THE IMPACT OF MICROFINANCE INSTITUTIONS ON THE DEVELOPMENT OF MICRO AND SMALL SCALE ENTERPRISES IN GHANA

BY

GODWIN OWUSU
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DECLARATION

I hereby declare that this submission is my own work towards the MSc. Degree and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any degree of the University, except where due acknowledgement has been made in the text.

Godwin Owusu (PG2234808) …………………… …………………..
(Name of Student and ID) Signature Date

Certified by:
Dr. Michael Poku-Boansi ………………………. ……………………..
(Name of Supervisor) Signature Date

Certified by:
Dr. Imoro Braimah ………………………. …………………...
(Head, Department of Planning) Signature Date

ABSTRACT

This research investigates the impact of microfinance on the development of micro and small scale enterprises in Ghana. The study was undertaken in the Kumasi Metropolis in the Ashanti Region. First Allied Savings and Loans Limited and Multi Credit Savings and Loans Limited were purposively chosen for this study due to their proximity and contributions to development of Micro and Small Scale Enterprises (MSEs). In all, 400 SMEs beneficiaries of First Allied Savings and Loans Limited and Multi Credit Savings and Loans Limited were respondents in this study. The researcher used questionnaire as an instrument of primary data collection. Tables and simple percentages were used in data presentation. For impact analysis, simple regression was used to estimate the impact of Microfinance Institutions (MFIs) on development of micro and small scale enterprises in Ghana using two variables; sales or level of turnover (the dependent variable) and loans (the independent variable).

From the survey, as many as 41.5% of the operators in MSEs were illiterate and ignorant about activities of MSEs and this poses managerial difficulty for the operators in the sector but the MFIs have done little to improve the managerial skills of the operators in MSEs. However, 1 per cent increase in quantum of loans from First Allied Savings and Loans Limited and Multi Credit Savings and Loans increases turnover (sales) by 4.621% and 1.153% respectively and this suggests that loans from MFIs increases sales of MSEs more than percentage increase in loans. Moreover, loans from MFIs improve working environment, quantity and quality of inputs.

To increase the impact of MFIs on the development of MSEs in Ghana, the researcher recommends frequent entrepreneurial training programmes for operators of MSEs. The MSEs should be encouraged to form associations in their respective industry so as to see to the regulation and training of operators in the industry. Also, the micro finance institutions should organise training seminars for their clients in the area of entrepreneurship skills (managerial and marketing skills). Moreover, the government of Ghana through the Central Bank of Ghana should establish National Credit Guarantee Scheme for MSEs, which should guarantee at least 80% of loans needed by small and medium enterprises in Ghana. Moreover, the Micro finance firms should be ready to grant large loan to the deserving MSEs and monitor such clients to ensure smooth repayment of loans. Also, the Micro finance institutions should diversify their

credit portfolio to include supply of inputs on credit to clients. This should target the clients into manufacturing and agro – processing industries since they need large and costly capital equipment than the clients into trading and services.

The researcher concludes that microfinance institutions in Ghana are identified to be one of the key players in the financial industry that have positively affected MSEs and the economy at large through the services they offer and the functions they perform in the economy.

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LIST OF ABBREVIATIONS

ASCAS	Accumulating Savings and Credit Associations
ASSIP	Agricultural Services Investment Project
CBRDP	Community Based Rural Development Programme
DTI	Department of Trade and Industry
EDIF	Export Development and Investment Fund
FASL	First Allied Savings and Loan Limited
FFIs	Formal Financial Institutions
FINSSP	Financial Sector Strategic Plan
FNGOs	Financial Non-Governmental Organizations
GSS	Ghana Statistical Service
MASLOC	Micro Credit and Small Loans Centre
MCSL	Multi Credit Savings and Loans Limited
MFIs	Micro Finance Institutions
MPCMs	Multi-purpose Co-operatives
MSEs	Micro and Small Scale Enterprises
MSMEs	Micro, Small and Medium-Scale Enterprises
NBFI	Non-Bank Financial Institutions
NBSSI	National Board of Small Scale Industries
PNDC	Provisional National Defence Council
RCBs	Rural and Community Banks
REP	Rural Enterprise Project
RFSP	Rural Financial Services Project
ROSCAs	Rotating and Accumulating Savings and Credit Associations
SACCO	Savings and Credit Co-operative,
SCA	Savings and Credit Association
SIF	Social Investment Fund
SMEs	Small and Medium Scale
SPER	Support for Public Expenditure Reforms
UNDP	United Nations Development Programme

CHAPTER ONE
GENERAL INTRODUCTION

1.1 Background

Employment creation has been the major concern of several governments all over the world, both in developed and developing economies. This employment objective of governments especially in the developing world has become pressing and justified in view of the high levels of poverty affecting their economies. For example, despite the tremendous improvement in the reduction of poverty from 52 % in 1991/1992 to 28.5% in 2006, the phenomenon is still high (GSS, 2006). The Government of Ghana has subsequently renewed her devotion to fighting the poverty through her commitment to achieving the Millennium Development Goals.

Following from the above, evidence available about the employment situation and on industrial development of different countries suggests that micro and small scale enterprises constitute an integral part of the overall economy. The micro and small scale enterprises cover a heterogeneous group of businesses in developing economies, ranging from a single artisan working in a small shop manufacturing handicrafts to sophisticated engineering firms selling in overseas markets (Fischer and Reuber, 2003). These firms play a pivotal and essential role in the growth and development process by contributing significantly to employment generation and output growth of these countries of which Ghana is not an exception.

Despite the essential roles being played by the micro and small scale enterprises, access to credit for their development has been a problem. Access to credit from the formal and mainstream banking sector is difficult because of the stringent measures such as demand for collateral securities and the need for guarantors coupled with the bureaucratic process of approving loans. Thus the strictly formal process of securing credits inhibits the micro and small scale entrepreneurs from expanding their businesses. It as well prevents starters from starting their businesses. In the view of Duffuor (cited in Bhasin and Akpalu, 2001), as long as the small business sector is neglected, developing economies in particular shall continue to bedevil with the problem of unemployment and shall always remain a dependent economy. This will eventually nullify their poverty reduction goals. This assertion connotes the ever increasing importance of the micro and small scale enterprises especially in the developing countries where unemployment is dominant.

According to Hossain (1988), at low levels of income, the accumulation of investible capital may be difficult. Under such circumstances, loans can help the poor to accumulate capital and investment in employment generating activities. Thus any initiative that seeks to make credit available to both the poor and the rich is said to be pro-poor.

Emanating from the above, in the last two decades, the Government of Ghana has recognised the need to develop the micro and small scale enterprises. This has been through the provision of the enabling environment to curtail the problem with credit access. The PNDC government established the Council for Indigenous Business Association, the National Board for Small Scale Industries and the Ghana Regional Appropriate Technology and Industrial Service to offer skill training and basic working capital tools for start-ups. These efforts were complemented by the NPP led government's Micro Credit and Small Loans Centre (MASLOC), the Social Investment Fund (SIF) and Export Development and Investment Fund (EDIF). All these are designed to support micro and small scale entrepreneurs to increase and diversify income, increase assets and to socially empower them to contribute to economic development.

According to Hossain (1988), the international development community has taken a more systemic view of the provision of vital financial services to the poor as a vital tool for the accomplishment of the poverty reduction goals. This has led to the establishment of several Micro Finance Institutions (MFIs) in Ghana and the other developing world where poverty is acute. Its dedication is to fight poverty through the provision of credit facilities at reasonable amount of interests. Since their inception, various credit facilities have been granted to micro and small scale entrepreneurs in Ghana towards business expansion and poverty reduction as their operations have been relatively less stringent in the view of World Bank (1994).From the foregoing, this study examines the impact of the MFIs on the operations of micro and small scale enterprises in Kumasi.

1.2 Problem Statement

The development of the micro and small scale enterprises is viewed as a major means towards the improvement in the standard of living of the population. In spite of this, the micro and small scale entrepreneurs are commonly believed to have very limited access to deposits, credit facilities and other financial support services provided by Formal Financial Institutions (FFIs). This is because, on one hand, these micro and small scale enterprises cannot provide the necessary collateral security demanded by these formal institutions and on the other hand, the banks find it difficult to recover the high cost involved in dealing with small firms. In addition to this, the associated risks involved in lending to micro and small scale entrepreneurs make it unattractive to the banks to deal with them (World Bank, 1994).

According to the National Business Incubator Association (NBIA) (2003), about 80% of new businesses fail within the first five years and this high rate of failure makes it difficult for lenders to assess accurately the viability of the entrepreneurs and the likelihood of repayment. As a result, SMEs often cannot obtain long-term finance in the form of debt and equity. The lack of formal banking facilities underpins the development of SMEs to a very large extent. This has serious implications for a country like Ghana where the economy is largely characterised by micro and small enterprises (Basu et al., 2004). The frustrations of accessing credit facilities from formal systems compel the poor and informal business enterprises to resort to different non-banking and informal arrangements to access funds for their operations. Progressive globalisation over the last decades has created a new international environment for micro and small scale enterprise. Micro and Small Enterprises are playing an increasingly important role in the process of export-led industrialisation in the developing world (Little et al, 1987; Berry, 1992; Humphrey and Schmitz, 1996; Liedholm and Mead, 1999; Katrak and Strange, 2002; Weeks, 2002). They are the largest group in terms of the number of industrial units in most developing countries and make a significant contribution to manufacturing output and employment

In view of the significance of the micro and small scale enterprises, governments and other stakeholders are committed to curtailing the difficult access to credit on the part of the micro and small scale entrepreneurs. Through the Council for Indigenous Business Association, the National Board for Small Scale Industries, the Ghana Regional Appropriate Technology and Industrial Service, Micro Credit and Small Loans Centre (MASLOC), the Social Investment Fund (SIF) and Export Development and Investment Fund (EDIF) and other micro finance institutions, various forms of credits have been given to the micro and small scale enterprises. All these are designed to support micro and small scale entrepreneurs to increase and diversify income, increase assets and to socially empower them to contribute to economic development. This study therefore examines the impact of the credits from micro finance institutions on the operations of the beneficiaries (micro and small scale enterprises).

1.3 Research Questions

The study seeks to provide answers to the following questions:

1. How does access to credit enhance the productivity of micro and small scale enterprises?;
2. What are the opinions of operators in SMEs on the policies of MFIs in Ghana?;
3. What are the challenges inhibiting the micro and small scale enterprises from actualising their full potentiality?; and
4. What policy recommendation can be proposed to help ensure sustained growth of the micro and small scale enterprises?

1.4 Objectives

The overall objective of the study is to examine the impact of microfinance on micro and small scale enterprises development in Kumasi. Specifically, the study seeks to achieve the following:

1. To examine the challenges inhibiting micro and small scale enterprises from actualising their full potentiality;
2. To examine how access to credit enhances micro and small scale enterprises;
3. To analyse the impact of loan credit on production level (sales) of micro and small scale enterprises; and
4. To suggest policy recommendations towards sustained growth of the micro and small scale enterprises.

1.5 Hypotheses

In examining the impact of micro credit on SMEs, the following hypothesis was tested.

$H_{0:}$ Loans from MFIs do not significantly influence turnover (sales/ output) of Micro and Small Scale Enterprises (MSEs).

H_1: Loans from MFIs significantly influence turnover (sales/ output) of MSEs.

1.6 Scope

1.6.1 Geography

The study was undertaken in the Kumasi Metropolis in the Ashanti Region. Kumasi was chosen because the trade/commerce/services accounts for about 71%, and the informal sector is made of thousands of tiny workshops and enterprises. Kumasi's informal sector contributes much to the total city economy. Moreover, there is emergence of Micro financial institutions supporting the activities of MSEs (Maks Publication and Media Services, 2006).

1.6.1.1 Profile of the Study Area – Kumasi Metropolis

The history of Kumasi is dated as far back as the 1680's under the King Osei-Tutu I (1695-1717), to serve as the capital of the Asante Empire (Maks Publication and Media Services, 2006). Due to its strategic location and political role it played as the seat and capital of the Asante Kingdom, Kumasi developed into a major commercial centre with all major routes converging on it. Its strategic location has thus had implications on the growth of the city in terms of population size as well as economic-wise.

The Kumasi metropolis is the most populous district in the Ashanti Region (Maks Publication and Media Services, 2006). During the 2000 Population Census it recorded a figure of 1,170,270. It has been projected to have a population of 1,625,180 in 2006 based on a growth rate of 5.4% per annum higher than the national growth rate of 2.70%, and this accounts for just under a third (32.4%) of the region's population. In 2009 it recorded an estimated population figure of 1,889,934, the fact that the unique centrality of the city as a traversing point from all parts of the country makes it a special place for many to migrate to.

