UNIVERSITY OF CAPE-COAST

# FINANCING NON-TRADITIONAL EXPORTERS IN GHANA

2019

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# FINANCING NON-TRADITIONAL EXPORTERS IN GHANA

BY

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Dissertation submitted to the Department of Finance of the School of Business, College of Humanities and Legal Studies, University of Cape Coast, in partial fulfilment of the requirements for the award of Master of Business Administration (Finance) Degree.

SEPTEMBER 2019

# DECLARATION

## Candidate's Declaration

I hereby declare that this dissertation is the result of my own original research and that no part of it has been presented for another degree in this university or elsewhere.

Candidate' Signature…………………………..… Date………………………….

Candidate's Name: Isabella Ayisi Larbi

## Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of degree dissertation laid down by the University of Cape Coast.

Supervisor's Signature…………………….. Date…………………………….

Supervisor's Name: Dr. Idun Adu-Asare Anthony

# ABSTRACT

The study examined the sources of finance for Non-Traditional Exporters in Ghana. The study employed a descriptive survey of which the targeted population was the non-traditional exporters in Ghana. Secondary data were used and inductive research approach was employed. Furthermore, the data were analysed using documentary analysis. The study found that non-traditional exporters in are being supported by government in terms of finance. The study also found that non-traditional exporters rely on funding from banks for their export business. In addition, the study found that non-traditional exporters obtain funding from parastatal and NGOs such as African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), and the Inter-American Development Bank (IDB). It is therefore, recommended that Government of Ghana should continue to support the non-traditional export sector in terms of finance in order to expand the sector for more foreign exchange earnings. Also, banks should have special package for only non-traditional exporters in order to boost the production level of non-traditional exporters by securing credit on time and provision of business advisory services. Finally, since parastatal or NGOs also support non-traditional exporters, the Government of Ghana should provide avenues or enabling environment to attract these international partners into the non-traditional export sector in the country for its export-led growth strategy.

## ACKNOWLEDGEMENTS

I am thankful to my supervisor, Mr. Anthony Idan Adu-Asare for his effort, guidance, support and encouragement throughout this work. I must confess that I owe the success of this work to him. Moreover, I wish to thank all those who supported me in the completion of this work especially my husband and family.

## DEDICATION

To my lovely husband, Frank Ekow Nunoo and my little Princess, Ellyssa Nunoo.

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# CHAPTER ONE

# INTRODUCTION

The contributions of export activities are central to the economic development of nations and firms at large (Lages & Montgomery, 2004). These export activities influence the amount of foreign exchange reserves, the level of imports a country can afford, shape public perceptions of national competitiveness, enhance societal prosperity and help national development (Hinson & Sorensen, 2006). Thus, it has led to the dramatic increase in international export activities, technology advancement and liberation of trade and capital markets worldwide (Lee, Sridhar & Patel, 2009). However, despite the support of the government and other stakeholders, the sector at large has not still seen a significant development in this direction due to inadequate financing (Ministry of Trade and Industry, 2012). Also, most of these non-traditional exporters have the capacity to grow but seems to be encountering some challenges (Ghana Export Promotion Authority, 2011). This section thus, presents the overview on the study which includes the background to the study, statement of problem, purpose of the study, research objectives, research questions, significance of the study, delimitations, limitations, and organisation of the study**.**

## Background to the Study

Globally, non-traditional export refers to the export of products that were traditionally produced for domestic consumption but are now being exported, like various tropical fruits such as bananas, pineapples, Pears, guava just to mention a few (Buatsi, 2002). It also refers to the development of such new market for a primary product, such as exporting bananas to the

European Union. Currently, Ghana exports yams, cassava, gari, bananas, plantain, pineapples, citrus, coffee, wheat bran, cocoa shell, waste cocoa beans, shea nuts, textiles, ceramics, handicrafts and charcoal under the Non-Traditional Export (NTE) drive that started in 1994 (Food and Agriculture Organisation (FAO), 2016). Available evidence indicates that commercial banks in developing economies would rather invest their funds in less risky ventures than to place such funds in the development of the export sector (Asiedu-Appiah, 2005). When the export sector does not have access to external funds, the capacity to raise investment, the capacity to raise investment per worker, and thereby improve productivity for export is seriously impaired (Asiedu-Appiah, 2005). The difficulties the NTEs experience in export finance can stem from several sources such as lack of collateral, improper records keeping, regulatory rigidities and many others (Mensah, 2004).

According to European Commission (2011), most small enterprises to a very large extent are dependent on bank loans for their external financing and that they practically have very few alternatives. However, when the NTEs need resources they firstly resort to their Internally Generated Funds. After these sources, NTEs turn to equity financing by closely related investors. These sources exhibit very low cost and might be equity capital from the owner, family or friends. However, all these possibilities are difficult for the NTEs since most of them do not meet the required expectations. The European Commission (2011) further revealed that (30%) of companies are using bank loans and (40%) bank credit line or overdraft facilities. For (63%) of small enterprises, bank loans are also the most preferable external financing solution to realise firms' growth ambitions. In addition, poor access to finance has been identified as an important negative factor affecting Non-Traditional Exports (NTEs) in developing countries. According to Kirby and Watson (2003), just (8-10%) of Small and Medium scale Enterprises (SMEs) in Bulgaria had access to bank loans in 1998. The rigid requirements of the commercial banks for serving the loans (eg. collateral and terms) impede access to export finance as well as the high cost of debt. Therefore, the banks seem to be appropriate. As a result, the NTEs prefer mostly the bank loans. The bank financing is tremendously attractive and a more reliable source to NTEs (Mensah, 2004).

This study focuses on the sources of finance that can be explored by the NTEs. A number of studies using enterprise level survey data have shown that micro and small enterprises, more so than large firms, perceive access to finance and the cost of credit as being the key obstacles to doing business (Beck, Demirguc-Kunt & Peria, 2008). Mitigwe (2005) lists barriers to export in order of their importance to African Small and Micro Enterprises and found that lack of finance is the most important barrier. According to Gumede and Rasmussen (2002), 25% of small exporting enterprises in South Africa find it difficult to obtain finance. Insufficient export finance was also identified as a major barrier to the success of Ghana's growth strategy and is ranked as the number one barrier to exporting in Ghana (Buatsi, 2002).

The risk-management policies and systems of banks and non-bank financial institutions have come under more intense scrutiny in recent years. This follows from International Monetary Fund (IMF) recommendations for tighter supervision, in an effort to anticipate and react to potential threats in a timely manner (Turner-Evans, Kelzenberg, Boettcher, Petykiewicz, Putnam, Warren & Atwater, 2010). During the course of a trade finance survey undertaken in 2010 (Turner-Evans et al., 2010), senior product managers at Citibank, BNP, Standard Chartered Bank and HSBC all indicated that their exposure to African export finance had grown rapidly from 2004 to 2007. This study suggests that export finance was being granted, but, to larger firms with big capital bases rather than small and micro enterprises.

Governments of Ghana since 1992 have recognized the implications of export finance for the health of the Ghanaian economy and are promoting an export-led growth strategy (GEPC). The Export Development and Investment Act (2000) was enacted to provide greater access to export finance for exporters. However, twelve years on, Ghanaian NTEs sector still complain about the lack of export finance for their businesses. The export-led growth strategies being promoted since 1992 were aimed at transforming Ghana's economy and diversify it from the traditional cocoa, gold and timber exports. According to Nsiah (2010), the non-traditional exports sector, after a stable performance from 1998 to 2000, which averaged about US$400 million in revenues annually, grew at an average rate of about (14%) from 2001 to 2008, registering US$1.340 billion in 2008. In 2009, however, total non-traditional export earnings amounted to US$1.215 billion, a decline of (9.28%) from the previous year.

Exporters have blamed this decline on lack of access to finance among others. Increasing globalization has created intense competition for export markets and exporters are looking for any competitive advantage that would help them to increase their incomes. Flexible export financing terms has therefore become a fundamental part of their business. Most commercial banks in the country are also looking to collaborate with exporters to unlock the export financing industry as evidenced in the establishment of export trade desks at several commercial banks in the country (Berry, von Blottnitz, Cassim, Kesper, Rajaratnam & van Seventer, 2002).

Ghana Export Promotion Council (GEPC) (2015) sources reveal that majority of small non- traditional export businesses started in Ghana eventually failed. It has also become necessary for the Government and other development agencies to adopt specific economic and social policies to stimulate non-traditional exports development as an essential part of the economic and social development of the entire country. It is important for these small exporters to help themselves and find ways to improve the organizations of their businesses. They also have to find adequate means to adapt to the market requirements if they are to survive (Orford, 2008).

Available data from the Ghana Registrar General indicate that about (92%) of companies registered as at August, 2016 are micro, small and medium enterprises and provide (85%) of manufacturing employment, contributing about (70%) of Ghana's GDP (Afedzi, 2016). This study targets the micro and small exporters that have been identified as the catalyst for the economic growth of the country as they are a major source of income and employment. They require finance for obtaining products from their suppliers and for running their businesses.

**Statement of the Problem**

A major problem facing non-traditional exports is financing. Inadequate finance has been observed as the most common constraints for economic expansion. The Economic Recovery Programme (ERP) recognizes the impact an increased in export could make towards the country's drive for economic resuscitation (Barry, 2012). A favorable climate was created by the government under the economic recovery programme (ERP) for the development and promotion of exports. These include the relaxation of the utilization of the (35%) export retention scheme, continuing devaluation of the cedi to reflect prices, duty free import of raw materials, streamlining of export procedures and simplification of export documentation. From the Registrar General's Department report, key to this strategy is the need to enhance their ability and capacity in a sustainable way.

Considering that the SMEs which also include NTEs are included make up (92%) of all businesses registered in the country according to the Registrar General's Department report, key to this strategy is to enhance their ability and capacity in a sustainable way. Various studies initiated by GOG and Developed Partners have identified access to finance as a critical constraint on the ability to unleash the full potential of the NTEs. Given this problem, many literatures including (Addo & Marshall, 2000; Buatsi, 2002; Abor, 2004; Carletto, Winters & Davis, 2010; Mannon, 2005; and Kyereboah-Coleman & Biekpe, 2006) have looked at addressing it. The methodology employed provides significant results but however they cannot be generalised to the export sector of the Ghanaian economy because they are focused on import sector. Moreover, the area within which the studies were applied do not fit into the study because most of the study areas were not concentrated on the export industries. Ghana has, since its independence, depended on her traditional exports as the major source of export revenue but actual level of financial performance of the export sector has fallen below planned targets (Seth, 2002). There is therefore, the need to research into the export sector of the Ghanaian economy, to identify the sources of finance of non-financial exporters in Ghana and hence the essence of the research.

**Purpose of the Study**

The main purpose of the study is to identify the financing options available to the non-traditional exporters in Ghana.

**Research Objectives**

The study specifically seeks to:

1. Explore the sources of finance from Banks to the Non-Traditional Exporters in Ghana.
2. Identify the sources of funds from government to support the non-traditional exporters.
3. Identify the sources of funds from parastatal organisations and NGOs

**Research Questions**

1. What are the sources of finance espoused by the Non-Traditional Exporters from Banks in Ghana?
2. What are the sources of funds from government to support the Non-Traditional Exporters in Ghana?
3. What are the sources of funds for the Non-Traditional Exporters from Parastatal Organizations and NGOs?

