

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Background Of The Study**

International aid donors, government, scholars and other development experts have paid attention to microfinance as a strategy capable of reaching women, individuals and involving them in the development process and eradicating poverty. The microfinance industry has made great strides toward identifying barriers to individuals' financial services and developing ways to overcome those barriers. Microfinance institutions (MFI) have also been around for decades, providing customers who were traditionally neglected by commercial banks. One of the earlier and long-lived microcredit organizations providing small loans to rural poor with no collateral was the Irish Loan Fund systems, initiated in the early 1700s by the nationalist Jonathan Swift. The MFIs has also played a major role in reducing the unemployment rate in the economy especially in Ghana.

This type of microenterprise credit was based on solidarity group lending in which every member of a group guaranteed the repayment of all members. These microenterprise lending programs had an almost exclusive focus on credit for income generating activities targeting very poor borrowers.

The existence of these microfinance institutions especially in Kumasi metropolis has really helped small and micro-business to gain start-up capital and to expand their businesses. These institutions also give credit training to their client and to help them manage their businesses.

Microfinance is not a new concept. It dates back in the 19th century when money lenders were informally performing the role of now formal financial institutions. The informal financial institutions constitute; village banks, cooperative credit unions, state owned banks and social

venture capital funds to help the poor. These institutions are those that provide savings and credit services for small and medium size enterprises. They mobilize rural savings and have simple and straight forward procedures that originate from local cultural and are easily understood by the population (Germidis et al.,1991)

It is not until recent that microfinance institutions had gained recognition, thanks to the noble prize winner Yunus Muhammad of the Grameen Bank. It should be noted that microfinance is not a panacea but it is a main tool that foster development in developing countries and for that women (Maloney, 2003). It is known worldwide that the poor cannot borrow from the banks. Banks do not lend to them because they do not have what is required to be granted a loan or to be provided with the bank services. The lack of financial power is a contributing factor to most of the societal problems. These problems emanate from poverty and it is known that with poverty one is bound to suffer so many consequences ranging from lack of good health care system, education, nutrition etc. Microfinance has proved this bank concept to be wrong. They target the poor who are considered risky but the repayment rate turns to be positive as compared with the regular commercial banks (Zeller and Sharma, 1998). Researchers have viewed microfinance in different dimensions. A microfinance institution gives people new opportunities by helping them to get and secure finances so as to equalize the chances and make them responsible for their own future. It broadens the horizons and thus plays both economic and social roles by improving the living conditions of the people (Microfinance Radio Netherlands, 2010).

The introduction of microfinance institution in Ethiopia has been gradual with its initiation attributed to the proclamation in 1996 (WABEKON, 2006). It also states that prior to the issuing of the proclamation, only a few NGOs and the Development Bank of Ghana offered

limited and isolated microfinance services on an ad-hoc basis. According to Worldly (2006), as of June 2005, there were only 26 microfinance institutions registered under the National Bank of Ghana with an active loan portfolio of about 1.5 billion Ghana cedis (173 million USD) delivered to 1,211,305 active clients. They also mobilized about 501 million Ghana cedis (58 million USD) savings. The clients served by the microfinance institutions in Ethiopia are mainly the rural people. In addition to that about 38 percent of the clients of microfinance service in Ethiopia are female category.

### **1.1 Statement Of The Problem**

The concept of microfinance is not new in Ghana. Traditionally, people have saved with and taken small loans from individuals and groups within the context of self-help to start businesses or farming ventures. Available evidence also suggests that the first Credit Union in Africa was established in Northern Ghana in 1955 by Canadian Catholic Missionaries. Susu, which is one of the current microfinance methodologies, is thought to have originated in Nigeria and spread to Ghana in the early 1990s. It has been noted again that, microfinance institutions encourage savings, private investment, increasing income generating opportunities and promotion of small-scale industries in the informal sector, among others. It has been perceived that MFIs has also contributed to the development of their operating areas and citizens apart from the direct benefits to their customers. Therefore there is the need to investigate the impact of microfinance institutions in the economy of Ghana and to access the contributions of these institutions, how their presence has improved the living standard of Ghanaian citizens and payments of both income and corporate tax as their contribution to government revenue. The study therefore seeks to assess the impact of Microfinance institutions on the economy of Ghana in terms of employment, growth of SME's and social responsibility.

## **1.2 Objectives of the Study**

The main objective of the research is to assess the role of MFIs to small scale and medium enterprises in relation to employment, social responsibilities and revenue generation to Ghana government in Kumasi metropolis. In achieving this broad objective the following specific objective would be considered.

- i. Identify SMEs in Kumasi that are likely to seek development assistance from MFIs.
- ii. Assess the impact of microfinance to small scale and medium enterprises in Kumasi(Ghana).
- iii. Assess the product that MFIs have for SMEs and employment opportunities for graduates.
- iv. Analyze the challenges that MFIs in Kumasi face in dealing with SMEs
- v. Determine what MFIs should be doing in helping to develop SMEs, revenue generation and employment in the economic development of Ghana.

## **1.4 Research Questions**

In achieving the above objectives, the research would seek to answer the following questions.

What are the indications that would trigger MFIs in assisting SMEs in Kumasi?

- i. Which categories of MFIs are interested in assisting SMEs in Kumasi to develop?
- ii. Do current developmental packages by MFIs satisfy SMEs in Kumasi? If yes, to what extent? If no why not?
- iii. What are the imbedded challenges facing the MFIs and the SMEs in the MFIs attempting to develop SMEs in Kumasi?
- iv. Are there any roles for MFIs to play before during and after in developing SMEs in Kumasi.

### **1.5 Methodology**

Data were collected from both primary and secondary sources. Primary data were obtained through the use of questionnaire given to respondents of both MFIs, SMEs and the employees of MFIs in Kumasi metropolis. The secondary data were obtained from Quodesh MFI, NBSSI and IRS etc.

### **1.6 Scope of Study**

Kumasi would be selected for this purpose of the study, because of the enormous microfinance institutions that have sprung up in the city for the past two years.

### **1.7 Limitation of the Study**

Finance constraint, time and academic burden made it being limited to Kumasi metropolis since it fairly represent the population.

### **1.8 Significance of the Study**

A study of this nature is worth pursuing because it will help us determine whether MFIs are adhering to their core functions of providing funds and other support to the SMEs, revenue generation to the government and creation of employment to the graduate unemployed. It can be used as basis for advising MFIs on how to deal with SMEs. Again, helping to know the number of graduate students employed within a period of time. It will serve as a source of reference for both students and lecturers alike and also as a reference material for SMEs when seeking funds and other support for their businesses. It also seeks to summarize the role of microfinance in an attempt to reduce poverty and expose the lapses in the policies and procedures in dealing with the microfinance institutions.

With this, the study will provide recommendations on how to reduce the lapses and this help maximize the role of the MFIs in achieving its main goals.

### **1.9 Organization of the Study**

The study of the research project is organized into four chapters General introduction gives the overview of the study. It contains the statement of the problem, objectives of the study and the research questions. Literature review contains the definition and explanation of the various terms that have been presented on the above topic.

Methodology talks about the general methods used in this study.it considers area such as sampling and sampling techniques, data collection instruments and the profile of the study area.

Data analysis considers the analysis of the data, findings and discussion, summary, recommendations as well as conclusion of the study.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter talks about evolution of MFIs in Ghana, overview of MFIs in Ghana, the need for microfinance in Ghana, categories of Microfinance, theory of microfinance institutions in Ghana, the role of microfinance companies in Ghana, MFIs products and services, characteristics of MFIs, reduction of poverty by private sector investment(MFIs), self sufficiency and sustainability of MFIs, Liability structure of Microfinance loans, social impact analysis of microfinance and boundaries and principles of Microfinance.

#### **2.1 Evolution of Microfinance Institutions in Ghana**

Microfinance refers to small scale financial services for both credit and deposits that are provided to people who farm or fish or herd, operate small or micro enterprises where goods are produced, recycled, repaired or traded.

Microfinance is one major approach to offering financial services to the majority (mainly poor people in developing countries. Traditionally, most of these institutions largely operate based on support by international donor agencies. Research into this field has shown that, a microfinance institution has the ability to maximize profits if it is able to monitor its operations well in terms of granting of loans to the people who qualify the requirement of the institution in the country.

We present facts about microfinance in general and its impact on the economy, banking sectors and the individual. Microfinance institutions from all over the world vary so much in their mission, strategies and tactics that assessing their overall impact or comparing them to

each other is not yet possible. At a more prosaic level, MFIs usually operate in places where it is difficult to conduct research places that are geographically isolated, politically unstable technologically backward and educationally disadvantaged. But the largest barrier to understanding whether microfinance works is that few MFIs have clearly articulated what would mean for microfinance to work, where it could work or when it could work.

Few microfinance institutions have explicitly formulated their theory of change, thus an explanation of how their activities could lead to their desired outcome. Without a clear theory of change, these MFIs invest resource, launch programs and track outcomes that have little to do with their ultimate goals. That ultimate goal is to alleviate poverty. Many MFIs do not explicitly state, this instead, they say that their goal is to give poor people access to credit. But their donors, staff and beneficiaries draw the last two links in the chain of logic.