Economically the city can be grouped into three main categories. These are Agriculture, Industry and Commerce and the Service Sector. The Trade/Commerce/Services accounts for about 71%, with Manufacturing/Industry taking up 24%, whilst the Primary Production sector takes only 5% (Maks Publication and Media Services, 2006). Kumasi has therefore established itself as a major commercial centre. Commercial activity is centred on wholesaling and retailing. Both banking and non-banking financial institutions also offer ancillary services.

The Kumasi Metropolitan Assembly (KMA) is made up of the formal and the informal sectors. The Formal sector is characterized by businesses with corporate ownership, large-scale operation, capital–intensive and the use of sophisticated technology and the good access to infrastructure and land. The informal sector structure of Kumasi is a maze of thousands of tiny workshops and enterprises producing almost everything that can be mentioned of.

The industrial sector is made up of manufacturing (breweries, beverages) and wood processing (plywood, boards) as well as production of vehicular parts and service industry located at Suame Magazine which is the second largest industrial area in the metropolis. Others include the handicraft-industry which is made up basket weavers, potters, wood carvers and cane weavers. Another group of service providers are hairdressers and dressmaker/tailors.

Agriculture is practised on a limited scale with crop farming along valleys of rivers and streams that traverse the metropolis. It is also carried out in open backyards and in the peri-urban areas as well as animal production in sheep/goats, cattle, poultry and fish farming. Apart from all these businesses and industries which can be classified as SMEs, there are several financial institutions in the Metropolis. They include the Bank of Ghana, Insurance Companies, Microfinance Institutions as well as Rural Banks which have multiple branches in the city providing financial service to the people in and around the city.

The KMA in collaboration with the National Board of Small Scale Industries (NBSSI) and some Non Governmental Organizations (NGOs) have undertaken series of skill and entrepreneurial training programmes aimed at enhancing the capacity of operators in the informal sector. This sector, most especially the commercial sub sector has implications on the sustainability of MFIs in the metropolis because of the continued need for financial assistance for business establishment and expansion. Financial institutions with emphasis on

MFIs also in diverse ways do contribute to the growth and expansion of some SMEs and other business, and as such the need to know their impact on these sectors

Fig 1.1a: Ashanti Region in the National Context

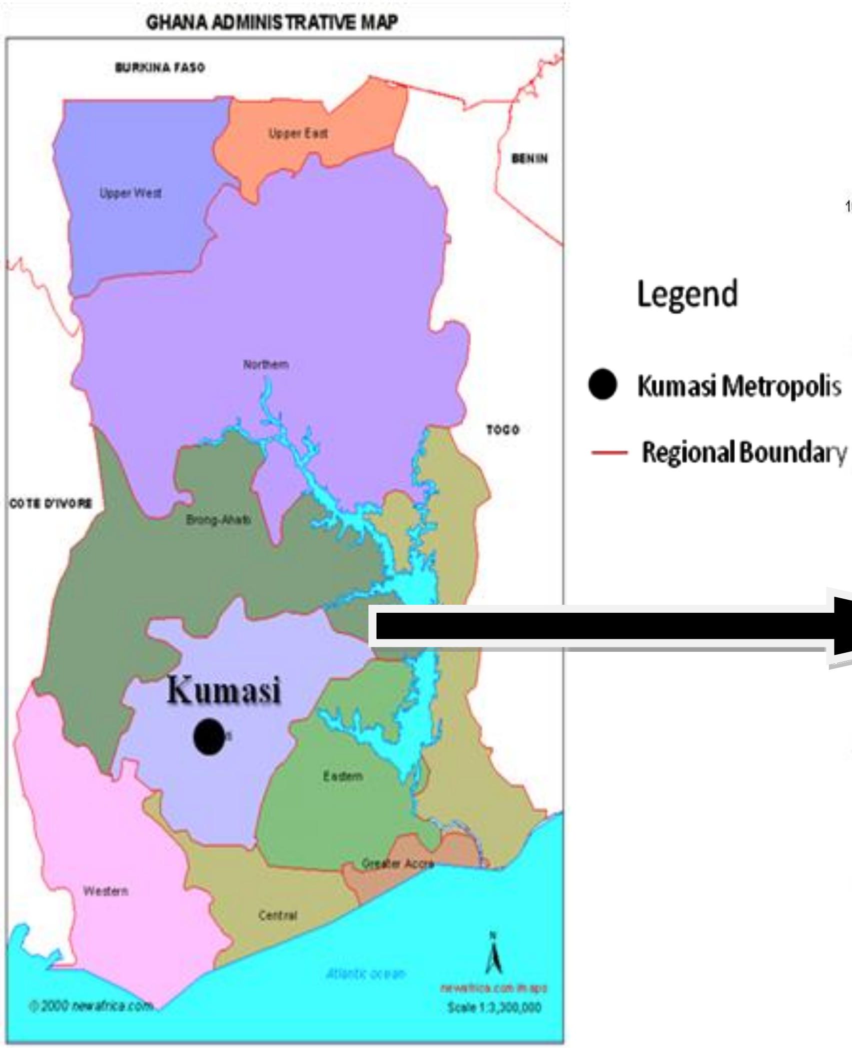
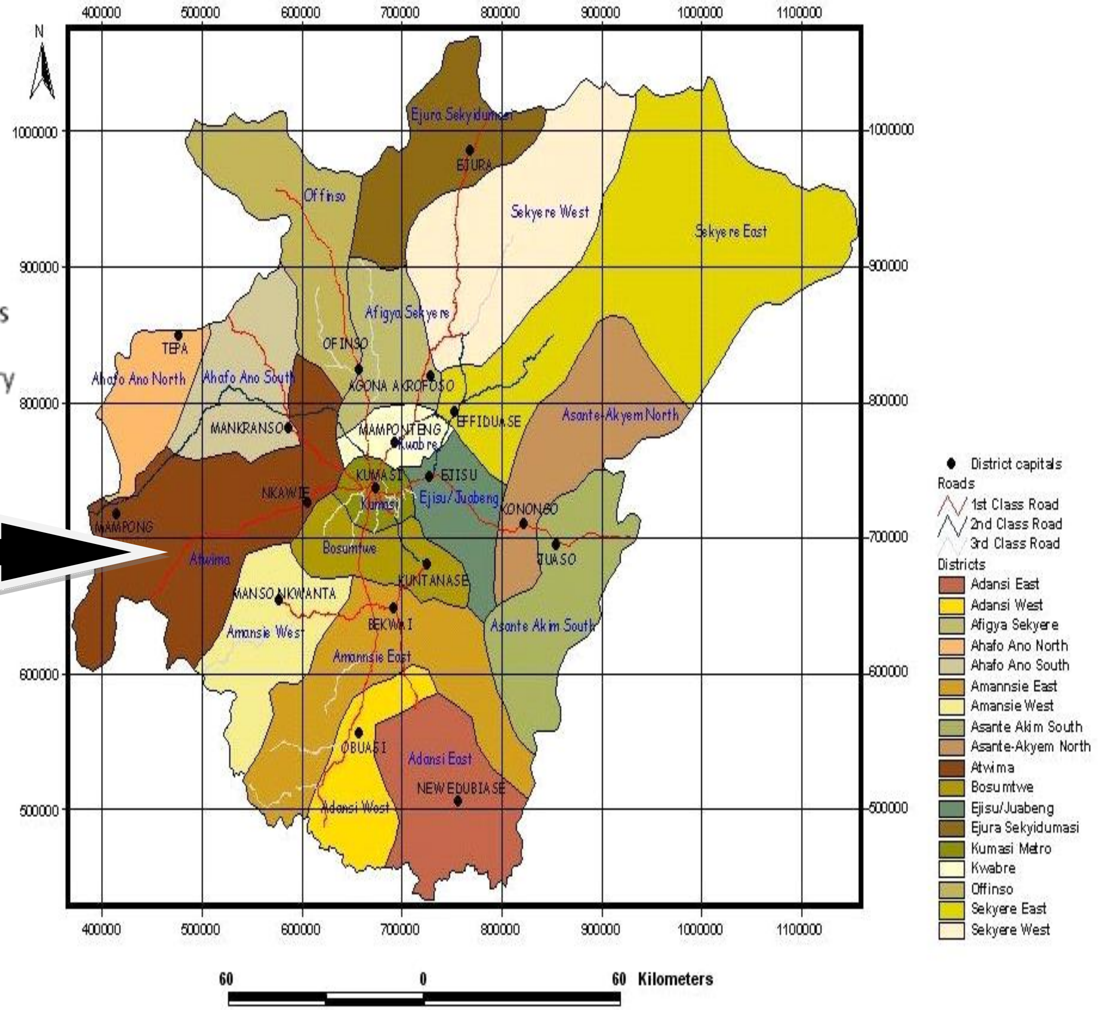


Fig 1.1b: Kumasi in the Regional Context



1.6.2 Context

Issues of relevance in the study are the impact of micro finance institutions on the operations of MSEs through their lending policies. The study focused on impact of micro credit on turnover (sales), employment creation, quality of premises and input acquisition. The study prior to the examination of the impact of the MFIS on micro and small scale enterprises seeks to establish the relationship between MFI and poverty reduction through support for employment creation.

1.7 The relevance of the study

In view of the pivotal role of employment generation and output growth being played by micro and small scale enterprises in economies of developing world, the governments of these countries including Ghana have tried in creating enabling environment for its growth. However, there is a lack of specific operational solutions and recommendations that Ghana can adapt to ensure sustained growth of MSEs for poverty reduction. This is particularly important, as the topic is of relevance for policy makers and stakeholders since the research aims to provide up-to-date and evidence-based recommendations on effective strategies that can be employed to ensure sustainable growth of MSEs in order for them to effectively play their vital role to Socio-economic development in Ghana. The work intends to provide an overview of the issues, challenges and potential solutions to the problems facing MSEs in Ghana.

Since the employment objective of governments especially in this developing world has become pressing and justified due to the high levels of poverty affecting their economies, it is expected that the field of micro and small scale enterprises as tool for employment is strengthened to reduce this high level of poverty.

1.8 Organization of the Study

The study is divided into five chapters. Chapter One deals with the introduction, the statement of the problems, relevance of the study, research questions and objectives, hypotheses, scope and organization of the study. Chapter Two provides an overview of existing literature. This chapter provides a review of already existing literature on this topic.

Chapter Three describes the study approach and method of data collection that was used in the study. Chapter Four deals with the presentation, analysis and discussion of the data collected from the field. Chapter Five which is the last chapter looks at the findings, recommendation and conclusion.

CHAPTER TWO

CONCEPTUAL ISSUES IN THE ROLE OF MICRO FINANCIAL INSTITUTIONS IN THE DEVELOPMENT OF MSEs

2.1 Introduction

In looking at the link between MFIs and MSEs, it is important to define or explain some concepts such as MFIs and MSEs. This chapter reviews the role of MFIs and MSEs, approaches of Micro financing and financing MSEs.

2.2. The Concept of Microfinance

The concept of micro finance is not new. Its origin lies in the numerous traditional and informal systems of credit that have existed in developing economies since centuries. Many of the current micro finance practices were derived from community-based mutual credit transactions that were based on trust, peer-based non-collateral borrowing and repayment (Adongo and Stork, 2005).

According to Putzeys (2002), micro finance is defined as the provision of a broad range of financial services such as deposits (savings), loans, payment services, money transfers and insurance to poor and low-income households and their microenterprises. According to her, micro finance goes beyond the access to and the distribution of money. It enters into the deeper issue of how money is used, invested and how savings are done. Micro finance goes beyond the supply of financial services as it gives people access to new opportunities. Together with the ability to increase their income, MSEs receive information and training and learn how to manage their money. Micro finance therefore includes issues such as organizational and operational aspects, leadership development, trust building, small enterprise management, education and information transfer. These non-financial services define the specific character of micro finance and thus make micro finance programmes so valuable.

According to Robinson (2003), microfinance refers to all types of financial intermediation services (savings, credit funds transfer, insurance, pension remittances, etc.) provided to low-income households and enterprises in both urban and rural areas, including employees in the public and private sectors and the self-employed.

Microfinance is also defined by Hagan and Martins (2004) to include financial institutions other than the traditional ones that render a wide range of financial and other complementary services (savings, insurance, money transfer, et cetera) to both the poor and the rich that require them (the services). This comprehensive definition covers a broader range of services such as credit, savings, insurance, money transfer et cetera and is premised on the background that, people especially the poor and very poor, lack access to traditional formal financial institutions and require a variety of financial products to extricate them from the grips of chronic poverty and difficulty. Unlike other definitions that tend to over-concentrate on financial assistance (credit) to the poor to the neglect of other assistance including skill training, savings, insurance and other forms of capacity building other than financial assistance, rendered to the poor, the above definitions give a more comprehensive definition of the terminology of microfinance.