**Significance of the Study**

This study provides empirical basis for effective export finance of Non-Traditional products and contributes to the scholarly debate in the constraints of non-traditional exporters in accessing finance. It also provides a database that can over time help other researchers to access the participation of Government towards NTE Finance. Thus, future research can make reference to this study in order to ascertain whether there is an improvement or otherwise with financing Non- traditional exporters. Non-traditional export sector has been identified as one of the catalysts for economic growth of the country. Therefore, the study seeks to bring out the sources of income and employment the non-traditional exporters give to the nation. Non-traditional export sector's role in job creation and economic growth can therefore not be underestimated.

The study will focus on the critical issues pertaining to the access to finance from banks, government and parastatal organizations and NGOs to the survival of the exporter's businesses in the economy. Once the obstacles in accessing finance is identified, recommendations will be provided, which if considered, will help the exporters, governments and funding institutions. The study also seeks to identify the success rate of Ghanaian NTEs and to know if they contribute to socio-economic development in the country. It is also expected to contribute to knowledge in export financing for non-traditional exports. It is also anticipated that the study will strengthen stakeholders to advocate for financial sector deepening and increase competition in the sector, which in turn will lead to greater access to finance and lower cost of providing financing to NTEs.

**Delimitations**

This study was delimited to the thirty (30) non-traditional exporters in Ghana. The choice of the 30 non-traditional exporters was due data unavailability. For that reason, the study used information within the period 2011 to 2016. Here, the focused on the sources of finance from banks, government and parastatal organisations or NGOs.

**Limitations**

The main limitation of the study is that the study looked at the sources of funds from government, banks and parastatal organizations or Non-government organizations (NGOs) which are not the only sources of funds for the NTEs to explore. The study used information within the period 2011 to 2016 and as such results hold true for that period and may not be totally accurate for other times as circumstances may change. The study was constrained by finance and time. The study is also limited longitudinally. Given the relatively short period of time, within which this study was conducted, it was not possible to undertake a longitudinal study to measure stability or otherwise in research findings. Over time, the findings of the study may not be applicable.

**Organisation of the Study**

The study is organized into five chapters. Chapter one constitutes the introduction which included the background to the study, statement of the problem, purpose of the study, research objectives, research questions, significance of the study, delimitations, limitations as well as the organisation of the study. Chapter two entailed a review of related and relevant literature on the principal area of the topic under study. Chapter three contained information on the case study institutions as well the methodology employed for the study. Chapter four basically presented the analysis and results of the study. It also included further discussion of the results that were arrived at. Chapter five present the summary of the study, conclusions and recommendations suggested to the study as well as suggestions for further research.

# CHAPTER TWO

# LITERATURE REVIEW

## Introduction

This chapter reviews literature on relevant issues to provide a theoretical and conceptual background to the research. Thus, the chapter presents the theories, concepts, and empirical studies on non-traditional exporters' sources of finance. The chapter further provides summary of the issued discussed.

## Theoretical Review

This section presents the theories that underpin the study which serve as a foundation to achieve the objective of the study. This study applied the resource-based view theory as the main theoretical underpinning to examine how non-traditional exporters solicit finance for their export products and utilise their resources and capabilities to create a competitive advantage to influence export performance (Barney et al., 2011).

### Resource-Based View Theory

The resource-based view theory (RBV) is based on the early economic theory of Penrose (1959), which has since been extended by other scholars (Barney, 1991; Grant, 1991; Helfat & Peteraf, 2003). The resource-based view provides a theoretical underpinning associated with the export activity based on different aspects of the firm's resources and capabilities (Morgan et al., 2004). The resource-based view sees a firm as a unique bundle of tangible and intangible resources (assets, capabilities, processes, managerial attributes, information and knowledge) that enable the firm to conceive and execute strategies aimed at improving its efficiency and effectiveness (Barney, 1991;

Wernerfelt, 1984). The resource-based view contends that the principal determinants of a firm's export performance are its internal organisational resources that are superior in use and difficult to imitate or supplant (Barney, 2001; Collis, 1991). Porter (1985) argued that competitive strategy involves developing a broad formula for how a business is going to compete, what its goal should be, and what policies will be needed to carry out those goals. The goal of a firm's competitive strategy is accomplishing exceptional and sustainable organisational performance exhibited to create competitive advantage in its operations (Hofer & Schendel, 1978). On the other hand, Wernerfelt (1984) argued that a resource is anything that can be considered as a strength including tangible and intangible assets tied to the operations of a firm. Examples of these resources include brand names, in-house knowledge of technology, employing skilled personnel, trade contracts, machinery and capital. On resource position, Wernerfelt, (1984) maintained that a holder of a resource in a firm is able to sustain that position through other holders and third parties as long as these resources are realistic. Furthermore, the holder of the resource can enjoy protection of the resource position for an extended long duration.

Other scholars have argued from the resource-based view perspective that a resource is any asset that can be described as a strength of a firm at a particular time (Hamel, 1990; Collis, 1991). Categories of resources can be identified for which resource position barriers can be developed. Therefore, it is the properties of the resources and their mode of acquisition that enhance the operation of the firm (Wernerfelt, 1984). These resource advantages empower a firm to create a competitive advantage with their own resource position making it difficult for other competitors in the industry to emulate or catch up with the market leader. Therefore, management of the firm has to focus on their strong resource positions in order to influence their operations to create a competitive advantage for export performance enhancement (Barney, 2001). Expanding the basic assumption of the resource-based view, Barney (1991) maintained that resource bundles and capabilities underlying production are heterogeneous across firms and consist of different resource stocks that are immobile, valuable, rare, non-imitable and non-substitutable from one firm to another. The causality between these covariates (i.e. resources that are valuable, rare, non-imitable and non-substitutable) and the performance of a firm or a group of firms is highly ambiguous and not clear even to the beneficiary firms themselves (Barney, 1991). Firms' resources include assets, capabilities, firm attributes, information, knowledge, etc., controlled by a firm in a way that enables it to conceive of and implement strategies that improve its efficiency and effectiveness (Celec, Globocnik & Kruse, 2014; Wernerfelt, 2014).

Moreover, a firm's success or failure can be envisaged from the specific resources available and capabilities developed in the market in which the firm is operating (Freeman, Styles & Lawley, 2012). The resource-based view further argues that it will take competitors in the same industry longer to discover the secrets behind the leading firm's success because the beneficiary firm holds intangible and imperfectly imitable resources (Barney, 1991). Therefore, while the possession of such resources will accrue competitive advantage to the industry leader(s) in the short term, the industry leader(s) can still sustain competitive advantage in the long run because rival firms usually take longer to catch up; as a result leading firms can achieve long-term sustainable competitive advantage (Barney, Ketchen & Wright, 2011).

Other strand of theories can be elaborated below. The literature on international trade which suggests that exports have a positive impact on economic growth is known as the Export-led-growth (Giles & Williams, 2000). Different reasons have been proposed for explaining the evidence found in previous studies dealing with this issue on export-led growth. The simplest explanation is that, as the contribution to growth made by domestic consumption is limited to the size of regional (or national) markets, sales to foreign markets represents an additional consumption demand which increases the amount of real output produced in the economy (Giles & Williams, 2000). Another more elaborated explanation is that exporting is associated with more productive firms, and thus export-led growth at aggregate level may be the result of both the accumulation of within-firm productivity gains from export participation, and the reallocation of resources from comparatively less productive non-exporters to more productive exporters.

According to Uche (2009), the relevance of exports in boosting economic growth and prosperity is captured in the theoretical justification for international trade. In the mercantilist economic thought, for instance, foreign trade is seen as an indispensable engine of economic growth and prosperity (Bhatia, 1978). Indeed, foreign trade under mercantilism is considered to be profitable only when there is positive balance of trade thus implying that exports are the most crucial aspect of international trade. But as pointed out by Ozughalu and Ajayi (2004), if every country ensures that it gets a surplus in international trade, there will be high degree of protectionism and many barriers to the flow of foreign trade; and these are incompatible with the essence of globalization. A highly robust theoretical underpinning for international trade lies in the classical economic theory of comparative cost advantage. The theory of comparative cost advantage states that global output will reach its optimum level if every country specializes in the production of the commodity (or commodities) in which it has comparative cost advantage over others; this is seen as the basis for profitable trade (Ozughalu & Ajayi, 2004). In contemporary economics, the dominant model of comparative cost advantage is known as Heckscher-Ohlin model.

According to Sodersten and Reed (1994), this is a theory of long-term general equilibrium in which two factors of production-labour and capital-are both mobile between sectors. The Heckscher-Ohlin theory postulates that international trade of which exports are expected to constitute the major component will significantly reduce the gap between the rich and poor countries. The theory contends that inter-country differences in factor endowments are the basis for foreign trade. Comparative cost advantage comes as a result of different factor intensities in the production of various commodities (Sodersten & Reed, 1994). The Heckscher-Ohlin theory also implies that free trade specialization in production based on relative factor endowments will tend to bring about factor price equalization and thus will increase the returns to labour in poor countries to the levels in rich countries; this suggests that international trade in general and exports in particular have the ability to mitigate inequality in income and wealth distribution between and within nations as well as the ability to bring about a convergence in absolute poverty incidence between the rich and poor countries (Ozughalu & Ajayi, 2004).

The relationship between exports and economic growth has always been a hot issue and has often generated heated debate among economists and policy makers. As observed by Lin and Li (2007), there are basically two approaches used in addressing the issue. The first approach has to do with studying the contribution of exports to the economic growth of an economy through analysis of the supply side of the economy. This approach emanates from the neo-classical economic growth theory/model. The approach states that the major source of economic growth lies in two major areas namely: increases in factor input(s) and improvements in efficiency. Following the above statement, analysis from the approach often regards exports as a factor that can affect technological progress or to be among factors that are related to economic efficiency. In practical terms, the contribution of exports is thought to be included in the residuals of growth accounting. It is noteworthy that the new growth theory/model endogeneises the mechanism through which exports impact on economic growth.

In line with this theory/model, Grossman and Helpman (1990) proposed a two-nation growth model with endogenous technological progress. As shown in their model, exports help to promote technology and knowledge and thus accelerate economic growth. It is instructive to state here that how to introduce exports into the production function is the major problem involved in the econometric analysis that follows the neo-classical approach. Some analysts directly include exports in the production function as the third variable while others use more sophisticated methods. The second approach is to study the contributions of exports to a country's economic growth through analysis of the demand side of the country's economy. The demand side approach is also called demand-oriented analysis or post-Keynesian analysis.

According to the traditional Keynesian theory, an increase in exports is one of the factors that can cause increases in demand and thus will surely bring about increases in outputs, all other things being equal (Lin & Li, 2007). It is important to note that though this approach is highly sophisticated and robust, it has not been widely used. This is partly because of the remnant of Say's law in people's mind (McCombie & Thirlwall, 1994). Indeed, most people believe that the major constraints of modern economic growth lie on the supply side instead of on the demand side. In other words, they believe that only increases in factor inputs and improvements in economic efficiency can stimulate economic growth (Lin & Li, 2007). However, proponents of the demand- oriented analysis disagree with the above view and argue persuasively that it is growth in exports that is the major stimulant of aggregate economic activity and economic growth.

