

CHRISTIAN SERVICE UNIVERSITY COLLEGE

**THE IMPACT OF BANK CREDIT ON THE OPERATIONS OF THE
MANUFACTURING COMPANIES IN GHANA
(CASE STUDY OF FAN MILK GHANA LIMITED)**

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**DISSERTATION SUBMITTED TO THE DEPARTMENT BUSINESS STUDIES,
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THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF BUSINESS
ADMINISTRATION DEGREE.**

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STATEMENT OF AUTHENTICITY

We have read the University Regulations relating to plagiarism and certify that this report is our own work and do not contain any unacknowledged work from any other source. We also declare that we have been under supervision for this report herein submitted.

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SUPERVISOR'S DECLARATION

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of dissertation laid down by Christian Service University

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ABSTRACT

The manufacturing sector continues to play a pivotal role in the developmental agenda of the country. It constitutes a chunk of the informal sector and therefore becomes a formidable force to reckon with in the economic outlook of the country. The Association of Ghana Industries (AGI) continues to complain about finance being the main challenge to the growth of the sector. Some interventions have been made by the central government by soliciting concessionary rated funds to help the sector yet the AGI believes if the local banks were a bit more flexible with their lending conditionality's the fortunes of the sector will be greatly enhanced.

The study therefore attempted to investigate the impact of bank credits on the operations of the manufacturing sector with Fan Milk Limited as the study area. In gathering data for the study the questionnaire technique was adopted and purposive sampling method enabled the researcher to directly approach officials within the functional departments of the company to solicit the requisite information.

Some of the conclusions drawn included the fact that Fan Milk virtually had no difficulty in soliciting bank credits and that bank overdrafts were really helpful in beefing up the working capital base of the company. Bank credits also helped the company to modernize its equipments as well as acquire more warehouses to improve upon its distribution network. Recommendations made requested the Ghana Association of Bankers to streamline its loan granting procedure so as to enable more SME manufactures to access loans for obvious reasons. The central government was also called upon to intensify its search for international 'cheap' loans to salvage the SME manufacturers.

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The marketing managers and corporate affairs manager of Fan Milk Limited deserve our commendation not only for facilitating our interactions with their staff but also exposing us to

Our special and sincere gratitude must be expressed to the various personalities who contributed in diverse ways, in making this Degree programme and thesis a reality.

God richly bless you all.

DEDICATION

To us, academic success would have been nothing good to write home about without the divine guidance from God Almighty and the immerse financial support from our dear parents.

This work is therefore dedicated to our ear parents for without their prayer and support we wouldn't have attained the height we are today.

LIST OF TABLES

| | | |
|-------------|---|----|
| Table 4.2.3 | Distribution of respondents service duration at Fan Milk Limited | 46 |
| Table 4.2.4 | Distribution of Respondent's Area of Work At Fan Milk Limited | 47 |
| Table 4.2.5 | Distribution of Respondents View Based On How Fan Milk Used Bank Guarantee And Letters Of Credit | 50 |
| Table 4.3.6 | Distribution Of Findings On Impact Of Bank Credit On Staff Strength Of Fan Milk Limited | 52 |

LISTS OF FIGURES

| | | |
|-----------|---|----|
| Figure: 1 | The above analysis has been shown in the figure below | 46 |
| Figure 2 | Pie chart of use of overdraft | 48 |
| Figure 3 | Quoted in million cedis | 51 |
| Figure 4 | Social responsibilities toward local development, etc | 53 |

TABLE OF CONTENTS

| | PAGE |
|---|------------|
| Title Cover | i |
| Statement of Authenticity | ii |
| Abstract | iii |
| Acknowledgement | iv |
| Dedication | v |
| List of Table | vi |
| CHAPTER | |
| ONE | |
| INTRODUCTION TO THE STUDY | |
| Background Information | 1 |
| Problem Statement | 2 |
| Objectives of the Study | 3 |
| Research Questions | 3 |
| Significance and purpose of the study | 3 |
| Research Methodology | 4 |
| Scope of the study | 5 |
| Limitation of the study | 5 |
| Organization of the study | 6 |
| TWO | |
| LITERATURE REVIEW | |
| Introduction | 8 |
| AGI Activities enhance Manufacturing industry | 8 |
| AGI dialogues with government on way forward | 12 |
| Institutional support for growing manufacturing sector | 14 |
| Institutional Credit Support Schemes for manufacturers in Ghana | 16 |

| | | |
|-------------------|--|-----------|
| | Support Schemes for manufacturers from Local Commercial and Rural Banks | 23 |
| | The Socio Economic Environment in which fan milk operates | 25 |
| | Challenges of the manufacturing industry | 33 |
| THREE | METHODOLOGY | |
| | Introduction | 40 |
| | Population of the Study | 40 |
| | Research Design | 41 |
| | Sources of Data | 42 |
| | Sample / Sample Technique | 43 |
| | Research Instruments | 43 |
| | Administration of Research Instruments | 44 |
| | Data Collection | 44 |
| | Data Analysis | 44 |
| FOUR | PRESENTATION OF FINDINGS AND DISCUSSIONS | |
| | Introduction | 45 |
| | Distribution of Personal Data of Respondents of Fan Milk Limited | 45 |
| FIVE | SUMMARY, CONCLUSION AND RECOMMENDATIONS | |
| | Introduction | 55 |
| | Summary | 55 |
| | Conclusion | 56 |
| | Recommendations | 57 |
| REFERENCES | | 60 |
| APPENDIX 1 | | 61 |

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DEPARTMENT OF BUSINESS STUDIES

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND INFORMATION

Over the years, many economies of the world over were using the socialist concept to provide for the necessary social activities and to facilitate the growth of their economies.

Ghana was no exception and we saw under the Osagyefo Dr. Nkrumah regime.

The trend has now changed, and the private sector has being seen to be the engine of growth.

The private sector led administration allows the private companies to provide employment and create jobs. The private sector is beset with numerous problems, one of which is funding.

According to Osafo-Maafo (2004) “the manufacturing and the other SME sectors are not taking full advantage of the various interventionist credit schemes put in place by the central government for the growth of the economy and for that matter the expected growth within the GDP remains farfetched”.

The study would therefore examine the impact of bank credits on manufacturing company so as to make appropriate recommendations for the necessary growth on the sector.

1.2 PROBLEM STATEMENT

The private sector especially the manufacturing industry is said to be the engine of growth of any developing country. Countries like Japan and China owe their apparent economic power to enabling socio-economic structures that were put in place for their private sectors to grow.

Over here in Ghana Government Officials are disturbed about the slow pace at which the economy is growing. Fingers are pointing at the manufacturing sector which is not taking advantage of the various credit schemes to grow. The trade and the industry ministry as well as presidential special initiative were all established with the hope of helping the private sector to grow. What has been the impact of bank credit on the expansion activities of the private sector? Have the loans contracted been able to improve the equipment and machinery of the manufacturing sector? What about the corporate social responsibilities of the manufacturers: Have these been enhanced by bank credit? What have been the impact of the bank credits on shareholders fund as well as the total asset base of these companies? Have these manufacturing companies been better off in terms of their profitability i.e. after taking bank credit. Could there be some challenges that confront manufacturers in adequately accessing and disbursing bank loans. These and other problems are the subject of this research.

1.3 OBJECTIVES OF THE STUDY

- The study aims at Investigating how bank credit impact on the operations of manufacturing companies.
- Another aim of the study is to examine any challenges facing manufacturers in accessing bank credits.

1.4 RESEARCH QUESTIONS

In the view of the researchers the direction of the study stands to benefit from the following research questions

- How easy it is for fan milk to assess bank credit?
- How does bank credit help to improve upon the operations of fan milk limited or otherwise?

1.5 THE SIGNIFICANCE AND PURPOSE OF THE STUDY AS FOLLOWS

- The findings of the study will enable management of fan milk limited to appreciate the level of co-operation being received from the banks.
- To other financial institutions the report could provide the basis for assessing and reviewing their relationships with customers especially manufacturers.

- The findings will also enable employees of the banks to re-orient their perceptions towards the manufacturing sector i.e. the Bank will see the sector as development partners who should be maintained for a mutually beneficial business.
- Furthermore the findings will serve as a guide and basis for further research into areas relating to funding manufacturing firms and other customers.
- Finally, to Christian Service University College, the study will serve as an academic and research material for reference purposes.

1.6 RESEARCH METHODOLOGY

The Research design will be the **sample survey** since this will enable the researchers to obtain fresh information to assess the impact of Bank credit on the operations of the manufacturing sector.

Both primary and secondary sources of data will be used. Primary data would be obtained through questionnaires and one- on -one interview to be administered to the respondents at fan milk limited while secondary data will emanate from books, journals, periodicals, articles from news papers and other desk top materials on the impact of bank credits on manufacturers.

Random sampling technique would be helpful in picking up the sample sizes while Microsoft excel will be used to analyze the data.

1.7 SCOPE OF THE STUDY

The study covers the chosen topic “The impact of Bank credit on the performance of manufacturing companies” with Fan Milk Limited, as the study area. Five departments of the office at the head office constitute the population under study. The distribution of respondents is as follows:

Composition of manufacturer’s sample

| Department | No of officers | Sample size |
|----------------|----------------|-------------|
| Accounts | 6 | 4 |
| Production | 3 | 2 |
| Purchases | 4 | 2 |
| Marketing | 4 | 3 |
| Internal Audit | 2 | 1 |
| Executive wing | 6 | 2 |
| Human resource | 3 | 1 |
| Total | 28 | 15 |

1.8 LIMITATION OF THE STUDY

Fan Milk Limited has warehouses and offices through the ten regions and 138 districts using only Accra as the study area therefore places limitation on the adequacy of information. Furthermore, business conditions in the other districts of Ghana especially sub-urban and rural areas might not be the same as the enabling structures created in Accra to facilitate business operations and therefore there might be some creditability gap in the generalization of the findings.

