturing	31	3
Trade, moto reparation	83	15
Education not school	45	9
Hotel and restaurants	149	29
Total	542	100

**Source:** Annual statistical report of the Chamber of Commerce and Industry of Benin, year 2015

### **Instrument for Data Collection**

The instruments for data collection included questionnaires and interview. Two types of questionnaires were used – one for SMEs and the other for the institutions of financing. Besides, the researcher conducted interview also with the persons in charge for credit for certain banks and certain directors of SMEs

### **Instrument Validity**

In Kaplan and Saccuzzo, (2001), validity has been described as 'the agreement between a test score or measure and the quality it is believed to measure' In other words, it measures the gap between what a test actually measures and what it is intended to measure. The questionnaire was based on the research questions and also given to selected professors and entrepreneurs to check the content validity.

### **Ethical Considerations**

The ethical issues which have been adhered to are described as follows: SMEs were consulted for their consent and each respondent was informed about the purpose of the study and then given freedom to participate or not to participate in the study.

Also, the researcher ensured that the identity, privacy, and confidentiality of participants are protected. All the data collected were coded and aggregated to avoid any exposure of individuals. I also declare that this project is my original work and has not been presented to any institution of higher learning for academic credit other than Adventist University of Africa. In addition, this research avoided plagiarism by acknowledging the work of others utilized in this research.

### **Data Collection Procedure**

I personally visited the various SMEs and financial institutions to give out the questionnaires and interviews through the booking of appointment with some directors to make sure that I explained the purpose of the study.

### **Data Analysis**

The study collected mainly quantitative data which were then classified into categories and summarized by percentages and frequencies using Statistical Package for Social Science (SPSS). The interviews were also summarized and reported in the findings as well.

## CHAPTER 4

### RESULTS AND DISCUSSIONS

#### **Response Rate of Participants**

This study included 120 participants who were given questionnaires. Out of the 120 questionnaires distributed to respondents, 86 SMEs and 16 financial institutions returned fully completed questionnaires, yielding a response rate of 85%. Some SMEs declined to participate in the study because they believed that I was an agent from internal revenue /tax office and others also thought that I am a spy from their competitors. Table 3 displays the questionnaires distributed and collected.

*Table 3. Total Questionnaires Distributed and Retrieved*

Institution	Number of Questionnaires Distributed	Number of Returned Questionnaires
SMEs	100	86
Financial Institutions	20	16
Total	120	102

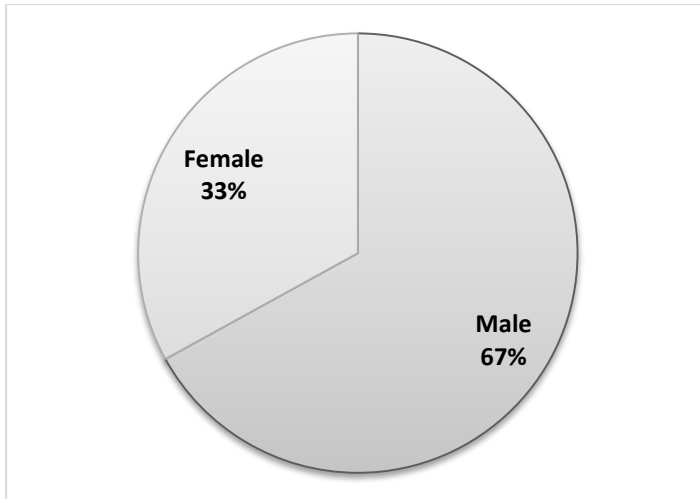
#### **General Characteristics of Participants**

The general characteristics of the study participants are presented as follows:

##### **Gender Distribution of Participants**

When respondents of the study were asked for their gender, (67%) indicated they were male, while (33%) were female as highlighted in Figure 2.