Thirlwall (1987), McCombie (1985), McCombie and Thirlwall (1999) and others later developed the argument of the proponents of the demand-oriented analysis into a powerful theoretical framework that analyses the relationship between exports and economic growth. Put briefly, the theoretical framework has the following characteristics: (a) contrary to popular belief, the Keynesian theory/model can be used to analyze long-term phenomena such as economic growth; (b) exports are an autonomous component of demand; (c) the role that exports play in an open economy model is as important as investment in a closed economy model; and (d) the role of the balance of payments as a constraint on economic growth is important.

**Overview of the Non-Traditional Exports Sector (NTEs) in Ghana**

NTEs are defined by the Ghana Export Promotion Authority as all products that include horticultural products, fish and seafood, prepared food and beverages, handicrafts and other manufactured items (Buatsi, 2002). Thus, the Export and Import Act, 1995 (Act 503) of Ghana defines Non-Traditional Exports (NTEs) to include all export products with the exception of cocoa beans, lumber and logs, unprocessed gold and other minerals, and electricity. The post-independence era in Ghana saw fluctuations in the world producer prices for traditional exports such as cocoa, gold, manganese and diamonds leading to a short fall of export revenues (Abban, Omta, Aheto & Scholten, 2013). Therefore, government of Ghana focused on the diversification of exports products to include non-traditional exports (NTEs). This accounted for an impressive growth rate of NTE exports particularly in the area of Agriculture exports of (33%) from 2005 to 2006, (12%) from 2006 - 2007 and (22%) from 2007 to 2008 (Bank of Ghana, 2008). Again, in 2012, exports of non-traditional goods and services increased from (25.1%) i.e. US$2,468.1 million from US$1,973.4 million in 2012 (Bank of Ghana, 2013).

Currently, the non-traditional exports (NTEs) earnings increased from $2.463 billion in 2016 to $2.557 billion, representing an increase of 3.8 per cent, according to the Ghana Export Promotion Authority (GEPA) (2017). The analysis of the statistics of the NTEs for the past five years (2013-2017) show that the sector grew at an annual average of 1.22 per cent and contributed 18.37 per cent to the total national merchandise exports in 2017. In 2015, Ghana's total revenue from NTEs amounted to US$2.522 billion, representing a modest growth of 0.32 per cent over the previous year's performance of US$ 2.514 billion. Earnings from three sub-sectors-Agriculture, Processed and Semi-processed and Handicrafts-add up to arrive at the total earnings for the NTE sector. Export earnings from the Processed and Semi-processed sub-sector, contributed 84.09 per cent of the total NTEs, amounting to US$120.50 million, compared to US$2,169.65 million earned in 2014, a decrease of 2.27per cent, due to a decline in the performance of some key products such as cocoa paste, natural rubber sheets and aluminum plates, sheets and coils. For the agricultural sub-sector, earnings increased by 16.51 per cent from US$396.91 million in 2014 to US$ 340.68 million in 2015 and contributed 15.74 per cent to total NTE earnings, while the export earnings from the Handicraft sub-sector increased by 23.05 per cent in 2015 from US$3.47 million in 2014 to US$ 4.27 million, and its contribution to total NTEs increased from 0.14 per cent in 2014 to 0.17 per cent in 2015.

The enhancement of Ghana's international trade has been a central focus to key governments and other important stakeholders to revamp the economy in 1993. As envisaged under the ERP in 1993, export-producing firms in Ghana received the most direct and indirect supports via the upgrade of their immediate infrastructure (Kuada, 2004). In order to promote exports particularly NTEs, the government of Ghana was committed to obtaining foreign exchange rate critical to repay debts and to reduce restrictions on imports in the country. Since the beginning of the ERP in 1993, the government of Ghana has put in place several policy frameworks so as to adjust the pattern of Ghana's trade structure. These policy frameworks include the devaluation of currency and increasing of producer prices for important traditional exports such as cocoa to revitalize the advantages of smuggling such goods across borders. Again, the government announced an inter-bank foreign exchange market to fast track currency exchange in the country. In order to make the importation of major capital goods easier, rather than consumer goods, the government of Ghana modified and reduced tremendously the numerous import duties and trade taxes (Annual Review of Exports, 2011). Between 1990 and1993, the government's efforts have led to the restoration of many Ghanaian historical trade relationships. In 1993, exports were again dominated by cocoa, which earned Ghana US$280 million.

Other important goods in 1993 were gold (US$416 million), timber (US$140 million) and the rest of electricity, diamond Ghana's NTEs like furniture, cola nuts and pineapples had also gone up tremendously within the same period. On the other hand, the world bank had also reported that the importation of important goods such as fuel and energy particularly oil, recorded for (16%) of the 1990 total exports, followed by capital goods, (43%), intermediate goods, (28%) and consumer goods (10%). Also, in addition to supporting traditional export industries like cocoa and gold, the government of Ghana had also tried to diversify the content of Ghana's exports by bringing on board Non-Traditional Exports. In order to entice NTEs in the fishing and agriculture sectors, the government offered to repay (95%) of import duties on goods ordained for re-export and even cancel sales taxes on manufactured goods sold in foreign markets. Moreover, the government also formulated a scale of tax rebates ranging between (20%-50%) determined by the volume of total production that was exported and these incentives resulted considerable feedback (Annual Review of Exports, 2011).

In 1992, Ghana Export Promotion Authority (GEPA) came out with a modality to increase NTEs to the tune of US$335 million by the end of 1997 via increased market research, trade missions, trade fairs, exhibitions and training. It most traceable, clear specific targets include the increases in tuna and shrimp sales to US$45 million and US$32 million respectively by the end of 1995 and the increased in pineapple sales to US$12.5 million. Again, wood products, aluminum goods and processed rubber were targeted to harvest US$44 million, US$42 million andUS$23 million respectively in the manufacturing sector of Ghana. This has led to the advocacy and the declaration of an export-led economy with a strong believe and anticipation that the growth of exports should come from the NTE sector (Buatsi, 2002).

In 2010, there was a dramatic increase in NTE earnings in Ghana. This increment was mainly as a result of processed and semi-processed products. This good performance of NTEs was attributed largely to good macro-economic environment and prudent economic policies for the year 2010. The activities of GEPA and other regulatory bodies also contributed to the good performance in 2010. Those activities of GEPA among others were marked improvement and divergence; provision of trade information to the export community; export related human resource development for exporters and the backing and expedition of the participation of selected companies in buyer and seller meetings all contributed to the good performance (Annual Review of exports, 2011). The good performance of the country’s macro-economic indicators such as stability in exchange rate, reduction in interest rates and inflation rate supported export growth in 2010. These prudent economic measures alongside with the activities of GEPA provided a favorable atmosphere and enabling environment for the growth of export in Ghana.

Despite the sectors impressive growth, Non-traditional exports contribution to export earnings is considered to be low. This can perhaps be attributed to most earnings from the sector coming from processed and semi-processed products. Also, NTEs inability to meet the international standards and compete favorably in the global markets could perhaps be the reason why even though the growth rate is impressive it is considered to be low. Nonetheless, it is relevant to discuss the performance of NTEs in Ghana.

**Non-Traditional Exports (NTEs)**

It is important to define what is meant by non-traditional exports. There is no universal definition for several reasons. First, it is generally agreed that non-traditional exports started later than traditional ones, but there is no agreement on the moment in history that differentiates traditional from non-traditional. Second, an export commodity may be traditional in one country while being non-traditional in another. Finally, an export commodity may be regarded as agricultural in one country and non-agricultural elsewhere. Thus, a definition of non-traditional exports has to be country specific (Mensah, 2010). According to Mensah (2010), Non-Traditional Exporters (NTEs) in Ghana are small businesses that engage in the export of products other than cocoa, gold and timber which are regarded as traditional Ghanaian products. These small businesses are managed mainly by their owners and have limited access to finance from formal financial markets. They are typically informal and form part of the general sector known as Small, Micro and Medium Enterprises (SMEs) (Mensah, 2010).

NTEs are all other exports such as handicrafts, aluminium products and horticulture products (Ghana Exports Promotion Council, 1986). The NTEs are considered a major means for poverty reduction, especially in the rural communities in Ghana due to its great potential for job creation and income generation. The NTEs sector is driven by four main sub-sectors: Agricultural non-traditional commodities, processed and semi-processed products, handicrafts and services. Agricultural non-traditional commodities are divided into horticulture, fish products, game and wildlife and other agricultural products mostly fresh fruits e.g. pineapples, mangoes medicinal seeds and plants, tropical flowers and vegetables such as okra, tinda and marrow. Others include yam, natural rubber, kola nuts, cotton seeds, maize, coconuts, assorted fruits, and lobsters/shrimps/prawns. Also, the processed and semi-processed products consist of wood products, manufactured products such as pharmaceuticals, electrical cables and aluminum products, canned foods and beverages, and other processed products. Handicraft consists mainly of carving, weaving products, woodcrafts and ornamentals such as beads and jewelry. Services also comprise of medicinal tourism, financial services and education (Ghana Export Promotion Authority, 2013).

Over the last two decades agricultural export diversification has been pushed as an economic development strategy for Sub-Saharan Africa. Traditional export crops such as coffee, cotton, cocoa, palm oil and tobacco are all suffering from large price variability and declining world market prices. Diversification into so-called non-traditional agricultural exports is therefore being tried in commodities such as vegetables, fruit, cut flowers, meat, fish, bee products, herbs, spices, nuts, dyes, essential oils and organically grown traditional export crops (Asiedu-Appiah, 2005).

**Sources of Funding from Banks for NTEs**

This section presents the sources of funding for non-traditional exports in the country. Banks play a central role in facilitating export trade, both through the provision of finance and bonding facilities and through the establishment and management of payment mechanisms. Many financial institutions in the country have involved themselves in financing exports particularly non-traditional exports with the use of many different instruments. Some of these banks include Ghana Commercial Bank Ltd, Agricultural Development Bank, Fidelity Bank, Eco Bank, National Investment Bank and other savings and loans such as Advans savings and loans and so on. The use of efficient settlement instruments which reduce payment and commercial risk for both parties is deemed indispensable. Using the same payment techniques in the case of domestic transactions for an overseas transaction is not feasible or at least not practical. The most popular instruments are: SWIFT, telegraphic transfers and documentary letters of credit (LCs) (Beck, 2008).

Among the export finance products, the most commonly used for financing transactions is LCs, whereby the exporter and importer essentially entrust the exchange process (that is, payment against agreed delivery) to their respective banks in order to mitigate counterparty risk. The exporter's bank may make a loan (by advancing funds) to the exporter on the basis of the export contract. The function of this mechanism is both to provide finance and provide assurances about payment to the exporting company. If an irrevocable

LC is issued, the exporter receives payment when it provides the specified documents to the advising/confirming bank (Buatsi, 2002). By issuing a letter of credit, a buyer's bank obligates itself to pay a supplier's bank on behalf of a buyer, as long as the intermediate goods are shipped. From the bank's perspective, the letter of credit issuance essentially amounts to providing a loan to the buyer because the reimbursement is made to the buyer's bank only if the buyer and the supplier operate successfully in the market.