Thus this study adopts the definition of microfinance carved out of the above given definitions to mean all types of financial intermediation services other than the traditional ones that render a wide range of financial and other complementary services such as savings, insurance, money transfer, et cetera as well as advisory services to the poor and low income enterprises. Hence, microfinance programmes are that which empowers people, improves their self-confidence and make them feel more confident to enter into the economic, social and political life of the society.

2.3 Evolution of the Microfinance Sub-Sector in Ghana

There has always been the tradition of people saving and/or taking small loans from individuals and groups within the context of self-help to start businesses or farming ventures. Available evidence suggests that the first credit union in Africa was established in Northern Ghana in 1955 by Canadian Catholic Missionaries (Asiama, 2007). However, Susu, which is one of the microfinance schemes in Ghana, is thought to have originated from Nigeria and spread to Ghana in the early twentieth century (Asiama, 2007).

Over the years, the microfinance sector has thrived and evolved into its current form due to various financial sector policies and programmes undertaken by different governments since independence (Asiama, 2007). Among these are:

- Provision of subsidized credits in the 1950s;
- Establishment of the Agricultural Development Bank in 1965 specifically to address the financial needs of the fisheries and agricultural sector;
- Establishment of Rural and Community Banks (RCBs), and the introduction of regulations such as commercial banks being required to set aside 20% of total portfolio, to promote lending to agriculture and small scale industries in the 1970s and early 1980s;
- Shifting from a restrictive financial sector regime to a liberalized regime in 1986;
- Promulgation of PNDC Law 328 in 1991 to allow the establishment of different categories of non-bank financial institutions, including savings and loans companies, and credit unions.

The policies have led to the emergence of three broad categories of microfinance institutions (Asiama, 2007). These are:

- Formal suppliers such as savings and loans companies, rural and community banks, as well as some development and commercial banks;
- Semi-formal suppliers such as credit unions, financial non-governmental organizations (FNGOs), and cooperatives; and
- Informal suppliers such as susu collectors and clubs, rotating and accumulating savings and credit associations (ROSCAs and ASCAs), traders, moneylenders and other individuals.

In terms of the regulatory framework, rural and community banks are regulated under the Banking Act 2004 (Act 673), while the Savings and Loans Companies are currently regulated under the Non-Bank Financial Institutions (NBFI) Law 1993 (PNDCL 328).

According to Asiama (2007), programmes currently addressing the sub-sector in Ghana include the Financial Sector Improvement Project, Financial Sector Strategic Plan (FINSSP), the Rural Financial Services Project (RFSP), the United Nations Development Programme (UNDP) Microfinance Project, the Social Investment Fund (SIF), the Community Based Rural Development Programme (CBRDP), Rural Enterprise Project (REP), and Agricultural Services Investment Project (ASSIP).

2.4 The Roles of Microfinance Institutions in the Development of SMEs

Improving the livelihoods of the poor has become a priority for most governments in the developing world as part of their efforts to increase the levels of human development. In order to achieve such goal the provision of microfinance has been identified as one of the key instruments to enhance the livelihood of low-income households in the developing world (Adongo and Stork, 2005).

According to United Nation Capital Development Fund (2004), micro-finance plays three broad roles in development and these are;

i. It helps very poor households meet basic needs and protects against risks;
ii. It is associated with improvements in household economic welfare; and
iii. It helps to empower women by supporting women's economic participation and thus promotes gender equity.

Available literature on financial services provided by microfinance institutions also indicates that microfinance enables low-income households engage in pre-entrepreneurial activities and micro-enterprises to increase their livelihoods. The benefits of the micro financing to households and micro-enterprises will in turn have positive implications for their macro economy (Adongo and Stork, 2005).

According to the African Development Bank (2003), development practitioners, policy makers, and multilateral and bilateral lenders, recognize that providing efficient microfinance services for the poor especially the rural segment of the population is important for the following reasons.

i. Microfinance can be a critical element of an effective poverty reduction strategy. Improved access and efficient provision of savings, credit, and insurance facilities in particular can enable the poor to smooth their consumption, manage their risks better, build their assets gradually, develop their microenterprises, enhance their income earning capacity, and enjoy an improved quality of life. Microfinance services can also contribute to the improvement of resource allocation, promotion of markets, and adoption of better technology; thus, microfinance helps to promote economic growth and development;
ii. Without permanent access to institutional microfinance, most poor households will continue to rely on meager self-finance or informal sources of microfinance,

which limits their ability to actively participate in and benefit from the development opportunities;

iii. Microfinance can provide an effective way to assist and empower poor women, who make up a significant proportion of the poor and suffer disproportionately from poverty; and

iv. Microfinance can contribute to the development of the overall financial system through integration of financial markets.

According to Adongo and Stork (2005), financial services provided by microfinance institutions will enable low-income households engaged in pre-entrepreneurial activities and micro-enterprises to increase their livelihoods. To them, microfinance provides benefits to low-income households through various channels. For instance, the funds transfer facilities provided by microfinance institutions enable low income households to make payments at low costs. These facilities are expected to reduce the inconvenience of having to travel long distances to effect transactions

Wright and et al (1999) is of the view that low-income households typically have irregular income streams and are faced with various lifecycle, structural and crisis risks that are beyond their control and can reduce their income levels below the poverty line. To overcome this, empirical evidence suggests that the savings facilities provided by microfinance institutions are useful in improving the household financial management, which contributes to more efficient inter-temporal decision-making. This protects low-income households against risks ahead of time, as opposed to providing support to cope with shocks after they occur through the provision of credit facilities (CGAP, 2000).

The decrease in vulnerability from unplanned shocks increases the probability that low income households will engage in riskier, higher yielding activities that could increase their incomes. The safe and convenient savings facilities provided by microfinance institutions according to De Soto (2000) enable low-income households to transform their non-financial assets into more liquid, high-yield forms that may eventually serve as collateral for larger loans.

In addition, the use of savings facilities by low-income households enables them to store funds for future use and build credit history. This is of particular importance as many low-income households lack the types of collateral acceptable by commercial banks that are required to access loans from this source of finance. The flexible and convenient credit facilities provided by microfinance institutions enables low-income households to borrow funds to cover emergencies that they cannot meet from their levels of current savings. This can reduce the poverty gap and poverty headcount, even though real income may not increase (Robinson, 2003).

According to Quartey (2000), the savings facilities provided by microfinance institutions enable microenterprises to invest their surplus funds, while obtaining a return on their investments. This enables them to better manage liquidity and could increase their levels of self-financed investment. In addition, individual rights to these savings assets are legally recognised and can be used to meet collateral requirements.

The credit facilities provided by microfinance institutions enable microenterprises to borrow funds to cover various short-term financial needs, particularly the working capital. These needs also include financial costs incurred during pre-start-up training, planning and start-up phases in the micro-enterprise life cycle. Microfinance can also be used to cover the financial costs of further training and to meet other unforeseen circumstances (Robinson, 2003 and Mushendami et al., 2004).

Moreover in the view of Adongo and Stork (2005), microfinance credit facilities enable micro-enterprise owners to use anticipated income for current investment. This reduces the vulnerability of the micro-enterprise to various shocks and stabilizes the income stream for the micro entrepreneur. The reduced vulnerability promotes the sustainability of the micro-enterprise at its existing levels, to the extent that this credit is used to acquire capital (physical or human), which yields a rate of return in excess of the cost of credit. Thus microfinance enhances the income of micro entrepreneurs and increases the chances that they will diversify or expand their activities. The benefit that microfinance provides to low-income households and microenterprises also has positive implications for the overall economy. The provision of savings facilities deepens financial markets by mobilizing savings that were not previously part of the money supply. This increase in gross savings creates a larger pool of resources that can be channeled to gross domestic investment opportunities, which has positive implications for economic growth.

According to International Centre for Economic Growth (1999), microfinance is instrumental in promoting the sustainability of microenterprises, to the extent that it creates an improvement in the management of their financial activities. This should lead to the strengthening of the domestic production structure, which has positive implications for balanced development across different sectors and regions.

2.5 Approaches to Micro financing

Microfinance Institutions (MFIs) have become increasingly involved in providing financial services to SMEs focused on poverty reduction and the economic survival of the poorest of the poor. There are a lot of strategies or approaches that can be used to achieve that. However, the microfinance instrument advocates two main ways (Rural Microfinance Task Team, 2004). These are the Financial Systems Approach and the Poverty Lending Approach.

The Microfinance approaches are based on certain proven truth which are not always recognized and they are;

i. That the poor are bankable. Successful initiatives in micro finance demonstrate that there need not be a trade off between reaching the poor and profitability - micro finance constitutes a statement that the borrowers are not 'weaker sections' in need of charity, but can be treated as responsible people on business terms for mutual profit;
ii. That almost all poor households need to save, have the inherent capacity to save small amounts regularly and are willing to save provided they are motivated and facilitated to do so;
iii. That easy access to credit is more important than cheap subsidised credit which involves lengthy bureaucratic procedures - (some institutions in India are already lending to groups or SHGs at higher rates - this may prevent the groups from enjoying a sufficient margin and rapidly accumulating their own funds, but members continue to borrow at these high rates, even those who can borrow individually from banks); and
iv. 'Peer pressure' in groups helps in improving recoveries.

These two approaches to microfinancing complement each other to improve access to financial services based on self-help, community-based groups that also provide a forum that enables interaction for social purposes. These mutual support groups form a basis for building local capacity to manage microfinance institutions in a participatory manner with the hopes of inspiring similar target groups in other areas (Rural Microfinance Task Team, 2004).

2.5.1 Financial Systems Approach

The financial systems approach aims to achieve maximum outreach of microfinance services through financially sustainable institutions that focus on a financial intermediation model (Robinson, 2003). The microfinance institutions under this approach provide finance to the public for example, commercial banks; or serve only their members e.g. village banks. They finance their loan portfolios from locally mobilized savings, commercial debt and for-profit investment, or retained earnings e.g. micro lenders.

The proponents of the financial systems approach argue that donors and governments should shift the allocation of their scarce resources from direct financing of loan portfolios, to promoting the replication of this model by disseminating lessons from the best practices of fully sustainable microfinance institutions and financing the development of more microfinance institutions of this type. However, one challenge of the financial systems approach is that it relies on market approaches, which may be thin and weak in marginal areas (Pralahad, 2004). Even though in these areas, market solutions can be found to overcome any obstacles (Hitchins, et al, 2005).

The model of microfinance provision that is most suitable for the financial systems approach is the village bank. These institutions are involved solely in the provision of microfinance and do not provide non-financial services. They include community managed SACCO Savings and Credit Co-operative, SCA Savings and Credit Association. SCAs or SACCOs typically consist of a general membership of 30 to 50 members based on self-selection, and an elected committee that is responsible for convening meetings, approving loans, supervising loan payments, receiving savings deposits, lending out or investing savings and keeping up-to-date records. The village banking model is said to be a minimalist microfinance model, which means that it has no auxiliary devices. However, the microfinance target group may require both financial and non-financial inputs such as health, education, nutritional support in the case of low income households and “business training to help develop micro-enterprises beyond subsistence levels that a minimalist service delivery methodology does not incorporate” (Mann, et al, 1989).

2.5.2 Poverty Lending Approach

The poverty lending approach focuses on reaching the poorest of the poor, who are typically engaged in pre-entrepreneurial activities that are more focused on consumption-smoothing than productivity enhancing activities (Honohan, 2004). This group requires assistance in the form of income transfers to meet their basic needs, because any credit extended to them will most probably be consumed rather than invested in something that generates a return sufficient to repay the debt (Rosengard, 2001).

The poverty lending approach differs from the minimalist financial services model characterised by the financial systems approach. This approach in addition to the microfinance services it provides, offers ancillary services such as training on nutrition, better farming techniques, family planning, health and basic financial management skills aimed at reducing the target group's vulnerability to avoidable risk. The funding for these ancillary services is typically provided by governments, donor grants and other subsidised funds (Adongo and Stork, 2005)

The model of microfinance provision that is most suitable for the poverty lending approach is the Multi-purpose Co-operatives (MPCMs). They are legally constituted, co-operative financial institutions that are chartered and supervised under national co-operative legislation. These co-operatives are voluntary associations of people at the grassroots level. They are formed as autonomous, self help groups aimed at assisting members who are unable to get financial services from the commercial banking sector, due to the lack of conventional collateral (RMFTT, 2004). Co-operatives provide a basic set of services that cater to the pre-entrepreneurial target group, who typically can only access them from the informal sector. The valuable role MPCMs play in the provision of ancillary services is argued to be more important to their target group than credit (Adongo and Stork, 2005).