Another limitation stems from the fact that Bank officials are usually under some kind of oath and might are not well disposed towards divulging certain kind of internally ‘classified‘ information. Small and medium scale manufacturers are usually not comfortable about disclosing information concerning sales, profits, number of employees, etc owing to their penchant for understating these figures so as to pay comfortable taxes and dodge social security responsibility to the employees.

Another constraint to the study has to do with the fact that the researchers sense their limitation in marshalling the requisite logistics to cover a bigger scale study. Moreover they also sense their limitation in terms of the geographical terrain in which branches of fan milk limited, outside Accra, are located.

In spite of the aforementioned challenges and limitations confronting the study, the researchers hope to come out with a good report that is worth appreciating by all.

1.9 ORGANIZATION OF THE STUDY

To facilitate reading and comprehension, the study will be organized in five distinct chapters.

Chapter One is the introduction and features the Background information, statement of the problem, purpose of the study, research questions, significance of the study, scope and limitations of the study.

Chapter Two is the literature Review and essentially discusses the institutional support schemes for manufacturing sector, challenges and expectations of the association of Ghana industries, credit policy of some banks towards manufacturers in general. Articles and publications on building the capacity of manufacturing companies, Trends in the Banking industry etc are all reviewed.

Chapter Three features the details of the research methodology with special emphasis on Research Design, population of the study, sample and sampling procedure, Research instruments, Data collection and Data Analysis procedure.

Chapter Four presents the Analysis of Data, discussion and interpretation of the results.

Chapter Five summarizes the study, draw conclusions and make appropriate recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This segment of the research report examines the institutional financial support available to manufacturing companies, challenges facing the operations of the manufacturing companies, contemporary forms of business finance, and attempts by association of Ghana industry to influence government policies towards manufactory sector as well as a social economic environment in which fan milk limited operate.

2.2 AGI ACTIVITIES ENHANCE MANUFACTURING INDUSTRY

According to Oteng Gyasi (2008) the activities of AGI have expanded in scope over the years and that it would require considerable time to catalogue every activity and achievements, it is important to highlight the major developments that have occurred in the period and outline the challenges that lie ahead. Before then, it is worth paying tribute to the confederation for Danish Industries (DI) and the Danish International Development Agency (DANIDA) for the support and technical cooperation received in the last three years. The co-operation Agreement was to have expired in June last year but they graciously extended this to the end of the year-December 2010.

In the view of Ablordeppey (2009), achievements under the AGI/DI project are commendable. Capacity at the Directorate has improved and services to members, especially in the form of technical and management training programmes, as well as policy advocacy are commendable. Martinson (2009) explains that with these improvements have come increased expectations from the stakeholders for AGI's continued interventions in all areas of cooperation with DI and DANIDA that will further enhance the capacity to meet the new challenges, kudos to DANIDA and DI

According to Cofie (2009) AGI began the year with a strategic workshop held at Elmina to map out strategies for the year and endorse a work plan. The seminar was unique and resulted in a number of outcomes that challenged the entire membership to greater commitment. The workshop endorsed a revised formula for subscriptions determination which was subsequently ratified at a regular National council meeting. Policies and programmes were debated and adopted for action.

The promotion of made-in-Ghana products within the sub region starting with a solo-exhibition held in Burkina Faso in August last year. This was a huge success to a point where our Burkina counterparts requested a "repeat performance" in December. The programme will be pursued and Mali, Niger and Nigeria are next in line for the years ahead. AGI participated in a Ghana/Sierra Leone week celebration which to all intents and purposes pursued the same goal as that of Burkina Faso i.e. promotion of made – in –Ghana goods.

These programme also underscored AGI's commitment to promoting regional trade within the ECOWAS framework. We have organized a number of training workshops for our members and the general business community in the areas of Quality Standards, Management and Technical Skills, profit centre management techniques etc. These were actively patronized and in some cases were oversubscribed.

In addition to the training programme, Donkor (2008) indicates that the undertook some studies in various fields including the Textiles and Garments sub-sector study, the steel sub-sector, a membership satisfaction surveyed. AGI will sustain these activities in the coming years with an added qualitative dimension. This takes the form of a subcontracting and partnership exchange programme under the auspices of UNIDO. "We have signed an agreement with UNIDO under which a unit will be set-up at AGI to manage and execute the programme". This is a unique opportunity to develop and expand Ghana's SMEs and AGI urges its members in these categories to take a hard look at their operations, including shareholding structures and restructure their companies including mergers so that they can optimize the benefits of the SPX programme. AGI, in collaboration with the polytechnics is carrying out a survey of all SMS in the country for the SEX project to categories their state of greediness and determine the needed interventions. The collaboration with DI in establishing joining venture projects between Ghanaians and their Danish counterparts under the DANIDA private sector Development programme has continued over years. AGI believes there are opportunities to establish to establish more joint ventures. It should

be noted, though, that there are lessons to be learnt from the experiences gained so far and we trust that we can work with our partners in this area for our mutual benefit.

AGI has remained relentless in its policy advocacy work. In the words of Oteng Gyasi (2008) “We have actively participated in several National policy programmes and debates – the National Economic Dialogue, the National Debate on Trade policy, the work of the president’s committee on review of education reforms review and several others”. AGI organized policy workshops and panel hearings and developed position papers on Trade Policy, Ghana’s poverty reduction strategy and technical/vocational Educating and Training.

“Our policy advocacy has occasionally met with some frustrations. Our proposals for the 2010 National Budget were greeted with a stone wall and in spite of the relief we sought to revamp an ailing industrial sector we were handed a crushing blow in the form of an increase in the rate of withholding tax”. As if this was not crushing enough, as well as posing unwanted competition to local products, was rolled back without any notice. ‘We are undeterred by these setbacks and would persevere in seeking policy changes through continuous dialogue with government’ (Oteng Gyasi, 2008).

2.3 AGI DIALOGUES WITH GOVERNMENT ON WAY FORWARD

H.E former president J.A. Kufour stated in his address to AGI's 41 AGM, that "...we have to accept that the private sector leads economic generation elsewhere and must lead it here also. We have espoused this idea in our vision of the Golden Age of Business", I believe there now exists a consensus in Ghana that the private sector should take the lead in business. Government will, therefore, continue to offer the necessary support to the private sector and work closely with its organizations and associations to develop this fruitful partnership", (Kuffour 2008).

Borne out of the commitment to a comprehensive public private partnership, AGI had earlier in the year 2001 called for the institutionalization of a structured public private sector Dialogue mechanism under the presidency, which would guarantee a sustained and comprehensive public private partnership agreement provides a range of new opportunities and challenges for private sector. According to Agyeman Manu (2008) the ACP private sector is expected to participate in political dialogue, national and regional programmes and the formulation and implementation of the EC co-operation policies.

We must begin to learn our lessons at home so we can become effective in the global area. We need for such as that provided under a structured public private sector Dialogue for H.E. The president or your Excellency the vice president to articulate and discuss with industry the twin visions of the golden age of business and the more daunting one of making Ghana the leading agro-industrial country in Africa by the year 2010, and many more issues of national interest.

2.3.1 Presidential commission on industry and the vision of a leading Agro-industrial country

Afari (2008) emphasizes that AGI welcomes the declaration by H.E J.A Kuffour, the former president of the republic, to make Ghana the leading agro-industrial country in Africa by the year 2010. The AGI is concerned that this should not remain at the level of rhetoric. Accordingly, we call on H.E the president to establish a presidential commission on industry. Its primary task should be the rehabilitation of industry and the provision of sustainable long term financing. In respect of the vision of making Ghana the leading industrial country in Africa, the commission should be charged with the design of programmes and strategies and oversee the implementations of same.

2.32 Cooperation with Development Partners

- The activities outlined above and many others not mentioned could not have been possible without the active support of our development partners. I wish to pay tribute and commend them for their cooperation over the years;
- Friedrich Neumann Foundation (FNF)
- Danish International Development Agency (DANIDA)
- Confederation of Danish Industries (DI)
- United Nations Development Programme (UNDP)
- Africa Project Development Facility (APDF)

On the local front according Ayettey (2009) AGI benefited from cooperation with the centre for Economic Policy Analysis, (CEPA), Institute of Statistical, social and Economic Research (ISSER), the Ghana Standard Board and Food and Drugs Board and many more.

It must also be stated that their support has helped in chalking successes as much as it has opened up new challenges in terms of greater expectations from our stakeholders. To meet these challenges AGI will continue to count on their support and co-operation.

Notwithstanding the foregoing submissions, Asare – Menako (2010) says the National council and the entire membership of AGI recognize the goodwill of all stakeholders – in government, the ministries, Departments and agencies, the diplomatic corps, multilateral institutions and development partners, the media, sister Business Associations, the labour movement and important our fellow citizens. They have all kept faith with AGI and organization felt “we need this to meet the challenges ahead”.

2.4 INSTITUTIONAL SUPPORT FOR GROWING MANUFACTURING SECTOR

According to Osafo Maafo (2004) Policy interventions for the promotion of manufacturers, as summarized above, have generally had the following broad themes:

- Adequate support structure, transfer of appropriate technology

- Entrepreneurial training and labour skills development
- Access to sources of funds including reducing collateral requirements, and providing safeguards for the credit delivery system.
- Promoting linkages between large and small industries.

Manufacturers have not taken full advantage of Government – sponsored business support services such as the National Board for Small Scale Industries (NBSSI), which operates in all the regional capitals under the Ministry of Trade and Industries and the Ghana Regional Technology and Industrial Service (GRATIS), a foundation that provides skills training and basic working capital tools for the start-ups.

Access to financing should be seen as only one component of a national manufacturer policy. According Offei (1995) without a holistic approach covering the key developmental constraints of manufacturers financing schemes, implementing in isolation are unlikely to be effective.

2.4.1 National board for small scale industries (NBSSI)

The NBSSI was set up to promote and strengthen the operations of small-scale enterprises. It facilitates training programmes for entrepreneurs, advises on business operations and occasionally advances credit to small-scale businesses. Prior to its establishment, the Ghanaian Enterprise Development Commission GEDC (formerly the office of Business Promotion) was the only accredited coordinating body

providing technical and financial assistance to entrepreneurs. In 1990 the NBSSI took over the functions and responsibilities of the GEDC (Steel and Aryeetey, 1995).