**Export Finance Models**

The availability of export finance for SMEs is a topic of significant research interest to academics and an issue of great importance to policy makers around the world. The conceptual framework to which most of the current research literature adheres has proven to be quite helpful to advancing our understanding of the markets for providing funds to SMEs in developing nations. This framework has helped in our understanding of the effects of policies that both facilitate and hinder the access to funding by creditworthy small non-traditional exporters in these nations.

**Export Finance Riskier than Domestic Finance:** This model explains why export finance is riskier than domestic trade finance loans, and why a letter of credit is used exclusively for international trade. The mechanics of the model are very straightforward. International trade is more costly than domestic trade; hence the volume of international transactions will be smaller than domestic transactions. Enterprises normally borrow from local banks. Banks need to gather information about whether loans will be repaid. They need not only worry about the enterprises they loan to, but also any other enterprise on whose solvency repayment depends. Banks invest more in learning about enterprises with which they have a larger volume of transactions, which in turn makes them more knowledgeable about these enterprises. Since banks are involved in larger transactions with domestic than foreign enterprises, they will also be more knowledgeable about them. This makes international trade finance loans riskier than domestic finance loans.

Having accumulated less information, banks become disproportionately more uncertain about foreign than domestic enterprises. This translates to the costs of export financing, and as a result, the relative price of export to domestic goods will rise. The basic model incorporates payment systems used for business transactions. When payment is made by a buyer after delivery (i.e., open account system), a supplier is exposed to non-payment risk from the buyer. As a result, if the supplier borrowed working capital from a bank, the loan performance depends not only on the supplier's credit risk but also on the buyer's credit risk. Likewise, when a buyer makes advance payment to a supplier (i.e., cash-in-advance system), the buyer is subject to non-delivery risk from the supplier. If a bank provided the advance payment, the loan repayment is contingent on the successful performance of both the supplier and the buyer. From the banks' perspective, therefore, it becomes a serious concern to evaluate such creditworthiness of both borrowers and their trading partners to ensure loan repayment. Therefore, costs of financing international transactions will be higher, i.e., export finance premium.

Under a letter of credit system, both a buyer's bank and a supplier's bank participate in the transaction as intermediaries. The buyer's bank promises to pay the supplier's bank on behalf of the buyer as long as the goods are delivered from the supplier, and the supplier's bank guarantees to pay the supplier whether the buyer's bank actually pays or not. From the view of the supplier's bank, this essentially switches the non-payment risk from the buyer to the buyer's bank. This is the gain from using a letter of credit system for international transactions. At the same time, however, since the supplier's bank has only limited, imperfect information on the credit risk of the buyer's bank, it incurs additional inter-bank informational friction. As long as the gains from a letter of credit outweigh the costs, a letter of credit would be chosen as the optimal payment system for the international transaction. On the other hand, this will not be true for domestic transactions because it only incurs additional costs without any gains. The model can explain the role of export finance in the recent trade collapse based on two results: first, the relative riskiness of international transactions to domestic transactions increases during economic decline, and second, the exclusive use of a letter of credit in international transactions aggravates trade collapse especially when a recession is triggered by a banking crisis.

**Small Business Credit Scoring Lending:** The key innovation which made possible the application of credit scoring to the small business credit market was the realization that data on the business owner could be used as a valuable input to determine business risk. Small business credit scoring is a concept of using consumer information about the principal owners of a small business, combined with data about the business itself, including financial and application data, to produce robust, highly predictive models of small business risk. Since the behavior of the business owner in his or her personal finances is correlated with the behavior of the firm and ample information is available from credit bureaus on consumers, this approach was feasible and added significantly to predict small business risk.

Mester (1997) discusses how data on business owners such as their monthly income, outstanding debt, financial assets, home ownership and previous payment history can all be used in small business credit scoring to improve the predictive power of the models. Generally speaking, most credit scoring models are developed and designed to help credit grantors predict the outcome of making a loan to a business. The model is composed of several questions (characteristics) about the applicant. Different answers (attributes) are rated on a point system and assigned score weights. An applicant's score is the sum of all of his or her attribute points. Here, the higher the score, the lower the risk. If the score is equal to or higher than the score an organization has established as the "cutoff," the applicant presents an acceptable level of risk and the bank may decide to extend credit to that applicant. In an automated system, scoring takes place instantaneously, allowing lenders to assess risk and make account origination decisions more quickly, accurately, and objectively.

The method of assigning the questions' weights is designed during model development. For instance, analysts will take data, such as the number of delinquencies an applicant has on record from past loans, and evaluate its predictive power against many other characteristics. There may be several characteristics evaluated, but the challenge is to find the unique combination of 8-15 characteristics which can be combined to best determine risk. For example, if the characteristics "number of times delinquent with other lenders" and "number of times delinquent with (the lender in question)" are both predictive of risk, they could potentially define the same risky individuals and may not both be used in a model. Berger, Frame and Miller (2002) build on these results and find that the increased lending volumes associated with adoption of small business credit scoring serve to increase access to credit by marginal or riskier borrowers who would otherwise be rationed (Berger, Frame & Miller, 2002).

Unfortunately, in developing countries such as Ghana there have been only limited inroads of small business credit scoring technologies. One reason may be the high concentration levels in the country's banking sector and the reluctance of dominant lenders to lose their information advantage. Research by Beck et al. (2004) shows that credit reporting can reduce financing obstacles faced by firms in concentrated financial systems. One could conjecture that decision tools which make credit reporting data more valuable, such as small business credit scoring, would further reduce the market power of large lenders and increase access to finance. Credit scoring technologies help to simplify the credit origination process by using statistical models to estimate probabilities of default for risk classes of borrowers. For each application, a credit scoring model generates a credit score. Portfolio managers benefit by maintaining more control over the risk they are willing to accept and more closely matching lending processes to portfolio objectives. By systematically quantifying and ranking the risk of each application, credit scoring speeds the decision process while simultaneously bringing greater accuracy and fairness to each decision.

The concept of combining data on business owners with firm data in small business credit scoring has been applied to models developed for many developed and emerging markets. Despite the benefits and positive market response to small business credit scoring, this approach is still uncommon Ghana. There are several reasons for this, beginning with the fact that small business credit scoring is still a fairly new lending technology. Second, credit scoring models require access to local data, in this case on SMEs and their owners. The investment required to develop SME scoring tools may not be justified in smaller economies and credit markets where lending volumes are low (Petersen & Rajan, 2002).

**Sources of Funding from Government for NTEs**

The NTE sector, which plays a critical role in Ghana's economy-being one of the principal sources of foreign exchange generation, has seen considerable growth in revenue over the last decade, with the expectation that the sector's contribution to the overall export revenue basket of Ghana will increase from the present 19 per cent to, at least, 30 per cent in the next few years (GEPA, 2016). Due to this, the Governments of Ghana over the years have extended a lot financial supports to NTE sector. Initially, a combination of financial liberalization and institutional reform was in order (Aryeetey et al., 1994). In view of the relatively low level of response from the private sector to early ERP reform measures, the focus was on the liberalization of various sectors, including the financial sector under the Financial Sector Adjustment Programme (FINSAP). Under the FINSAP, direct institutional measures aimed at supporting small enterprises were also put in place. With World Bank assistance, the Programme of Action to Mitigate the Social Costs of Adjustment (PAMSCAD) created a special fund to assist microenterprises, and the Fund for Small and Medium Enterprises Development (FUSMED) was initiated to increase the amount of credit available to SMEs through commercial and development banks. For the sector to realize its full potential, a number of programmes and activities have been designed and are being initiated by GEPA, notable among which are the provision of market information to the exporter community, delivery of market penetration assistance to exporters, initiation of product development programmes, capacity-building of exporters, collaboration with government financial agencies for financial assistance for NTEs and the development of national export awareness.

The launch of the National Export Strategy(NES) in 2013 by government, therefore aimed to increase the level of export revenue from the NTE sector to US $ 5 billion in five years, with the overall objective of developing the potential of the sector for maximum contribution to Ghana's Gross Domestic Product (GDP) growth and national development in order to consolidate and enhance Ghana's middle-income status, create formal decent job opportunities and ensure high standards of living for the people. To be able to generate the US$5 billion from NTEs within the 5-year strategy period, eleven priority product sectors have been identified and recommended for aggressive support for support. These product sectors include cocoa products, cashew nuts, horticultural products (pineapples, mangoes and vegetables), fish, shea nuts, root crops (yam, cassava and sweet potato), oil palm and crafts. Other products targeted for support are textiles and garments, gold jewelry and services (medical tourism, higher education and business process outsourcing) (GEPA, 2016).

To ensure effective implementation of NES, a new GEPA organizational structure has been drafted, a Project Co-ordination and Management Unit established at GEPA while a Memorandum of Understanding (MoU) has been signed with the Rural Enterprise Programme (REP) to set up District Level Export Committees to assist in selecting the District Level Products. On the part of government, one major intervention for the export sector is the establishment of the Export and Import (EXIM) Bank of Ghana which is envisaged to support the private sector to diversify and expand its supply base as well as its domestic and export markets and the entire production and export chain of high earning export products. EXIM Bank is also expected to provide the much-needed funds to implement the National Export Development Programme (NEDP) 2016-2020 as it relates to the eleven priority export products including cashew, medicinal plants and processed cocoa, which had been earmarked to lead the growth and increase of the Export sector and the NTE sector, respectively (GEPA, 2016). The bank has provisions to allow cashew farmers to access it to expand their export and in order to maximize earnings from the cashew sector, government is expected to encourage the processing of at least 50 per cent of cashew nuts for export and operationalize the Cashew Development Strategy to increase production volumes and value-addition activities along the cashew nut value chain.

**Sources of funding from Parastatal Organisations/NGOs for NTEs**

Non-traditional exporters are also supported by both local and international non-governmental organisations in terms of funding. Thus, development institutions have taken actions to help ease access to export finance for NTEs. For example, in response to the financial crisis, the

International Finance Corporation (IFC) has, among other actions, doubled its Global Trade Finance Program to $3 billion to facilitate trade by providing guarantees that cover the payment risk in trade transactions with local banks in emerging markets (Lloyd, 2012). To deal with the liquidity constraint, the IFC has also introduced a Global Trade Liquidity Program, which, in collaboration with official and private partners, is expected to provide up to $50 billion of trade liquidity support over the next three years. Regional development banks such as the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), and the Inter-American Development Bank (IDB) have also launched or expanded their trade finance programs.

The EBRD Trade Facilitation Program (TFP) aims to promote foreign trade to, from and within central and eastern Europe and the Commonwealth of Independent States. Through the program, the EBRD provides guarantees to confirming banks in order to take the political and commercial payment risk of transactions undertaken by participating issuing banks in the countries where the EBRD operates. Since its inception in 1999, the TFP has closed almost 9000 trade transactions for a total value of almost €5 billion. As of September 2010, the EBRD works with 116 issuing banks in 20 member countries. EBRD has relationships with at least 500 confirming banks. According to the International Chamber of Commerce (ICC), over the course of 2009 and early 2010 foreign exporters and foreign commercial banks were declining new business, even with 100% EBRD risk cover under TFP guarantee facilities because they did not have sufficient liquidity to finance these transactions particularly in cases of larger amounts and longer tenors (Lloyd, 2012).