2.6 The Concept of SMEs

There is no single, uniformly acceptable, definition of a small firm (Storey, 1994). This is due to the fact that firms differ in their levels of capitalisation, sales and employment. This implies that, definitions which employ measures of size (number of employees, turnover, profitability, net worth, etc.) when applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to a different result.

The European Commission (2003) defines SMEs as any entity engaged in an economic activity, regardless of its legal form which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million and/or an annual balance sheet total not exceeding EUR 43 million. Within the SME category, a small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet does not exceed EUR 10 million. On the other hand, a micro enterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or balance sheet does not exceed EUR 10 million.

The British Department of Trade and Industry (DTI) in 2001, also maintains that the best description of a small firm remains that of the Bolton committee report of 1971 which defines a small firm as an independent business, managed by owners and co-owners and having a small market share. According to Kufour (2008), to be classed as an SME or a micro-enterprise, an enterprise has to satisfy the criteria for the number of employees and one of the two financial criteria that is either the turnover total or the balance sheet total. In addition, it must be independent, which means less than 25% owned by one enterprise (or jointly by several enterprises) falling outside the definition of an SME or a micro-enterprise, whichever may apply.

According to Mensah (2004), in Ghana available data from the Registrar General Department indicates that 90 % of companies registered are micro, small and medium enterprises and are generally defined as:

i. Micro enterprises: Those employing up to 5 employees with fixed assets (excluding realty) not exceeding the value of $10,000;
ii. Small enterprises: Employ between 6 and 29 employees with fixed assets of $100,000; and
iii. Medium enterprises: Employ between 30 and 99 employees with fixed assets of up to $1 million.

According to Kufuor (2008), the National Board of Small Scale Industries (NBSSI) on the other hand applies both the “fixed asset and number of employees” criteria. It defines a small scale enterprise as one with not more than 9 workers, and a plant and machinery (excluding land, buildings and vehicles) not exceeding GH¢10m (US $9506, using the 1994 exchange rate).

In the view of Reuber and Fischer (2003), the term SME covers a heterogeneous group of businesses in a developing economy, ranging from a single artisan working in a small shop making handicrafts for a village market to sophisticated engineering firms selling in overseas markets.

Although SMEs have been defined according to size, turnover, activity, ownership and legal status, there is an emerging consensus that size (number of employees) may be the most appropriate defining characteristic, given the heterogeneity of enterprises operating in this sector due also to the fact that employment figures are readily available. SMEs can, therefore, be defined as firms employing less than 100 employees while entities with less than ten employees are categorized as micro-enterprises (Hussain, 2000).

Conceding that no definition can be perfect and that any definition must be subject to both exceptions and further qualifications, Gibson (2008), proposes that an SME be defined as a formal enterprise with annual turnover, in U.S. dollar terms, of between 10 and 1000 times the mean per capita gross national income, at purchasing power parity, of the country in which it operates.

In spite of all the above definitions and propositions, an SME in this study adopts the definition given by Aryeetey et al (1994), which defines SMEs as follows:

i. Micro enterprises – employs (1-9 workers);
ii. Small enterprises – employs (10-29 workers); and
iii. Medium enterprises– employ (30-140 workers).

2.7 Characteristics of Micro and Small Scale Enterprises

Many African economies are characterized by the prevalence of a large number of informal MSEs which utilize lower levels of investment and skills, and handle relatively simple products. The MSE sector is characterized by low levels of education and training of the self employed. They make up the largest portion of the employment base in Ghana and are the bedrock of the local private sector. In Ghana, SMEs can be categorized into urban and rural enterprises. The urban enterprises can further be sub-divided into “organized’ and “unorganized’ enterprises. The organized ones tend to have paid employees with a registered office whereas the unorganized category is mainly made up of artisans who work in open spaces, temporary wooden structures, or at home and employ little or in some cases no salaried workers (Goski, et al, 2007).

The rural enterprises are largely made up of family groups, individual artisans, women engaged in food production from local crops among others. The major activities within this sector include; soap & detergents, fabrics, clothing and tailoring, textile and leather, village blacksmiths, tin-smithing, ceramics, timber & mining, bricks and cement, beverages, food processing, bakeries, wood furniture, electronic assembly, agro processing, chemical based products and mechanics and so on. In urban areas, they range from street vendors to small manufacturing entities. In rural areas, small enterprises engage in the production and sale of farm products, handicrafts and services (Adjeapong, 2009).

SMEs generally use local resources and thus have less foreign exchange requirements while adapting easily to customer requirements. Due to the small and perceived flexible nature, they are expected to be able to withstand adverse economic conditions and survive where many large businesses would collapse. The labour intensity of SMEs lowers capital costs associated with job creation. They have often been described as improving the efficiency of domestic markets and making productive use of scarce resources, and thus facilitating long-term economic growth in poor countries (Kayanula and Quartey, 2001). SMEs tend to use less capital per worker and have the capacity to use capital productively than large firms. For instance, evidence from countries such as Colombia, Ghana and Malaysia tell that small firms have significantly higher value-added to fixed assets ratios (Hussain, 2000).

The entry of the sector is very simple, it depends on local resources, family ownership of enterprises, small-scale operation, labour-intensive and adapted technology, skills acquired outside the formal school system, and unregulated and competitive markets. These enterprises are sometimes created from personal savings or financed through informal savings schemes but in some situations Bank finance plays a very minor role in their operation. SMEs usually have few employees who tend to be mostly relatives of the owner hence there is often lack of separation between ownership and control. Also since SME's do not traditionally rely on public funds there is lack of accountability and no regulations to comply with in relation to compliance (Abor and Adjasi, 2007). Mostly, the owner managers of these SME's are hampered by lack of managerial competencies (Gockel and Akoena, 2002).

2.8 Roles of Micro and Small Scale Enterprises in Socio-Economic Development

According to Hussain (2000), although the SME sector is largely unenumerated, available estimates suggest that SMEs account for roughly 60% of the workforce and 25% of industrial output in value terms in Africa. SMEs play an important role in entrepreneurial development by employing workers with limited formal training, and also make use of local raw materials that would otherwise be neglected. Through SMEs, small savings of proprietors which tend to exist outside the formal banking system are also mobilized. They play a considerable role in output, employment and income generation in both urban and rural areas. The micro-enterprises sector is not only important because it creates jobs but also because it can be an instrument of "participatory development", since it enables a wider section of the population, particularly the poor, to participate in the process and benefits of development. In addition, SMEs not only help to integrate marginalized elements of society thus making better use of human energy and initiative and also act as a breeding ground for entrepreneurs.

MSEs also perform useful roles in ensuring income stability, growth and employment. Due to the fact that SMEs are labour intensive, they are more likely to succeed in smaller urban centres and rural areas, where they can contribute to the more even distribution of economic activity in a region and thus can help to slow the flow of migration to large cities. They are also known to improve the efficiency of domestic markets and make productive use of scarce resources, thus, facilitating long term economic growth. Small and Medium enterprises (SMEs) are playing an increasingly important role in the process of export-led industrialisation in the developing world. They are the largest group in terms of the number of industrial units in most developing countries and make a significant contribution to manufacturing output and employment (Kayanula and Quartey, 2000).

2.9 Financing SMEs

According to Mensah (2004), there are many who believe that the single most important factor constraining the growth of the SME sector is the lack of finance. The apparent dearth of medium-term financing, the rudimentary nature of capital markets and the weaknesses in financial intermediation in general have made it difficult for private businesses to find the means of financing other than short term bank credit. While the obstacles are many, the financial constraints have received the most attention from both governments and donors. In view of the continuing problems with finance, and the persistent financing gap, many interventions have been launched by governments and development partners to stimulate the flow of financing to MSEs over and above what is available from existing private sector financial institutions.

In searching for alternatives to formal sector finance, some attention is increasingly being paid to informal and semi-formal finance (including micro-finance) for meeting private sector credit demand, particularly from small enterprises. To counter the effects of credit market failures that result in fragmentation and the exclusion of many potential borrowers from markets, a variety of credit schemes have been introduced into many African countries. However, innovative credit schemes and micro-finance activities are far better known in Asia and Latin America than they are in Africa (Putzeys, 2002).

Innovative credit-retailing schemes are usually community-managed credit and savings schemes that are established to improve members' access to financial services, build a community self-help group, and help members accumulate savings. Micro-finance programmes, derived from innovative schemes generally, are more likely to be born out of donor projects, and are not necessarily community based. Indeed, over 80 percent of enterprise development programmes that donors sponsor throughout Africa have a micro-finance component. For more than a half of such projects, the focus is solely on micro-credit. For many innovative schemes, however, credit provision may not be the only operational objective (Aryeetey, 1998).

According to Mensah (2004), many African micro-finance arrangements have benefitted from best-practices developed in other developing regions. They have drawn some ideas from more successful projects elsewhere, including the following:

- the issuing of short-term loans;
- starting with small initial loans;
- concentration on small working capital to firms with proven track record;
- specialized services without targeting;
- simplified services;
- localized services;

- shortened turn-around time for loan applications;
- motivation of repayment through group solidarity or joint liability;
- savings mobilization from the poor; and
- charging of the full-cost interest rates.

In Ghana, existing SME financing interventions can be classified under:

- Official Schemes

Government has in the past attempted to implement a number of direct lending schemes to SMEs 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 these 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. Examples of such schemes are the Austrian Import Program (1990), Japanese Non-Project Grants (1987-2000), Canadian Structural Adjustment Fund and Support for Public Expenditure Reforms (SPER).

In addition to donor-supported schemes for direct lending, government has attempted at various times to operate lending schemes for MSEs. The schemes have included:

- The Business Assistance Fund operated in the 1990s to provide direct government lending to the MSE sector. The program was widely seen to have been abused politically, with most of the loans going to perceived government supporters.
- 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 companies. However, the scheme was never implemented
- Export Development and Investment Fund (EDIF) among a host of others. 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 EDI board maintains tight control, approving all the credit recommendations of the participating banks.

Aside the above, many donor activities concentrate on various credit schemes through both commercial banks and micro-finance institutions, and also on strengthening of micro, small and medium-scale enterprises (MSMEs) through training and business support services. Donor support to MSMEs in Ghana is shown in Table 2.1.

Table 2.1 Examples of Donor Support to MSMEs in Ghana

Donor	**Title**	**Short description**
CIDA	Private Sector Development Support	Assist MSMEs (deepening technological capacity)
DANIDA	Private Sector Programme	Business linkages between Ghana and Denmark
DANIDA	Business Sector Development	Lending to SMEs, front-runner legal reform (pilot)
GTZ (GIZ)	Promotion of Private Sector	Promotes German investments in Ghana
GTZ (GIZ)	Promotion of Small and Micro Enterprises	Assist MSEs (Credit Fund - Urban and Rural areas)
IFAD/AFD	Rural Enterprise Project	Enterprise development in rural Areas
UNDP	African Management Services Company	Assist SMEs (training and secondment)
UNDP	EMPRETEC Ghana Foundation	Assist SMEs (entrepreneurship development)
UNDP	Micro Start Ghana Programme	Support MFIs build institutional Capacity
UNDP	Promoting Private Sector Development	Capacity building of private sector interlocutors
UNIDO	Strengthening competitiveness of MSMEs	Strengthening capabilities of MSMEs
USAID	Amex international (increased private enterprise performance)	Support development of nontraditional Exports
USAID	Micro enterprise Development Assistance	Assist micro and small-scale Farmers
USAID	Trade and Investment Programme	Assist SMEs in non-traditional exports (credits)
WB	Non-Bank Financial Institutions Assistance	Promote growth of non-bank financial sector

Source: Mensah, 2004

- Financing provided by financial institutions

Increasingly, donors have implemented lending programs directly with financial institutions. Examples of such schemes are: Small Business Loan Portfolio Guarantee (USAID), European Investment Bank Facility, Care-Technoserve Fund for Small Scale Enterprises, DANIDA SME Fund, GIZ Fund for the Promotion of Micro and Small Enterprises, SECO SME Financing Scheme, FMO SME Financing Scheme and so on.