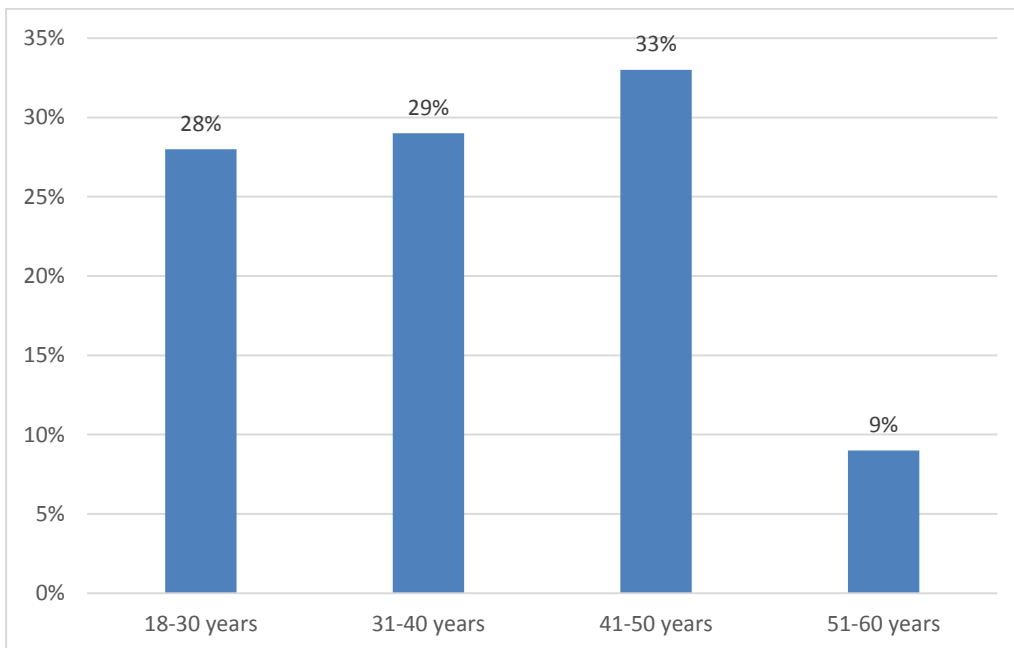




*Figure 2. Gender Distribution of Respondents*

### **Age Distribution of Participants**

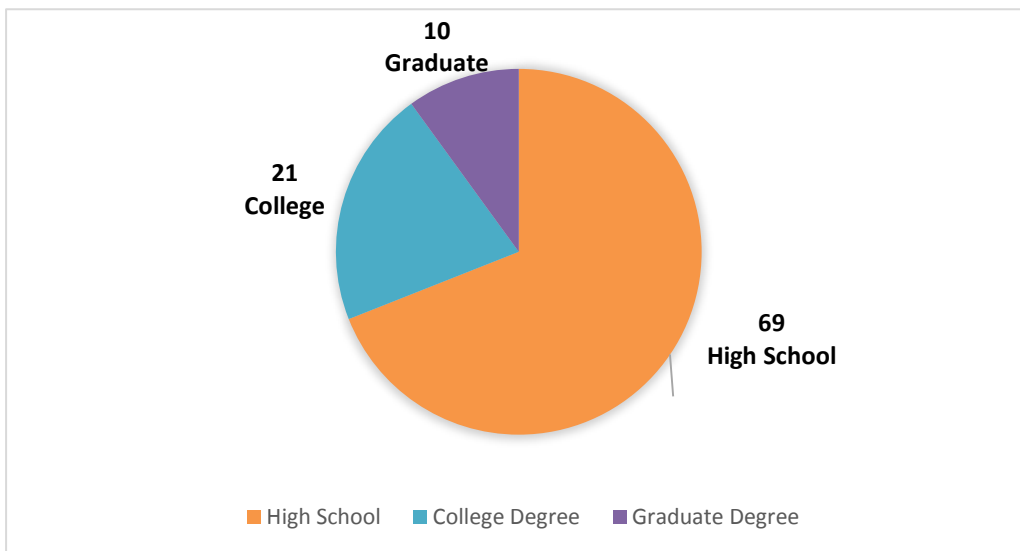
When respondents were asked to indicate their age group, (33%) indicated they were aged 41-50 years; (29%) were aged 31-40 years; (28%) were aged 18-30 years, while the remaining (9%) were aged 51-60 years as summarized in Figure 3.



*Figure 3. Age Distribution of Participants*

### **Education Level of Participants**

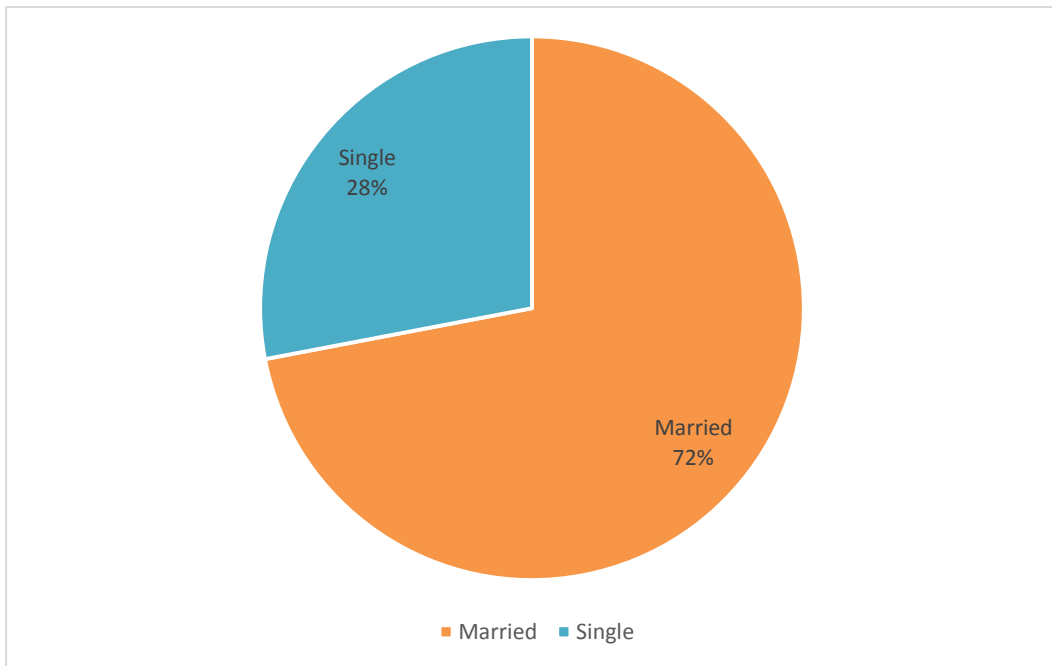
The findings in Figure 4 below, revealed that 69% respondents had High school education, 21% respondents had College degree and only 10% respondents had reached graduate degree. These findings have shown that most participants in SMEs were high school education level, followed by college level with 21% and very few have attained graduate degree only 10%.



*Figure 4.* Education Level of Participants

### **Marital Status of Participants**

For this case 72% respondents are married and, 28% respondents are single. The findings have shown that most of workers are married.



*Figure 5. Marital Status of Participants*

### **General Characteristics of the SMEs**

#### **Distribution according to Years in the SME Sector**

Respondents of the study were asked to indicate the number of years they had spent in the SME sector. The findings show that (39%) of respondents had spent 1-3 years; (27%) had spent 4-6 years; (10%) had spent 7-9 years and (24%) had spent at least 10 years in the sector as summarized in Figure 6 below.

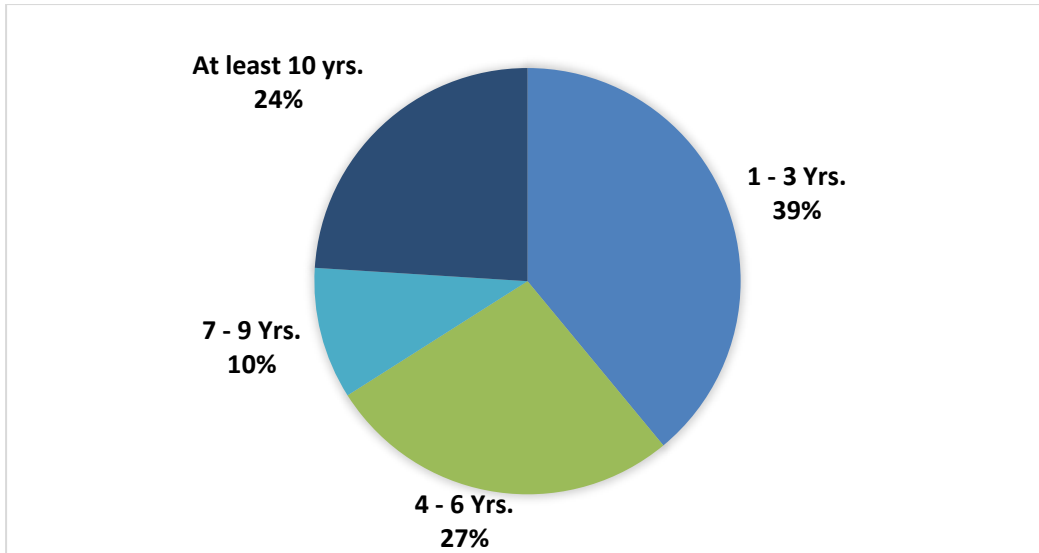


Figure 6. Number of Years in the SME Sector

#### Distribution according to Job Status

From the survey, 42 % of respondents are the owners of their SME and the director of the SME, 32% are their employees. There are few are top managers (8%) managers (18%) because most SMEs have active owners who run the business.