As a result, the EBRD offers, not only up to 100% risk cover for letters of credit issued by TFP client banks, but also provides issuing banks with the necessary liquidity for pre-export finance, post-import finance and financing for the local distribution of imported goods. The Asian Development Bank Trade Finance Program provides guarantees and loans to 180 partner banks in order to increase financial support to companies engaged in import and export activities in Asia's most challenging markets. The ADB TFP supported $2 billion in transactions in 2009. According to the ADB, the average tenor of their guarantees is less than 180 days. ADB provides credit guarantees of up to 100% risk protection against non-payment by approved participating banks, in support of export trade transactions (GEPA, 2013).

The ADB also provides revolving loans to eligible banks for on-lending to exporters to finance trade-related transactions. This product is most frequently used for pre-export financing. The ADB TFP report that about 50% of their transactions are with SMEs. The IFC has set up the Global Trade Finance Programme (GTFP) to provide partial or full guarantees covering payments risk on banks in developing countries for trade-related transactions. These guarantees are transaction-specific and involve a variety of underlying instruments: letters of credit, trade-related promissory notes, accepted drafts, bills of exchange, guarantees, bid and performance bonds and advance payment guarantees. Through the GTFP bank network, local financial institutions can establish working partnerships with the many major international banks participating in the programme, thus broadening access to finance and reducing cash collateral requirements. Export finance training is also offered, and the IFC may place experienced export finance bankers with issuing banks to help them develop export finance and other banking skills (Lloyd, 2012).

**Challenges in Export Financing**

The problems of export are sector-wide and not limited to the NTEs sector. There are several of such factors that may be classified. The major problems currently impeding the expansion of the export sector relate to weak competitiveness in which several factors play a part. As routine as export finance may be, as for other forms of credit, there is an element of risk to be borne. Commercial risk stems essentially from the inability of one of the parties involved to fulfil its part of the contract: for example an exporter not being able to secure payment for his merchandise in case of rejection by the importer or in case of bankruptcy or insolvency of the importer. Alternatively, the importer bears the risk of a delayed delivery of goods. Traders further have to deal with exchange rate fluctuation risk, transportation risk and political risk. A rapid unexpected change in the exchange rate between countries of the traders could destroy the profitability of the trade, while the imposition of a currency conversion or transfer retraction could be even more damaging.

The global financial crisis which started in mid-2007 placed obstacles to access to export finance for micro and small enterprises in Africa. According to an International Monetary Fund (IMF) report on the situation, policymakers in Africa have generally made an effort to heed the IMF's recommendations for tighter supervision of financial institutions to avoid the chain reaction effect of the crisis (International Monetary Fund, 2010). Consequently, most banks' reaction to the increased oversight has been to focus on their traditional target market clients and not assume incremental risks with small enterprises operating in non-traditional markets. In a World Bank survey of 60 global buyers and suppliers in early 2009, 40 percent of companies indicated that foreign sales have been delayed or cancelled due to drops in new orders, and 30 percent due to difficulties in obtaining trade finance (Arvis & Shakya, 2009). Findings from two other World Bank surveys of 400 firms and some 80 banks in 14 developing countries across five regions indicate that although a drop in demand played a central role in explaining the decrease in trade finance flows, 30 percent of firms, especially micro and small enterprises, stated that lack of finance explain the decline in exports (Malouche, 2009).

Trade finance instruments can, to some extent, mitigate commercial risk, by providing an exporter assurance that the importer will pay through the use of a letter-of-credit (L/C) issued by the importer's bank and confirmed by the exporter's bank, or by advancing to the exporter the amount owed under the contract, thereby partly bearing the exchange rate risk. But these instruments do not offer total security for the parties involved in the transaction. To protect exporters against the risk of non-payment by the importer when the transaction is on open account, or the confirming bank when a L/C is used, export or trade credit insurance schemes provided by official export credit agencies (ECAs) or private sector insurance companies fill the gap in developed countries and in some developing countries. Export or trade credit insurance can cover the commercial risk, which is generally provided and priced on a commercial basis. Export or trade credit insurance can also cover political risk, which can include currency non convertibility and transfer restrictions, confiscation or expropriation, import license cancellation, breach of contract by a government buyer, and political violence which cause the non-payment by an importer. Some of the key differences of export trade and the financial challenges they raise are:

- Longer cash flow cycle: it takes more time for an overseas buyer to receive the exporter's products and therefore longer for the exporter to get paid. The later the exporter receives payment, the higher the risk of non-payment and the greater the strain on the exporter's cash flow and working capital. Physical distance from buyer: combined with the longer time for payment, means greater non-payment risk and more difficulty in collecting debts. This means protecting against non-payment is a key concern for exporters.
- Getting paid in other currencies: if the exporter agrees to receive payment in a foreign currency, movements in exchange rates can adversely affect the value of his receivables, reducing his profit margin.
- Insufficient availability of, and access to, information on issues to be addressed in setting up and operating an export business.
- Banking and financial services are too restrictive and not sufficiently adapted to production capacity development needs. Dysfunctionality of the existing export financing facilities, e.g. EDIF.
- Insufficient availability of, and access to, business/export start-up support and facilitating services. (For those starting an export business or already having infant export businesses, their greatest need is concentrated support and facilitating services to enable them to overcome their "teething" problems).

- Lack of public support for the various institutions which provide support services, training and development services oriented to enhancing competency in entrepreneurship and export business.
- The high risk of selling abroad on a consignment basis or against documents in certain export sectors, e.g. horticultural products and handicrafts, thus discouraging enterprises from engaging in those businesses.
- Commercial policy which is not sufficiently development oriented, especially weak management of the trade liberalization process. (Trade liberalization may be good for economic efficiency. However, if it is not managed in a pro-development manner it can lead to the destruction of domestic industry and other economic activities when exposed to unrestrained, unfair competition and abuses in importation and if the WTO Safeguard Clauses are not used).

**Empirical Review**

A major determinant of export performance of a country is related to the external market access conditions for its exports (United Nations Conference on Trade and Development (UNCTAD), 2005). From literature, foreign market access and supply capacity conditions are equally important for the development of a country's external sector (Fugazza, 2004). Foreign market access leads to interventions by trading partners, and also the implementing country is able to provide its exportables with a price advantage (McCarthy, 2008). Trading partners influence the export performance of a country through their trade policies (tariff and non-tariff measures). In the world economy since1950 there has been a massive liberalization of world trade, first through the General Agreement on Tariffs and Trade (GATT) and now under the World Trade Organization (WTO) (Thirlwall, 2000). Due to these and other trade negotiations, access to international markets has improved (Biggs, 2007). However, it is likely that there is still much to gain from further improvements in market access conditions (Fugazza, 2004).

Lages, Silva and Styles (2009) in a study of 519 Portuguese exporters found export intensity exerted a positive significant effect on product adaptation in the preceding year and product adaptation negatively influenced current-year export performance. Lee and Griffith (2004) found support for the strategy-performance relationship in Korea and argued that product adaptation influenced their export performance positively. The study concluded that whether there is standardisation/adaptation or not, products designated for export markets should be of high quality with low pricing strategies

Redding and Venables (2004) investigated the relative contribution of international linkages towards export performance. They find that of the evolution of external components can lead to differences in export performance of various countries and regions over the last three decades. Nevertheless, they also find that internal components related to supply capacity such as internal geography and institutional quality also have played a significant role in explaining the observed differential in export performance. Domestic infrastructure is a major determinant of export performance in many developing countries especially in the initial stages of export sector development (UNCTAD, 2005). Poor transport infrastructure characterizing most developing countries is a major obstacle to trade and competitiveness (Bacchetta, 2007). Poor transport infrastructure leads to high transport costs leading to uncompetitive and expensive exports (Grater & Krugell, 2007) and this reduces foreign exchange from exports. Infrastructure development in developing countries can lead to improved export performance.

Sharma (2001) investigated the impact of export prices on the demand for exports. The study's findings indicated that the demand for a country's exports increases when its export prices fall in relation to the world prices. The depreciation of its currency compared to other currencies particularly the dollar, makes its exports cheaper on the international market. The results found that the demand for Indian exports increased when its export prices fell. The author further stated that the appreciation of the Indian rupee at one time adversely affected Indian exports.

Fugazza (2004) seeking to find the major determinants of export performance, used quantile regression techniques to study the contribution of the external sector linkages of international markets relative to internal supply-side conditions. The author found that, while trade barriers continue to be of concern, poor supply-side conditions have often been the more important constraint on export performance in various regions, in particular in Africa and the Middle East, despite a generalized deepening of international trade integration. Besides strong linkages to international markets, good transport infrastructures, macroeconomic soundness and good quality institutions appear to be major determinants in the development process of the external sector information (MOTI, 2012).

## Chapter Summary

Non-traditional exporters are small businesses that engage in the export of products other than cocoa, gold and timber which are regarded as traditional Ghanaian exports. Export Finance according to the focus of this study were classified from three viewpoints, namely, the sources from government, sources from banks and sources from parastatal or NGOs. These are the main sources of funding extended to non-traditional exporters. This chapter also focused on some models used in financing exports and a review of literature on access to finance for non-traditional exporters. Therefore, the purpose of the above literature review was to review the funding sources for non-traditional exports in Ghana. Perspectives of different scholars and researchers were presented so as to establish what had already been done that was relevant for the study. On both the theoretical and empirical side, the literature revealed that non-traditional exports are being funded through sources from government, banks and parastatal or NGOs. Indeed, qualitative studies on evaluating the sources of funding for non-traditional exports for developing countries cases including Ghana using qualitative approach have been very elusive.

# CHAPTER THREE

# RESEARCH METHODS

## Introduction

This chapter describes the research methods for conducting this study. Issues covered are the research approach, research design, study area, research design and data sources. The study seeks to identify the Financing options available to the non-traditional exporters in Ghana. The methodology that is employed in obtaining the information is a documentary analysis based on secondary data collected through a combination of qualitative research approach. This includes obtaining information from the banks, government and parastatal organizations and NGOs to ascertain the kind of finance support they give to the Non-Traditional Exporters. Interviews were conducted to know the kind of products and services of the banks and their operations.

## Research Approach

The study is qualitative in nature and adopted a qualitative approach in which qualitative data were collected and evaluated in order to describe the specific phenomenon in its current state. Qualitative approach was chosen because it enabled the study to assess the level of various sources of funding options available to non-traditional exporters. It is used to obtain information concerning the current status of the non-traditional export funding from government, banks and parastatal organization or NGOs.