2.5 INSTITUTIONAL CREDIT SUPPORT SCHEMES FOR MANUFACTURERS IN GHANA

According to Bank of Ghana (2007) there are about 2,500,000 bank accounts of all kinds in Ghana and the number was expected to increase owing to aggressive competition, improved service delivery systems, irresistible products in marked improvement in the telecommunication systems. If SMEs manufacturers constitute over 70 percent of the industry sector then it stands to reason that there are over 1,750,000 (70 of 2,500,000) SME's accounts holders throughout the country. Addressing a workshop for SME's organized by Stanbic Bank and reported by the 5th August 2006 edition of the Daily Graphic, the former Deputy Governor of the Bank of Ghana, Mr. Emmanuel Asiedu-Mante explained that the SME sector constitutes a vital source of deposit mobilization for the commercial banks. He explained that the savings and demand deposits are really the main stay of the commercial banks especially in these times of keen competition in the industry. Emmanuel Asiedu-Mante urged the banks to make available, the savings made from the abolition of the secondary reserves requirement of the central bank, as a means of expanding the lending scope to the SMEs.

In 2003, Barclays Bank recognizing the indispensability of the SME sector took the financial services market by storm with the launch of its SME Business proposition targeted at offering bespoke products to small and medium scale enterprise. This was the first of its kind by any bank in Ghana. It offered solutions to Ghanaian businesses,

capacity building and net-working facilities to its customers within this segment. Besides the difficulty of accessing credit to expand, SME also lack proper guidance and direction, and the need for skills and competency-building. In the area of access to credit, the Barclays SME Business Solution offers the customer up to GH¢ 10,000 unsecured loan. What this means is that a customer can access an initial loan of GH¢ 5,000 without having to provide collateral. Depending on how he or she pays back the loan, there is an opportunity to access another loan up to GH¢ 10,000. According to the then Managing Director of Barclays Bank Ghana, Mrs. Margaret Mwanakatwe (2007) “For us Barclays Ghana, our joy is not so much in the numbers or size of loans given out, but our real joy has to do with the fact that the majority of the beneficiaries of the Barclays Business Solutions propositions are making real progress in their business. They are adding tremendous value to the private sector of Ghana.” Standard Chartered Bank also maintains a special program to facilitate the growth of their SME base. Ghana Commercial Bank has been holding Business Management Clinics for their SME clients throughout the country. According to Adu-Mante (2007), such workshops are aimed at inculcating sound business practices within the management teams of the SME’s.

The financial institutions have realized that in funds mobilization, it is the SME sector that runs the show and therefore every effort is being made to attract members within the various units of the SME bracket. Medium Term Enterprises are mainly the big supermarkets which are not listed on the Ghana Stock Exchange (unlike Unilever or British American Tobacco Company) i.e. Melcom and White Chapel which deal with manufacturing companies operating on a level lower than the big ones. These have shops scattered all over the urban areas and make very good sales which are channeled through these financial institutions. Enterprises that fall within what are

known as small enterprises include stores and transport businesses and those that can be described as mini-enterprises and micro-enterprises. All these handle good money which keeps the banking industry alive. The owners of these mini and micro enterprises may own small stores or kiosk or offices. The micro-enterprises operate on a very low scale. They usually do not own stores or shops but sell their wares on tables or make-shift contraptions.

According to Essien (2005), most businesses in Ghana have very little knowledge about current innovations in business financing. Some of these modern ways are much less in terms of cost to access than the traditional forms like long term loans and overdraft. Some of the contemporary available means of financing business in Ghana include:

Commercial Paper (CP) Stigum, (1998) says some large firms with good credit ratings manage and operate alternative and cheaper source of short-term finance through the sales of commercial paper. A commercial paper, Marcia Stigum continues is an unsecured promising note issued for a specific amount and maturing on a specific day. All commercial paper is negotiable, but most CP sold to investors, is held by them to maturity. CP is issued not only by industrial and manufacturing firms but also by finance companies. Finance companies normally sell their CP through dealers. CP provided through credit rating system, which places some reliance on commercial paper. It is regrettable to learn that CP is being under utilized in Ghana.

- Debt Factoring

This is another short term debt finance ability, which has not gained much ground on Ghanaian business scene. Debt factoring company purchases all the trade debts due to a business, as they arise. The business will be paid up 80% of the value of invoices as they are raised, with the balance coming on the date the invoice settled. The factoring company will generally take over responsibility for debt collection and sales ledger accounting. The factoring company will obviously make a charge, which is proportional to the services it provides and the risk, which it assumes. Debt factoring provides a fertile ground for SMEs to enhance their cash flows.

- Invoice Discounting

This is another service provided by factoring companies. It is similar to factoring in that debts are assigned to the factoring companies as they arise, but whereas a factoring arrangement applies to all debtors, discounting is generally negotiated piece meal for particular selection of invoices.

According to Dyer (1994) when a batch of debt is assigned, the factoring company will advance up to 75 percent of the invoice value. The payments from customers are forwarded to the factoring company as and when the business receives them.

Debts collection remains the responsibility of the suppliers and at the end of the month the balance of the purchase price (less charge) is received from the factoring company. Invoice discounting is simple and flexible and enables the business to maintain a normal relationship with its customers. SMEs could capitalize on invoice discounting to improve cash flow credit.

- Hire Purchase and Installment

This hire purchase system has gained good grounds on the Ghanaian business environment. It is particularly used in the acquisition of capital-intensive items such as buildings, vehicles and household appliances. Hire purchase generally offers very flexible repayment terms. The security for the 'Advance' is clearly provided by the asset being purchased.

- Leasing

Dyer (1994) says leasing is a medium term finance, which can be used to finance:

Purchasing of assets with medium life (e.g. Plant and machinery)

General working capital resuscitation. Essien (2005) says leasing is gradually gaining grounds on the Ghanaian business scene although the patronage has mainly been large companies. Dyer (1994) indentifies two types of leasing:

- The operating lease
- The financing lease

Operating lease is usually for a short term hire. The lesser retains control of the asset and is likely to hire it out to several lessees over the operating life of the asset. Medium and small scale construction firm that within civil contracts especially from the District Assemblies often lease earth movement equipment it discharge their functions.

Dyer (1994) also explains finance lease as a situation where the Lessee makes lease payments to cover the full cost of the assets and the attendant finance charges. The

assets will generally be kept by the lessee for its full useful life with “risk and rewards of ownership” effectively transferring to the lessee.

- Venture Capital / Business Angles.

Essien (2005) says the most appropriate form of finance of businesses, which are at the start up stages, is typically venture capital rather than debt i.e. loans. Albert Essien continues that there are number of ways through which the provision of venture capital can stimulate the growth of SMEs. These include regulatory reviews aid, the creation of tax incentives for ventures. The establishment of the Ghana Investment Fund (GIF) and the venture capital trust to support SMEs is certainly a step in the right direction by the Government of Ghana.

Having recognized the importance of the SME sector to the economic development of the country, various stakeholders or development partners have designed products and services to facilitate the development of the sector. A quick look will be made at the Ghana government contribution, assistance from International organizations and the efforts being made by the local commercial and rural banks to ensure the growth of the SMEs.

According to Amenuveve (2009) a credit facility of twenty-two million euro (E22 million) has been solicited by the government of Ghana, under the second phase of the Ghana Private Sector Development Fund (GPSDF) to assist the small and medium

scale enterprises operating in the northern region of Ghana. Under this facility SMEs could access loans between GH¢50, 000 and GH¢1.1 million (i.e. between E23, 000 and E480, 000) to expand their businesses and help reduce poverty levels and unemployment in the area. The fund was financed by the Italian government following an agreement signed between the government of Ghana and Italy.

It is hoped that the facility would help Shea-butter and rice processing enterprises in the three northern regions of Ghana dominated by women. The representative of the Trade and Industry ministry in the Northern Region, Gilbert Sebik advises facility beneficiaries to make maximum use of funds “to create wealth for themselves and reduce persistent poverty in the area”. Mr. Sebik also entreated managers of the facility to relax some of the conditionalities a little where necessary, to enable as many people as possible to benefit from the facility. The facility is a long term one with concessionary interest of between 9 – 12 % (as against existing commercial borrowing rate between 32 – 39 %.)

Another government intervention aimed at helping the SMEs to grow has to do with the central government’s Trade Sector Support (TSSP) which is to create the platform for the long-awaited linkage between education and industry. The program incorporates a set of practical steps, activities and projects to be undertaken in the execution of the country’s comprehensive Trade policy. The program incorporates specialized training centers for targeted sectors and operates an effective attachment program for under graduates in industry. The primary aim of the policy, according to Ablordeppey (2005) is to make the trade and industry sectors of the economy very vibrant and internationally competitive. The program according to some experts costs over US\$100 million and funds come from both domestic sources and international

developing partners. TSSP is also expected to draw some funds from the Ghana Poverty Reduction Strategy II within which the trade policy strategically fits. Already Samuel Doe Ablordeppey says TSSP documents have envisaged a US\$2.3 million support from the Private Sector Development Support (PSDS) Joint Financing facility for the inception phase.

The Trade Ministry which spear heads the policy, views the document as the blue print for the country's development, one whose implementation should bring increased private sector business and entrepreneurial activities needed for accelerated economic growth and poverty reduction through job creation. TSSP comprises 27 different but inter-related projects being executed in 10 areas. An inter-sectoral team anchored by the Trade ministry is managing and co-coordinating the multi-sectoral program.

Among other things the 27 projects include a free port to support the objective of making Ghana a trade hub for West Africa, the development of an industrial policy for the country and the strengthening of the small and medium-scale enterprises (SMEs) sector through financial and non-financial support for enhancing competitiveness.

2.6 SUPPORT SCHEMES FOR MANUFACTURERS FROM LOCAL COMMERCIAL AND RURAL BANKS

Most Ghanaian commercial banks were focusing on large corporate companies because they viewed SME Banking as a toned down version of corporate banking

with relationship managers of corporate and institutional banking divisions handling SME customer.