Access to credit will help beneficiaries establish profitable businesses that will in turn make them economically self sufficient. We call these organizations, institution-centered MFIs because their theory of change often implicit, is that building financial institutions for poor clients out of poverty. In keeping with this theory of change, institution centered MFIs aim to serve as many clients will be able to use these services to improve their business and in turn, their track financial outcomes such as loan repayment rate, loan sizes and number of client.

Although the word *finance* is in the term microfinance, and the core elements of microfinance are those of the finance discipline, microfinance has yet to break into the mainstream or entrepreneurial finance literature. Throughout the world, poor people are excluded from formal financial systems. Exclusion ranges from partial exclusion in developed countries to full or nearly full exclusion in lesser developed countries (LDCs). Absent access to formal



financial services, the poor have developed a wide variety of informal, community-based financial arrangements to meet their financial needs.

In addition, over the last two decades, an increasing number of formal sector organizations (non-government, government, and private) have been created for the purpose of meeting those same needs. Microfinance is the term that has come to refer generally to such informal and formal arrangements offering financial services to the poor.

Despite persistent complaints by the private sector of a squeeze in credit, there has in recent times been an explosion of finance in the microfinance sector. As at 31<sup>st</sup> March, 2011, survey of Apex bodies indicate that at least 200 microfinance companies operating under the money lenders ordinance had registered with the Association of microfinance companies. However, estimates of over 1000 such companies exist throughout Ghana. Some individual susu collectors have graduated into such companies. In the informal financial sector, at least 2000 susu collectors have registered with the Ghana cooperative susu collectors association but estimates of over 5000 exist nationwide.

In the light of increasing complaints by Ghanaian entrepreneurs, that lack of access to credit hinders growth, the proliferation of MFIs that provide entrepreneurs easy access to credit is a positive development; however, regulation needs to be formalized to minimize the risks to both lenders and borrowers. The MFIs are usually located in market places such as Adum, Margazine and Macro advance loans with interest rates ranging between 10-30% per month. Money is lent to individuals but mainly to groups with no security required except for reliance on the collective responsibility of the group to ensure repayment.

The expansions of credit is good for the national economy as it helps nurture businesses, however lessons can be learnt from the Indian state of Andhra Pradesh 'Mr. Thompson note 'In India, the head of a network of private microfinance companies predicted that, India's roaring private microfinance industry will hit the buffers. He was worried by the reckless lending and feckless borrowing by micro credit companies and villagers respectively. This has now led to borrowers defaulting on payments and taking their lives and banks cutting off lending to the cash-strapped micro-loan companies.

Microfinance has existed, although mostly in the shadows and unseen by casual observers, since the rise of formal financial systems, and indeed probably predates them. It has only been within the last four decades, however, that serious global efforts have been made to formalize financial service provision to the poor. This process began in earnest around the early to mid-1980s and has since gathered an impressive momentum.

Today there are thousands of MFIs providing financial services to an estimated 100 - 200 million of the world's poor (Christen et al., (1995). What began as grass-roots "movement" motivated largely by a development paradigm is evolving into a global industry informed increasingly by a commercial/finance paradigm. The rise of the microfinance industry represents a remarkable accomplishment taken within historical context. It has overturned established ideas of the poor as consumers of financial services, shattered stereotypes of the poor as not bankable, spawned a variety of lending methodologies demonstrating that it is possible to provide cost-effective financial services to the poor, and mobilized millions of dollars of "social investment" for the poor (Mutua, et al. (1996)).

It must be emphasized too that the animating motivation behind the microfinance movement was *poverty alleviation*. This potential, perhaps more than anything, accounts for the emergence of microfinance onto the global stage. Scholarly interest in microfinance has lagged behind industry development, but it too is now growing rapidly. Before 1997, academic journals published only an occasional article on microfinance, but since that time, academic journals have published hundreds of peer-reviewed articles on the topic. Nonetheless, microfinance has yet to break into finance journals.

## **2.2 Overview of Microfinance Institutions in Ghana**

Microfinance refers to the provision of financial services to the poor-low income clients, including, consumers and the self – employed (Ledgerwood, 2000), Christen et al (2004) asserted that microfinance refers to a movement that envisions “a world which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality finance services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients.

## **2.3 The Need for Microfinance in Ghana**

The main goal of Ghana’s growth and poverty reduction strategy (GPRS11, 2006-2009) released in the year 2005 is to ensure “sustainable equitable growth, accelerated poverty reduction and the protection of the vulnerable and excluded within a decentralized, democratic environment”. The intention is to eliminate widespread poverty and growing income inequality especially among the productive poor who constitute the majority of the working population. According to the 2000 population and Housing census 80% of the working population is found in the private informal sector.

The group is characterized by lack of access to economy. The observation was stressed in the international monetary Fund Country report of Ghana on May 2003 that weaknesses in the financial sector that restrict financing opportunities for productive private investment meant a particularly impediment to business expansion in Ghana” . Microfinance perceived as a financially sustainable instrument meant to reach significant number of poor people of which most are not able to access financial services because of the lack of strong retailing financial intermediaries. Access to financial service is imperative for the development of the informal sector and also helps to mop up excess liquidity through savings that can be made available as investment capital for national development (World Bank-Africa Region ,1999) , Microfinance as a sector has the potential to reduce poverty by bringing a significant improvement in the lives of the active poor who are largely women.

### **2.3 Categories of MFIs**

The micro credit era that began in the 1970s has its momentum to be replaced by a financial system approach. While micro credit achieved a great deal, especially in urban and near-urban areas and with entrepreneurial families, its progress in delivering financial services in less densely populated rural areas has been slow. Another major goal of the micro credit movement was to put the traditional money lender who typically charge at least 10% a month and often much more out of business. There is little evidence of progress towards this goal(Helms 2006).the active poor who are largely women.

### **2.4 Theory of the Microfinance Institution in Ghana**

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## **2.6 The Role of Microfinance Companies.**

Microcredit is one of the critical dimensions of the broad range of financial tools for the poor. Globally, MFI has emerged as a leading and effective strategy for poverty reduction with the potential for far-reaching impact in transforming the lives of poor people.

Microfinance can facilitate the achievement of the millennium development goals (MDGs) as well as National policies that target poverty reduction, empowering women, assisting valuable groups and improving standard of living.

Sustainable access to microfinance help alleviate poverty by generating income, creating jobs allowing children to go to school, enabling families to obtain health care and empowering people to make the choice that best serve their needs.

Although MF is not a panacea for poverty reduction and its related development challenges, when properly harnessed it can sustainably contribution through financial investment leading



to the empowerment of people which in turn promotes confidence and self-esteem, particularly for women.

## **2.7 Microfinance Product and Services**

MFIs provide similar product and services to their customers as a formal sector financial institution. This scale and method of delivery differ, but the fundamental services of savings, loans and insurance are the same. Notwithstanding, to date most efforts to formalize microfinance have focused on enterpriselending (loan for enterprise formation and development) which remain by far today the dominant product offered by MFIs (Nourse, 2001). This, however, has slowly begun to change. Increasingly today MFIs have begun to offer additional products such as savings, consumption or emergency loans, insurance and business education. Nourse (2001) reviews the context and rise of microfinance products and argue there is a need for savings and insurance service for the poor and not just credit products. The MFIs need to provide tailored lending service for the poor instead of rigid loan products. Supporting this latter assertion of Nourse (2001), Eyiah (2001) develops a model of small construction management contractor and MFIs in developing countries that provide a tailored lending structure for microenterprise contractors.

Similarly, Woller (2002), Cohen (2002), and Dun (2002) argue that MFIs need to be more client-focused including a mix of financial product tailored to the varied need and wants of poor consumers. Microcredit is most often extended without traditional collateral. If physical collateral were a requirement for borrowing, most MFI clientele would be unable to participate due to their extreme poverty level. Because borrowers do not have physical capital, MFIs focus on using social collateral, via group lending. Group lending encompasses a variety of methodologies, but all are based on the principal of joint liability. In essence, the

group takes over the underwriting, monitoring and enforcement of loan contracts from the lending institution Wenner(1995). Under joint liability each group member is made responsible for the loans of other group members. If one member defaults, the other group members are required to cover the loan from their own resource, and if they do not, they lose access to future loans. It is thus in each members' interest to ensure that the other members pay. Social collateral also works through reputational effects on group members in which repayment of loans are seen by group members as necessary to maintain their social standing in the community woolcock (2001). Goldmark (2001) suggest methods that may help build social collateral, thereby making loans even more secure. Van Tassel (1999) constructed a model and one-period game to determine the optimal group lending contract under asymmetric information. He concludes that agents will always form groups with agents of the same type and agents' type can be distinguished according to the rate at which they are willing to trade increased joint liability commitments for lower interest rates.

## **2.8 Characteristics of Microfinance Institutions**

Broadly speaking, microfinance for loans (that is micro credit) is the provision of small scale financial services to people who lack access to traditional banking services. The term microfinance usually implies very small loans to low-income clients for self employment. How we define "Small and poor" affects what does and does not constitute microfinance. Microfinance by its name clearly is about more than just credit otherwise we should always call it micro credit.