## Research Design

This study is a non-experimental research adapting to secondary data. (Kerlinger, 1986) defines non experimental research as a systematic, empirical enquiry in which the scientist does not have direct control of the independent variable because their manifestation has already occurred or because they inherently cannot be manipulated. It is noted that the variable under study does not lend itself to manipulation and the aim of the research is to describe the phenomenon, which is, financing difficulties besotted with small non-traditional exporters. The main research approaches used follows (Yin, 1994) descriptive. The aim of the descriptive research is to present a complete description of a subject within its context. This approach answers the questions: what, who, where, when and how. Descriptive research approaches are often used when there is already an existence of knowledge of the subject matter for categorizing the models and frameworks (Lind et al., 2005). Therefore, using descriptive research design helps to describe the sources of funding options available to non-traditional exporters which is the focus of this study. The choice of this design also helps because according to Babie (2010), this is probably the best method available to social scientists who are interested in collecting data for describing a phenomenon as in this study.

**Study Area**

This study focused on the Non-Traditional Export Sector in Ghana. The NTE sector, which plays a critical role in Ghana's economy-being one of the principal sources of foreign exchange generation, has seen considerable growth in revenue over the last decade, with the expectation that the sector's contribution to the overall export revenue basket of Ghana will increase from the present 19 per cent to, at least, 30 per cent in the next few years. Some of the non-traditional exports include: cocoa products, fruits, vegetables, creative arts and crafts, cashew nuts, medicinal plants, beads, ceramic products etc. According to Gesellschaft zur Förderung der Partnerschaft (GEPA) (2017), the high performance of the NTEs in 2017 was largely due to increased exports in cocoa products, which rose by 60.5 per cent from $542.3 million in 2016 to $870.2 million in 2017. This sector has a considerable number of exporters coming from different angles. This sector was chosen for this study because of its immerse contribution to the country's economy. However, funding is a big challenge in this sector making it difficult for exporters within this sector. Therefore, carrying out this study with the focus of evaluating the sources of funding available to exporters in this sector have policy implications.

**Census**

Census according to Babbie (2012) is the aggregation of elements or people. It is the full set of cases about a group (Saunders, 2009). Zikmund (2012) defines census as consisting a whole group that shares a common characteristic. Based on this it is believed that all individuals or objects within a certain geographical area usually have a common, binding characteristic or trait for which the descriptions of its members are the same.

The census of the population includes exporters of non-traditional products such as cocoa products, cashew nuts, horticultural products (pineapples, mangoes and vegetables), fish, shea nuts, root crops (yam, cassava and sweet potato), oil palm and crafts. Information of the exporters of these products were obtained from the internet as described below under data sources. Because information is readily available, there was no need for sampling since the census was used.

**Data and Sources**

In view of the qualitative approach employed for the study, data were collected through the internet, journals and published reports by GEPA. To ascertain the finance available to the NTEs at the bank, the researcher would visit the websites of the banks in Ghana to know the services and products they have and what they provide to the NTEs. Furthermore, information from internet was reviewed to know the finance options available to the NTEs by the government, parastatal organization and the NGOs. Specifically, information on the sources of funding from government was obtain from the GEPA and Ghana Export Promotion Council (GEPC) websites while the information on the sources of funding from parastatal organisations or NGOs was obtained from published journals.

**Data Analysis**

According to Creswell (2008), data analysis is a process that demands drawing conclusions and explicating the findings in words about a study. Data analysis is one of the major components of any research whether quantitative or qualitative. The purpose is to summarise data so that it is easily understood and provide answers to research questions. The approach and method used can therefore have influence on the results and for this reason, careful and necessary untilisation of the right data analysis techniques can have great impact on the outcome of the research. In this direction, the appropriate statistical method and tool used should be suitable to achieve the study objectives.

Data was analysed using qualitative research instruments such as content analysis. Bryman and Bel (2007) defined content analysis as the process whereby qualitative data can be converted into quantitative data by systematically evaluating texts through interpreting and coding textual information. Each information obtained form the reports of the companies were coded and entered using excel to capture the qualitative information obtained. Various objects such as tables were used to present data in a consistent way as the researcher's research questions and objectives.

**Ethical Considerations**

According to Partington, (2003) an ethic is a philosophical term derived from the Greek word ethos, which means character or custom and connotes a social code that conveys moral integrity and consistent values. Therefore, the two important ethical issues to adhere to when conducting a survey are confidentiality and informed consent. Thus, the respondent's right to confidentiality should always be respected and any legal requirements on data. The study explains to respondents the nature of study and stated that participation is voluntary. All participants are assured of their privacy and how confidential the data are kept. Data collected was not shared to any other individual expect the researcher's supervisor to ensure confidentiality. The research does not impede in the administration of the questionnaires so that respondents answer the questionnaires in the most reasonable time. The study also regards on the ethical issues in reporting. Under no situation does the researcher formulate data to support conclusion made.

**Chapter Summary**

This chapter presented the research methods appropriate for conducting the study. This study followed the standard literature to present the appropriate research procedure for the study. Documentary analysis was used for searching for the appropriate information. The study used secondary data from the various cross-sections where sources for funding non-traditional exports were evaluated using documentary analysis. Non-probability sampling technique was be used. Furthermore, the study adopted an inductive approach and used a summary and narrations and descriptions to study the sources of funding NTEs. Lastly, the data were evaluated and analysed using the documentary analysis.

# CHAPTER FOUR

# RESULTS AND DISCUSSION

## Introduction

This chapter presents and discusses the empirical results of the study. This section presents the qualitative analysis of the responses taken from the secondary data using content analysis. This chapter presents the findings based on the financing schemes in terms of funding from the government, funding from the banks, and funding from parastatal agencies/NGOs

## Financing Schemes for Non-Traditional Exports

Access to trade finance continues to be a major constraint for the export community, particularly for small and medium enterprises and new exporters. Ghana's export sector suffers from high commercial interest rates compared to those of Ghana's competitors, prohibitive collateral requirements, and the reluctance of banks to share any risk of export trade. There is also a lack of longer term capital for export oriented funding which limits the possibility of increases in export capacity and the modernization of export production. In the face of sustaining the sectors that contribute substantially to export earnings while investing in potential sectors, trade finance becomes a key consideration.

## Funding from the Government

Local governments have also responded to alleviate the risks in export finance. In 1994 the Bank of Ghana promoted and established the Exim guaranty Company (Ghana) Limited now called EXIM Bank purposely to provide the banking sector with guarantees and insurance cover for the export sector. The Ghana Export Promotion Council (GEPC) has the sole responsibility to develop and promote exports of non-traditional products. These involve the provision of technical assistance at the enterprise level in production, marketing and training and general advisory services as well as participation in export finance committees and other forums aimed at creating an enabling environment for non-traditional export expansion (GEPC, 2013).

The Ghana government was operating lending schemes for micro and small enterprises by way of the Export Development and Investment Fund (EDIF): Under this scheme, companies with export programmes can borrow up to $500,000 over a five-year period at a subsidized cedi interest rate of (15%). The scheme is administered through banks but the EDI board maintains tight control and approves all the credit recommendations of the participating banks. Exim guarantee and EDIF in Ghana are underfunded and quite bureaucratic such that they have become unresponsive to the needs of exporting micro enterprises. Contrasting the case in Ghana to that of the Republic of Cote d'Ivoire, the country has maintained a consistent policy in providing state support for the development of that country's export sector. This policy has helped the country achieve a comparative advantage in the development of their traditional and non-traditional export commodities compared to Ghana (GEPC, 2013). In Cote d'Ivoire the Export Promotion Agency known as APEX-CI has another fund for exports that it manages called FAMEX. These funds are literally interest free since they are given out as reimbursable grants of up to 85% of export expenditures incurred by exporters and other companies and institutions providing export related services. The case may be clear and strong and the needed institutions are all in place to assist with the export development process, but the challenges for micro and small enterprises in securing export finance still exist today.

Government has in the past attempted to implement a number of such direct lending schemes to exporters either out of government funds or with funds contracted from donor agencies. These funds were usually managed by the Aid and Debt Management Unit of the Ministry of Finance and Economic Planning. Most of the on-lent facilities were obtained under specific programs with bilateral organizations in support of the Government of Ghana's Economic Recovery Program and Structural Adjustment Program. In addition to donor-supported schemes for direct lending, government has attempted at various times to operate lending schemes for micro and small exporting enterprises. The schemes have included the following:

(a) Business Assistance Fund: The Business Assistance Fund was operated in the 1990s to provide direct government lending to the micro and small enterprise sector. The program was widely seen to have been abused politically, with most of the loans going to perceived government supporters.

(b) Ghana Investment Fund: In 2002, the Ghana Investment Fund Act (Act 616) was passed to establish a fund to provide for the grant of credit facilities by designated financial institutions to small and medium export ready companies. However, the scheme was never implemented.

(c) Export Development and Investment Fund (EDIF): Under this scheme, companies with export programs can borrow up to $500,000 over a five-year period at a subsidized cedi interest rate of 15%. While the scheme is administered through banks, the EDIF board maintains tight control, approving all the credit recommendations of the participating banks.

Further, section 13 of the Loans Act of 1970 (Act 335) empowers the Government of Ghana (GoG) to provide government guarantee to any external financiers who wish to advance funds to any Ghanaian organization and the terms of such facility require the provision of guarantee from the Government. Guarantee facilities are contingent liabilities of the Government. The onus for repaying the facility lies with the borrower and not the Government. The facility crystallizes and becomes liability due from GoG if the borrower is unable to honour his/her loan obligation and the Government is called upon to settle the facility as a guarantor. In that case the borrower is required to subsequently reimburse the Government for the amount involved.

Although GoG in exercise of the relevant provisions in the Loans Act, has provided guarantees to a number of bilateral and multilateral organizations in the past on behalf of selected Ghanaian organizations in both the private and public sectors of the economy, no targeted SME guarantee facilities has been introduced. A Loan Guarantee Scheme was announced by the Ministry of Trade and Industries in 2001 but was not implemented. Public intervention in export financing in the form of guarantees to financing offered by individual central banks focus, for efficiency reasons, on the largest exporters of the most strategic products. These often happen to be inherently the most solvent enterprises dealing in the more traditional goods, leaving out the small and micro exporters who deal in non-traditional goods.

Currently, the only government-supported loan guarantee scheme in operation is operated by Exim guaranty Company which is majority-owned by the Bank of Ghana. However, the company's operations are limited by the size of its guarantee fund. Although ¢10 billion was voted in the 2004 budget to augment the guarantee fund, it is small relative to the needs of the SME sector.

Moreover, access to trade finance continues to be a major constraint for the export community, particularly for small and medium enterprises and new exporters. Ghana's export sector suffers from high commercial interest rates compared to those of Ghana's competitors, prohibitive collateral requirements, and the reluctance of banks to share any risk of export trade. There is also a lack of longer term capital for export oriented funding which limits the possibility of increases in export capacity and the modernization of export production. In the face of sustaining the sectors that contribute substantially to export earnings while investing in potential sectors, trade finance becomes a key consideration.