Recently, as banks and other financial institutions have sought to broaden their loan portfolio, SMEs have become an increasingly attractive customer group. Traditionally, however, financial institutions in Ghana have been cautious with lending to SME groups because of high default rates and risks associated with the sector. Few banks have therefore developed an explicit policy for SME target groups taking the particular requirements and needs into consideration, e.g. developing earmarked financial products and appropriate credit management systems. Only few banks have SME specific loan products, and many of these are donor funded. Few banking institutions have SME desks or departments. For the others, lending to micro and small businesses 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 SME lending techniques, and most credit officers do not have any prior SME specific experience (Mensah, 2004).

Microfinance Institutions (MFIs) on the other hand, have become increasingly involved in providing financial services to SMEs focused on poverty reduction and the economic survival of the poorest of the poor. Delivery of microcredit to operators of small and micro enterprises (SMEs) in developing countries is increasingly being viewed as a strategic means of assisting the so-called “working poor” (ILO1973, cited in the journal of microfinance, 2002).

There is continuing and quite rapid improvement in understanding how financial services for the poor can best be provided. As part of this learning process, microfinance practitioners, donors, and governments have been interested in knowing to what extent these credit interventions impact the beneficiaries. It is also for the same reasons that this study seeks to achieve. Thus the level of impacts that Microfinance has on the growth of SMEs.

2.10 Summary

The literature has highlighted the pivotal role played by MFIs to the central and local economy. It has been learnt from research that MFIs are financial institutions other than the traditional ones that render a wide range of financial and other complementary services to both the rich and the poor. Emanating from the definition, the contribution of MFIs to poverty reduction is very important.

Microenterprise development is seen as one of the most effective means of promoting social and economic development, particularly in rural areas. Due to the fact that micro-entrepreneurs mobilize funds which otherwise would have been idle to engage in labour intensive economic activities, improved access to financial services can enable the poor to smooth out their consumption, manage their risks better, build their assets, develop their microenterprises, enhance their income-earning capacity, and enjoy an improved quality of life.

One of the key strategies which has been developed by governments and development policy makers have been the development of microfinance or microcredit, which is seen as a very essential and useful tool for many MSEs development and growth. However like all development interventions, donors, governments, and other interested parties demand evaluations and impact assessment studies to ascertain the achievements and failures of these programs and the need to assess the impacts that microfinance is actually having on the MSEs.

CHAPTER THREE
STUDY APPROACH AND METHODOLOGY

3.1 Introduction

Emanating from the above conceptual issues of Micro financial institutions and Micro and small scale enterprises development, this chapter moreover describes methodology of data collection, model specification and its analysis.

3.2 Research Design

According to Frankfort- Nachmias and Nachmias (1996), a case study design is very useful in investigating a contemporary phenomenon and that source of the study should be on real life situation. Moreover in the view of Yin (2009), it also relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and in view of this, the study selected two Micro–financial Institutions (MFIs) in the Kumasi Metropolis for a detailed examination.

Additionally, a cross-sectional research design was used to determine the extent of contribution to growth and development of micro and small scale enterprises by the MFIs. To satisfy the principles of cross-sectional designs, small scale entrepreneurs were selected for interview. Two MFIs in the Kumasi Metropolis were also purposively selected for the research.

3.3 Population of the research

The sample population of this study is businesses employing from 1 to 9 that are classified as micro and small scale enterprises like vegetable sellers, light industrialists, wood processors, shop owners, etc that on individual basis, have benefitted from the services of micro financial institutions in Ghana.

3.4 Sampling Procedure

Two major sampling techniques were used to select respondents and these were random sampling and purposive sampling. Clients (SMEs) of the MFIs were selected randomly. This is because the clients of MFIs were many and difficult to capture them all in the study and bias to select particular group or groups of clients (SMEs) of MFIs, hence random sampling best applied in this case. However, the two MFIs were purposely selected for the study due to their proximity and contributions to MSEs development, their long period of existence and their popularity within Kumasi Metropolis. Among the three non-probability sampling i.e., convenience sampling, quota sampling, and purposive sampling, this purposive sampling (Merriam, 1988; Patton, 1990) is the sampling approach mostly used by qualitative researchers with the intention to improve representativeness of the sample by subjective selection.

3.5 Sample Size

First Allied Savings and Loans Ltd and Multi Credit Savings and Loans Ltd were purposively chosen for this study due their proximity and contributions to development of SMEs. Due to large number of 5500 beneficiaries of loan facility from the two MFIs, time and financial constraint, intuitive method of sample size determination was employed. Therefore, 220 MSEs and 180 MSEs that have benefitted from First Allied Savings and Loans Ltd and Multi Credit Savings and Loans Ltd were selected for the study. In all 400 MSEs beneficiaries of First Allied Savings and Loans Ltd and Multi Credit Savings and Loans Ltd were respondents in this study through the services of their mobile bankers and at the bank premises.

3.6 Survey Instruments

The study used two different structured questionnaires. The first questionnaire is the MSEs beneficiaries or clientele questionnaire and the second questionnaire is the MFIs questionnaire. It must be emphasized that the interest of the study is not on MFIs but on Clients of MFIs. Both the descriptive and quantitative analyses were all based on the clients' questionnaire. Majority of the questions were pre-coded with multiple choice responses. Other questions were open ended seeking respondents to provide the specific response. The clients' questionnaire is made up of five sections, namely:

i. Personal Data;
ii. Nature of business;
iii. Opinion of respondents on policies of MFIs;
iv. Impact assessment; and
v. Challenges and solutions.

The MFIs questionnaire has only two sections and these are the services provided by MFIs and the problems facing the MFIs. It further sought for solutions to these problems.

3.7 Model Specification

The study employed a regression model in the estimation of the impact of loans on turnover using the data gathered. The dependent variable is the turnover and the independent variable is loans. The model is in the form;

$P = \beta_0 + \beta_1 L + \mu$

Where;

P= is the production level.

L = is the amount of loans.

μ = stochastic term (include all omitted variables that can influence the dependent variables)

$\beta_{,s}$ = parameters to be estimated to measure the impact of loans on production level.

Turnover as used is gross monthly business turnover, or what is generally regarded as monthly sales. Turnover is used as a proxy for income and profit; most informal enterprise operators often do not distinguish between these two variables. It is assumed here that gross sales or cash flow from the business gives an approximate picture of business growth, at least in monetary terms. Although growth in turnover may not have a corresponding increase in income or profit, these variables often move in the same direction.

3.8 Method of Data Analysis

The analysis of the study was carried out in a way that provided the required responses to the research questions. The analysis was in two parts: qualitative and quantitative. In the descriptive part, characteristics of the study sample were described, and then frequency distributions were used to highlight the socio-demographic, business nature and client's opinion of services provided by MFIs. Statistical Package for Social Scientists (SPSS) was employed. On quantitative or modeling analysis, correlation analysis, R- square analysis and OLS estimation were performed.

CHAPTER FOUR

ANALYSIS AND PRESENTATION OF FINDINGS OF THE STUDY

4.1 Introduction

The previous chapter discussed the research design for data collection and detailed description of the profile of study area. This chapter also analyses the data collected from the field. It considers the socio- demographic and economic characteristics of respondents who are clients of Microfinance institutions in Ashanti region of Ghana, clients' opinion about operations of microfinance and the impact of the Microfinance on the operations of the clients. In all 400 respondents were sampled for this study.

4.2. Profile of Organisations

4.2.1 Multi Credit Savings and Loans Limited (MCSL)

The Multi Credit Savings and Loans Limited (MCSL) was incorporated as a private limited liability company under the Companies Code 1963 (Act 179) on 17th September, 1998. MCSL was licensed by the Bank of Ghana on 5th July, 1999 and authorized to carry out the business of non-banking financial institutions under the Financial Institutions (Non-Banking) Law 1993 (PNDCL 328). Having complied with the provisions of Sections 7 and 28 of the Companies Code, it commenced business on 9th August, 1999.

It is the vision of MCSL to maintain a high public image as the leading savings and Loans Company in Ghana. The mission of the company is to develop demand-driven financial products and services and make them easily accessible to its target market through:

- Comprehensive understanding of the market;
- Application of state of-the-art technology and systems;
- The use of innovative, flexibility and enthusiasm in meeting the needs of changing environment; and
- Presence and accessibility to products and services.

In this regard, the company is engaged in the provision of excellent and efficient customer service and a wide range of financial products and services which will ensure profitability and sustainability. It also focuses on lending to individuals, micro, small and medium-sized enterprises and thereby contributes to the socio-economic development of its catchment area.

The Company offers products and services in the form of group loan, educational loans such as the Yenmma Daakye Educational Loan, and loans for entrepreneurs' businesses development like the Adepa Loan Scheme. It also offers depository service such as savings account, current account, fixed deposit, susu scheme and other services such as import financing and ticket financing.

4.2.2 First Allied Savings and Loans Limited (FASL)

FASL was incorporated as a non-bank financial institution to operate a savings and loans business in the country. The Institution was granted an operating license by the Bank of Ghana under the Non-Bank Financial Institutions (NBFI) Law (PNDCL 328) of 1993 on March 27, 1996 to accept deposits from the public and provide credit services to businesses and consumers. FASL commenced official business on September 25, 1996 after it had received a certificate to commence business on June 5, 1996.

The Institution was established purposely to engage in micro-financing activities through the mobilization of savings from the retail public – mainly households and small business enterprises – and the provision of credit largely to its target group (micro and small businesses). The target group oriented credits are usually linked to savings.

The Institution has been reaching out to its customers through its branches, agency and a "distance banking" concept. The Institution has been able to position itself as the leader in the savings and loans business through the provision of quality products and the delivery of efficient services to its targeted customers.

The vision of the company is to create an excellent institution and be a leader in the provision of quality financial services to the micro and small enterprise sector. The mission is to offer convenient access to efficient innovative and responsive financial services to the micro and small scale entrepreneur on a sustainable basis for the mutual benefit of all stakeholders.

The company offer loans in the form of golden susu which is designed to assist micro/small scale entrepreneurs expand their businesses; the Allied Mpontu Group Loans which is a band group designed to meet the banking needs of customers; the super golden susu loans specially designed savings and loans product for customers who go through two loan cycles of the Golden Susu programme and can contribute a daily minimum of one hundred Ghana Cedis; the consumer loans which include products travel, salary, hire purchase, and clearance credits. Aside these services, the company provides depository products and services such as the savings deposit account, current account, fixed deposit account, susu savings account, and outreach services

4.3 Socio-demographic characteristics of micro-enterprises studied

4.3.1 Gender of Respondents

Out of the 400 respondents interviewed, only 161 representing 40.2% were males. The remaining 239 respondents forming 59.8% were all females as shown in Table 4.1. It was realized that females save or do business with Microfinance institutions more than males as a result of economic activities they normally undertake. Most females engage in petty trading which is a major target of Microfinance institutions. This reflects the gender distribution in Ghana. According to 2000 Population census, males constitute 48.7% of the population of Ghana whiles females make up 51.3%. However, in Ashanti region, males make up 50.3% of the population while females constitute 49.7%.

Table 4.1 Sex of Respondents

Gender	Frequency	Percentage
Male	161	40.2
Females	239	59.8
Total	400	100.0

Source: Author from field survey data, 2010.

4.3.2 Age Group and Sex Distribution of Respondents

Out of the total respondents, 16.5% and 4.0% of the females and males respectively fall within the age group of 18 - 24. It is therefore not surprising that females outnumber the males since it is within this age group that females are more productive. The remaining 10.4%, 20.1%, 8.4% and 4.3% of females fall within 25-34, 35-44, 45-54 and 55 years and above age groups respectively. Majority of both males (17.3%) and female (20.1%) fall within 35-44 age group. The remaining males: 10.5%, 6.0% and 3.0% fall within 25-34 age group, 45-54 age group and 55 years and above respectively. This shows that majority of the operators in MSEs are adults (above 34 years) and this consistent with 2000 population and Housing Census. This is because adults have more financial commitment and responsibilities, thus undertake gainful economic activities for fulfilment of such commitments.

Table 4.2 Age Group and Sex Distribution of Respondents

Age Group	Percentage of Males	Percentage of Females	Total Percentage
18-24	4.0	16.5	20.5
25-34	10.0	10.4	20.4
35-44	17.3	20.1	37.4
45-54	6.0	8.4	14.4
55+	3.0	4.3	7.3
Total	40.3	59.7	100.0

Source: Author from field survey data, 2010.

4.3.3 Educational Level and Sex Distribution of Respondents

Most of the respondents interviewed did not have any formal education. No formal education constituted 41.5% of the total respondents followed by those with primary education (30.3%). Those with middle/ SSS education formed 21.0% and the remaining 7.2% have tertiary education. It was realized that those with no formal education or little education engage more in micro and small scale enterprises. This is because micro and small scale enterprises are easy to set up since they require little technical knowhow and little initial capital to operate. The result from the survey is provided in Table 4.3.

