

THE DETERMINANTS OF BAD LOANS IN FINANCING SMALL AND MEDIUM-SIZE ENTERPRISES IN THE BANKING SECTOR IN GHANA: A FACTORIAL ANALYSIS APPROACH

J. O. ASANTEY¹ & S. TENGEY²

¹Credit Management Officer, Standard Chartered Bank Ghana

²Management Staff, Bank of Ghana, Accra, Ghana

ABSTRACT

This paper seeks to screen for dominant determinants of bad loans in terms of SMEs financing. A quantitative research approach is used in this study in view of the need to employ research methods that make way for generalising findings in a Ghanaian context. A sample of 205 credit risk employees of all commercial banks listed on Ghana Stock Exchange is used. Factor Analysis is used to analyse data. The study reveals 14 dominant determinants of bad loans. These determinants are placed under three factors. The first factor is composed of items relating to SMEs and accounts for the highest variability of 58%. The second factor constitutes determinants relating to banks and accounts for 23.3% of the variability. The third factor contains determinants relating to the economy and accounts for 12.7% of the variability. Experience of SME entrepreneurs in business is the most dominant driver of bad loans. Therefore in making lending decisions, commercial banks cannot risk a consideration of these determinants, especially business experience of SME entrepreneurs.

KEYWORDS: Lending, Bad Loans, Loan Default, Commercial Banks, Small and Medium-Size Enterprises