**Export Development and Investment Fund (EDIF)**

The Export Development and Investment Fund (under MOTI) were established in 2001 by the Government with the objective to facilitate access to trade finance for non-traditional exporters. EDIF offers two complementary services: The EDIF Credit Facility, which operates with 18 designated financial institutions (DFIs). These are mostly commercial banks but include also the Export Finance Company Ltd, and a state company. The second which is the Export Development and Promotion Facility, provides grants for business services aiming to promote exports. Under the first category, exporters who need export financing address themselves to commercial banks

(DFIs), which appraise their request and the risks involved. If the request is approved, the banks recommend the exporter to EDIF for preferential export. EDIF does its own appraisal of the request and either approves or rejects. In a case of approval the money is transferred to the exporter through the commercial bank. It also means that those who benefit from such loans are well established exporters with proven professional history and credentials. The main products financed under EDIF's credit facility are Shea butter, cocoa powder, canned tuna, vegetable oil, and handicrafts. The EDIF facility has been enhanced to cover agricultural development credit (MOTI, 2012).

**Export Finance Company Ltd (EFC)**

In August 1989, the Bank of Ghana with the active support of the Ministry of Trade and Industries (MOTI) promoted the establishment of the Export Finance Company Ltd. to provide financial support to exporters of non-traditional products having basically the same mandate as EDIF (supporting the non-traditional export sector), but not having the same source of financing. According to its present management, its original creation as a state commercial company by the Bank of Ghana was based on a wrong premise as an export finance instrument and it was never given sufficient funding in order to fulfil its mandate. At present it seeks to operate a Pre- and Post-Shipment Credit Scheme, an Export Refinance Scheme, an Export Credit Guarantee Scheme and an Export Advisory Service. It can serve a useful purpose as an important strategic partner of EDIF if given sufficient funds or integrated into mainstream EDIF operations (MOTI, 2012).

**Exim Guaranty Co Ltd**

Exim Guaranty Co Ltd evolved from a special financial service first established at the Bank of Ghana and subsequently set up in 1994 as a separate entity Exim Guaranty Company Ltd. It commenced operation in 1996. The company later established specific guarantee schemes. The main objective of the schemes was to encourage banks to extend facilities to small-and medium-sized borrowers in the non-traditional export sector that the banks were reluctant to accommodate for lack of collateral. The guarantee scheme was also extended to cover production credit and foreign exchange credit for the importation of raw materials by Ghanaian manufacturers. The main purpose was to facilitate increased demand for, and effective utilization of, foreign credit lines, induce increased flow of credit to exporters and producers and thereby stimulate export growth. Strengthened collaboration between Exim Guaranty Company and Export Finance Company is already producing results in the NTE sector. Government should provide adequate credit guarantee through Exim Guaranty Company to support the sector, so that the banks are encouraged to on-lend EDIF funds to the exporters (ibid) (MOTI, 2012).

**Funding from Banks**

The formal financial sector in Ghana comprises commercial banks, rural and community banks, savings and loan companies and non-bank financial institutions. Recently, as banks and other financial institutions have sought to broaden their loan portfolio, micro and small enterprises have become an increasingly attractive customer group. Traditionally, however, financial institutions in Ghana have been cautious with lending to micro and small enterprise groups because of high default rates and risks associated with the sector. Few banks have therefore developed an explicit policy for micro and small enterprises export requirements. Few banking institutions have non-traditional export finance desks. Thus, among the commercial banks there are some that are more disposed to lending to non-traditional exporters and others that lend more to traditional exporters. The Prudential Bank and the Ecobank have developed their relationship with exporters in some non-traditional sectors such as creative arts, horticulture, garments, cocoa processing and wood manufactures. They seem to have developed deep knowledge and expertise in the international trade transactions of their customers and often provide them with information and training in order to make them more competitive. Export market information system should be made more efficient to enable banks to have ready access to needed information (MOTI, 2012).

For the others, lending to non-traditional exporters is simply transacted by credit officers from corporate finance departments of the bank who generally apply the same appraisal and lending principles to SMEs. None of the commercial banks have any specialised training for credit officers in proven micro and small enterprise lending techniques. Here, six banks were involved for this study. These include; Ghana Commercial Bank, Ecobank, Fidelity Bank, Agricultural Development Bank (ADB), National Investment Bank (NIB), and prudential Bank. Here, four out of the six banks believe that financing of NTEs is a priority of Ghanaian banks. This was as a result of the fact that banks are now focusing on developing export sector. Most of the banks have an export desk and are equipped to handle all export issues. Export finance being a priority is, however, not meeting the expectations of exporters who therefore do not consider it to be a priority of banks.

**Financial Packages Available to Exporters**

This was to identify the various financial packages of the banks that are available for the Non-Traditional Exporters. Though export credit dominated among the packages offered by the banks to the exporters, the following tables elaborates on individual banks offer.

**Table 1: Products from Fidelity Bank**

| Bank | Number of products | Products | Requirements |
|---|---|---|---|
| Fidelity Bank | 3 | 1. Corporate Banking<br>2. Working capital loans and overdraft Financing<br>3. Letters of credits and bills payment | 1. Application Letter<br>2. Evidence of operation (such as Certificate to Commence Business)<br>3. Valid Identification Card |

Source: GEPA Report (2017)

Wholesale Banking such as Corporate Banking and Public Sector and Institutional Banking is offered by Fidelity Bank for exporters in Ghana, especially, Sekondi Takoradi.

**Corporate banking**

Corporate Banking also referred to as business banking deals with corporate customers (www.investorwords.com). Financial services specifically offered to corporations, such as cash management, Financing, underwriting and issuing of stocks, bonds or other instruments. Financial institutions often maintain specific divisions for handling the needs of corporate clients, separate from consumer or retail banking activities for individual accounts. (www.investorwords.com). Fidelity Bank looks at the entire local market and leverages specific competencies in Energy, Mining, Oil, and Gas, Local Corporate, Multinationals, Telecos, and Utilities, Export Aviation and Non-Profit Organizations including the NTEs (www.fidelitybank.com)

**Working Capital Loans and Overdraft Financing**

Working capital measures how much in liquid assets a company has available to build its business. The number can be negative or positive depending on how much debt the company is carrying.

**Table 2: Products from GCB Bank**

| Bank | Number of products | Products | Requirements |
|---|---|---|---|
| GCB | 3 | 1. Corporate Banking<br>2. Short term loans<br>3. Overdraft | 1. Application Letter<br>2. Evidence of operation (such as Certificate to Commence Business)<br>3. Valid Identification Card |

Source: GEPA Report (2017)

**Ghana Commercial Bank**

Corporate Banking is the main package offered by Ghana Commercial Bank to exporters. Their Corporate Banking Division is a key delivery area for customer propositions. Their most important function is the building of a very strong, effective and valued relationship with each and every corporate customer. It also deals with issues that need to be addressed to enable the customer's business become operationally more efficient and focused on key deliverables. This is achieved through the collective skills of Relationship Managers. Many variables determine the criteria to operate a corporate account and these include: Turnover of GHÂ¢100,000 and above and/or Exposure of GHÂ¢50,000 and above (www.gcbbank.com). GCB also provides loans/overdrafts, which focus on providing short-term facilities, we are prepared to consider requests for medium term facilities where appropriate. These are done in both local and foreign currencies. Other services include; Foreign Exchange Accounts, International Payments, International Trade Services and Foreign Currency Purchases.

**ECOBANK**

Products and services for exporters include investment solutions and SME banking.

**Table 3: Products from Eco Bank**

| Bank | Number of products | Products | Requirements |
|---|---|---|---|
| Ecobank | 3 | 1. Investment solutions<br>2. SME Banking<br>3. SME Loans | 1. Application Letter<br>2. Evidence of operation (such as Certificate to Commence Business)<br>3. Valid Identification Card |

Source: GEPA Report (2017)

**Investment Solutions**

This provides a range of wealth of investment opportunities to clients to invest.

**SME Banking**

This is the provision of special financial services to meet the needs of Small and Medium Enterprises.

**SME Loans**

- Minimum Amount: GH¢ 1,000.00
- Maximum Amount: GH¢ 200, 000.00
- Duration: 1 – 12 months

**Requirements:**

4. Application Letter
5. Evidence of operation (such as Certificate to Commence Business)
6. Valid Identification Card

**Security:**

- 20% of Loan amount
- Traders Stock Pledge
- Personal Guarantee
- Third Party Guarantee (Valid I.D. Required)

**Agricultural Development Bank (ADB)**

They provide products and services such as:

1. Corporate banking
2. Retail banking
3. Transaction banking
4. Risk management
5. Treasury management
6. Agric finance
7. Executive banking

8. Promotions
9. SME banking

The SME banking is elaborated further below:

**SME short term loans**

- up to 12 months
- to support commercial activities- increase working capital; business growth & Profitability
- With flexible terms of repayment based business's cashflow

**SME medium term loans**

- between 18-36 months
- expansion of business operations and funding of working capital
- financing of capital expenditure
- offer flexible repayment structure

**Inventory financing facilities**

- for product stocking and inventory financing
- offers a working capital support as payment to suppliers
- up to 18 months

**Receivable backed working capital lending**

- For partial release of value from Interim Payment Certificate
- facility amount per transaction is a maximum of Cedi equivalent of US$500,000.00 and up to 60% of the total contract sum/IPC

**Import and export financing**

- to enhance trade - import documentary credit; import bills; export documentary credit; export bills; guarantees; export invoice finance

**Local Purchase Order (LPO) financing**

- to fund supply contracts
- up to 180 days (longer term deals may considered)
- the facility amount per transaction is a maximum of Cedi equivalent of US$500,000.00 and up to 70% of the LPO value

**National Investment Bank (NIB)**

It provides banking services such as Development Finance Products, third party products and other services.

**SME Banking**

This is the provision of special financial services to meet the needs of Small and Medium Enterprises.

**SME Loans**

- Minimum Amount: GH¢ 1,000.00
- Maximum Amount: GH¢ 200, 000.00
- Duration: 1 – 12 months

**Requirements:**

7. Application Letter
8. Evidence of operation (such as Certificate to Commence Business)
9. Valid Identification Card

**Security:**

- 20% of Loan amount
- Traders Stock Pledge
- Personal Guarantee
- Third Party Guarantee (Valid I.D. Required)

**Benefits of SME Loan**

- Reliable and quick source of finance.
- Flexible and structured repayment terms.
- Useful for a wide range of purposes.
- Access to working capital to expand your business.

**Terms and Conditions:**

- Business should operate from identifiable premises.
- Business should be registered.
- Applicant should operate account(s) with NIB.
- Non-customers and Non-registered businesses may be considered on a case by case basis.

**Financing of Export Associations**

Five banks would prefer financing export groups than individual companies because: associations monitor operations of their members, associations are more credit worthy, associations can meet large volumes, associations are more credible, associations secure loans, groups ensure payment of loans. Also, export groups or associations can monitor operations of their members, and ensure that funds are properly utilized and managed to ensure prompt payment of loans, as is the case with handicraft exporters who collectively borrow from Prudential Bank.

**Sources of Funding from Parastatal/NGOs**

A number of on-going donor-funded projects provide export financing to selected enterprises (Millennium Development Authority, Micro and Small Medium Enterprises etc.). These are important but temporary sources as all these sources will eventually close in a few years' time (ibid).