Table 4.3: Educational Level and Sex Distribution of Respondents

Educational level	Percentage of Male	Percentage of Female	Total Percentage
No formal education	13.5	28.0	41.5
Primary education	11.2	19.1	30.3
Middle/SSS	11.0	10.0	21.0
Tertiary	4.5	2.7	7.2
Total	40.2	59.8	100

Source: Author from field survey data, 2010

4.3.4 Income level and Sex Distribution of Respondents

Looking at income, it was noted that more female operators (26.3%) in MSEs earned below GH¢150 whiles none of the male operators earned below GH¢150. This shows clearly that incomes of female operators in MSEs are relatively lower. This is due to the nature of MSEs operated by females. Many female operators in SMEs are into petty trading, thus earn relatively lower income. Moreover, more males earn GH¢ 300-450 (23.0%) and GH¢ 450+ (8.0%) than females. On a whole, 225 forming 56.2% earned below GH¢300 per month. This is shown in Table 4.4.

Table 4.4: Income Level and Gender of Respondents

Income Level (GH¢)	Percentage of Male	Percentage of Female	Total Percentage
< 150	0.0	26.3	26.3
150-300	9.2	20.7	29.9
300-450	23.0	9.3	32.3
450+	8.0	3.5	11.5
Total	40.2	59.8	100.0

Source: Author from field survey data, 2010.

4.4 The nature of economic activities engaged in by the micro- enterprises studied

This section explores the kinds of economic activities undertaken by the respondents who are clients of Micro- finance institutions. This section is sub- divided into types of economic activities by respondents, the nature of their businesses and the initial sources of capital. e

4.4.1 The types of economic activities by Respondents

Out of 400 respondents, 61 (15.2%), 98 (24.5%), 195 (48.8%) and 46 (11.5%) respondents engage in manufacturing, services, trading and agro processing activities respectively. Respondents engage in manufacturing basically deal with shoe making, carpentry, soap making, leather works and bakery. The traders captured in the survey are agro- produce sellers, provision store owners, clothing and textile and other (yam, tomatoes, fish) sellers . The services included hair dressing, barbering, dress making, mechanical repairs and food vending. The trading activities dominated for the reason being that it normally requires small initial capital and little or no technical procedures of starting it. Many of the respondents had no formal education (41.5%) and thus see trading as the best option to earn a living. Also, 370 of the respondents constituting 92.5% engage in full time business ventures with only 30 of them, constituting 7.5% in part time business ventures. This result is shown in Table 4.5.

Table 4.5: Types of Economic Activities by Respondents.

Activity	Frequency	Percentage
Manufacturing	61	15.2
Services	98	24.5
Trading	195	48.8
Agro- processing	46	11.5
Total	400	100.0

Source: Author from field survey data, 2010

Relating business economic activities to gender, 26.7%, 44.8%, 9.9% and 18.6% of the males engaged in manufacturing, services, trading and agro processing industries respectively whiles 7.5%, 10.9%, 74.9% and 6.7% of the females were engaged in manufacturing, services, trading and agro processing industries respectively. Males dominated the services sector whiles the females dominated in trading. This is because males have higher income level than females and are more educated, thus males have more economic and managerial abilities to easily enter into services sector than females. Petty trading is on the other hand characterized by low capital requirement and little legal and managerial requirement hence good for people with low educational and financial background.

4.4.2 Initial sources of money capital

Business men or women raise initial capital from many sources including self, relatives or friends, financial institutions and credit facilities. From the survey, those into manufacturing raised 41.0%, 23.0%, 14.8% and 21.3% from personal savings, relatives/ friends, financial institutions and credit facilities respectively. Moreover, clients into services raised 60.2%, 30.6%, 8.1% and 1.0% from personal savings, relatives/ friends, financial institutions and credit facilities. Out of 195 respondents who are into trading, 55.4%, 30.3%, 5.6% and 8.7% raised their initial working capital from personal savings, relatives/ friends, financial institutions and credit facilities respectively. For agro processing, 39.1%, 17.4%, 28.3% and 15.2% raised their working capital from personal savings, relatives / friends, financial institutions and credit facilities respectively.

This therefore indicates that majority of people in micro and small scale enterprises raised their initial working capital from personal savings because their businesses generally require small working capital and also financial institutions do not normally give loan facility to infant firms or beginners for the fear of high risk. However, after the establishment, many businessmen or women depend on micro financial institutions for enough funds for expansion of businesses. This result from the survey is shown in Table 4.6

Table 4.6: Initial Source of Working Capital for Micro and Small Scale Enterprises.

Sources of initial working capital	Types of economic activities							
	Manufacturing		Services		Commerce		Agro processing	
	Freq.	Percentage	Freq.	Percentage	Freq.	Percentage	Freq.	Percentage
Personal savings	25	41.0	59	60.2	108	55.4	18	39.1
Relatives/ friends	14	23.0	30	30.6	59	30.3	8	17.4
Financial institution	9	14.8	8	8.1	11	5.6	13	28.3
Credit facility	13	21.3	1	1.0	17	8.7	7	15.2

Source: Author from field survey data, 2010.

4.5 Challenges facing Micro and Small Scale enterprises

The study wanted to find out the challenges facing the micro and small scale enterprises in Ghana from those who are involved in these enterprises. The concerns of these business men and women were grouped under two sections; macro level (which is above the control of the operators and should be managed by government) and micro level (which can be handled or dealt with by the operators). The workers consider the macro problems to be a national problem and it is the government that will be in a better position to solve them. There are however some problems that should be solved jointly by both parties; the government and the business owner. These problems are at both the macro and micro level. These problems are presented in Table 4.7.

Table 4.7: Challenges Facing SMEs in Ghana

Challenges at Micro level	Challenges at Macro level
1. Lack of proper managerial skills 2. Unawareness of specific sources of funding 3. Responsibility of providing for relatives 4. Lack of formal education or illiteracy 5. Lack of confidence 6. Poor marketing skills 7. Lack of large money capital 8. Inadequate inputs supply	1. Multiple taxes and levies 2. Regulatory constraint 3. Irregular power supply

Source: Author from field survey data, 2010.

4.6: The activities of the MFIs

This section looks at the services provided by the selected MFIs and the problems they face in providing such services to their clients.

4.6.1 Services offered by MFIs to MSEs

From the survey, the products and services of the selected MFIs are summarised in Table 4.8. It can therefore be seen that MFIs in Ghana provide similar services to MSEs.

Table 4.8: Services and Products of MFIs

First Allied Savings and Loans Ltd	Multi credit Savings and Loans Ltd
Deposit/ savings 1. Susu savings account: Golden susu 2. Savings Deposit Account 3. Current Account 4. Fixed Deposit Account **Loans** **1.** Super Golden susu loans **2.** Allied Mpontu Group Loans **3.** High purchase loan **4.** Clearance loans	**Deposit/ savings** 1. Susu saving account 2. savings account 3. current account 4. fixed deposit **loans** 1. Group loan 2. Adepa Loan Scheme.

Source: Author from field survey, 2010

4.6.2 Challenges facing MFIs in Ghana

In providing services to SMEs, the MFIs are faced with a lot of challenges. The following challenges were gathered from the field survey.

1. High default rate of loan repayment by clients
2. Lack of adequate and reliable data on clients

4.7 Comparative analysis

This section of the analysis compares the two micro finance institutions studied in this survey (First Allied Savings and Loans Ltd and Multi Credit Savings and Loans Ltd) based on the data from the field survey. This section is important as it brings to light how each of these micro finance institutions is valued by the public and how they impact on the micro enterprises in Ghana.

4.7.1 Clients' opinion about the companies' policies

According to Parveen (2005), the ease with which clients obtain loans from financial institutions determine the company's retention rate. It is against this backdrop that the study examined customers' perception about the company's loan acquisition procedure and mode of repayment.

4.7.1.1 Loan Acquisition Procedure

It can be observed from Table 4.9 that, 9.5%, 7.5%, 50.0% and 33.2% of 220 clients of First Allied Savings and Loans Ltd saw loan acquisition procedure to be very difficult, difficult, easy and very easy respectively. Also with regard to Multi Credit Savings and Loans Ltd, 13.3%, 6.7%, 46.7 and 33,3% of 180 clients saw the loan acquisition procedure to be very difficult, difficult, easy and very easy respectively. This shows that loan acquisition procedure of micro finance institutions in Ghana is easy. Non-demand for collateral security and the ability of the MFI to meet loan demands on time were reasons given to support their satisfaction.

Table 4.9: Loan Acquisition Procedure by Microfinance Company

Loan acquisition procedure	Micro finance companies			
	First Allied		Multi Credit	
	Frequency	Percentage	Frequency	Percentage
Very difficult	21	9.5	24	13.3
Difficulty	16	7.5	12	6.5
Easy	110	50.0	84	46.7
Very easy	73	33.2	60	33.3
Total	220	100%	180	100%

Source: Author from field survey data, 2010

4.7.1.2 Interest Rate and Mode of Repayment

From Table 4.10, 37.7%, 41.4% and 20.9% of the clients of First Allied Savings and Loans Ltd were of the view that the company’s interest rate on loan was moderate, high and low respectively. Also with regard to Multi Credit Savings and Loans Ltd, 37.8%, 44.4% and 17.8% of the clients were of the view that the company’s interest rate on loan was moderate, high and low respectively. Thus, the micro and small scale enterprises in general see interest rates of micro finance firms to be high. This according to operators in MFIs is due to high risk associated with loan advances or high default rate of loan repayment .With regards to mode of repayment, door-to-door services are rendered to clients; and clients repay the loan together with interest either on daily, weekly or monthly basis. This according to the respondents makes the repayment of loan more convenient.

Table 4.10: Interest Rate Charged on Loans

Interest rate	Micro finance companies			
	First Allied		Multi Credit	
	Frequency	Percentage	Frequency	Percentage
Moderate	83	37.7	68	37.8
High	91	41.4	80	44.4
Low	46	20.9	32	17.8
Total	220	100%	180	100%

Source: Author from field survey data, 2010

4.7.1.3 Service Delivery of the Company

All the clients interviewed remarked that the door-to-door services rendered to clients by the MFIs makes services more accessible. Apart from clients taking loans from the company's premises, loans are repaid to Credit Officers from the clients' doorsteps depending on schedule of the clients. Moreover, no collateral security and other stringent requirements are attached to loan credit and this according to clients makes loan credit more accessible by customers.

4.8 Impact assessment

This section deals with the assessment of impact of the two micro finance companies on the businesses of the clients. Both qualitative and quantitative analyses were done in this section.

4.8.1 Qualitative analysis

This analysis was done in the areas of quality of business premises, level of production and the quality of input used.

4.8.1.1 Quality of business premises and loan credit

Good working premises helps reduce the risks of accident, thus leading to efficiency and maximising returns of businesses. In the view of First Allied clients, the conditions of their business premises was 24.0%, 56.1%, 14.5% and 5.0% worse, bad, good and better respectively before accessing credit facility from the company. However, after accessing credit facility, the conditions of business premises improved to 4.5%, 32.6% and 62.4% bad, good and better respectively.

This was not quite different for clients of Multi Credit Savings and Loans Ltd. Before the credit facility, the conditions of business premises in view of the clients was 28.9%, 46.7%,12.8% and 11.7% worse, bad, good and better respectively. However, after the credit, the condition of business premises improved to 17.2%, 37.8% and 45.0% bad, good and better respectively. This suggests that credit facility improves business premises of beneficiaries and this is shown in Table 4.11. The beneficiaries of loan facilities could provide good working environment to improve efficiency at workplace. The loan facility enabled them to rent large space or store for business expansion which they could not before accessing loan facility.

Table 4.11: Quality of business premises for clients of MFIs

Condition of premises	**First Allied Clients**				**Multi Credit Clients**			
	Before		After		Before		After	
	Freq	Percentage	Freq.	Percentage	Freq	Percentage	Freq	Percentage
Worse	53	24.0	-	-	52	28.9	-	-
Bad	12 4	56.1	10	4.5	84	46.7	31	17.2
Good	32	14.5	72	32.6	23	12.8	68	37.8
Better	11	5.0	138	62.4	21	11.7	138	45.0

Source: Author from field survey, 2010

4.8.1.2 Level of production (sales) and loan credit

Credit facilities are expected to increase the level of production of beneficiaries and this also has a multiplier effects on the economy. From the Table 4.12, 25.0%, 58.2%, 13.2% and 3.6% of loan beneficiary SMEs of First Allied savings and Loans Ltd were of the view that their production level (sales) was worse, bad, good and better respectively before accessing credit facility. However, after the credit, the production level (sales) became 11.4%, 27.3% and 61.45 bad, good and better respectively. Also, 36.1% , 45.6%), 14.4%, 3.9% of loan beneficiary SMEs of Multi credit savings and Loans Ltd were of the view that their production level (sales) was worse, bad, good and better respectively before accessing credit facility from the company. However, the situation improved and 7.2%, 35.0% and 57.8% of the loan beneficiaries of Multi Credit savings and Loans Ltd had the view that their production level (sales) became bad, good and better respectively.