Many programs offering insurance are becoming popular innovations in the suite of services offered by financial institutions for the poor. In fact, it is no longer exclusively institutions for the poor that offer microfinance services, commercial banks and insurance companies are

beginning to go downscale to reach new markets, consumer durables companies are targeting the poor with credit schemes and even Wal-Mart is offering remittance services .Recent study collectively refers to programs as varied as rich lenders, buffalo lenders, savings groups and women's groups as microfinance institution (Kaboski and Townsend 2005).

Another study, KarlanZinman (2006 b), examines the impact of consumer credit in South Africa that targets employed individuals not micro entrepreneurs. Surely these are all programs worthy of close examination. The traditional features of microfinance are;

- Small transactions and minimum balance (whether loans savings or insurance)
- Loans for the entrepreneurial activity
- Collateral-free loans
- Group lending
- Target female clients
- Target poor clients
- Simple application processes
- Provision of services in underserved communities
- Market-level interest rates

It is debatable that of the above characteristics, if any are necessary conditions for a program to be considered microfinance. The first feature, small loans is likely the most necessary though it is not essential, some microfinance programs focus on mobilizing saving(although few focus entirely on savings without engaging in any lending). Most but not all, microfinance programs focus on women, women have been shown to repay their loans more often and to direct a higher share of enterprise proceeds to their families.

Worldwide, the microcredit summit campaign reports that 80% of microfinance clients are female. However, the percentage of female client varies considerably by region with the highest percentages in Asia, followed by Africa and Latin America with the fewest by women served by micro finance institutions in the middle East and North Africa.

## 2.9 Reduction of Poverty by Private Sector Investment (Microfinance Institutions)



Source: DFID and the Private Sector, 2005

This despite the term *finance* in *microfinance* and the fact that the basic products offered by microfinance institutions (MFIs)—namely investing (savings), lending (credit services), and insurance (risk management)—are all well-established topics of mainstream finance research.

The purpose of this project, therefore, is to introduce microfinance to the academic finance community and to provide an outline for future research.

## 2.10 The Self-Sufficiency and Sustainability of MFIs

Unlike formal sector financial institutions, the large majority of MFIs are not "sustainable," where sustainability is equated in microfinance literature and parlance with financial self-

sufficiency. Instead, most MFIs are able to operate without covering their costs due to subsidies and gifts from governments and other donors. Notwithstanding, the microfinance industry is dominated by an *institutionist* paradigm. (Morduch, 2000; Woller et al. 1999a) asserting that an MFI should be able to cover its operating and financing costs with program revenues.

The conceptual foundations of the institutions paradigm stem to a large degree from the work of researchers at the Ohio State University's Rural Finance Program. Their analysis of the failed rural credit agencies established by several LDC governments during the 1960s and 1970s diagnosed the primary cause of failure to be the "lack of institutional viability" (Gonzalez-Vega 1994)). This diagnoses led logically to two principal conclusions:

- Institutional sustainability was key to successful provision of financial services to the poor
- Financial self-sufficiency was a necessary condition for institutional sustainability.

Welfarists argue that MFIs can achieve sustainability without achieving financial self-sufficiency (Morduch (2000), Woller et al. (1999a)). They argue that donations serve as a form of equity, and as such, the donors can be viewed as social investors. Unlike private investors who purchase equity in a publicly traded firm, social investors do not expect to earn monetary returns. Instead, these donor-investors realize a social, or *intrinsic*, return. Social investors can be compared to equity investors who invest in socially responsible funds, even if the expected risk-adjusted return of the socially responsible fund is below that of an index fund. These socially responsible fund investors are willing to accept a lower expected financial return because they also receive the intrinsic return of not investing in firms that

they find offensive. Microfinance social investors take this notion to the limit, generally earning zero financial returns and relying totally upon intrinsic returns.

Welfarists tend to emphasize poverty alleviation, place relatively greater weight on depth of outreach relative to breadth of outreach, and gauge institutional success more so according to social metrics.

Welfarists feel these issues are important, but they are less willing than institutions to sacrifice depth of outreach to achieve them. Welfarists envision an industry characterized by a plurality of institutional types—including both profit-seeking and social-mission entities—targeting different markets, with different combinations of market and non-market funding, and with different levels of commitment to social versus financial return.

These MFIs are able to capture economies of scale by extending larger loans to the marginally poor or non-poor. Although still an open question, this limited evidence leads many to conclude that, if financial self-sufficiency is desired, then the very poor will not be reached by MFI services. That is, the MFI will not be able to achieve enough depth to reach those who need credit the most desperately.

## **2.11 Liability Structure of Microfinance Loans**

There are three basic models of liability employed by MFIs; each poses differences in potential impacts (eg. Group-liability programs may generate positive or negative impacts on risk-sharing and social capital) as well as targeting (traditionally, individual-lending programs reach wealthier clientele).

- Solidarity group, the classic microfinance model often referred to as the “Grameen model” after the pioneering Grameen bank in Bangladesh, involves five person solidarity groups in which each group member guarantees the other members’ repayment. If any of the group members must repay for them or they face losing access to future credit.
- Village banking; village banking expands the solidarity group concept to a larger group of 15-30 women or men who are responsible for managing the loan provided by the MFI(the “external account”), as well as making and collecting loans to and from each other(the “internal account”). In India, self-help groups (SHGs) operate according to a similar format.
- Individual lending: individual lending is simply the services to individuals instead of groups. Individual lending can be hard to distinguish from traditional banking since they have similar forms. This is especially true where MFIs require collateral (or collateral) substitutes such as household items with low market value but high personal value to the borrowed from borrowers, as collateral free lending has traditionally been one of the hallmarks of microfinance.

## **2.12 Social Impact Analysis of Microfinance**

It aims at gauging the wider impacts of micro-lending on the lives of the poor. This wider impact can be taken to be a “public good” that benefits the sector in it entirely; the MFIs donors, borrowers and even the non borrowers. Regardless of their scale, outreach, location and the type of client all microfinance interventions share the common goal of human development, specifically the economic and social uplifting of those for whom the program it targeted.

From underlying objective, there are a diverse range of secondary or intermediate outcomes with powerful and far reaching effects, the resulting “impact, wider impacts” or externalities (Khalily 2004 and Zohir and Matin2004), spill-over impacts (Khandker 1998) and intermediaries (Hulme 2000). Irrespective of vary terminology used to depict such secondary outcomes, the fundamental rationale and purpose remain identical.

These secondary effects go beyond merely influencing the lives of individuals alone but also impact entire households, communities and the society at large, thereby eventually having a multifarious impact on the beneficiaries in the broader perspective. Khalily(2004) argues that these consequential; secondary and intermediate outcomes have a compounded impact on the end outcome of poverty reduction program. The rationale and underlying objective in advancing micro-loans to the poor is to improve their liquidity constraints as “any additional flow of external financial resources be it from MFIs, bank, NGO’s or an even individuals will relax the intensity on the constraint’s (Khalily 2004:334). The end –outcome as well as the primary objective of all MFI interventions is poverty reduction. By convention, poverty reduction is perceived from the economic point of view alone.

### **2.13 Boundaries and Principles of MFI**

According to Helms(2006), there are some principles that summarizes century and a half development practice which were encapsulated in 2004 by consultative group to assist the poor (CGAP) and endorsed by the group of Eight leaders at the GS summit on June 10 2004; listed below are some of the principles.

- Poor people need not just loans but savings, insurance and money transfer services
- Microfinance must be useful to poor household ; helping them raise income, build up assets and or cushion themselves against external shocks,



- Microfinance can pay for itself subsidies from donors, and government are scarce and uncertain and so to reach large number of poor people.
- Microfinance means building permanent local institutions
- Microfinance institutions should measure and disclosure their performance both financially and socially(Hulms 2006).
- Interest rate ceiling hurt poor people by preventing microfinance institutions from covering their cost which chokes off the supply of credit.
- The key bottleneck is the shortage of strong institutions and managing donors should focus on capacity building
- Donor funds should complement private capital not complete with it.
- The job of government is to enable financial service to establish.
- Microfinance also means integrating the financial needs of poor people into a country's mainstream financial systems.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction**

Methodology deals with the methods and procedures used in collecting data for the study. There is the need to provide a clear description of how data was collected to enhance the readers understanding and evaluation, and also aid interested parties in replicating the study. It includes sections such as research design, population, data source and data analysis, sampling techniques and methods of analysis.

#### **3.1 Research Design**

The purpose of the research was to undertake explanation study of the role of MFIs in the development of SMEs, employment and social responsibilities in the Kumasi metropolis. The explanation studies are the one that establishes causal relationships between variables (sanders et al). The emphasis here was to explain the relationship between the variables involved in the broad topic. In achieving this objective the researcher used the inductive approach to research. In this approach, data were collected and analysed to come out with results. According to Easterby-Smith et al (2002) research in this tradition are more likely to work with quantitative data and to use a variety of methods to collect these data in order to establish different views of phenomena. A cross-sectional research survey strategy was then used to collect the data with the aid of questionnaires. According to Saunders 2007, survey is a research that involves the structured collection of data from sizable population and a cross sectional research is the study of particular phenomena at a particular time. Sex cluster within the Kumasi Metropolis were randomly selected for the collection of data on the SMEs. These were the central business points (Adum and Kejetia) suame magazine, Atonsu, Asafo, Bantama and krofrom. The first phase was designed to collect information on SMEs and how

they see MFIs activities in the Kumasi Metropolis through the use of appropriate questionnaires and interviews to obtain detailed information.