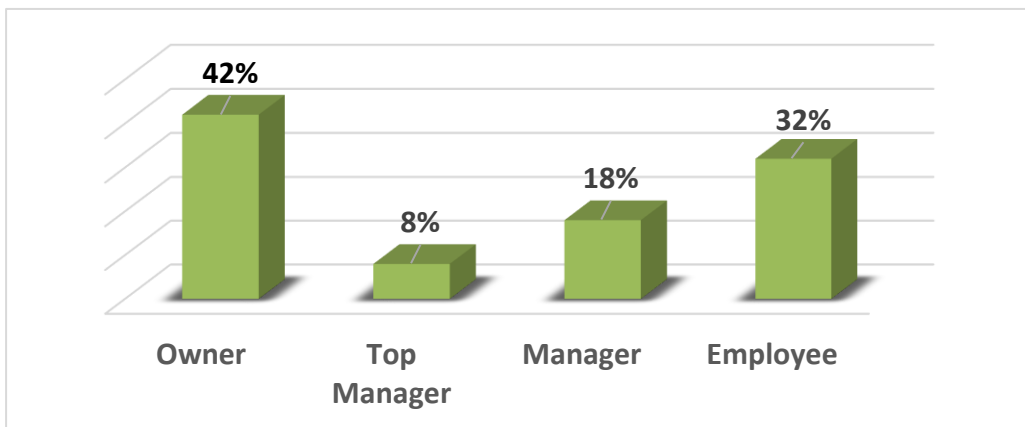


Figure 7. Distribution according Job Status

### Distribution according to SMEs Sectors

When participants of the study were asked to indicate the SME sector they were engaged in, the findings show that (27%) were in Agricultural sector; (17%) were in transport and financial sector; (15%) were in the restaurant and hotel, and trading business; while (13%) were others sectors as summarized in Figure 8.

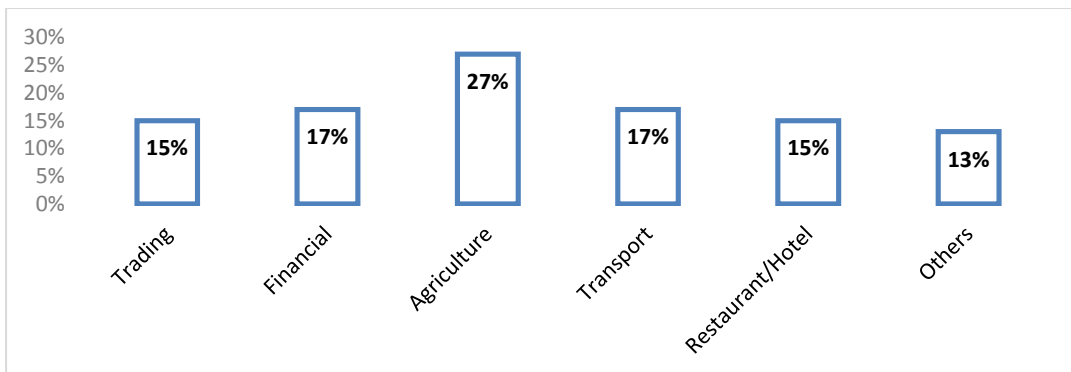


Figure 8. SME Sectors

### Distribution according to SME Legal Status

Figure 9 shows that majority of the SMEs are sole proprietors (63%), 32% are into partnership status and very few have company status (5%).

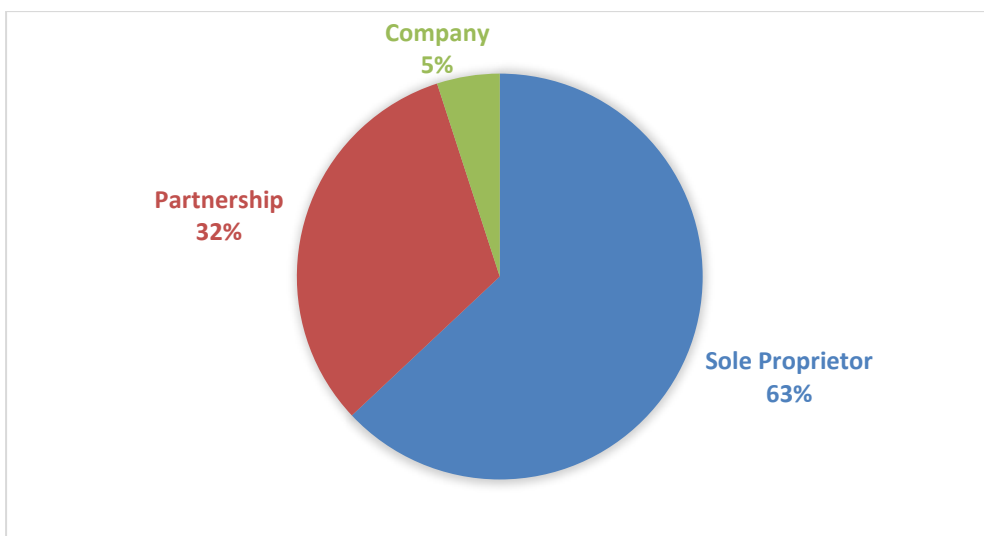
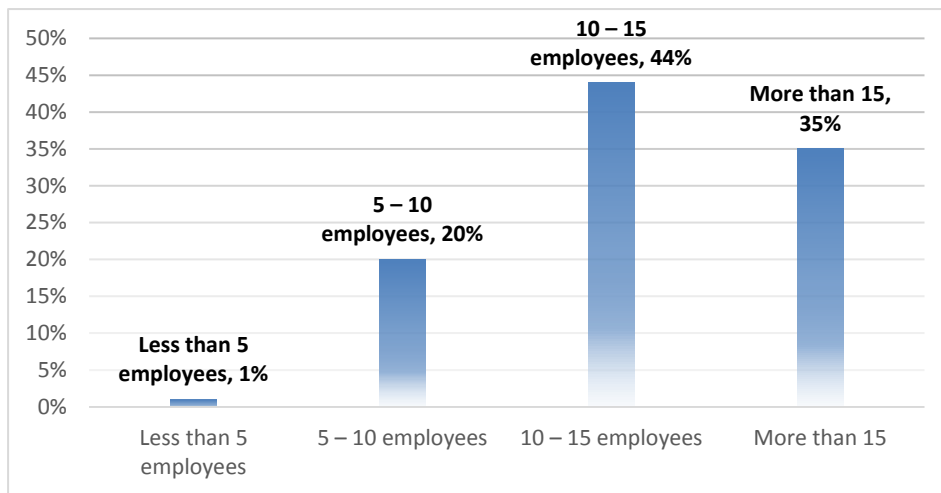