Table 4.12: Production levels for clients of MFIs

Production level	First Allied Clients				Multi Credit Clients			
	Before		After		Before		After	
	Freq.	Percentage	Freq.	Percentage	Freq.	Percentage	Freq	Percentage
Worse	55	25.0	-	-	65	36.1	-	-
Bad	128	58.2	25	11.4	82	45.6	13	7.2
Good	29	13.2	60	27.3	26	14.4	63	35.0
Better	8	3.6	135	61.4	7	3.9	104	57.8

Source: Author from field survey data, 2010

4.8.1.3 Input acquisition and loan credit

The ability a of business man or woman to maintain or increase production level, depends largely on availability of inputs such as labour and capital (raw materials and equipment).

4.8.1.4 Quality of labour input

The findings indicate that micro finance institutions have had low impact on quality of labour in micro and small scale enterprises. Only 13.6% and 11.7% of the clients of First Allied Savings and Loans Ltd and Multi Credit Savings and Loans Ltd respectively have experienced improvement in labour quality with the remaining experiencing no change in labour quality. This is shown in Table 4.13. It was found out from the survey that micro finance institutions do not organise seminars or training programmes often for their clients and also most of the clients do not use part of the loans for human resources development.

Table 4.13: Quality of labour

Quality of labour	Micro finance companies			
	First Allied		Multi Credit	
	Frequency	Percentage	Frequency	Percentage
Improved	30	13.6	21	11.7
No change	190	86.4	159	88.3
Total	220	100	180	100

Source: Author from field survey, 2010

4.8.1.5 Capital input

From Table 4.14, before the credit, 33.2%, 59.5%, 6.8% and 0.5% of the client of the First Allied Savings and Loans client experienced worse, bad, good and better procurement of capital input respectively. However, after the credit, the situation changed. The ability of the client to procure capital input became: bad (34.1%), good (55.0%) and better (10.9%).

With respect to the clients of Multi Credit Savings and Loan, the ability to procure capital inputs before credit was: worse (30.0%), bad (56.7%) and good (13.3%). After the credit has been advanced to the clients, the ability to procure capital inputs became: bad (35.0%), good (56.7%) and better (8.3%). This shows that capital inputs improved after the loan. The clients were able to procure sophisticated tools and equipment with loan facility to improve productivity.

Table 4.14: Capital inputs for clients of MFIs

Ability to procure capital inputs	**First Allied**				**Multi Credit**			
	Before		After		Before		After	
	Freq.	Percentage	Freq	Percentage	Freq	Percentage	Freq	Percentage
Worse	73	33.2	-	-	54	30.0	-	-
Bad	131	59.5	75	34.1	102	56.7	63	35.0
Good	15	6.8	121	55.0	24	13.3	102	56.7
Better	1	0.5	24	10.9	-	-	15	8.3

Source: Author from field survey data, 2010

4.8.2 Quantitative Analysis

The quantitative assessment focused on changes in three important indicators: business turnover, monetary value of enterprise inputs or raw materials and employment. Turnover here is gross monthly business turnover, or what is generally regarded as monthly sales. Turnover is used as a proxy for income and profit; most informal enterprise operators often do not distinguish between these two variables. It is assumed here that gross sales or cash flow from the business gives an approximate picture of business growth, at least in monetary terms. Although growth in turnover may not have a corresponding increase in income or profit, these variables often move in the same direction. The data gathered on these variables were in two parts: five years before and five years after accessing loan facility. The mean values for before and after accessing loan facility were calculated for each variable and the changes in monetary and percentage terms were computed as shown in Table 4.15.

The data show that the loan to the enterprises had positive impacts on all the three selected indicators. First, the turnover of the businesses of clients in both micro finance firms increased significantly after the disbursement of the loans. On the average, the turnover of clients of First Allied (GH¢850; 158%) increased higher than that of their counterparts of Multi Credit (GH¢400; 118%), both in monetary and percentage terms. It is also interesting to note from Table 15 that in both micro finance firms, the enterprises operated by females achieved a higher turnover than their male counterparts in monetary terms. This observation underscores not only the ability of women to utilize loans effectively but also their capacity to manage businesses successfully when given the opportunity. Although the overall picture of turnover performance looks generally impressive, the situation was negative for some of the enterprises surveyed. The survey revealed that 8.2% and 11.7% of clients of First Allied and Multi Credit recorded negative growth respectively. In terms of gender distribution of these poorly performing businesses, 61.1% and 61.9% of distressed enterprises were owned by female clients of First Allied and Multi Credit respectively.

Finally, the survey established that 36% and 42% of the clients of First Allied and Multi Credit, respectively, took on new workers. In addition, the total number of people employed by the enterprises surveyed increased by 43% and 46%, respectively for clients of First allied and Multi Credit. About 20 – 25% of these employees comprised unpaid family labour. This applied particularly to the home-based enterprises. For these types of families, no clear boundaries could be drawn between the performance of normal household chores and the running of the enterprises. This lifestyle continues from morning to the night, especially for households operating retail services, food-processing, restaurants, and personal services (Afrane, 2000). On input supply, both clients of First Allied and Multi Credit experienced 44% and 43% respectively in monetary increase in the value of input.

Table 4.15: Changes in Some Key Quantitative Variables

Indicators	First Allied		Multi Credit	
Monetary variables	Amount (GH¢)	Percentage	Amount (GH¢)	Percentage
Average turnover increase	850	158	400	118
Turn over increase: male	300	119	318	72
Turn over increase: female	542	83	342	130
Increase in value of inputs	300	44	193	43
Employment change variables	Actual increase	Percentage	Actual increase	Percentage
Increase in employees	132	43	126	46
Enterprises that hired new workers	93	36	82	42

Source: Author from Field Survey, 2010.

4.8.2.1 Regression analysis

This session explores OLS regression to estimate the impact of loans on production (sales) of the clients of two micro finance institutions studied in this survey.

4.8.2.1.1 Relationship between sales and loans using Pearson's correlation

Loan is found to be one of most significant and reliable factors that influence sales. The study therefore measures its contribution to sales and sees whether some relationship exists between them which could guide policy makers in formulating appropriate policies to increase businesses and sales.

From Table 4.16, the correlation coefficient of amount of loans and sales for First Allied clients is 0.915 and this is statistically significant at 1% level. The result indicates that there is a positive relationship between loans and sales of clients of First Allied. When the loan increases, the total sales increases, and if loans decreases, that of total sales decreases. A correlation with a value that is almost one, indicates almost a perfect fit, and reflects a consistent, predictable relation between the two variables.

Table 4.16 Correlation Coefficient Matrix (First Allied Savings and Loans Ltd)

	Sales	Loans
Sales	1.00	0.915 **
Loans		1.00

**. Correlation is significant at the 0.01 level (2-tailed).

For Multi Credit clients, the correlation coefficient is 0.783 and this is statistically significant at 1% level and this is shown in Table 4.17. There is therefore a positive relationship between loans and sales of Multi credit client and this is consistent with result for First Allied clients. Therefore, when the loan increases the total sales increases and if loans decreases total sales decreases.

Table 4.17: Correlation Coefficient Matrix (Multi Credit Savings and Loans Ltd)

	Sales	Loans
Sales	1.00	0.783 **
Loans		1.00

**. Correlation is significant at the 0.01 level (2-tailed)

The loan facility from First Allied Savings and Loans Ltd is more strongly correlated with turnover (sales) than Multi Credit Savings and Loans Ltd. According to the clients, the interest rate of First Allied is relatively lower and First Allied Savings and Loans Ltd often organise entrepreneurship seminars for loan beneficiaries. Moreover, the First Allied Savings and Loans Ltd encourage loan beneficiaries to form groups within which members check each other to ensure proper management of their businesses. These therefore optimise the returns of the loan facility and promote higher sales.

4.8.2.1.2 Estimation Results

The sign of estimated coefficient is consistent with prior expectation. The result indicates that a rise or a fall in loans level by 1% for clients of First Allied and Multi Credit increases or decreases sales by 4.621 % and 1.153% respectively. The results are shown in Table 4.18 and Table 4.19.

Table 4.18: Impact of loans on sales (First Allied)

Variables	Coefficient	t-stat	P- value
Constant	838.578	3.534	0.001
Loans	4.621	33.743	0.000
R^2 = 0.839			
F = 1.139E3(0.000)			
N=220			

Table 4.19: Impact of loans on sales (Multi Credit)

Variables	Coefficient	t-stat	p-vale
Constant	1825.865	18.983	0.000
Loans	1.153	16.767	0.000
$R^2 = 0.612$ F = 281.140 (0.000) N=180			

From the two regression analyses, loans significantly increase turnover (sales) of the clients of micro finance institutions and the increase is more than proportionate. However, the loan impacts more on sales of clients of First Allied than the clients of Multi Credit. First Allied often provide additional services such as advisory services and supervision and this according to clients make them more efficient and effective, thus ensuring higher sales and profit. This finding is consistent with work done by Kondo (2007) and Kondo et al (2008). Kondo and Kondo et al using a model similar to Coleman (1999) and with some extensions found in the case of rural households in the Philippines that microfinance has significant impact on turnover and thereby on poverty alleviation.

Moreover, the R^2 result shows that loans accounts for 83.9% of the variation in sales for First Allied Savings and Loans Ltd clients. Moreover, the R^2 shows that loans accounts for 61.2% of the variation in sales for Multi Credit clients. This is a clear indication that loan explains a grater variation in sales of SMEs. The model for clients of First Allied as a whole has statistically significant predictive capability as shown by the F-statistic (281.140) at 0.05 significant levels. Moreover, for clients of Multi Credit the model as a whole has statistically significant predictive capability as shown by the F-statistic (1.139E3) at 0.05 significant levels. The result is shown in Table 4.20.

Table 4.20: ANOVA Table

Model	**First Allied**					**Multi Credit**				
	Sum of Sq.	Df	Mean Sq.	F-Stat	P-value	Sum of Sq.	Df	Mean Sq.	F-stat.	P-vale
Regression	4.168E9	1	4.168E9	1.1139E3	0.000	8.232E7	1	8.232E7	281.140	0.000
Residual	7.981E8	218	366083.649			5.212E7	178	29281.907		
Total	4.966E9	219				1.344E8	179			

Predictor: Loan Dependent Variable: Sale

CHAPTER FIVE

MAJOR FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents major findings, recommendation and conclusions based on analysis of data gathered from field survey.

5.2 Summary of Research finding

This research work has been able to identify the impact of microfinance on micro and Small scale enterprises in Ghana. The analysis of data indicates that financial institutions are not adequately financing MSEs.

The findings are as follows:

1. There is a significant positive impact of micro finance loans on production/ sales of micro and sma3ll scale enterprises. Increase in micro finance loans increases sales of micro and small scale enterprises more than proportionately.
2. The enterprises operated by females achieved a higher turnover than their male counterparts in monetary terms. This observation underscores not only the ability of women to utilize loans effectively but also their capacity to manage businesses successfully when given the opportunity.
3. Interest rate charged by micro finance institutions is high. However, the mode of repayment is convenient to the clients.
4. Both the qualitative and quantitative results from the survey indicates significant improvement in turnover (sales), quality of businesses premises, ability to procure input and employment creation by micro and small scale enterprises after accessing loan facility. However, quality of labour had little improvement with the loan.
5. Most of the participants in micro and small scale enterprises had no formal education, thus faced with many challenges such as poor managerial skills, marketing skills.
6. The study observed there are no stringent eligibility requirements such as the insistence on collateral and other eligibility requirements attached to loan. In view of this borrowers see the loan acquisition process as highly favourable.

The major contribution of microfinance institutions to the developing economy like that of Ghana is its role in promoting micro and small scale enterprises development in the nation.