### **3.2 Population**

According to Saunders et al(2007) a population is a full set of cases from which a sample is taken. The accessible population comprise all the Small Scale business entrepreneurs and managers of microfinance institutions in the Kumasi metropolis. The Kumasi Business Advisory Centre (KBAC) of the National Board for small scale industries(NBSSI) had accumulated over 600 micro and small enterprises in the past five years, which are listed on paper record. Of the 600 client some have moved away or closed their business. The 2003 National Industries Census report quoted that 54.5% of industries are micro-scale business, 41.5% are small scale business, 2.9% medium and 1.1% large. Going by the figures above, the following calculations could be made;

$$54.5\% + 41.5\% = 96\% = \text{percentage of micro and small scale enterprises (MSEs)}$$

It implies that 96% is equivalent to 600 SMEs

$$\text{Therefore } 41.5\% = \frac{41.5\%}{96\%} \times 600$$

$$96\%$$

$$= 260 \text{ SMEs.}$$

It had therefore been estimated that total population of registered SMEs in the Kumasi metropolis was estimated to be around 274 as shown in the table below

MFI Types	Branches Kumasi	Source
Rural and Community Banks	36	ARB Apex Bank handbook
Credit Union	50	Department of Co-operative
Savings and Loans	9	Department of co-operative
Susu companies and collection	179	Co-operative susu collection
Total	274	

### 3.3 Sample and Sampling Technique

A sample is a subset of the population and consists of representative group of objects (individuals) that form the population of the study. The sample unit for this research were the entrepreneurs and managers of MFIs operators and graduate employees in Kumasi Metropolis. Since it was highly impossible to deal with the whole of the target population due to time and financial constraints, effort were made to sample a reasonable number of small scale business operators from six clusters within the Kumasi Metropolis that were noted for high business activities from a population of about 260 SME's and assuming about 95% level of certainty and 5% margin of error, a sample size of 50 respondent were selected.

Cluster sampling technique is a probability sampling procedure in which the population is divided into discrete groups or clusters prior to sampling and a random sample(systematic or simple) of these cluster is then drawn (Saunders et al 2007). Cluster sampling was used here because the SME'S are spread out over a large area. SME's and MFIs within the selected cluster were then chosen and given questionnaires to fill. A sample size of 50 in the distribution below was obtained for this project.

### List of cluster and their sample

Cluster	Sample
Central Business Area	10
Suame Magazine	10
Atonsu	10
Bantama	5
Krofrom	10
Asafo	5
Total	50

These figures were arrived and based on the concentration of SMEs in the selected clusters. In selecting the SME's the following operation definition and principle were used. SME's that have 6-29 employees with fixed assets valued not less than Gh¢ 100,000.00 and operating in a permanent structure. Again 50 MFIS were selected using stratified random sampling technique and given questionnaires to find out their contribution to the development of small scale business in Kumasi Metropolis.

According to Saunders et al 2007 stratified random sampling is a probability procedure in which the population is divided into two or more relevant strata and a random sample (systematic or simple) is drawn from each of the strata. The sample distribution used in this case is shown in the table below

### Population and sample of MFIs

Micro financial institution	Branches	20% sample
Rural Banks	36	8
Credit unions	50	10
Savings and Loans	9	2
Susu companies	179	30
Total	274	50

### 3.4 Sources of Data and Data collection Techniques

The study adopted an approach which was a combination of primary and secondary data to obtain the right amount of information that supported the research.

This study intended to evaluate and describe the role of microfinance institutions and as such, it was largely qualitative and descriptive in nature, with some extent of statistical analysis and graphical representation of data.

For the primary data, instruments such as interviews, and structured questionnaires were used to obtain the data from the SME's entrepreneur's , key informed bankers who have in-depth knowledge about the role of microfinance institutions to formal banking services in Kumasi for the study.

Secondary data was obtained from published documents, articles, internet, newspapers and reports from government stating social contributions such as job creation through the influx of microfinance institutions and how it could be regulated and guided well for a sustainable growth. This data was obtained from ARB Apex Bank, credit union, NBSSI, Association and department of co-operatives.

Three set of questionnaires were administered, one to collect data from owners and managers of small and medium businesses from selected sample space, and the second one was designed for employee who have been working for these institution (MFIs). The third one was used to collect data from some operators of MFI's in Kumasi metropolis. Questionnaires for SME's were designed to capture information on business operator. The question for MFI covered their services in general and support to SMEs in particular. Questionnaire was used because it was easier to administer and does required face to face interaction with the respondent.

Also an interview with the management of the selected Microfinances institutions in Kumasi was conducted. The personal interview enabled the researcher to clarify a number of conflicting issues and also help to prevent misunderstanding and contradictions, since it requires the presence of researcher. The interview was administered concurrently with the questionnaire.

### **3.5 Data Analysis**

Data from the completed questionnaires and interviews were edited for consistency. The data were then analyzed statistically using the statistical package for social scientist (SPSS).

This program helped the researcher to come out with the various frequency tables of the responses and the charts. +

### **3.6 The Profile of Sinapi Aba Trust (Sat)**

#### **A. Sinapi Aba Trust**

SAT, a Christian NGO and a partner of the Opportunity International Network, was established in May 1994 to support the economically active poor in Ghana. SAT is the largest financial NGO providing microfinance services in Ghana. It has a Board of Directors which provides policy directions and monitors operations through the Chief Executive Officer, while GHAMFIN and the Association of Financial NGOs (ASSOFIN) play advocacy roles on the organization's behalf as a member of the two apex bodies. All members of the Opportunity International Network including Australia, New Zealand, France, Germany United Kingdom, Canada and United States of America as well as other networks in the Africa region, are support partners of SAT. With more than five hundred (500) staff strength, the organization serves as 'the bank for the poor' and had a client base of over ninety thousand as at the end of 2011. Women constitute ninety-three percent (93%) of the organization's clients as at the end of 2009 (SAT, 2009).

SAT came into existence as an NGO through the vision and efforts of a group of Ghanaian Christian leaders, business executives and professionals who came together in 1994 to set up a microfinance institution to provide credit, training programmes and other financial services to small and micro-entrepreneurs especially those who were denied such facilities by the formal commercial banks. The name 'Sinapi Aba' is the local language version of the Biblical word 'mustard seed' and reflects the vision and mission of the organization.



## **Vision**

SAT seek to become an institution dedicated to building a nation under the Almighty God where the strong help the weak and all people have the dignity of providing for themselves, their families, their church and their community.

## **Mission**

SAT mission is to serve as a *Mustard Seed* through which opportunities for enterprise development and income generation are given to the economically disadvantaged in society.our core value

Our operations are guided by the following core values:

- Respect
- Commitment to the Poor and clients:
- Integrity
- Stewardship

## **Our objectives**

To enable SAT to achieve its noble mission, the following key objectives have been set:

- To provide financial services or credit to small and micro business ventures;
- To contribute positively to poverty alleviation through micro-enterprise stimulation and job creation for increased income among the poor;
- To fill the vacuum created by the formal sector Commercial Banks and financial companies in administering credit and financial services to small and micro enterprise.

## **Products**

Sinapi Aba Trust targets poor entrepreneurs through the various loan products.

### **B. Quodesh Microfinance**

Quodeshs Microfinance (QMF) was registered under the companies code, 1963(Act179) as a limited liability in the year 2009 and received its certificate of incorporation on 23<sup>rd</sup> September,2009.QMF commenced its operations as door to door susu mobilization in Offinso – Ashanti region August,2010 . The crux of the business is to provide prudent management and financial services to small and medium scale enterprises, groups and individuals. Currently QMF has not less than twenty five (25) employee executing its business activities. Social responsibility is another area where QMF also gives back to its customers through granting of scholarship to students in their operational areas. From 2010 to 2011 QMF has furnish scholarships to 11 brilliant but needy students tune of GH¢6,800.00 (source,Quodesh Microfinance annual income statement). Gh¢1,500.00 for 3 JHS students, GH¢3,500.00 students for 5 university students and Gh¢1,800.00 for technical and vocational students. In the same annual income sheet of QMF 2010 to 2011 it is noted that Gh¢27,600.00 is paid to internal revenue authority as employee’s income tax. QMF is not paying corporate tax because it has not attained more than twelve years.

### **Mission Statement**

To emancipate small and medium scale entrepreneurs from mismanagement and inaccessible to funds through provision of relevant and timely expert business solutions and granting of loan facility

## **Vision**

“To become the number one financial and business problem solving institution in Ghana”

## **Business Goals and Objectives**

Quodesh microfinance seeks to;

- Identify financial problems of our customers
- Educating our customers on funds management
- Enable our customers to see business opportunities around them.
- Assist our customers to take advantage of opportunities around them through granting them with loan facilities.

## **Values**

Customer direction and knowledge

Appreciating our clients business is our top priority as well as awaiting their request is vital to us in providing them with solutions.

## **Education for customer growth**

The more our customers know the more we know. Our customers technical know how decodes our world.

## **Working hand in hand**

If our clients are not there we are also not there.

## **Transparent and integrity**

Without integrity and transparency there will be no business for us.

### **Human resource development and team work**

The most valuable asset of QBC is its labor force.

### **Creativity and innovation**

We believe in ingenuity of concepts that brings change for a sustainable growth in an organization.