However with time it was becoming clear that, the contribution of the SME sector to the national economy and the business potential to the banks could no longer be overlooked. Most banks therefore established SME department at their head offices with SME desk officers at the various branches. Assistance to SMEs is not only in credit facilities but also capacity building workshop aimed at strengthening the managerial skills of the SME operations. Most banks have their own categorization, or definition of SMEs.

In Merchant Bank for instance the criteria used to describe SMEs are

- Customers with sales turnover up to GH¢5,000,000
- Customers with facilities up to GH¢200,000
- Sole proprietorship
- Companies with simple management structures
- Companies with inadequate documentation.

Most banks provide credit facility to support the working capital requirement of the customer. This according to the relationship managers are subject to a proper assessment of the credit needs, sources of repayment and mutually acceptable security. The SME department of these banks is convinced that they are well

positioned to provide the utmost in customer services. Merchant bank's SME department says" we are a leaving technology-driven and customer focused.

2.7 THE SOCIO ECONOMIC ENVIRONMENT IN WHICH FAN MILK OPERATES

Introduction

Fan Milk Limited is committed to the principles and implementation of good corporate governance. The company recognizes the valuable contribution that it makes to long – term business prosperity and to ensuring accountability to its shareholders. The company is managed in a way that maximizes long term shareholder value takes into account the interests of all of its stakeholders.

Fan Milk Limited believes that full disclosure and transparency in its operations are in the interests of good governance. As indicated in the statement of responsibilities of directors and notes to the accounts, the business adopts standard accounting practices and ensures sound internal control to facilitate the reliability of the financial statements.

The Board of Directors

The Board is responsible for setting the company's strategic direction, for leading and controlling the company and for monitoring activities of the executive management.

The Board presents a balanced and understandable assessment of the company's progress and prospects.

The Board consists of the Chairman, five non – executive directors and one executive director. The non-executive directors are independent of management and are free from any constraints, which could materially interfere with the exercise of their independent judgment. They have experience and knowledge of the industry, markets, financial and/or other business information to make a valuable contribution to the company's progress. The Managing Director is a separate individual from the chairman and he implements the management strategies and policies adopted by the Board. They meet at least four times a year.

The Audit Committee

The Audit Committee is made up of four directors, of whom three are non-executive directors, and they meet twice a year. The main Board determines its terms of reference and they report back to the board.

Its duties include keeping under review the review the scope and results of the external audit, as well as the independence and objectivity of the auditors. The Audit Committee also keeps under review internal financial controls, compliance with laws and regulations and the safeguarding of assets. It also reviews the adequacy of the plan of the internal audit and reviews its audit reports.

Systems of Internal Control

Fan Milk Limited has well-established internal control system for identifying, managing and monitoring risks. These are designed to provide reasonable assurance that the risks facing the business are being controlled.

The corporate internal audit function of the company plays a key role in providing an objective view and continuing assessment of the effectiveness of the internal control systems in the business. The systems of internal controls are implemented and monitored by appropriately trained personnel and their duties and reporting lines are clearly defined.

Code Business Ethics

Management has communicated the principles in the company's code of conduct to its employees in the discharge of their duties. This code sets the professionalism and integrity required for business operations which covers compliance with the law, conflicts of interest, environmental issues, reliability of financial reporting, bribery and strict adherence to the principles so as to eliminate the potential for illegal practices.

Soaring food prices and record high crude oil prices dominated the economic environment in year 2008. Their combined effect drove up inflation from 12.7% at the beginning of the year to 18.1% in December 2008. The Bank of Ghana Prime Rate

rose from 13.5% to 17.0% during the year and in turn, base rates quoted by commercial banks went up into the range of 22.5% to 27.8%.

To forestall effects of the high food prices on the Ghanaian population, the Government introduced a mitigation package containing the following:

- Removal of import duties on rice, wheat, yellow corn and vegetable oil.
- Removal of excise duty and debt recovery levy on premix fuel to assist fishing communities
- Reduction of excise duty and debt recovery levy on gas oil, kerosene and Marine Gas Oil. Dealers in these products and transporters were directed to reduce prices and fares accordingly to the benefit of consumers and passengers.
- An increase in the Government's support for the production cost of electricity to bring relief to domestic consumers.
- Subsidize the cost of fertilizer and ensure effective distribution to farmers to assure a good harvest.

Provisional data released by the Statistical Service indicates GDP growth of 6.2% for 2008 which was lower than the budgeted figure of 7%.

On the foreign exchange market, the Ghana Cedi depreciated against the major foreign currencies during 2008. The GH¢ fell by approximately 25.5% to the USD and by 20.7% to the EUR.

Cocoa bean and cocoa product exports grew by 36.1% from USD 1,103 million to USD 1,501.7 million.

Gold exports for 2008 increased by 29.6% from USD 1,733.8 million recorded in 2007 to USD 2,246.3 million. Remittances received through the banks increased from USD 6.9 billion to USD 8.7 billion. This was the environment in which your Company operated during the year under review. Fan Milk Limited is committed to conducting its business in a transparent, socially and environmentally responsible manner. The following are highlights of the corporate social responsibility activities embarked upon during year 2008 in furtherance of this commitment.

Ethics

Fan Milk Limited prides itself as an ethical corporate citizen. In this regard your Company operates in accordance with the laws of Ghana. Furthermore Fan Milk Limited complies with all relevant regulations and tax laws.

Environment

During 2008, Fan Milk Limited continued its partnership with the Ghana National Scholarships Beneficiaries (GNASBA) in the area of maintaining the environment. Fan Milk Limited continues to be a sponsor of several activities of GNASBA, such as tree planting, cleanup campaigns, weekly collection and disposal of plastic waste and malaria awareness programmes. In year 2008, through GNASBA, Fan Milk Limited distributed a number of litter bins in support of proper waste disposal across the

country. Support to GNASBA programmes in 2008 included cash, refreshments and souvenirs.

Construction of the Waste Water Treatment Plant was completed in the year under review. The plant was commissioned on April 11, 2008 and treated water is currently being used for non-production related activities such as washing of vehicles and gardening among others.

Fan Milk Limited contributes regularly towards the Accra Plastic Waste Management Project to ensure the effective collection of plastic waste in the Central Business District. Fan Milk Limited for the collection, disposal and recycling of waste from its The Company's environmental activities and plans are detailed in its Environmental Management Plan, which has been approved by the Environmental Protection Agency.

Safety

Fan Milk Limited continues to emphasize on safety at the workplace by ensuring high standards of the work environment within the factory, offices and distribution centres. The facilities of Fan Milk Limited have also met the requirements of Ghana Fire Service and the factories inspectorate and action is constantly and promptly taken to address any shortfalls in any area, which are brought to the Company's attention during inspection visits.

In 2008, Fan Milk Limited further enhanced its Emergency Response Plan which is a document providing guidelines on how to deal with eventualities of hazards and protecting the lives of members of staff and other stakeholders on the premises of Fan Milk Limited.

Health

Fan Milk Limited offers an Employee Health Care Scheme in which both employees and their registered spouses and children benefit from company paid medical care.

Fan Milk Limited continuously assesses the health impact of its operations on both employees and the general public eg noise, ammonia discharge and waste water. Staffs are regularly screened in conformity with the Accra Metropolitan Assembly (AMA) food vendors health regulation.

Social Responsibility Towards Employees

Fan Milk Limited believes it offers fair compensation and benefits to all employees. Fan Milk Limited provides amenities such as laundry, changing/locker room as well as canteen facilities for its employees.

Fan Milk Limited is committed to the development of careers of staff through various company sponsored programmes held locally and abroad.

Fan Milk Limited continues to support eligible children of employees with scholarships through their second-cycle education.

Fan Milk Limited through Catholic Action for Street Children (CAS) provides literacy programmes to its bicycle vendors.

Local Development and Other Social Responsibilities

Fan Milk Limited contributes on a regular basis to:

1. Remar Ghana Limited – product support for the rehabilitation of drug addicts
2. SKYY Power TV/FM – Social agenda programme
3. street Gils Aid – Products to support the joy FM Easter Kitchen in feeding the need in society
4. Joy FM Easter Kitchen – Products to support the Joy FM Easter Kitchen in feeding the needy in society
5. Choice FM – Ghana Clean Advocacy: Our Environment, Our Health.

Fan Milk Limited also provided support for Ghana's Independence Day and Farmers Day celebrations.

During 2008, the Company undertook a sanitation awareness campaign 93 schools nationwide, 106,600 pupils and 3,727 teaching and non-teaching staff. The campaign

involved showing a short film on sanitation followed by question and answer sessions and donation of litter bins. The pupils and staff who participated in the programme were also refreshed with products from the company.

Throughout 2008, Fan Milk Limited provided various forms of support to many other organizations including schools, fitness clubs football clubs and other societies.

2.9 CHALLENGES OF THE MANUFACTURING INDUSTRY

2.9.1 A Growing Regional and Global Business

According to coffee (2009) counterfeiting and piracy are terms used to describe a range of illicit activities linked to intellectual property rights (IPR) infringement. Counterfeiting thrives on the whole process of globalization, since globalizations is the spread of capital and know-how to new markets. This in turn contributes low cost labour to crest the ideal export machinery, manufacturing first low cost, low value-added products and then moving up the value chain.

This is the story of Southeast Asia. It is also the story of China. Now it is the story of fake products. Counterfeiting delivers the benefits of skilled labour, efficient distribution and product technology without the associated investment in costly research, development and marketing in products that are not genuine brands.

In 2004, Charles Cofie says the world Customs Organization estimated the global trade in counterfeit products to be worth \$512 billion and growing exponentially. Today, the term ‘counterfeit’ is often used synonymously with imitation, adulteration and passing –off to embody all these various forms of illicit trade which are, however, not one and the same thing.

The WHO defines a counterfeit as a product which is deliberately and fraudulently mislabeled with respect to identity mislabeled with respect to identity and/or source, ingredients or the packaging and presented as a known branded product. Substandard goods are genuine products produced by legitimate manufacturers that do not meet the quality specifications that the producer says they meet.