Figure 9. Legal Status of SMEs

## Number of Employees

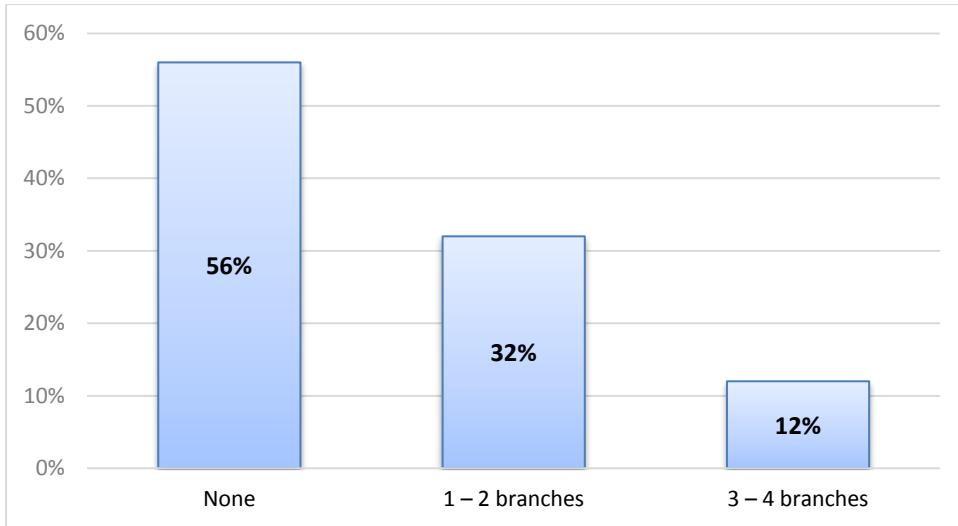
Figure 10 shows that 35% of respondents have more than 15 employees, 44% of respondents working with 10 to 15 employees, 20% of SME have between 5 to 10 employees and only 1% use less than 5 employees.



*Figure 10.* Distribution of Number of Employees

## Number of Branches

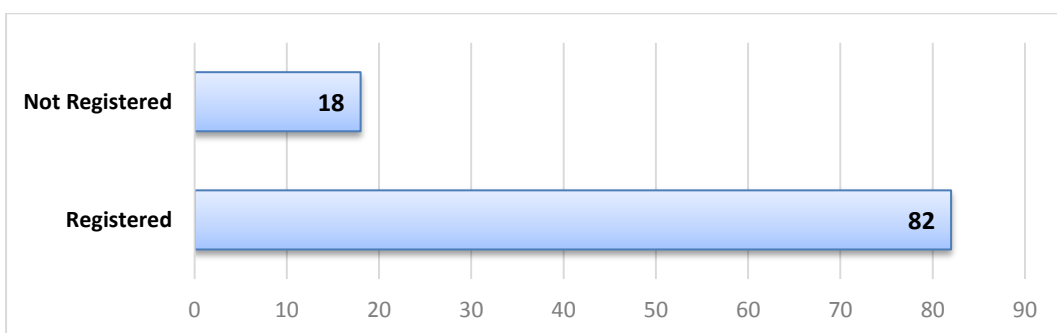
According to the results in Figure 11, more than half of SMEs in Coutonou have no branches (56%), 32% of SME have only one or two branches and 12% have 3 branches.



*Figure 11.* Number of Branches of SMEs

### **Enterprises Registered with any Government Authority**

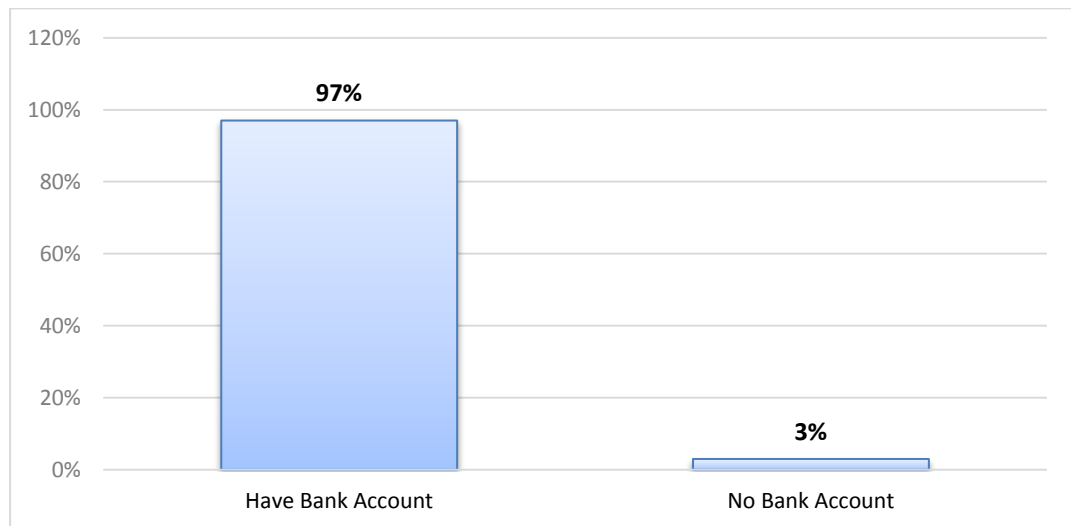
According to the results in Figure 12, 82% of the sampled SMEs are registered and 18% are not registered. The government of Benin Republic is making easy the procedure of registration. With only US \$60, one can have registration process completed in 3 days.