**MASLOC**

**Wholesale Lending**

With this scheme, MASLOC grants loans to microfinance institutions (MFIs) for on-lending to small and micro businesses. All MASLOC loans are for a short period not exceeding twelve (12) months within which they have to be repaid with interest. Thus, economic activities of long gestation periods are not supported.

MASLOC's facilities are principally targeted at the marginalized productive poor who fall mostly within the micro small and medium enterprises sector. The main priority target groups of the intervention are women, the physically challenged (people living with disabilities) and the youth especially as well as the productive poor in general who are operators of all kinds of small and medium scale economic/income generally activities. Currently the economic activities that qualify to be funded by MASLOC fall under the following sub-sectors (MASLOC Operational Guidelines, 2011). Therefore, MASLOC do not provide any package for exporters.

**Business advisory services, production supervisory services and trade promotion**

It was found out that almost all the banks that provide packages for exporters also provide some form of business advisory services to exporters. This is seen in an extract from Fidelity, "leveraging on local knowledge, international best practices in banking and an expansive branch relationship network, the bank delivers innovative, award-winning financial services solutions to support the bank's corporate clients' ambitions. The success is based on our clients' success and it's as a direct result of our passion for service and commitment to excellence in all that we do. The customers are provided with a comprehensive range of capabilities and solutions, from facilitating working capital needs to sophisticated capital raising solutions."

**Lending Procedure/Requirements**

Lending procedure/requirements outline all the major steps needed to be completed by a loan processor in order to ensure a successful loan package. While there are variations to these steps depending on your employer, local and state laws, and others, the major and common ones were elaborated among the banks. It was revealed that, in identifying their lending requirements, four banks emphasized collateral security, previous track record, pending orders and confirmed letters of credit as requirements for granting export credit. And this is difficult for exporters to meet these requirements, thus their inability to secure credit from the banks. All the banks indicated that traditional and non-traditional exports are treated differently, but their inclination is to encourage NTEs. The lending requirements for NTEs are therefore more flexible than for traditional exports. It was also established that the credit requirements are the same for all products, industries and companies. Given that the number of NTEs as at 1999 stood at over 4,000 with 300 different products, it is unrealistic to devise different lending requirements for each category.

Another aspect that was explored about the lending process was the lending rates for NTEs. It was revealed that the lending rates for various sectors generally range from 30 percent to 40 percent. These high lending rates always put many exporters off and they, therefore, resort to other informal sources of credit. Moreover, on the repayment period or collection and default on export credit, four banks out of the six reported having problems retrieving credit due to the following reasons: inability of exporters to perform, high exchange rate, diversion of funds by borrowers, and bankruptcy or liquidation of companies. Default rates ranged from 8 percent to 30 percent with only one bank having none at all. This may be due to the fact that most lenders find it very difficult to retrieve their advances because some exporters do not honour their financial obligations to banks. With regards to the repayment period, majority of the banks specified within a year which makes it very difficult for exporters due to the time involve in shipping or exporting. This makes such packages not accessible by the exporters in Sekondi Takoradi.

**Export Credit Insurance Scheme**

The purpose of Export Credit Insurance is to mainly offer offshore protection to exporters of goods and services who sell their products on credit terms. The exporter is insured against losses arising from a wide range of risks, which may be conveniently categorized into either commercial risks, or political risks. Commercial risk involves the insolvency of the purchaser, the default on payment by a buyer following an unforeseeable event and non-acceptance of goods delivered to the purchaser, where such goods comply with any contracts in existence. Political risks include cancellation or non-renewal of an insured's export license after a contract has been entered into, war and other such disturbances in the purchaser's country of domicile which affect the fulfillment of the contract, transfer risks, where one country can freeze the assets and bank accounts of another country held locally and any action of a foreign government which hinders the enactment of the contract;

including, import/export restrictions, the confiscation or expropriation of goods, and the nationalization of corporations and industries. The presence of an Export Credit Insurance Scheme in a country provides exporters of goods and services with a significant degree of financial security, thus allowing companies to pursue bolder export policies by accepting new purchasers, and entering into new overseas markets, but with a smaller impact from the risks of non-payment and political instability"(GEPC, 2011).

**Chapter Summary**

This chapter has focused on the presentation and the discussion of the results of the study using summary, narrations and descriptions. The study indicated that, non-traditional exporters in Ghana have their source of funding from government, banks and parastatal or NGOs. Also, it was found that, banks that are into export financing have requirements and procedures for extending funds to non-traditional exporters in Ghana. Further, the study revealed that, NTEs operators faced some challenges in accessing credit or loans from the MFIs and these challenges include; higher interest rate, collateral requirement and cost of loan application. Finally, challenges of accessing credit or loans makes operational cost very high, it delays operations, reduces profit and mounts pressure on the business and reduce growth of the business. The results were presents using narrations and tables.

# CHAPTER FIVE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## Introduction

In this chapter, the significant findings and the valuable information obtained or achieved by this study have been carefully summarized. Thus, this chapter presents the summary of the research, conclusions and recommendations as well as suggestions for further research.

## Summary

The main purpose of the study was to identify the financing options available to the non-traditional exporters in Ghana. The study sought to identify the financing options available to the non-traditional exporters in Ghana. Specifically, it sought to explore the sources of finance from banks to the Non-Traditional Exporters in Ghana, sources of funds from government to support the non-traditional exporters and sources of funds from parastatal organisations and NGOs. The study employed a descriptive design of which seven (7) financial institutions were selected for the study. The secondary data were used for this study. Documentary or content analysis was employed in analysing the data based on the stated objectives.

In the case of the first objective, the study revealed that some of the sources from the government come from institutions such as EXIM Bank, Ghana Investment Fund, Business Assistance Fund, Aid and Debt Management Unit of the Ministry of Finance and Economic Planning and export guaranteed company and other government financial institutions.

With regard to the second objective, the study revealed that, four out of the six banks believe that financing of NTEs is a priority of Ghanaian banks.

In addition, most of the banks have an export desk and are equipped to handle all export issues. Export finance being a priority is, however, not meeting the expectations of exporters who therefore do not consider it to be a priority of banks.

Moreover, only MASLOC among the financial institutions (banks) does not have special package for exporters, though it has for SMEs. It was revealed that five banks preferred financing export groups than individual companies. This was due to: associations monitor operations of their members, associations are more credit worthy, associations can meet large volumes, associations are more credible, associations secure loans, groups ensure of payment of loans. Also, export groups or associations can monitor operations of their members, and ensure that funds are properly utilised and managed to ensure prompt payment of loans, as is the case with handicraft exporters who collectively borrow from Prudential Bank.

Further, it was found that majority of the banks that provide packages for exporters also provide some form of business advisory services to exporters. This is seen in an extract from Fidelity, “leveraging on local knowledge, international best practices in banking and an expansive branch relationship network, we deliver innovative, award-winning financial services solutions to support our corporate clients' ambitions. Our success is based on our clients’ success and it's as a direct result of our passion for service and commitment to excellence in all that we do. Our customers are provided with a comprehensive range of capabilities and solutions, from facilitating working capital needs to sophisticated capital raising solutions.”

It was revealed that all the banks have their lending requirement, though some are common among the banks, but most of them also vary among the banks. It was revealed that, in identifying their lending requirements, four banks emphasized collateral security, previous track record, pending orders and confirmed letters of credit as requirements for granting export credit. And this is difficult for exporters to meet these requirements, thus their inability to secure credit from the banks. All the banks indicated that traditional and non-traditional exports are treated differently, but their inclination is to encourage NTEs. Another aspect that was explored about the lending process was the lending rates for NTEs. It was revealed that the lending rates for various sectors generally range from 30 percent to 40 percent. These high lending rates always put many exporters off and they, therefore, resort to other informal sources of credit.

Additionally, on the repayment period or collection and default on export credit, four banks out of the six reported having problems retrieving credit due to the following reasons: inability of exporters to perform, high exchange rate, diversion of funds by borrowers, and bankruptcy or liquidation of companies. Default rates ranged from 8 percent to 30 percent with only one bank having none at all. With regards to the repayment period, majority of the banks specified within a year which makes it very difficult for exporters due to the time involve in shipping or exporting. This makes such packages not accessible by the exporters in Ghana.

For the third objective, the study found that non-traditional exporters obtain funding from international partners such as African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for

Reconstruction and Development (EBRD), and the Inter-American Development Bank (IDB).

**Conclusions**

The descriptive study was well conducted through appropriate methodology and the following inferences were made over the findings based on the objectives of the study.

The study revealed that non-traditional exporters in Ghana are being supported by government in terms of finance from institutions such as EXIM Bank, Ghana Investment Fund, Business Assistance Fund, Aid and Debt Management Unit of the Ministry of Finance and Economic Planning and export guaranteed company and other government financial institutions. This implied that non-traditional exporters rely on sources of funding from the government to improve their export business.

The study also found that non-traditional exporters rely on funding from banks for their export business. However, it was found that banks do not have special package for non-traditional exporters, except Agricultural Development Bank and Ghana Commercial Bank, the rest captured non-traditional exporters under either SMEs or corporate banking. Nevertheless, they were more willing to give credit to groups of exporters than individual exporters. They were also providing business advisory services and supervisory services to their clients or non-traditional exporters. Moreover, banks requested security and collaterals before given out credit to non-traditional exporters. Interest rate on credit given was high while the repayment period was also short, mostly, within a year.

Finally, the study found that non-traditional exporters obtain funding from parastatal and NGOs such as African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), and the Inter-American Development Bank (IDB). Thus, improvement in the non-traditional export sector in Ghana was also supported by other donor agencies in the country.

**Recommendations**

Based on the findings and conclusions drawn, the following suggestions are made toward ensuring effective and adequate source of finance for traditional exports in order to increase productivity and GDP;

Government of Ghana should continue to support the non-traditional export sector in terms of finance in order to expand the sector for more foreign exchange earnings. This can be done through extension of credit to non-traditional exporters by government institutions such as EXIM Bank, Ghana Investment Fund, Business Assistance Fund, Aid and Debt Management Unit of the Ministry of Finance and Economic Planning and export guaranteed company and other government financial institutions.

Also, banks should have special package for only non-traditional exporters in order to boost the production level of non-traditional exporters by securing credit on time and provision of business advisory services.

Non-traditional exporters should also organise themselves to access credit from banks since, they like to give out loans to associations rather than individual Non-Traditional exporters. Also, to ensure that members redeem their loans or credit within the specified repayment period. Thus, banks should look at interest rate again if possible as well as streamlining the requirement for accessing loans (security and collateral) in order for non-traditional exporters to easily access credit for their production.

Finally, since parastatal or NGOs also support non-traditional exporters, the Government of Ghana should provide avenues or enabling environment to attract these international partners into the non-traditional export sector in the country for its export-led growth strategy. This can be done through strengthening of the legal frame work, security and reducing cost of doing business.

**Suggestions for further Research**

The study considered only the non-traditional exporters and their sources of funding with the use of qualitative approach which did not allow for an in-depth analysis of other export businesses. It is however fair to propose that future studies must study sources of funding for exporters in the country apart from the non-traditional exporters in wider coverage. Also, more advance statistical analysis such as regression analysis can be used to analyse the sources of funding for exporters to arrive at more statistically reliable results for generalisation.

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