An imitation or pass-off is a product made to resemble very closely, a known branded product but with very minor changes in name or packaging. Adulterated products comprise fake ingredients or product form in recycled genuine packaging of known and legitimate brands. Thus all counterfeit products are substandard because they are manufactured and distributed outside of regulatory control and their composition is unpredictable. On the other hand, not all substandard products are counterfeit because not all substandard products are counterfeit because not all of them have been ‘deliberately and fraudulently mislabeled.

The definition of counterfeit products currently varies from region to region and from one country to another in Africa, where a lot of the laws are relics from the colonial era when illicit trade and economic crimes were very different from what they are

today. Some Penal code in Africa still classify acts of counterfeiting as misdemeanors, enabling perpetrators to get away with a slap on the wrist and minor fines when apprehended.

Industrial property rights experts are presently campaigning for the harmonization of anti-counterfeiting laws across Africa. They blame Africa's disjointed legal regime for the failure to tackle the menace which has stifled the continent's industrial growth. The lack of clear, legal frameworks at national levels and absence of a common regional policy on counterfeiting leaves a vacuum that is being exploited by counterfeiters. Worldwide, corruption and conflicts of interest result in weak regulation and lack of enforcement.

Informal distribution systems in many developing countries, false declaration by importers and an insecure environment also create conditions for proliferation of counterfeit products. This is compounded by ignorance and poor public awareness about counterfeit products, deceitful advertisements and in some cases, indifference by governments.

Counterfeit operators have created a global industry that now rivals the multinational corporation in speed, reach and sophistication. Counterfeit manufacturing used to be a cottage industry but this is no longer so for example Sanyo Electric Co. Ltd of Japan has been providing quality and environmentally friendly products for the comfort and enjoyment of Ghanaian public nearly 40 years now.

Sanyo has strived to make its name as a household standard in Ghana with high quality Electronics, Home and Industrial appliances especially colour TV sets, refrigerators, Air conditioners, Home and kitchen appliances etc.

Recently, monitoring efforts by the authorized dealer in Ghana – Sanyo Gulf FZE – on the local market found large consignment counterfeit low priced colour TV set especially in the size of 14” and 21” all branded as ‘Sanyo’. An immediate legal action was taken against the importers of these counterfeit products and the commercial court in Accra upheld Sanyo’ request and ordered the destruction of all counterfeit TVs and the discontinuation of infringing activities.

Sanyo therefore warns all traders in Ghana to stop importing, labeling, distributing and selling these counterfeit products. The Ghana office of Sanyo further warns that “we will continue to take vigorous actions against counterfeits to protect consumers and our rights.”

The combination of available seed capital to finance their operations, expertise in reengineering and ability to penetrate legitimate distribution channels has created a global crisis. Anything that is manufactured can be faked – from consumer electronics through cigarettes and auto parts to shoes, bouillon cubes, antibiotics without active ingredients to \$100 bills. Counterfeiting has become as profitable as trading drugs and illegal narcotics, and is a lot less risky. In some parts of the world organized crime is said to have shifted for smuggling of narcotics and weapons to counterfeiting of medicines as a lucrative enterprise.

As counterfeiters do not have to cover research and development, marketing and advertising costs, most of their expense goes into making products look convincing, not into making them perform well. In the last few years Ghanaians have been witnesses to the speed with which new designs from the Ghanaian textile industry have been copied by counterfeit manufacturers based in China.

A new report from the international Policy Network (IPN) 2008 states that 700,000 people die annually from consuming fake drugs, most of which originate from China and India. IPN estimates that almost 50 percent of the drugs sold in Ghana, Nigeria, Angola, Burundi and the Congo are fake and sub-standard leaving people to unknowingly consume paint saw dust, cement, talcum powder and other toxic substances.

IPN also estimates that only one percent of counterfeit drugs are found in the developed countries where there is high literacy rate and resolve by governments to protect trademarks and intellectual property rights.

2.9.2 A Multi-Faceted Problem Of Counterfeiting

According to Cofie (2009) Counterfeit products affect a nation on five different levels and adversely impact our society in the following ways which unfortunately are not always obvious:

- Vis-à-vis consumers: on one level many consumers do not know about counterfeit products, and even when they do, are unable to distinguish between counterfeits and authentic product. Thus unsuspecting consumers are often cheated into buying counterfeits and only become aware of this long after parting with their money.

Counterfeit pharmaceutical products have led to drug resistance, treatment failures and deaths, and have eroded public confidence in health care systems. On another level there is another group of consumers who are very much aware of the existence of counterfeit products and patronize them willingly, in the belief that counterfeits are “good for poor people.”

- Vis-à-vis Local Industry and Traders: the existence of counterfeit products spoils the good name of genuine products and crowd them out of the market, leading to loss of volume, capacity under-utilization, higher cost of production and depressed earnings for manufacturers and legitimate trademark owners. Counterfeits also affect the reputation of brands over time, and lead to erosion of confidence in the manufacturer and product delivery systems. This further affects foreign direct investment as the structure of trade is altered.
- Vis-à-vis Employment and job creation: Employment is put at risk where there is no effective deterrent against counterfeiting and piracy.
- Vis-à-vis Government Revenue: Counterfeit operators will be illicit traders who do not comply with government regulations. This leads to loss of customs and excise duties, corporate and personal tax revenues for government, as well as higher cost of law enforcement and judicial proceedings.

- Vis-à-vis the image and reputation of Ghana: Economy-wide, counterfeiting and piracy undermine innovation, which is key to economic growth. More importantly, a nation where counterfeiting is rampant quickly gains a reputation as a safe haven for people who wish to engage in economic crimes, shattering any hard-won positive reputation we may have built over time.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This third chapter features the details of the methods and procedures employed in gathering information to enhance the study on “An analysis of contribution of bank credits to the growth of manufacturing companies in Ghana with special reference to Fan Milk Limited, Accra”. It begins by disclosing research designs, population of the study, Sources of data, sampling techniques, Questionnaire Administration, Data Collection and Data Analysis.

3.2 POPULATION OF THE STUDY

The population refers to the entire entities with similar characteristics in which we are interested in studying. The population of this research is about manufacturing companies that takes credit from the bank for their business activities. Fan Milk Ghana Ltd located at north industrial area; No 1 Dadeban road Accra is our case study.

Information was obtained from Officials of:

- Account Department
- Stores department
- Purchases department

- Human resources department
- Marketing department
- Internal Audit and the two assistants to the chief executive

3.2 RESEARCH DESIGN

Generally there are four different types of research thus; causal, exploratory, analytical and descriptive research.

Causal research is that type of research that explores the effect of one thing on another and more specifically, the effect of one variable on another. Exploratory research is a type of research conducted for a problem that has not been clearly defined. Descriptive also describes data and characteristics about the population or phenomenon being studied. Whiles analytical research aims to understand phenomenon by discovering and measuring casual relationship among them.

This research is a causal research as the study seeks to explore the impact of bank credit on manufacturing companies.

Taking cognizance of the fact that the study sought to obtain views from the senior officials of Fan Milk Limited the researchers felt sample survey was the most appropriate research design sample survey studies usually help in learning about people's views and ideas on issues under discussion. Modern scholars on research methodology have noted that sample surveys are methods of collecting primary data based on communication (Questions and Answers) with an adequate representative

sample of respondents. A survey is classified as sample survey because the respondent's views can be fairly used to represent those of the larger population.

3.3 SOURCES OF DATA

Data for any research can be obtained from two main sources; namely primary and secondary data sources. In this study data was emanated from both sources.

3.4.1 Secondary Data

Secondary sources of data concerned information picked up from contemporary literature on business financial available in books, research papers, journals, an article in News papers (especially those on Banking and Financial). Published and unpublished desk top materials. Financial statements of Fan Milk Limited for the period 2005 to 2010 were also very helpful in analyzing the impact of bank credit on the operations of Fan Milk Ghana.

3.4.2 Primary Data

These are data collected afresh and for the first time and thus happen to be in their original character.

Officials whose duties touched on capacity building and measurement were roped into the study. Officers within the departments mentioned in 3.2 above were interviewed.

The distribution of senior officers interviewed was as follows:

| Department | No of officers | Sample size |
|-------------------|-----------------------|--------------------|
| Accounts | 6 | 4 |
| Production | 3 | 2 |
| Purchases | 4 | 2 |
| Marketing | 4 | 3 |
| Internal Audit | 2 | 1 |
| Executive wing | 6 | 2 |
| Human resource | 3 | 1 |
| Total | 28 | 15 |

3.4 SAMPLE / SAMPLE TECHNIQUE

For such a study it would have been prudent to include many manufacturing companies however the nature of time, it is prudent to limit the study to only one manufacturing company thus Fan Milk Ghana Ltd.

Each of the departments was regarded as a stratum (or a group) from which random sampling numbers were assigned to the list of senior officers to arrive at the required sample size. It can therefore be concluded that random sampling technique was flavoured with stratified sample in obtaining the required sample size of 15.

3.6 RESEARCH INSTRUMENTS

Judging from the fact that all the senior officers of Fan Milk Limited were well educated people and moreover had very busy schedules the researchers felt the questionnaire and interview technique for gathering information was the most

appropriate since this accorded them the relevant flexibility to honour the dictates of the questionnaire at their own free time.

3.7 ADMINISTRATION OF RESEARCH INSTRUMENTS

The researchers approached the public affairs manager of the company to introduce themselves and explain the purpose of their visit. Having tended in evidence of our students identity cards, the public affairs manager showed us round some of her bosses especially those departments which were selected for the study. After informing the officers of their selection for the study an arrangement was agreed upon for the answering of the questionnaires to be completed within two weeks.

3.8 DATA COLLECTION

At regular intervals the researchers reminded the respondents of their responsibility toward the study on the phone until the agreed period for completion expired. Some made their answered 'scripts' available at the offices while others arranged for collection over the weekends at convenient locations and their homes. In all 12 out of the 15 answered questionnaires were retrieved representing 80 percent response rate.