*Figure 12.* SMEs Registration Status

### **Owner of Bank Account**

Figure 13 presents that 97% SMES have bank account or have account in financial Institutions. Only 3% have no bank account. Not having a bank account is a major hindrance for access to funding.



*Figure 13. Bank Account*

### **Research Question 1: Sources of SME Funding in Benin**

This study sought to determine the initial and current sources of financing the SMEs had access to. Therefore, respondents were asked to indicate their major sources of finance when they started their business; as well as their current sources of funds? Table 4 presents the results.



*Table 4. Initial Sources of Finance*

Source of finance	Percent
Personal savings	52%
Family sources	16%
Friends	10%
Microfinance Institutions Loans	12%
Bank loans	6%
Government sources	4%

The results show that most of the SMEs in Benin funded their business from their own personal savings (52%). This practice is very common with SMEs because during the initial stage of developing the business, they have no track record of business success and they have no collateral to secure external funds.

Sometimes, their own saving is small and that is also the reason why most SMEs have problem to grow and expand their business. Another important source of financial support for many SMEs is from family members (16%) and microfinance institutions (10%). From the results, it seems the government does little in providing financial support for start-ups in Benin. The researcher was also interested in finding out about the current sources of SMEs' financing and how much percentage of funds come from these sources. Table 5 presents the results.

*Table 5. Current Sources of Finance by Percentage*

	More than 50%	20 – 50%	Less than 20%
Personal savings	56%		
Family sources		16%	
Microfinance Institutions Loans		18%	
Bank loans			6%
Government sources			4%

Personal saving constitutes the principal current sources of finance of more than half of SMEs (56%). This shows that self-funding is a very important aspect of SMEs. The advantage of such funding is that there is no direct cost such as interest. Also, personal funding gives the SMEs owner some level of independence to run the business and enjoy all the profits. Family sources (16%) and microfinance institutions (18%) are major sources of funding for SMEs who are currently in business. The cost of borrowing (interest) from such sources are relatively low. The government and the banks seem not to be the preferred sources of SMEs in Benin.

### **Research Question 2: Challenges Confronting SMEs in Benin**

The biggest challenge that the SMEs in Benin are facing is the difficulty of accessing to funding. Table 6 clearly shows that access to finance is a challenge (72%), followed by competition (16%) and finding customers (12%). In a way, these three are all related in hindering the success of SMEs. Without access to funds, SMEs cannot compete effectively in the business environment which will also affect their customer base. Interestingly, the respondents did not consider tax rates, transportation, cost of capital/production, political instability, electricity, crime, trade regulations, corruption, etc. as major challenges. By implication, although these also could pose as challenges to SMEs, they view competition, access to funding and customers are most challenging issues.

*Table 6. Challenges Confronting SMEs in Benin*

Challenges	Percent
Competition	16%
Access to finance	72%
Finding Customers	12%

### Research Question 3: Stage of the Life-cycle when SMEs Lack Funding

Although finance is a major issue for SMEs, the researcher was interested in finding out at what stage of the life of SMEs would funding pose the greatest challenge. Table 7 shows that the most critical stages are the start-up ( $f = 18$ ) and the growth stage ( $f = 44$ ).

*Table 7. Stage of the Life-cycle when SMEs Lack Funding*

Stage	Number of companies	Percent
Start-up stage	18	22%
Growth Stage	44	50%
Matured Stage	12	14%
Expansion Stage	1	1.4%
Decline Stage	11	12.6%
Total	86	100%

The start-up stage is the beginning stage where the new business is launched and tried. It is the most difficult stage because the business has no track record and everything is new and yet to be tested. On the other hand, a lot of funding is needed to advertise the business, to establish market presence and gain customers.

After surviving the start-up stage, the growth stage is also critical. This is where the business is doing well and expanding to new territories and markets. Therefore, a lot of money is needed to support such growth. According to the results, expansion stage ( $f=1$ ) is the stage with the least need for funds. This is where the business is at its peak of success. Thus, customers and suppliers are established and the business is doing well in terms self-financing and external access to funding.

#### **Research Question 4: Factors that hinder Funding from the Viewpoint of SMEs and Financial Institutions**

One of the key challenges of SMEs is access to funding. Therefore, this study sought to identify the factors that hinder SMEs from getting access to funding. Table 8 presents the results from the viewpoint of financial institutions who participated in the study.

*Table 8. Factors that Hinder Funding from the Viewpoint of SMEs*

Factors	Multiple frequency	Rank
Absence of Guarantees / collateral	78	1
Insufficient capital	64	2
Insufficient profitability	60	3
Lack of Business plan	52	4

An analysis of Table 8 makes it possible to understand that the lack of collateral or guarantees is the principal reason that prevents SMEs from getting the needed funds from commercial banks. The forms of guarantee required by the financial institutions are multiple and varied. However, we can classify them in three main categories:

1. **The moral guarantees:** It imply the moral responsibility for a third person who sponsors the project or the loan;
2. **Personal guarantees or downstream:** it is the commitment outstanding by a third to carry out in its term the obligation of a faulty debtor; it also results in a mutual guarantee of a grouping (joint and several guarantee) where all the members become thus responsible for the credit contracted by one of them.
3. **Movable or material guarantees** are guarantees relating to movable or real property such as the vehicles, the developed sites or not, various domestic equipment or of work and the hypothecations of market or on wages. The guarantees required constitute a true handicap with the access of SME to the financing and illustrate the policy of less risk of the financial institutions.

This is followed by insufficient capital and profitability, as well as lack of business plan. The financial institutions take into account the personal capital

contribution of the entrepreneur even if the project is credible and profitable.

Furthermore, respondents from the financial institutions revealed that the lack of professional competences, experience and essential information are part of the reasons why SMEs don't get access to funding. In the same way, the unpreparedness of SMEs to assemble good files or lack of good business preparedness are possible causes of loan rejection. Of course, it is the analysis of the file which makes it possible to know if the project is profitable or too risky.

The non-profitability of the projects, the incapacity of SME to assemble good files or lack of good business plan, the insufficiency of the own capital stocks and the absence or the insufficiency of the guarantees are the characteristics of the cases of rejection of request for financing for Benin SMEs according to the interviews conducted with some financial institutions.