### **Corporate responsibility**

Because we live in a society we will also give back to the society.

### **Business location**

QMF is situated at both Offinso and Adankwame. In Offinso the office is located at Dome-Kokote, storey building on your left before St. Patrick's hospital junction, house number AD 13. AT Adankwame, QMF is to be found on your right off Kumasi to Barekese road immediately after sunyani junction.

## CHAPTER FOUR

### 4.0 MFI Managers Response

In the attempt to find out what managers opinions are pertaining to MFIs role on economic development of Ghana, on employment, SMEs and revenue generation in Kumasi Metropolis, 12 Managers of MFIs were questioned using questionnaires and below are their responses and the necessary interpretations:

When questioned about the aims of their organizations, the following are excerpts of their responses:

- To provide monetary services in the form of loans
- To encourage/ promote small scale businesses
- To promote better standards of living in the Country.

**Table 4.1 Nature of organization**

	Frequency	Percent
Government Organization	4	33.3
Private Organization	8	66.7
Total	12	100.0

Source: Researchers field work, 2012

Table 4.1 above shows that nature of most of the MFIs is private owned organizations as represented by 66.7% and 33.3% of MFIs are Government organizations. This implies that private organizations are beginning to dominate in the economy hence resulting in job opportunities for those the government could not consider.

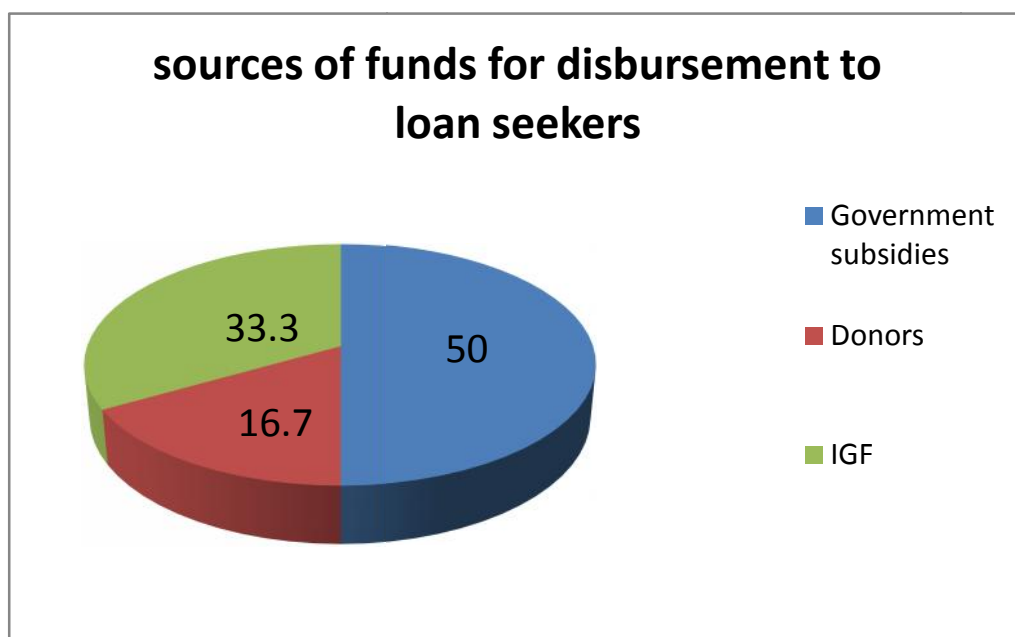
**Table 4.2 Organization registered with the Association of Microfinance Companies**

	Frequency	Percent
Yes	12	100.0

Source: Researchers field work, 2012

All the managers of the MFIs questioned, responded that they have registered the companies with the Association of microfinance companies.

**Figure 4.1**



**Source:** Researchers field work, 2012

33.3% of the managers indicated that their source of funds for disbursement to loan seekers are from government subsidies, 50% indicated that their funds come from Internally Generated Fund (IGF) and 16.7% indicated that their funds come from donors. Other source of fund as proposed by the managers is shares from directors.

**Table 4.3** Packages/ products for customers

<b>MFI packages for customers</b>	<b>Frequency Response</b>	<b>Percentage</b>
Running a savings account	10 out of 12	83.3
Operate Loans	6 out of 12	50
Give expertise Advices	10 out of 12	83.3
Operate Insurance services	None	-

Others are: Current Account

**Source:** Researchers field work, 2012

Table 4.3 depicts the various products/packages available from MFI to their customers as indicated by the managers of the selected MFIs. 10 out of 12 managers, representing 83.3% of the sample population noted that they run savings accounts, this same percentage noted that they Give expertise advices also. 6 out of 12 managers, representing 50% indicated that they operate loans for clients and none indicated that they provide insurance services. However, another package available is the current account as indicated from the responses. Generally, the MFIs provide savings account packages and expertise advice to their clients.

**Table 4.4** Various Clients to MFIs

<b>Clients to MFIs</b>	<b>Frequency Response</b>	<b>Percentage</b>
Market Women	12	100
Farmers	12	100
Rural folks	12	100
Individuals who start SMEs	10	83.3%
Salary Workers	10	83.3%

Source: Researchers field work, 2012

The managers indicated that their clients include Market women, farmers, rural folks, individuals who start SMEs and every salary worker.

On the impact of MFI on the economy of Ghana, the Managers have these opinions:

- To make loans accessible to the average Ghanaian to improve life and business
- MFI provide access to loans so as to enable people to operate businesses of their own
- MFI creates job opportunities for the country
- MFI has cut down on unemployment in the country
- Provides support to the growth of Small, Medium Enterprises and also creates employment.

On the Challenges faced by MFI in the economy and in dealing with SMEs, the Managers reported that:

- Clients default in payment
- There is insufficient funds
- Increase in the prime rate from BoG
- Unsustainable inflation (high) leading to high rate of interest

#### **4.1 MFIs Employees Responses**

Questionnaires were administered to 38 employees (workers) of selected MFIs to solicit data covering clients they serve, employment, social responsibilities of MFIs, the Aims of MFIs and the challenges faced by MFIs in the economy. Some of the MFIs are: Quodesh Microfinance, Opportunity International savings and Loans and Multicredit savings and Loans .The tables and figures below reveal the various opinions and positions of the respondents.



**Table 4.5 various clients served by the employees of MFIs**

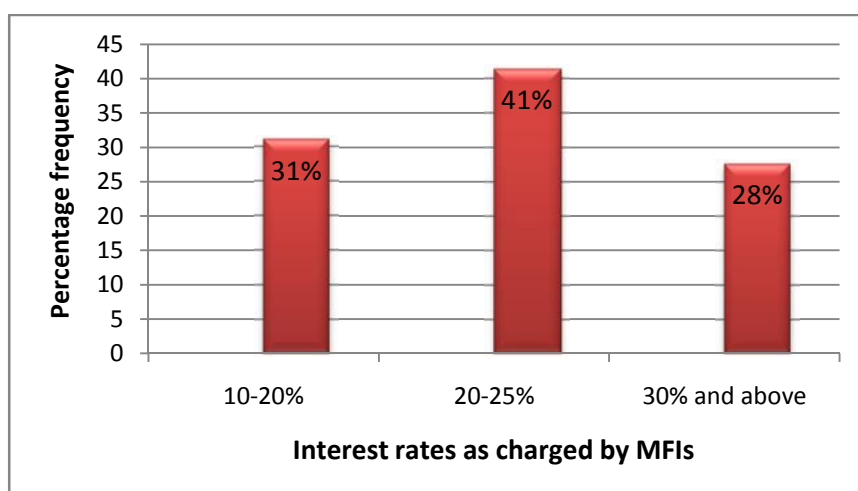
CLIENTS	PERCENTAGE RESPONSE
Market Women	100
Farmers	100
Rural folks	78.9
Individuals who start SMEs	81.6
Salary workers	92.1

Others are: Sawmill operators, Taxi drivers, “Chop bar” operators.

Source: Researchers field work, 2012

MFI employees indicated that Most of their clients are Market women and farmers, salary workers, individuals who start SMEs and rural folks. Others are given as; sawmill operators, taxi drivers and “Chopbar” operators. This goes to buttress the response from the managers depicted in table 4.5 the main clients of MFIs are not large, well-established companies, but largely individuals within the economy who operates a small business or earns salary.