One of the goals of micro and small scale enterprises routed by successful Ghanaian government has been the reduction of unemployment and poverty alleviation. A cordial thrust in public policy for the promotion of indigenous micro and small scale enterprises is through the provision of long term loans and equity capital by financial institutions for micro and small scale enterprises. Given the gap between savings and invertible funds, the short fall is provided by credit delivery. Many newly developed and developing countries have therefore made credit delivery an endurable strategy in the development of micro and small scale enterprises in both industry and agriculture.

5.3 Recommendations

5.3.1 Education and training

It was realised from the survey that majority of operators in MSEs had no formal education, thus faced managerial and marketing challenges. Therefore frequent entrepreneurial training programmes should be organised for operators of MSEs. The MSEs should be encouraged to form associations in their respective industry so as to see to the regulation and training of operators in the industry. Also the micro finance institutions should organise training seminars for their clients in the area of entrepreneurship skills (managerial and marketing skills).

5.3.2 Increasing access to loans

Loan has positive impact on turnover (sales), procurement of inputs, quality of business premises and employment but majority of operators in MSEs have little or no access to loans for business expansion. The government through the Central Bank of Ghana should establish National Credit Guarantee Scheme for MSEs, which should; /'guarantee at least 80 percent of loans needed by small and medium enterprises in Ghana. Moreover, the Micro finance firms should be ready to grant large loan to the deserving MSEs and monitor such clients to ensure smooth repayment of loans.

5.3.3. Supply of inputs

The supply of inputs is significant to expansion of business of MSEs but 246 (61.5%) of them find it difficult to procure the right quantity of inputs due to inadequate funds. The Micro finance institutions should therefore diversify their credit portfolio to include supply of inputs on credit to clients. This should target the clients into manufacturing and agro – processing industries since they need large and costly capital equipment than the clients involved in trading and services.

5.4 Conclusions

The review of several literature shows that the microfinance institutions are evident tools for micro and small scale enterprises development due to the various services they offer and the role they performs towards the development of the economy. Microfinance institutions world over and especially in Ghana are identified to be one of the key players in the financial industry that have positively affected individuals, micro and small scale enterprises, other financial institutions, the government and the economy at large through the services they offer and the functions they perform in the economy. It is expected that with the current reforms by Government of Ghana through its regulatory authorities, microfinance institutions in Ghana will be able to compete favourably in the global market and gainfully increase micro and small scale enterprises development in Ghana.

Microfinance institutions have positive relationship with the Ghanaian economy represented by expanded Gross Domestic Product (GDP). The results of findings of this study can be summarized that the microfinance institutions have had significant positive impact on micro and small scale enterprises in Ghanaian economy.

There are many acclaimed benefits of microfinance that are yet to be examined empirically. One of such areas which require empirical investigation is the relationship between the level of microfinance commitment and the level of entrepreneurs' satisfaction. Second, this study focuses exclusively on micro and small scale enterprises. There is a need to carry out empirical studies to determine the extent to which microfinance contributes to other sectors of the Ghanaian economy. Thus, there is compelling need for future research efforts to focus on these sectors in order to determine the attitude of the operators of these sectors to microfinance as well as its efficacy in the management of organizations that are prevalent in our society.

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Appendix 1: questionnaire for clients

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI

FACULTY OF PLANNING AND LAND ECONOMY

DEPARTMENT OF PLANNING

Research Topic: The Impact of Micro Finance Institutions in the Development of Micro and Small scale Enterprises in Ghana.

Introduction

This information is required to enable the researcher undertake impact assessment of microfinance institutions in the development of micro and small scale enterprises in Ghana. Please, be assured that any information provided would be treated with the deserving confidentiality and be used for purely academic purpose.

Please tick ( ) where applicable and supply details where required

Clients of MFIs

i. Personal data

1. Gender : 1= Male 1 [ ] 2= Female [ ]
2. Age: 1= 18-24 [ ] 2= 25-34 [ ] 3= 35-44 [ ] 4= 45-54 [ ] 5= 55+ [ ]
3. Educational Level: 1= No formal education [ ] 2= Primary [ ] 3= Middle/Secondary [ ] 4= Tertiary [ ]
4. Income level: 1= below GH¢150 [ ] 2= GH¢150 but less than GH¢300 [ ] 3= GH¢300 but less than GH¢450 [ ] 4= GH¢450 and above [ ]

ii. Nature of business

5. Type of SME: 1=Manufacturing [ ] 2= Services[ ] 3= trading [ ] 4=Agro processing [ ] 5= others, specify [ ]..................................
6. Is your business: 1=full time [ ] 2= Part time [ ]
7. Give reason for the above choice
   ....
   ....
   ....
   ....
8. How did you get your start up capital? 1= personal savings [ ] 2= Family/Friends []
   3= Money lender [ ] 4= MFI [ ] 5=Bank loan [ ]
   6= others, specify [ ] ....

9. How much did you get as a start up capital? --
10. Number of workers: 1= 3 and below [ ] 2= 4- 7 [ ] 3 = 8 – 11 [ ] 4= 12 – 15 [ ] 5= 16+ [ ]

iii. Opinion of clients on MFIs' services

11. In what form do you receive service from MFI? 1= saving/ deposit [ ] 2= loans [ ] 3= Advisory Service [ ] 4 = Inputs purchase 5= others, specify [ ]..........................
12. If financial, indicate the amount received on each occasion
    i. First time: ....
    ii. Second time: ....
    iii. Third time: ....
    iv. Fourth time: ....
13. Give reason for difference in amounts received
    ....
    ....
14. If advisory service, what form did it take? ....
15. If in the form of inputs, what kind of inputs were they? List..
16. How do you consider this process of obtaining service(s) from MFS? 1= very difficult [ ] 2= difficult [ ] 3= Easy [ ] 4= very easy [ ]
17. Does this affect your willingness to access services? 1= Yes [ ] 2= No [ ]
18. Do you usually get what you require at the end of the day? 1 = Yes [ ] 2= No [ ]
19. If no, why? (Give reasons)..
20. How do you pay back loans to the MFI? 1= Daily[ ] 2= Weekly [ ] 3= Monthly [ ] 4= Quarterly [ ] 5= Others, specify [ ]...
21. Have you ever defaulted in the repayment of the loan before? 1= Yes [ ] 2= No [ ]
22. Are there any sanctions on defaulting to pay back loans? 1 = Yes[ ] 2 = No [ ]
23. If yes, indicate the nature of the sanctions...
24. How do you see the interest rate? 1= low [ ] 2= moderate [ ] 3= High [ ]
25. Why the above option? ………………………………………………….....
26. How do you consider the services of the MFI? a)Excellent b) Better c) Good d) Bad e) Poor
27. How do you think these services can be improved? ....

iv. Impact assessment

28. Have the services you have received helped you improve your business? 1= Yes [ ]
   2= No [ ]
29. Use the following words to indicate the state of nature of selected areas of business: worse, bad, good and better

	Before	After
Level of production		
Expanded Premises		
Labour employed		
Capital equipment		

30. Give the value of the following both before and after receiving loan

	Before	After
Level of production (sales)		
Capital equipment		
Labour employed		

31. What do you think would have happened to your business without the support of the MFI? 1 = collapsed 2 =No change [ ] 3= better [ ]
32. Give reason for above choice. ....
   ....

v. Challenges facing SMEs

33. What major problems/challenges do you face as an SME? LIST ....
34. How are you tackling them? ....
   ....
   ....
   ....
   ....
35. How do you think, they should be tackled? ....

Appendix 2: questionnaire for MFIs: First Allied Savings and Loans Limited

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI

FACULTY OF PLANNING AND LAND ECONOMY

DEPARTMENT OF PLANNING

<u>Research Topic:</u> **The Impact of Micro Finance Institutions in the Development of Micro and Small scale Enterprises in Ghana.**

Introduction

This information is required to enable the researcher undertake impact assessment of microfinance institutions in the development of micro and small scale enterprises in Ghana. Please, be assured that any information provided would be treated with the deserving confidentiality and be used for purely academic purpose.

Please tick ( ) where applicable and supply details where required

a. What position do you occupy in the institution? 1= Branch manager [ ] 2 = Area manager [ ] 3 = Relationship manager [ ] 4= Credit supervisor [ ]

b. How many clients do you have? ....

i. Services provided by MFI

1. What kind of services do you provide for your clients? ....

2. What are the conditions /terms the company looks out for before loans are given to clients? List...

3. How much is the interest rate? ....

4. How do you see the interest rate? 1= low [ ] 2 = moderate [ ] 3 = High [ ]

4. Why the above option? ....

5. How would you assess your loan recovery rate? ....

6. How many SMEs have benefited from your loan facility since the establishment of your institution?. ....

7. How is the mode of repayment of loans? 1= daily [ ] 2= Weekly [ ] 3= Monthly [ ] 4 = yearly [ ] 5 = other, specify [ ] ....

8. Are clients satisfied with the repayment period? 1 = Yes [ ] 2 = No [ ]

9. Give reasons for above option...

....

....

10. What would be your own assessment of loan recovery? 1 = very poor [ ] 2 = poor [ ] 3 = good [ ] 4 = very good [ ]

11. Give reasons for above option ....

....

ii. Challenges facing MFIs in providing services to SMEs

12What problems/challenges do you encounter in providing services to SMEs?..................

....

....

....

13. How can they be solved?...

....

Appendix 3: questionnaire for MFIs: Multi credit Savings and Loans Limited

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI
FACULTY OF PLANNING AND LAND ECONOMY
DEPARTMENT OF PLANNING

<u>Research Topic:</u> **The Impact of Micro Finance Institutions in the Development of Micro and Small scale Enterprises in Ghana.**

Introduction

This information is required to enable the researcher undertake impact assessment of microfinance institutions in the development of micro and small scale enterprises in Ghana. Please, be assured that any information provided would be treated with the deserving confidentiality and be used for purely academic purpose.

Please tick ( ) where applicable and supply details where required

c. What position do you occupy in the institution? 1= Branch manager [ ] 2 = Area manager [ ] 3 = Relationship manager [ ] 4= Credit supervisor [ ]

d. How many clients do you have? ....

ii. Services provided by MFI

1. What kind of services do you provide for your clients? ....

2. What are the conditions /terms the company looks out for before loans are given to clients? List..

3. How much is the interest rate? ....

4. How do you see the interest rate? 1= low [ ] 2 = moderate [ ] 3 = High [ ]

4. Why the above option? ....

5. How would you assess your loan recovery rate? ....

6. How many SMEs have benefited from your loan facility since the establishment of your institution?. ....

7. How is the mode of repayment of loans? 1= daily [ ] 2= Weekly [ ] 3= Monthly [ ] 4 = yearly [ ] 5 = other, specify [ ] ....

8. Are clients satisfied with the repayment period? 1 = Yes [ ] 2 = No [ ]

9. Give reasons for above option...

....

....

10. What would be your own assessment of loan recovery? 1 = very poor [ ] 2 = poor [ ] 3 = good [ ] 4 = very good [ ]

11. Give reasons for above option

....

....

ii. Challenges facing MFIs in providing services to SMEs

12.What problems/challenges do you encounter in providing services to SMEs?.....................

....

....

....

13. How can they be solved?...

....

Appendix 4: regression result: first Allied client

Correlations

		Loan	yrsale
Loan	Pearson Correlation	1	.915**
	Sig. (2-tailed)		.000
	N	220	220
Yrsale	Pearson Correlation	.915**	1
	Sig. (2-tailed)	.000	
	N	220	220

**. Correlation is significant at the 0.01 level (2-tailed).

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.916[a]	.839	.839	1913.33025

a. Predictors: (Constant), loan

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.168E9	1	4.168E9	1.139E3	.000[a]
	Residual	7.981E8	218	3660832.649		
	Total	4.966E9	219			

a. Predictors: (Constant), loan

b. Dependent Variable: sale

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	838.578	237.313		3.534	.001
	loan	4.621	.137	.916	33.743	.000

a. Dependent Variable: sale

Appendix 5: regression result: Multi Credit client

Correlations

		Loan	yrsale
Loan	Pearson Correlation	1	.783**
	Sig. (2-tailed)		.000
	N	180	180
Yrsale	Pearson Correlation	.783**	1
	Sig. (2-tailed)	.000	
	N	180	180

**. Correlation is significant at the 0.01 level (2-tailed).

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.783[a]	.612	.610	541.12190	1.601

a. Predictors: (Constant), loan

b. Dependent Variable: sale

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.232E7	1	8.232E7	281.140	.000[a]
	Residual	5.212E7	178	292812.907		
	Total	1.344E8	179			

a. Predictors: (Constant), loan

b. Dependent Variable: sales

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1825.865	96.186		18.983	.000
	Loan	1.153	.069	.783	16.767	.000

a. Dependent Variable: sales