More than 80% of SMEs estimate that there are deficiencies with regard to:

1. The tariff structure of the granted appropriations: According to the SMEs the practice of higher interest rate according to the perceived risks by the banks is a big hindrance.
2. Credit clauses and terms: According to the SMEs, the terms and conditions of accessing funds and the strong requirements of personal guarantee is a challenge.
3. The nature of the loans: Also, the majority of the institutions of credit offer only short-term credit whereas the business may be needing long-term loans to increase the capital for business.
4. Lack of trust and support. The financial Institutions do not trust or support SMEs during their start up but are always with the large companies and invite them to come to seek credit for the financing of their project.

### **Research Question 5: Level of Government Support for SMEs**

Government support is very important to the survival and success of SMEs in Benin. According to Kadete, (2014), many governments in Africa have recognized their role in creating an enabling environment for the emergence of the private sector

and participation in economic activities. Therefore, many countries have committed themselves to reduce direct involvement in productive activities. Therefore, the researcher investigated the level of government support enjoyed by SMEs. However, when respondents were asked the question: "*Are you aware of the existence of government support programs for SMEs like yours? All the 86 SMEs that participated in the study answered by only one word: "no". The authorities do not play a concrete role in the process of supporting SME.*

Also, when the respondents were asked to indicate how much support they are receiving from the government in terms of government subsidies, recognition/awards, government loans, market development and technical trainings, 92 % of the SMEs indicated 'no support at all' from government. However, 95 % of SMEs recognized that business registration process was quite easy.

#### **Research Question 6: Measures to Improve SME Access to Funding**

Based on the findings, conducting a feasibility study and having a detailed business plan are suggested to improve access to funding by SMEs. Financial institutions and even the government are reluctant to support SMEs that do not have evidence about the business idea. Based on the results, many SMEs are denied of funding due to lack of collateral and business plan.

Therefore, having an initial feasibility study provides evidence about the viability of a business and the potential of the business. A business plan also shows that the entrepreneurs has a written document that carefully explains every aspect of business venture. The plan should show the major aspects of the business such as the products, customers, marketing plans, financial strength and other important details. The main purpose of the business plan is to convince the funders that the business

opportunity is feasible, marketable and within the capabilities of the people who will be managing the business. A good business plan is an effective communication tool that can be used to access funding with relative ease.

Apart from the business owner's preparation, financial institutions should first and foremost recognize that they have a special role to play with specific categories of SMEs that cannot obtain financing according to conventional banking criteria. For this purpose, they could allocate a small fixed percentage of annual profits to the creation of a line of credit or a seed capital fund with less stringent funding criteria than under normal commercial banking criteria as part of their social responsibility obligation.

## CHAPTER 5

### SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

#### **Summary**

The main objective of this study was to examine the accessibility of funding of selected SMEs in Cotonou. This study was guided by the following research questions: What are the sources of SMEs funding in Benin? What are the challenges confronting SMEs in Benin? At what stage of the life-cycle do SMEs lack of funding poses the most challenge? What are the factors that hinder funding? To what extent are SMEs supported by the government? And what strategies can help SMEs to access funding?

A descriptive research design was adopted to carry out the study. The population of our research includes the SMEs of Benin resulting from the various branches of industry. The size of our sample was 100 SMEs (19 SMEs in the Primary Industry sector, 9 SMEs in Secondary Production sector and 72 SMEs in the Service Industry sector) in the town of Cotonou, economic capital of the Benin Republic. This study utilized primary data. Data was collected using structured questionnaire and the data was analyzed for descriptive statistics (frequencies and percentages).

The study revealed that many SMEs depend on their own personal savings as a major source funding and 72% of the respondents indicated that access to finance is their major challenge. Also, about 72% said that it is during the start-up and growth stages that accessing fund for their business poses the greatest challenge. The SMEs also face several factors that block them from getting the needed funds. The factors



include absence of collateral, insufficient capital, insufficient profitability and lack of business plan. According to the SMEs, they don't get funding because of high interest rates and perceived risks associated with their business and some unfavorable credit policies by the banks. Also, the banks do not support their business. Also, more than 90% of the sampled SMEs said they do not enjoy any form of support from the Government of Benin.

### **Conclusion**

The study concludes that SMEs in Benin largely depend on personal savings as a source of funding their business. The study also concludes that access to funding is a major challenge confronting the SMEs as a result of lack of collateral and business plans. Therefore, this study concludes that financial institutions' need for collateral and the lack of sufficient capital and profitability inhibit SMEs access to financing. In addition, the study concludes that financial institutions' stringent loan conditions also inhibit SMEs access to financing.

Finally, the findings show that the government is not supporting the SMEs. Therefore, the study concludes that the lack of government interventions such as giving subsidies, recognitions, funds, trainings and some tax reliefs among others may affect SMEs access to funding.

### **Recommendations**

#### **Recommendations to SMEs**

1. The study recommends that SME owners should enhance their personal savings for financing their business ventures since this is regarded as the hallmark of commitment to the business entity.
2. Conduct a feasibility study to assess the viability of the long-term potential of their business.
3. Conduct business plans as a communication tool to attract funding.

### **Recommendations to Financial Institutions**

1. There is also need for financial institutions to develop mechanisms for credit provision that cater for the SMEs, since SMEs do not have the capability to compete with well-established corporates and businesses for loan products from commercial banks.
2. This study recommends that financial institutions should reduce the high demand of collateral requirements for smaller loans. There is a need to do a case to case analysis of SME loan applicants, rather than subjecting all of them to the same evaluation and appraisal method.
3. There is also a need for financial institutions lending to SMEs to review their high interest rates to enable SMEs access to the loan facilities.
4. This study also recommends that financial institutions should review stringent loan conditions and ensure adequate financial training that will enhance SMEs knowledge of loan products and means of access these loans.

### **Recommendation to the Government**

There is also need for government to establish more channels of SME financing like the youth entrepreneurship funds, women and people with disabilities fund engaged in SME ventures.

### **Suggestions for Future Studies**

This study sought to examine the accessibility of funding of selected SMEs in Cotonou. The study was therefore limited in many ways. Factors considered under this study were not exhaustive to explain SMEs access to financing. Therefore, researchers seeking to conduct further studies on this topic should consider other variables not covered under this study. For instance, there is need to explore whether the type of business, the educational level, experience and the personality of the business owner has any influence on access to SME financing. Also, an in-depth study on the role of financial institutions in SMEs development and growth is important.

## APPENDIX

## RESEARCH INSTRUMENT

Dear Participant,

This questionnaire is designed to study the SMEs in Cotonou – Benin and is only for the purpose of fulfilling the requirements of my Master's degree program. Since you are a small business owner / manager, you have been selected to take part in this study by responding to the questions frankly and honestly.