3.9 DATA ANALYSIS

Microsoft Excel was employed in analyzing the information and the resulting pie charts, bar charts, frequency tables and graphs have been presented in chapter 4.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND DISCUSSION

4.1 INTRODUCTION

This chapter analyses data gathered from the field, presents the results and discusses the findings

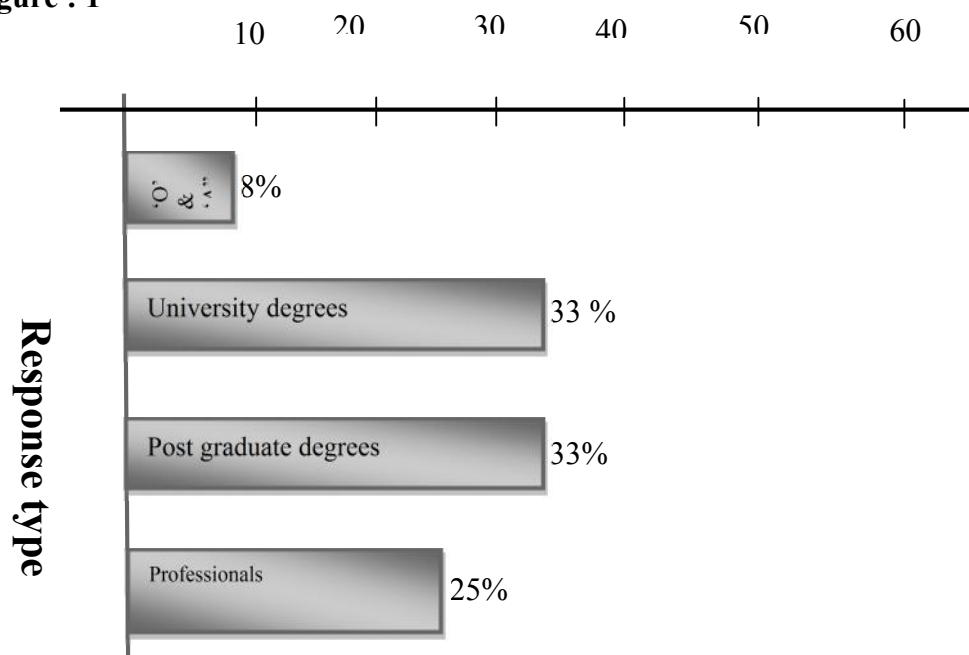
4.2 DISTRIBUTION OF PERSONAL DATA OF RESPONDENTS OF FAN MILK LIMITED

4.2.2 Distribution of Academic Background of Respondents

From figure/below indicates four(4) respondents (i.e. 33.3%) possessed university degrees. Four (4) interviewees (i.e.33.3%) had post graduate degrees while three (3) (i.e. 25%) respondents possessed Professional qualification such as ACCA, CIMA, and only One (1)respondent (i.e. 8.3%)represents Advanced or ordinary levels.

The above analysis has been shown in the figure below.

Figure : 1



Source: researcher's analysis (2011)

4.2.3 Distribution of respondents service duration at Fan Milk Limited

Table 2

| Response type (years) | Frequency | Percentage |
|-----------------------|-----------|------------|
| 3 – 5 | 2 | 16.7 |
| 6 – 10 | 6 | 50 |
| 11 – 20 | 3 | 25 |
| Above 20 | 1 | 8.3 |
| Total | 12 | 100 |

Source: researcher's analysis (2011)

From table 2 above two respondents forming 16.7 percent had worked for Fan Milk between three and five years.

Six (i.e. 50%) respondents joined the company some six to ten years ago while three interviewees (25%) had been with the company for eleven to twenty years .One interviewee(8.3%) had served Fan Milk Limited above twenty years.

4.2.4 Distribution of Respondent's Area of Work At Fan Milk Limited

Table 3

| Response type (years) | Frequency | Percentage |
|------------------------------|------------------|-------------------|
| Accounts | 3 | 25 |
| Procurement | 1 | 8.3 |
| Marketing | 2 | 16.7 |
| Production | 2 | 16.7 |
| Internal Audit | 1 | 8.3 |
| Executive wing | 2 | 16.7 |
| Human Resource | 1 | 8.3 |
| Total | 12 | 100 |

Source: researcher's analysis (2011)

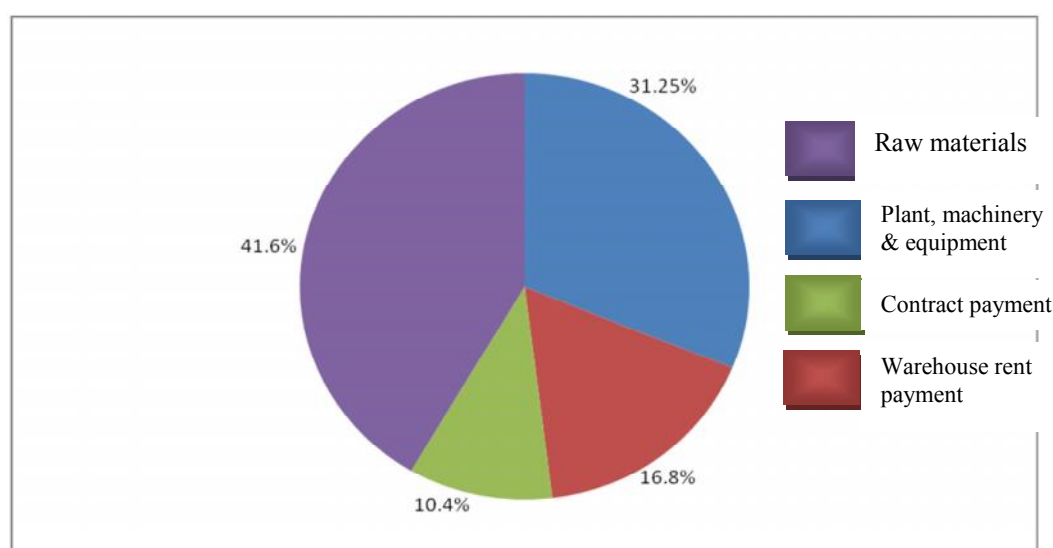
Table 3 above depicts the fact that 3 respondents (i.e. 25%) were employees of the finance department of Fan Milk, while two (i.e. 16.7) were staff members of the marketing department. A further two (also 16.7%) worked for the production department with only One respondents (i.e. 8.3%) being a member of staff from the Human resource management (HRM) section of Fan Milk Limited.

One interviewee (i.e. 8.3%) happened to be official of the procurement department. The executive wing was not left out; two officials from the board constituting 6.2 percent of respondents answered and returned their questionnaires.

4.3.2 Distribution of Respondents View on Use of Overdraft

From figure 2 below indicates that 41.6% of fan milk solicited bank overdrafts are used for payment of raw materials. 31.25% of overdrafts obtained from the bank were often disbursed towards routine maintenance of plant, machinery and equipment. Whiles 16.8% and 10.4% of the overdrafts were used to meet rental charges of their increasing number of ware houses and contract payment of certain category of service providers respectively.

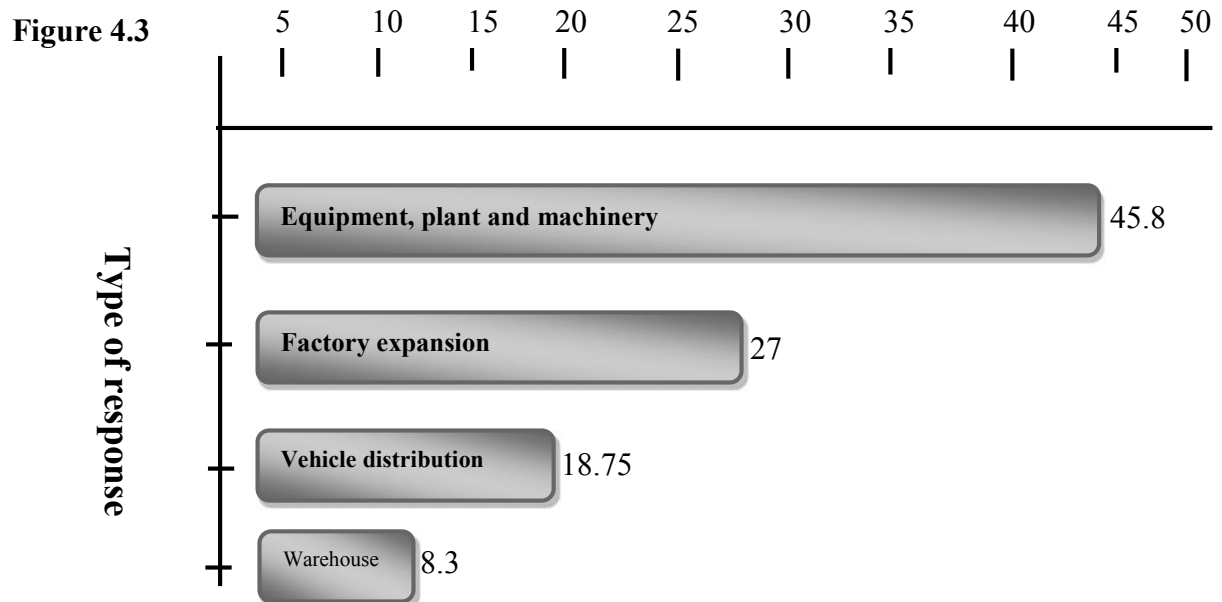
Figure 2 pie chart of use of overdraft



Source: Researcher's Analysis (2011)

4.3.3 Distribution Of Respondents View On How Fan Milk Employed Medium Term Loans

Figure 4.3 below shows that 45.8 percent indicated that Fan Milk limited employed its medium term facility in procuring equipments, plants and machinery. 27% of medium term loans were used to expand parts of the factory while 18.75% of medium term loans were applied on distribution vehicles of the company.8.3% were used for warehouse expansion programmes.