**Figure 4.2 Interest rates charged by MFIs**

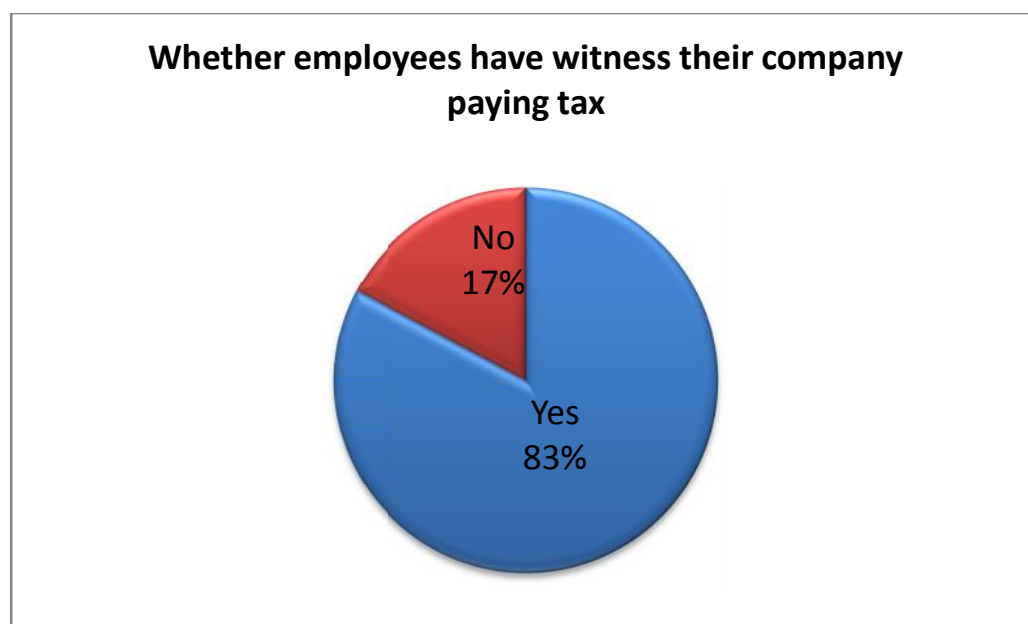


Source: Researchers field work, 2012

Figure 4.2 above reveals that the largest portion of interest rate charged by most of the MFIs is 20-25% interest rate. The percentage response indicating the pre-mentioned figure forms

41% of the sampled population, 31% of the sample population also indicated that they charge 10-20% interest rate and 28% of the sample population responded that they charge 30% and above as interest rate. Generally, most of the MFIs charge around 20-25% interest rate on clients' borrowings.

**Figure 4.3** Have employees of MFIs witnessed payments of income tax, corporate tax and SSNIT contributions by their organizations?

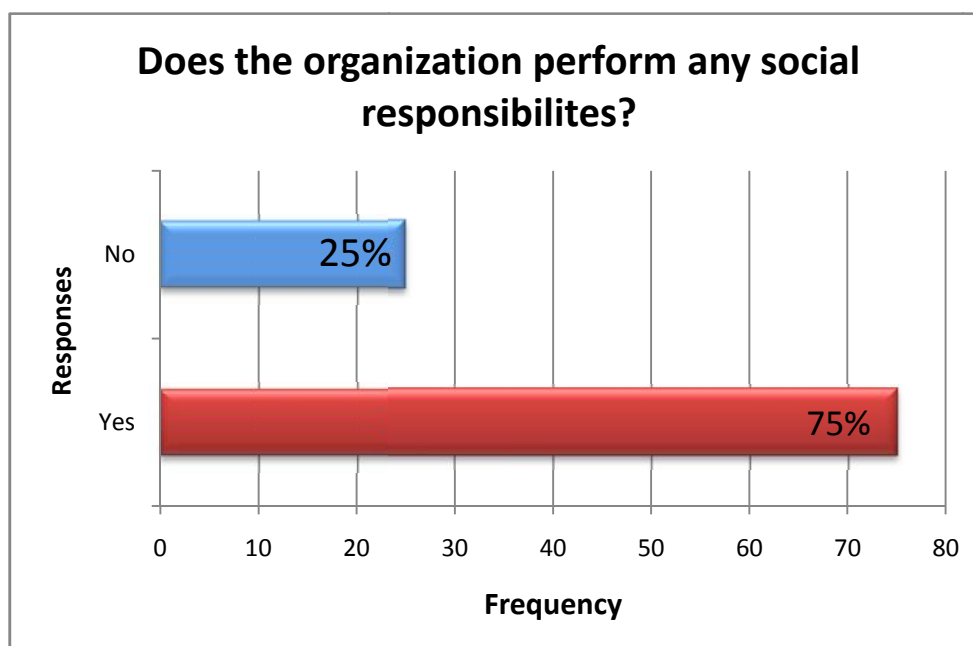


Source: Researchers field work, 2012.

The figure above depicts the responses of employees in the sampled MFIs on whether they have witnessed payments of income tax, corporate tax, and SSNIT contributions from their organizations. 83% of the 38 respondents replied in the affirmative. They indicated that they their organizations pay taxes and contributions, while 17% indicated that they have not seen their organization make contributions or pay taxes. This indicates that a large proportion of MFIs perform their legal duties of tax payments to the economy hence they contribute to the development of the economy.

After the various analysis of information elicited from both QMF and SAT, we realised that they have contributed to the revenue generation in the economy through payment of income and corporate tax. However, Quodesh Microfinance institution do not pay corporate taxes since it is not yet twelve years in operation as demanded by law. With respect to Snapi Aba trust, we were informed they pay income and corporate taxes but due to confidentiality the exact amount was not revealed to us.

**Figure 4.4**



Source: Researchers field work, 2012

The figure 4.4 above depicts that 75% of the respondents are of the opinion that their organizations perform their social responsibilities. 25% replied that their organizations have not performed any social responsibilities. Some of the social responsibilities performed by the MFIs are;

- Enhancing JHS education, through seminars and retreats
- Organized laboratory screening of malaria and hepatitis to customers
- Donation to the Kumasi Children Home

- Organizing a clean- up exercise at Kajetia
- Building of social amenities in the society (water and street lights)
- Provision of pipe-borne water in rural areas (Tamale)

#### **4.2 Aims of the MFIs**

Responses by employees on the aims of the MFIs as received are as follows:

- To always give back to our customers
- To support individuals with brilliant ideas
- To eradicate poverty in the country
- To help individuals grow financially
- To help small business grow
- Provide quality services to our clients

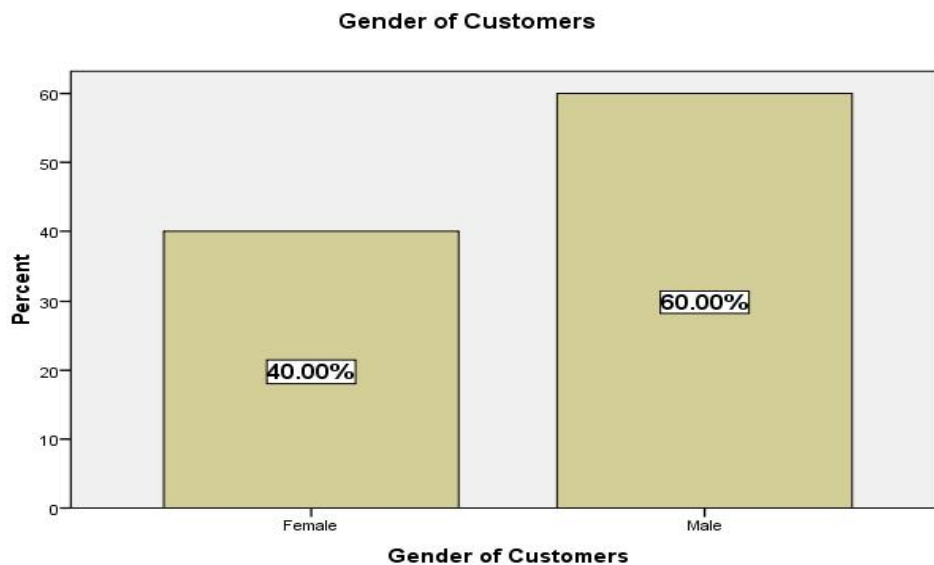
#### **4.3 Challenges faced by MFIs**

The respondents gave the following as challenges faced by MFIs in the economy and in the administration of their businesses:

- Inadequate accessibility of donor funds
- Lack of trust by some customers and delays of loan repayment
- Limited funds
- Little support from Government
- Defaulting in payments by clients
- Difficulty dealing with the less-educated clients (illiterate)

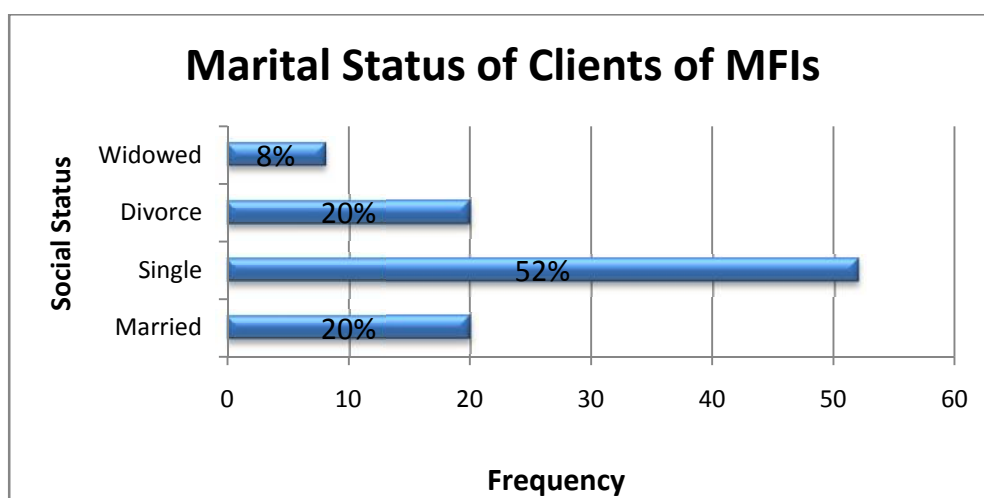
#### 4.4 Responses by customers MFIs (SMEs)

**Figure 4.5** Genders of Customers



The figure 4.5 above shows the distribution of respondents with relation to their gender. 60% of the customers are male and 40% are female. This represents that the male population is still dominant with the issue of starting and running a Small, Medium Scale Enterprise business.