Your response will be kept strictly confidential. The data collected from you will be coded in order to protect your identity and privacy. So, there will be no way to connect you with your data. Only members of the research team will have access to the information you give. Please do not write your names on the questionnaire. A summary of the results will be sent to you after the data are analyzed if requested.

Your participation in this study is voluntary and you may withdraw at any time without penalty or prejudice

Thank you very much for your time and cooperation. I greatly appreciate your help in supporting this research activity.

Sincerely,

Agbodza Kodjo Elom

MBA Candidate, Adventist University of Africa

**Section A: About Yourself**

Please tick [ √ ] the most appropriate response for you in respect of the following items.

- |                                   |  |                                 |
|-----------------------------------|--|---------------------------------|
| <b>1. Your Age</b>                | <b>2. Your Level of Education</b>          | <b>3. Your gender</b>           |
| <input type="checkbox"/> Under 20 | <input type="checkbox"/> Elementary school | <input type="checkbox"/> Female |
| <input type="checkbox"/> 20 – 35  | <input type="checkbox"/> High school       | <input type="checkbox"/> Male   |
| <input type="checkbox"/> 36 – 50  | <input type="checkbox"/> College degree    |                                 |
| <input type="checkbox"/> 51 – 65  | <input type="checkbox"/> Graduate degree   |                                 |
| <input type="checkbox"/> Over 65  | <input type="checkbox"/> Other (specify)   |                                 |
- 
- |  |   |   |
|--|---|---|
| <b>4. Your marital status</b>            | <b>5. How old is this business?</b>       | <b>6. Job status</b>                    |
| <input type="checkbox"/> Married         | <input type="checkbox"/> Less than 1 year | <input type="checkbox"/> Owner          |
| <input type="checkbox"/> Single          | <input type="checkbox"/> 1 – 3 years      | <input type="checkbox"/> Top manager    |
| <input type="checkbox"/> Widowed         | <input type="checkbox"/> 4 – 6 years      | <input type="checkbox"/> Manager        |
| <input type="checkbox"/> Divorced        | <input type="checkbox"/> 7 – 9 years      | <input type="checkbox"/> Employee       |
| <input type="checkbox"/> Other (specify) | <input type="checkbox"/> 10 years or more | <input type="checkbox"/> Other(specify) |

**Section B: About your Business**

Please tick [ √ ] the most appropriate response for you in respect of the following items.

- |   |  |                                      |
|---|--|--------------------------------------|
| <b>7. What is the legal status of your business ?</b> | <b>8. How many employees do you have ?</b> | <b>9. How many Branches ?</b>        |
| <input type="checkbox"/> Sole proprietor              | <input type="checkbox"/> None              | <input type="checkbox"/> None        |
| <input type="checkbox"/> Partnership                  | <input type="checkbox"/> Less than 5       | <input type="checkbox"/> 1 – 2       |
| <input type="checkbox"/> Company                      | <input type="checkbox"/> 5 – 10            | <input type="checkbox"/> 3 – 4       |
| <input type="checkbox"/> Other (specify)              | <input type="checkbox"/> 10 – 15           | <input type="checkbox"/> 5 – 6       |
|   | <input type="checkbox"/> More than 15      | <input type="checkbox"/> More than 6 |
- 
- 10. What industry sector do you operate in ?**
- Agriculture
  - Financial
  - Trading
  - Education
  - Hotel/Restaurant
  - Others, please specify.
11. Is your enterprise registered with any government authority? Yes No
12. Does your business have a bank account? Yes No

**Section C : Finance**

13. **What Major sources of finance did you use to start this business? Please tick [ √ ] only the ones that apply to you.**

- Personal Savings
- Money lender
- Non-bank financial institutions (e.g microfinance institutions, credit unions, etc.)
- Loans from Commercial bank
- Borrowed from family/friends
- Purchases on credit from suppliers
- Others, Please

specify \_\_\_\_\_

14. Presently, what sources do you use to fund your business? How much percentage of funds come from these sources. **Please tick [ √ ] the ones that apply to you.**

	Very Much More than 50%	Much 20 – 50%	Not Much Less than 20%
Money lender			
Personal Savings			
Non-bank financial institutions (e.g. microfinance institutions, credit unions)			
Loans from Commercial bank			
Friends/family			
Purchases on credit from suppliers			
Cash flow from this business			
Government programs/support			
Others, please specify			

**Section D : Challenges**

15. **Which of the following factors currently represent the most pressing problem/challenge your business is facing? Please tick [ √ ] only the ones that apply to you.**

- Business licensing and permits
- Corruption
- Crime, theft and disorder
- Customs and trade regulations
- Electricity
- Inadequately educated workforce
- Political instability
- Competition
- Access to funding
- Tax rates
- Transport
- Finding Customers
- Cost of Capital/production

What other challenges are you facing in your business ?

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**Section E : Business Life Cycle**

16. **At what stage would you place your business entity ? Please tick [ ✓ ] only one option.**

**Start-up stage.** You have finished registering your business and have just started.

**Growth Stage.** The business is now running well. Your customers and revenues are increasing steadily.

**Matured Stage.** The business is doing very well and you have loyal customers.

**Expansion Stage.** The business is expanding to new markets, branches, location, more customers and employees.

**Decline Stage.** The sales and profits are going down steadily.

17. In your own opinion, what are the factors that hinder SMEs funding?

Lack of collateral

Insufficient profitability

Problems with credit history

High interest rates

Concerns about business

High risk

Lack of trust

Lack of business plan

What other factors do you think hinder SMEs funding? Please write in the space below \_\_\_\_\_

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**Section F: Government Support**

18. Are you aware of the existence of government support programs for SMEs like yours?

Yes       No

**Please rate the level of government support you are receiving using the following scale:**

- 1 = No Support at All**  
**2 = Little Support**  
**3 = Some Support**  
**4 = Much Support**  
**5 = Very Much Support**

How much support are you receiving from the government in terms of . . .	Ratings				
1. Easy business registration process	1	2	3	4	5
2. Government subsidies	1	2	3	4	5
3. Recognition/awards	1	2	3	4	5
4. Funding (eg. Government loans)	1	2	3	4	5
5. Business/market development	1	2	3	4	5
6. Technical Trainings	1	2	3	4	5
7. Tax reliefs	1	2	3	4	5
8. Business environment	1	2	3	4	5
9. Government policies & regulations	1	2	3	4	5
What other government support are your receiving? Please write below:					



### **For financial Institutions**

Dear Participant,

This questionnaire is designed to study the SMEs in Cotonou – Benin and is only for the purpose of fulfilling the requirements of my master’s degree program. You have been selected to take part in this study in order to have the view point of financial institutions.