Source: Researcher's Analysis (2011)

4.3.4 Distribution Of Respondents View Based On How Fan Milk Used Bank Guarantee And Letters Of Credit

Table 4.5

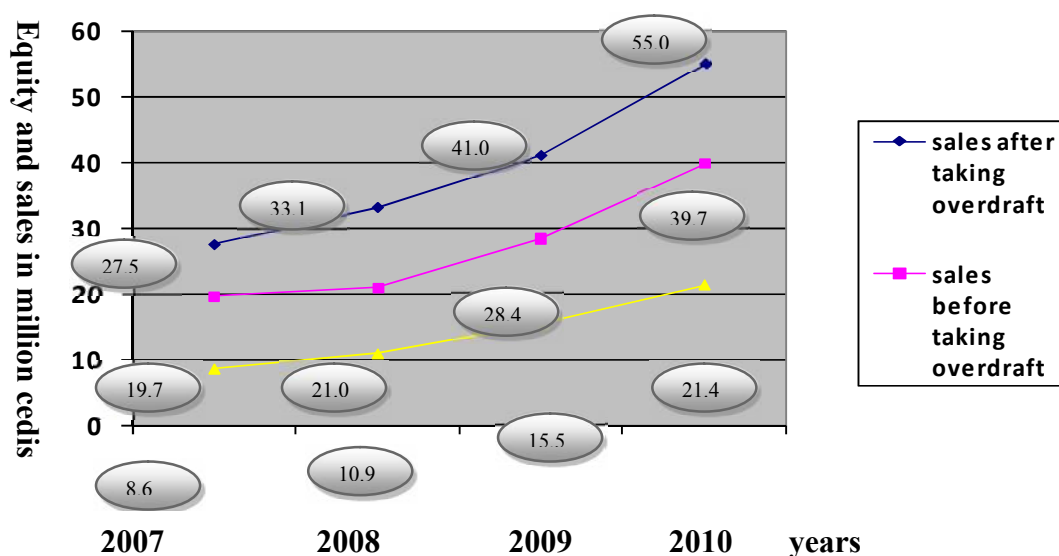
| Type of response | Percentage (%) |
|-----------------------------|-------------------|
| Govt. concessionary loans | 25.0 |
| New suppliers of | 27.0 |
| concentrates | 35.4 |
| Japan grants etc | 12.6 |
| Foreign equipments supplier | |
| Total | <u>100</u> |

Source: Researcher's Analysis (2011)

From table 4.5 Fan Milk company Ltd operates with bank guarantee and letters of credit. The table above show that 25% of bank guarantee sought from the banks were used to solicit for government concessional loans to improve upon the financial base of the business. 27% of bank guarantee and letters of credit were used to help the company bring on board new suppliers concentrates. 12% were used to acquire state of the art equipment on credit basis from foreign equipment suppliers. Whiles 35.4% of bank guarantee and letters of credit sought from the banks were used to help the company access international loans from Japan, Denmark etc.ove it can be gathered that 17 out of 48 respondents forming 35.4 percent indicated that fan milk limited sought bank guarantee to help them access international soft loans from Japan, Denmark etc.

4.3.5 Distribution of findings on impact of overdraft on sales

Figure 4.4 Quoted in million cedis



Source: Researcher's Analysis (2011)

From 4.4 from above shows that sales of fan milk limited increased from GH¢19.7 million to GH¢27.5 an increase of 29.74 percent in 2007. In 2008 it increased by 57.8 percent from GH¢21.0 to GH¢33.14 while the administration of overdraft in 2009 resulted in an increased in turnover from GH¢28.4 million to GH¢41.06 million representing a percentage increment of 44.5. In 2010 overdraft contracted by fan milk limited enabled turnover to increase from GH¢39.72 to GH¢55.04, ie an increment of 38.6 percent. Equity ¢55.04, i.e. an increment of 38.6 percent. Equity over the period also increased appreciably. It moved from GH¢8.6 million to GH¢10.98 from 2006 to 2008, i.e. an increase of 27.7 percent. If further shut up by 41.03% from GH¢10.39

percent to GH¢15.5 million in 2009 and finally increased by 38 percent from GH¢15.5 to GH21.41 in 2010.

4.3.6 Distribution Of Findings On Impact Of Bank Credit On Staff Strength Of Fan Milk Limited

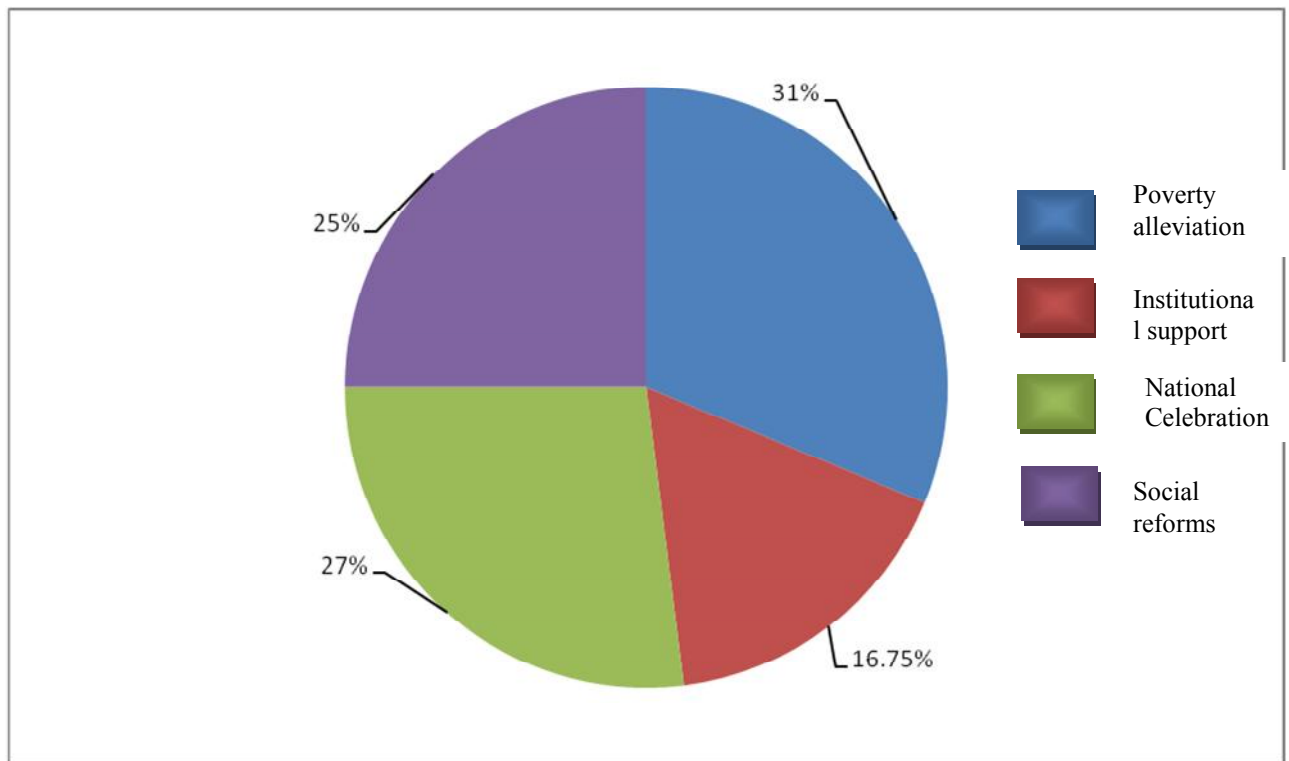
Table 4.6

| Years | Staff size before bank credit | Staff size after bank credit |
|--------------|--------------------------------------|-------------------------------------|
| 2007 | 360 | 380 |
| 2008 | 380 | 374 |
| 2009 | 374 | 378 |
| 2010 | 378 | 401 |

Source: various editions of financial statements

Table 4.6 depicts the fact that employment levels at fan milk limited increased from 360 to 380 in 2007 representing an increment of 5.5 percent. There was a drop in employment in 2008 as a result of restructuring exercise to computerize certain functions of the company. Employment level reduced from 380 to 374 representing a marginal drop of 1.6 percent. Employment levels went up slightly by 1.1 percent from 374 to 378 in 2009 while there was an appreciable increase in staff strength from 378 to 401 in 2010 representing an increment of 6.1 percent

4.3.8.2 Social responsibility toward local development, etc



Source: Researcher's Analysis (2011)

Figure 4.6 reviews that Fan Milk has not reneged on its social responsible 31.25% of social responsibilities that has been to alleviate poverty in the country. The company provider's product supports for 750 street girls engaged in vocational training as well as contribute enormously towards the annual Joy FM Easter kitchen in feeding the needy in society. 27% of its social responsibility was towards the sponsorship of some national celebrations. Particularly mention was made of support for Ghana's Independence Day and Farmers Day celebrations. 25% was channeled to social reform as an avenue where fan milk limited supports rehabilitation of drug addicts as well as sponsor social agenda programmes on Skyy Television and FM stations while 16.75 percent of it's social responsibility went to various forms of support to many

other organizations including schools, fitness clubs and other societies. Certainly all these could not have been undertaken if the fortunes of the company had not been improved with the help of bank credits.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 INTRODUCTION

The previous fourth chapter presented the analyzed data together with their interpretation. This concluding fifth chapter summarizes the findings, draws conclusions and makes appropriate recommendations.

5.2 SUMMARY

Fan Milk Limited has been securing various types of credits from their bankers. These include Overdraft facilities, Medium Term Loans, Letters of Credit, Bank Guarantees and transfer of funds. Overdraft for instance helped the company purchase supplies, pay staff emoluments, rent extra warehouses as well as pay contract suppliers. Medium Term Loans helped Fan Milk to modernize its equipments, extent factory; premises procure more efficient delivery vans as well as rent more ware houses throughout the country.

Bank guarantees enabled Fan Milk to secure concessionary rated government and international credits, procure equipment from new suppliers etc. Letters of credit helped Fan Milk in dealing with its international partners. Figures provided by respondents supported the observation that overdrafts helped to improve upon the turnover as well as the equity base of the company over the period 2007 to 2010. Bank credits also helped the company in increasing its employment size over the four-

year period from 2007 to 2010. With the profit of Fan Milk limited improving over the period its statutory obligations also increased in respect to tax, excise duty and import duty.