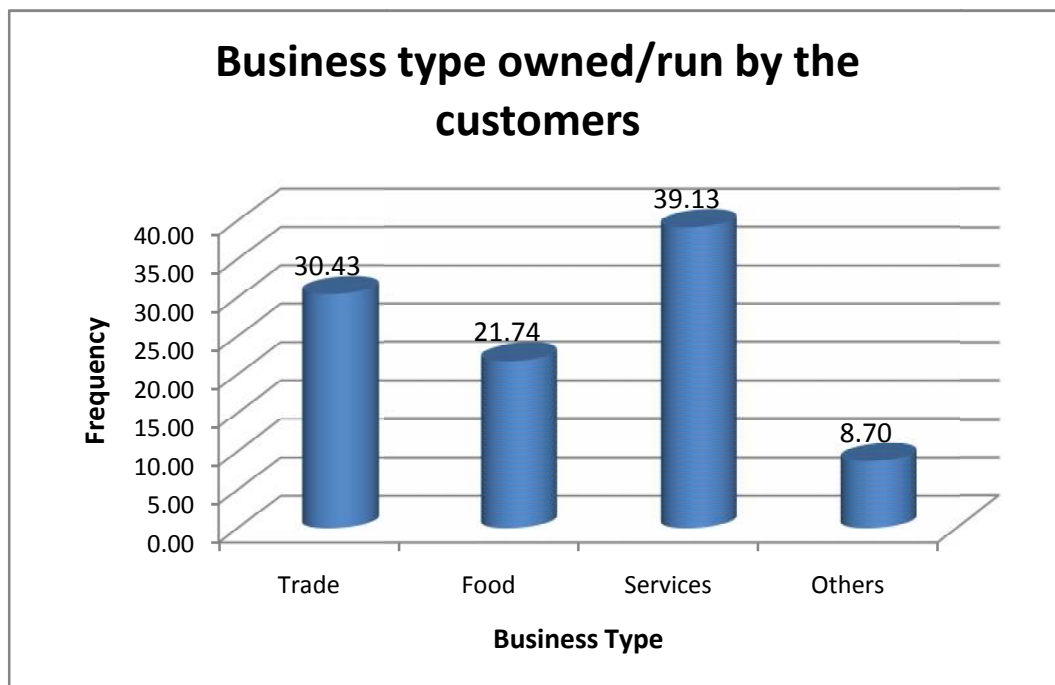
**Figure 4.6**



Source: Researchers field work, 2012

The figure above shows that 52% of the sampled populations of the clients is single, 20% each represents the sampled population that are divorced or married and 8% of the sample population indicated that they are widowed. The information reveals that most of the customers are still young and do not really have dependents and so they are susceptible to work hard and be productive.

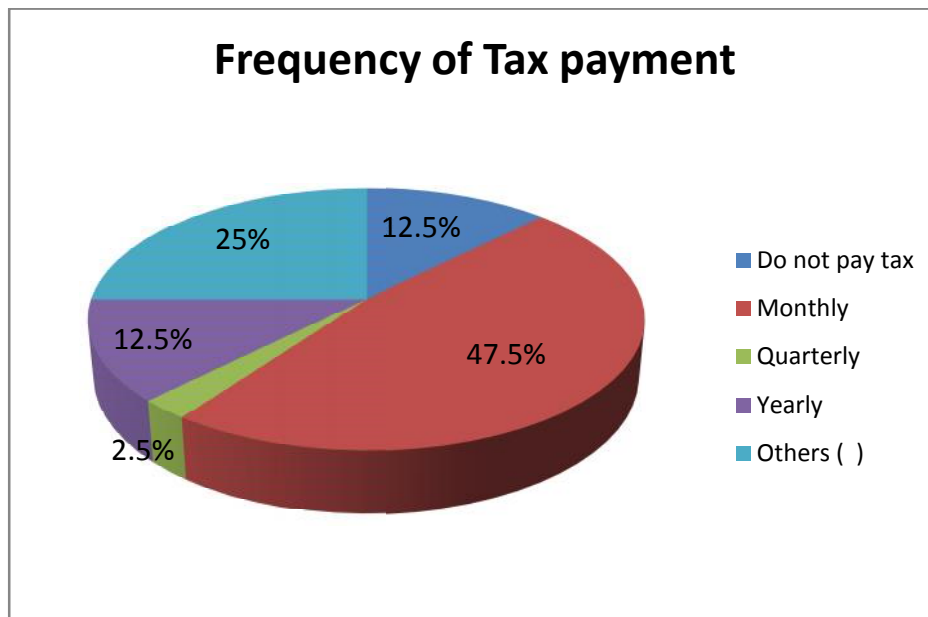
**Figure 4.7**



Source: Researchers field work, 2012

39.13%, which represents the largest size from the sample clients are into service rendering as their business, 30.43% of the sample clients to MFIs are into trade as their business, 21.74% of the sample population are into food production as their form of business and 8.7% are into other businesses apart from the main businesses identified above. The information above reveals that Services is increasingly becoming a means of business for Ghanaians.

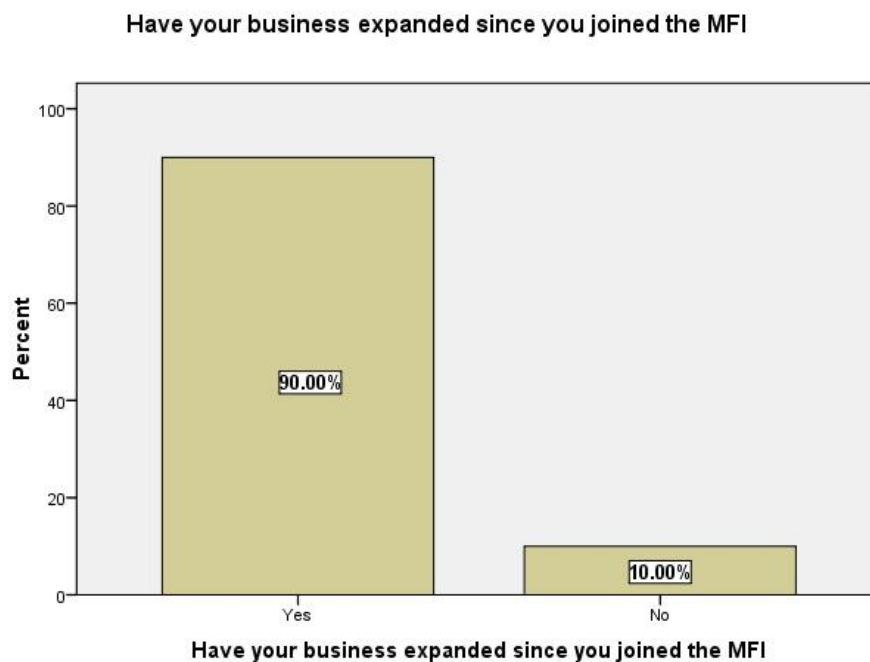
**Figure 4.8**



Source: Researchers field work, 2012

Figure above shows the frequency and proportion of customers to MFIs who pay tax on their businesses. 47.5% of the sampled population indicated that they pay tax monthly, 12.5% indicated that they pay tax quarterly and another 12.5% indicated that they do not pay tax, 25% indicated as others state that they pay tax daily. The respondents further indicated that they pay tax in the form of income tax, KMA market toll, business tax, corporate tax and payee.

**Figure 4.9**



Source: Researchers field work, 2012

In finding out whether the clients to the MFIs have experienced any expansion since they joined the MFIs, 90% of the sampled clients indicated that they have experienced expansion in their businesses and 10% responded that they have not experienced any expansion. This is further buttressed by the number of employees that these SMEs have employed as shown in table.



**Table 4.6 Workers employed since expansion**

	Total Number of respondents	Minimum	Maximum	Mean
Workers employed since expansion	39	1	89	23.38

Source: Researchers field work, 2012

39 out of the 50 SMEs who responded to the question indicated that they have employed some persons since their expansion. The minimum that was employed is 1 person and the Maximum that was employed by the SMEs are 89 employees. Out of the data received, the mean, that is the average number of employees that were employed by the sampled SMEs is 23.38 (23) persons.

This explains that as a result of joining an MFI, the SMEs are experiencing expansion which leads to the employment of people hence reducing the unemployment case in the economy.

#### **4.5 Various ways MFIs help improve SMEs**

**Table 4.7**

	Percentage responses
Help improve business by supply of Capital	94%
Help me save money	82%
Gives me expertise advice	62%

Source: Researchers field work, 2012

Table above reveals that 94% of the sample clients (SMEs) to the MFIs indicate that MFIs help improve their businesses by supply them with capital to start and run their businesses, 82% of the respondents indicated that MFIs help them with savings, and 62% of the same sample population indicated that MFIs help them by giving them expertise advice. It is noticed that the MFIs should do more with regards to rendering expertise advice to their clients (SMEs).