Please respond to the questions frankly and honestly. Your response will be kept strictly confidential. The data collected from you will be coded in order to protect your identity and privacy. So, there will be no way to connect you with your data.

Only members of the research team will have access to the information you give.

Please do not write your names on the questionnaire. A summary of the results will be sent to you after the data are analyzed if requested. Your participation in this study is voluntary and you may withdraw at any time without penalty or prejudice

Thank you very much for your time and cooperation. I greatly appreciate your help in supporting this research activity.

Sincerely,

Agbodza Kodjo Elom

MBA Candidate, Adventist University of Africa

**Section A: About Yourself**

Please tick [ √ ] the most appropriate response for you in respect of the following items.

- |  |  |  |
|--|--|--|
| <b>1. Your Age</b>                       | <b>2. Your Level of Education</b>                | <b>3. Your gender</b>                    |
| <input type="checkbox"/> Under 20        | <input type="checkbox"/> Elementary school       | <input type="checkbox"/> Female          |
| <input type="checkbox"/> 20 – 35         | <input type="checkbox"/> High school             | <input type="checkbox"/> Male            |
| <input type="checkbox"/> 36 – 50         | <input type="checkbox"/> College degree          |  |
| <input type="checkbox"/> 51 – 65         | <input type="checkbox"/> Graduate degree         |  |
| <input type="checkbox"/> Over 65         | <input type="checkbox"/> Other (specify)         |  |
| <b>4. Your marital status</b>            | <b>5. How many years are you in the company?</b> | <b>6. Job status</b>                     |
| <input type="checkbox"/> Married         | <input type="checkbox"/> Less than 1 year        | <input type="checkbox"/> Auditor         |
| <input type="checkbox"/> Single          | <input type="checkbox"/> 1 – 3 years             | <input type="checkbox"/> Top manager     |
| <input type="checkbox"/> Widowed         | <input type="checkbox"/> 4 – 6 years             | <input type="checkbox"/> Manager         |
| <input type="checkbox"/> Divorced        | <input type="checkbox"/> 7 – 9 years             | <input type="checkbox"/> Employee        |
| <input type="checkbox"/> Other (specify) | <input type="checkbox"/> 10 years or more        | <input type="checkbox"/> Other(specify ) |

**Section B: About your Financial Institution**

Please tick [ √ ] the most appropriate response for you in respect of the following items.

- |   |   |   |
|---|---|---|
| <b>7. Types of financial Institutions</b>               | <b>8. What are your conditions of granting of the credit?</b> | <b>9. Terms and conditions of repayment</b> |
| <input type="checkbox"/> Commercial Bank                | <input type="checkbox"/> Initial Contribution                 | <input type="checkbox"/> 6 months           |
| <input type="checkbox"/> Bank of Development            | <input type="checkbox"/> Preliminary saving                   | <input type="checkbox"/> 12 months          |
| <input type="checkbox"/> Institution of Microfinance    | <input type="checkbox"/> No saving                            | <input type="checkbox"/> 24 months          |
| <input type="checkbox"/> Institution of Government      | <input type="checkbox"/> Interest rate (specify)              | <input type="checkbox"/> 36 months          |
| <input type="checkbox"/> Other (specify)                | <input type="checkbox"/> Other (specify)                      | <input type="checkbox"/> Other(specify)     |
| <b>10. What categories of guarantees do you require</b> | <b>11. Do you have the helping from government?</b>           | <b>12. How old is this company?</b>         |
| <input type="checkbox"/> House or land                  | <input type="checkbox"/> Public allowance                     | <input type="checkbox"/> Less than 1 year   |
| <input type="checkbox"/> Downstream of third            | <input type="checkbox"/> Exemptions of tax                    | <input type="checkbox"/> 1 – 3 years        |
| <input type="checkbox"/> Preliminary saving             | <input type="checkbox"/> Nothing                              | <input type="checkbox"/> 4 – 6 years        |
| <input type="checkbox"/> Work guarantees                | <input type="checkbox"/> Other (specify)                      | <input type="checkbox"/> 7 – 9 years        |
| <input type="checkbox"/> Other (specify)                | <input type="checkbox"/>                                      | <input type="checkbox"/> 10 years or more   |

13. In your own opinion, what are the factors that hinder SMEs from receiving funding from the financial institutions?

- Lack of collateral
- Insufficient profitability
- Problems with credit history
- Not able to meet bank conditions
- Concerns about business
- High risk
- No bank account
- Lack of business plan

14. What other factors do you think hinder SMEs funding? Please write in the space below \_\_\_\_\_

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Zaman, G., & Vîlceanu, G. (1999). Coexistența întreprinderilor mari si mici. *Economică*, (45).

## VITA

### **CIVIL STATUS**

Name: AGBODZA

First names: Kodjo Elom

Date and birth place: June 5, 1972 in Bouaké (Côte - D'Ivoire)

Nationality: Togolese

Matrimonial situation: Married with two children

### **STUDIES AND DIPLOMAS**

2018: MBA Candidate, Master of Business Administration: Option: Finance, (School of Postgraduate Studies, Adventist University of Africa – Kenya, VVU Extension Site)

2003: Master of Commercial and Financial Management (African Institute of Administration and Commercial Studies, Lome - Togo)

2000: Bachelor of Business Administration: Option Accounting and Finance (Adventist University of Cosendai, Cameroon)

1995: Baccalaureat, High School Diploma (Adventist College of Bouaké – Côte d'Ivoire)

1989: B.E.P.C., Secondary Education Diploma (Protestant College of Lome – Togo)

1985: C.E.P.D., Primary School Diploma (Primary school of Zebevi in Aneho–Togo)

### **PROFESSIONALS EXPERIENCES**

January 01, 2016 until today: East Sahel Union Mission Assistant Treasurer and Director of Investment and development funds of ESUM

January 2005 to December 2015: Treasurer of Benin Mission

March 2001 to December 2004: Accountant of Benin Mission

**ADDRESS: AGBODZA KODJO ELOM**

01 B.P 2157, Office Phone (00228) 22 26 77 30, Personal phone (00228) 98 28 6551

Lome - Togo