Some of the corporate social responsibilities, which continue to be enhanced by bank credits, include providing literacy programmes for its illiterate and semi-illiterate bicycle vendors, support eligible children of employees with scholarships through their second-cycle education, sponsor rehabilitation of drug addicts, social agenda on TV/FM programmes, support 750 street girls engaged in vocational training as well as creating the enabling environment for Advocacy programmes on healthy and clean environments. The company also continues to support national celebration especially the Independence Day and Farmers Day Celebrations.

5.3 CONCLUSIONS

Based on the findings above the following conclusions can be drawn.

- 5.3.1** That Fan milk limited has no difficulty in accessing bank overdraft, medium term loans, letter of credit and bank guarantees for its operations.
- 5.3.2** That bank credits especially overdraft helps the company to improve upon its working capital base. With the working capital enhanced the company could produce more, sell more thereby augmenting the cash flow of the business.
- 5.3.3** Bank credits helped fan milk to modernize its delivery van base, rent more warehousing thereby expanding the distribution network of the company.

5.3.4 Bank credits helped the company to procure state of the Art plants and machinery and equipment to turn out competitive products.

5.3.5 Bank credits strengthened the capacity of fan milk limited to sponsor more social projects.

5.3.6 Besides bank credits manufacturers could also employ stock exchange funds, commercial papers, venture capital funds, leasing funds, invoice discounting and debt factoring to improve upon their business prospects.

5.4 RECOMMENDATIONS

Given the findings outlined above and the conclusions drawn the following recommendations are logical:

5.4.1 Assistance from Ghana Association of Bankers

The Ghana Association of Bankers should streamline their loan application procedures so as to enable more Small and Medium Scale enterprises to access loans to expand their businesses. Where these SME manufactures are able to expand their operations the banks also stand to benefit by way of large revenue mobilization, selling more loans and other consumer products to the huge employees of the SME manufacturing sector.

5.4.2 The role of Association of Ghana Industries (AGI) in helping manufacturers

Foreign financiers like the International Finance Corporation (IFC) are comfortable lending to reputable organizations or Associations. The AGI is credible enough to source international credits at concessional rates to help its members improve upon their businesses. Some peer review mechanisms could be worked out to help minimize bad debts associated with such loans.

5.4.3 Assistance from Trade and Industry Ministry

The government, acting through the trade and industry ministry, could find international markets for the manufacturing sector to improve upon its fortunes. This involves the trade ministry creating the structures necessary to open the avenue for members of the AGI to attend more international Trade Fairs especially in the sub-region and the emerging Asian markets where much cheaper but good quality raw materials could be procured to help the members within the industry.

5.4.4 Downward Adjustment of Utility Rate

The AGI complains that the high electricity tariffs makes the cost of operation very high and when factored into pricing does not make their products competitive enough. Could the government arrange for some concessionary electricity rate for manufacturers or could there be an alternative source of energy for example use of Liquefied Petroleum Gas (LPG)? Perhaps the resultant loss in revenue could be

compensated by taxes that would accrue from more profit that is likely to be roped in by manufacturers as a resulted of expanded sales.

5.4.5 Relaxation of Collateral Security Requirement

A good number of SME manufacturers are unable to secure bank credits owing to their inability to provide collateral security especially landed property. The banks could find an alternative to collaterals, for example group liability guarantee, so as to enable more small and medium scale manufacturers to pick up funds for expansion purposes.

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APPENDIX I

CHRISTIAN SERVICE UNIVERSITY COLLEGE

QUESTIONNAIRE

This questionnaire has been designed to solicit views from officials of Fan Milk limited on the research topic “**The impact of Bank credit on the performance of manufacturing companies**”. It is purely for an academic purpose, which is in partial fulfillment of the requirements for the award of Bachelor of Business Administration Degree in Accounting

Your honest response will determine the success of the study. Please be assured that your answers will be accorded the highest level of confidentiality

Thank you for your kind co-operation.

Section A: Personal data

1. Post Graduate Degree () Secondary () polytechnic () University ()
Others please specify.....
2. Position within the company.....
3. Number of years of service at fan milk
4. Which department do you work at fan milk.....
5. Does your company operate with any banks?
YES [] NO []
6. If your answer to question (1) above is NO, state your reasons
.....
.....
7. If yes, how many banks do you operate with?.....
8. How long have your company been operating with the named bank (s) in 3 above
.....
.....
.....

9. Which of the following facilities have you been securing from your bank?
☐ Overdraft ☐ medium term loan ☐ Letters of credit ☐ bank guarantee
 Others (please specify)

10. Does the company encounter any challenge in sourcing for credit facilities from the banks?
 Yes ☐ No ☐

If YES, what are they?

.....

- 9 What did you use the facility for?

Overdraft.....

Medium\long term loan.....

Bank guarantee.....

Letters of credit.....

Others.....

10. Overdraft generally helps a manufacturer to acquire more raw materials to expand the business. Kindly supply the following figures in relation to your overdraft administration for the past few years preferably 2005 to 2009.

| Month and year | Equity Total Assets Less Total liabilities GH¢ | Sales before overdraft GH¢ | Level of approved Overdraft GH¢ | Sales after using overdraft GH¢ |
|----------------|--|----------------------------|---------------------------------|---------------------------------|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

11. Medium term loans are normally for periods up to 5 years and these help in acquiring plant and machinery vehicles etc. please supply the following figures to indicate how medium term loans impacted or your business.

Values of plant and machinery and vehicles before picking up medium term loan

.....

Medium term loan secured.....

Value of plant and machinery and vehicles after using Medium term loan

.....

12. When business expands more hands are needed. Kindly supply the figures appropriately

| Years | Staff size before loans | Staff size after loan |
|-------|-------------------------|-----------------------|
| | | |
| | | |
| | | |
| | | |

13. Increase in staff strength means increase in staff cost. Please help with the following figures.

| Years | Staff size before loans | Staff size after loan |
|-------|-------------------------|-----------------------|
| | | |
| | | |
| | | |
| | | |
| | | |

14. With business growing profit increases and therefore tax liability increases.

| Type of tax | Before 2008/2009 taking bank loans | 2008/2009 after taking bank loans |
|-------------|------------------------------------|-----------------------------------|
| Income Tax | | |
| VAT | | |
| Company Tax | | |
| Excise duty | | |
| Import duty | | |

15. How has bank overdraft impacted on the company's raw material needs?
☐ Very Positive ☐ Positive ☐ Mixed/Neutral ☐ Negative ☐ Very Negative
16. How has bank overdraft impacted on the marketing of the company's products?
☐ Very Positive ☐ Positive ☐ Mixed/Neutral ☐ Negative ☐ Very Negative
17. How has bank overdraft impacted on company's profitability?
☐ Very Positive ☐ Positive ☐ Mixed/Neutral ☐ Negative ☐ Very Negative
18. How has bank overdraft impacted on the company's manufacturing equipments, plants and machineries?
☐ Very Positive ☐ Positive ☐ Mixed/Neutral ☐ Negative ☐ Very Negative
19. How has banks overdraft impacted on the delivery social responsibilities?

- ☐ Very Positive ☐ Positive ☐ Mixed/Neutral ☐ Negative ☐ Very Negative
20. How has term loans impacted on the company's raw materials need?
☐ Very Positive ☐ Positive ☐ Mixed/Neutral ☐ Negative ☐ Very Negative
21. How has term loans impacted on the marketing of the company's products?
☐ Very Positive ☐ Positive ☐ Mixed/Neutral ☐ Negative ☐ Very Negative
22. How has term loans impacted on the company's profitability?
☐ Very Positive ☐ Positive ☐ Mixed/Neutral ☐ Negative ☐ Very Negative
23. How has term loans impacted on the company's manufacturing equipments, plants and machineries?
☐ Very Positive ☐ Positive ☐ Mixed/Neutral ☐ Negative ☐ Very Negative
24. How have letters of credit/ Bank guarantee impacted on the company's raw materials needs?
☐ Very Positive ☐ Positive ☐ Mixed/Neutral ☐ Negative ☐ Very Negative
25. How have letters of credit/ Bank guarantee impacted on the marketing of the company's products?
☐ Very Positive ☐ Positive ☐ Mixed/Neutral ☐ Negative ☐ Very Negative
26. How have letters of credit/ Bank guarantee impacted on the company's profitability?
☐ Very Positive ☐ Positive ☐ Mixed/Neutral ☐ Negative ☐ Very Negative
27. How have letters of credit/ Bank guarantee impacted on the company's manufacturing equipments, plants and machineries?
☐ Very Positive ☐ Positive ☐ Mixed/Neutral ☐ Negative ☐ Very Negative
28. How has the other specified bank facilities impacted on the company's raw materials needs?
☐ Very Positive ☐ Positive ☐ Mixed/Neutral ☐ Negative ☐ Very Negative
29. How has the other specified bank facilities impacted on the marketing of the company's products?
☐ Very Positive ☐ Positive ☐ Mixed/Neutral ☐ Negative ☐ Very Negative
30. How has the other specified bank facilities impacted on the company's profitability?
☐ Very Positive ☐ Positive ☐ Mixed/Neutral ☐ Negative ☐ Very Negative
31. How has the other specified bank facilities impacted on the company's manufacturing equipments, plants and machineries?
☐ Very Positive ☐ Positive ☐ Mixed/Neutral ☐ Negative ☐ Very Negative
32. What are some of the activities that your company does in discharging its corporate social responsibility duties?

.....
.....
33. How have bank credit assisted in discharging such social responsibilities

.....
.....
34. What some of the activities that your company do in discharging its corporate social responsibility duties?

.....
.....
35 How have bank credit assisted in discharging such social responsibilities

.....
.....
36. Are you satisfied with the assistance being received from the bank?

☐ Yes ☐ No ☐ Somehow

37. Please explain your answer to Q31

.....
.....
38 If you were asked by the following to make recommendations on how to help manufacturers; what would you say?

a. Ghana Associations of Bankers

.....
.....
b. Association of Ghana Industries (AGI)

c. Government of Ghana through ministry of trade and industry.

.....

.....

.....

Thank you