#### **4.6 Various uses of the loans received from MFIs**

**Table 4.8**

	Responses	Percentage responses
To expand my business	44	88%
To fund my children's education	30	73.2%
To take care of health issues	15	46.9%

Source: Researchers field work, 2012

Table 4.17 above reveals the various uses of the loans received from MFIs by the SMEs. 88% of the sample respondents indicated that they use the loans to expand their businesses, (30)73.2% indicate that they use the loans to fund their children's education, and 15(46.9%) indicated that they use the loans to take care of health issues. Although most of the Clients to SMEs use the loans to expand their businesses, significant number of them still uses the loans for the inappropriate purposes, and hence the MFIs have to put measure in place to redirect these funds for the right purposes. For example, through increasing education to their clients.

#### **4.7 Client view on how MFIs have impacted the economy**

The questionnaires included a question to solicit for the opinions of clients to MFIs on their thoughts how MFIs have impacted on the economy. The following were the answers given by the sample population:

- It has strengthened the financial capacity of SMEs
- It has strengthened the growth of SMEs and reduced unemployment rate in the economy
- It has helped to encourage competition
- They give loans that help to expand our businesses
- Generate revenue to government through daily taxes
- Creates job opportunity in the economy
- Easy access to loan facilities with less stressful but attractive packages
- Self employment has been encouraged

#### **4.8 Summary of finding, conclusion and recommendation**

This chapter seeks to outline the findings of the study and suggest recommendations as to how MFIs impact the development of SMEs in Ghana through the provision of capital to SMEs, generation of revenue to the Government and creation of employment.

#### **4.9 Summary of findings of the study**

It has been observed that, in a socio-cultural environment found in Ghana, financial institutions find it challenging to make credit available to small and medium scale enterprises. This is due to the problems in industrial environment which hinder their ability to produce efficiently and make timely repayment of their borrowed funds, and the problems encountered by financial institutions in operating small holder programmes.

The study revealed that lack or inadequacy of credit was the major problem of the small and medium scale enterprises in Kumasi. Most of the entrepreneurs relied mostly on the informal sector of finance as their initial source of capital.

It was also observed during the research that, the small and medium scale enterprises need for credit is a clear and genuine one. This is because of the high expenditure they make with respect to the purchasing of raw materials, putting up of storage facilities and the marketing of their produces.

It was observed that, with the establishment of MFIs agents and non-governmental organizations in a few decades ago, the major problem which was facing the small-scale industry with regard to funds has been reduced.

Another area which has been identified in the course of the research is the government's inability to pay attention to the activities of the SMEs even though these industries contribute a lot to shape the economy by paying taxes, providing employment for the youth and producing certain basic amenities or products for majority of the people. These institutions have relied on external source of funds for on-lending which leads to high interest rate being charged on the loans.

It has been observed that, the Non-Government Organizations, National Board for Small Scale Industries (NBSSI). Business Association Fund (BAF) despite, their willingness to assist in every sector, they have not been given a freehand to operate. There has often been government interference in the disbursement of funds to beneficiaries.

#### **4.10 Recommendation**

In the light of the above findings, it is worth suggesting that:

The Government should extend credit facilities to the Small Scale business sectors to enable them operate efficiently.

- Repayment period of the beneficiaries of the various loans schemes should be extended, while the interest rates on loans granted to Small and Medium
- Scale Enterprises by the banks should be considerably reduced.
- Instead of placing much emphasis on collateral as securities before granting loans to small-scale enterprises, banks should be more concerned about educating entrepreneurs on how to manage their operations and finance as it is done by most MFIs.

- The NBSSI should educate entrepreneurs on the need to register their businesses, open accounts with a banks and save regularly and also make them aware of the existence of the various credit facilities available to them in the various financial institutions by organizing workshops and seminars for them.
- Financial institutions, which grant credit facilities to small businesses, should set up monitoring terms to undertake routine monitoring on the activities of the beneficiaries to ensure that funds are properly used in order to avoid defaults in payment.
- The Government should allocate part of the HIPC benefit to the various Micro-Financing Institutions and other Non-Governmental Organizations to be given as loans at a very low interest rate to support Small and Medium Scale Enterprises (SMEs) to enable them enjoy the government's Golden Age of Business Policy.

#### **4.11 Conclusion**

To conclude, it is worth mentioning that the enthusiasm with which the micro-finance institutions are helping Small and Medium Scale Enterprises development should be maintained because they create value and make powerful contributions to economic growth and development. Nevertheless, adequate arrangements should be made to pay back loans given so that a lot more people can be served other to help MFIs pay their expected revenue to the government and also pay the graduate employed by such institutions.

However, as a result of lack of sufficient funds, not all loan applicants can be served. The interest rate charged by MFIS agents is quite reasonable.

A further study suggest that while SMEs enjoyed considerable amount of goodwill among the informal lenders, the informal market situation was often not suited for the type of finance required by a large number of these SME; quite unfortunate!! Beside bank finance and all

other various forms of informal finance, the development in the micro financial sector, have taken place ultimately to improve the financing of Small and Medium scale Enterprises in Ghana and generate revenue to the government.

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## APPENDIX I

### QUESTIONNAIRE

We are students of Christian Service University College pursuing Business Administration in Banking and Finance, and we are conducting a research on the topic “assessing the impact of microfinance on the socio-economic development of Ghana”. A case study of Microfinance Institution (**MFI**) in Kumasi .This research is purely for academic purposes and as such privacy and confidentiality shall be observed as far as all information given are concerned. We would therefore be grateful if you could kindly answer the following questions. Thank you.

#### **Managers of MFIs (SMEs)**

*Please tick as appropriate.*

1. Gender: Female [ ☐ ]      Male [ ☐ ]
2. Social Status: Married [ ☐ ]      Single [ ☐ ]      Divorce [ ☐ ]      Widowed [ ☐ ]
3. Level of education?  
Primary / JHS [ ☐ ]      SHS/SSS [ ☐ ]      Vocational [ ☐ ]      Tertiary [ ☐ ]      None [ ☐ ]
4. What is the aim of the organization?.....
5. What is the nature of the organization? NGO [ ☐ ] Government Organization [ ☐ ]  
Private[ ☐ ]
6. Is your organization registered with the Association of Microfinance Companies?  
  
Yes [ ☐ ] No[ ☐ ]
7. What is/are the organization’s source(s) of funds for disbursement to loan seekers?

Gifts [ ] Government subsidies [ ] Donors [ ] IGF [ ] others please specify.....

8. What packages do you have for customers? Please tick as appropriate.

Running a savings account	
Operate Loans	
Give expertise advices	
Operate insurance services	
Others please specify	

9. Who are your clients (Customers)? Please tick as many as apply.

Market Women	
Farmers	
Rural folks	
Individuals who start SMEs	
Salary workers	
Others, please specify:	

10. How do your organization monitor loans granted?.....

.....

11. How does your organization secure the loan? (Collateral).....

.....

12. What is the impact of your organization to economic development?.....

.....

13. Could you please list some challenges faced by the organization within the economy?

a.....

b.....

c.....

d.....

## MICROFINANCE INSTITUTION (Employees)

1. Gender: Female [ ] Male [ ]

2. Social Status: Married [ ] Single [ ] Divorce [ ] Widowed [ ]

3. What is your last level of education?

Primary / JHS [ ] SHS/SSS [ ] Vocational [ ] Tertiary [ ] None [ ]

4. How long have you been working in the organization?.....

5. What is your position ( occupation) in the organization.....

6. When did the organization start operation?.....

7. What is the aim of the organization?.....

8. What is the nature of the organization? NGO [ ] Government organization [ ] Private [ ]

9. What is the average number of clients served by the organization for the past three years?

Years	Average number of Clients (Please fill)
2010	
2011	
2012	

10. Who are your clients (Customers)? Please tick as many as apply.	
Market Women	
Farmers	
Rural folks	
Individuals who start SMEs	
Salary workers	
Others, please specify:	

11. What services do you render to the clients? Please tick as many as apply.

Running a savings account	
Operate Loans	
Give expertise advices	
Operate insurance services	
Others please specify	

12. What is your interest rate per annum a.10-20% [ ] b.20-25% [ ] c.25%-30% [ ]

d. 30% and above [ ]

13. After all due diligence has been done, can a borrower access his facility the same day? Yes [ ] No [ ]

14. How do you secure the loan you give to your clients (collateral)?.....

15. How will you rate your loans recovery?

a. 100-75% [ ] b. 70-45% [ ] c. 40-25% [ ] d. 20-10% [ ]

16. Have you witnessed payments of income tax, corporate tax and SSNIT contributions from your institution? Yes [ ] No [ ]

17. Have your organization performed any social responsibilities? Yes [ ] No [ ]

If yes what was it?.....

.....

If no why.....

18. Why do you want to help SMEs?.....

19. What are some of the challenges you face in dealing with SMEs?.....

.....

20. What is your opinion on these?

A. Women pay their loans more promptly than men.

Strongly Agree [ ]    Agree [ ]    Neutral [ ]    Disagree [ ]    Strongly disagree [ ]

B. Women form a portion of our clients. Yes [ ]    No [ ]    Don't know [ ]

21. From your perspective, how have the organization helped the  
economy?.....  
.....

22. What are some of the challenges faced by MFI in the  
economy?.....

## Customers of MFIs (SMEs)

### RESPONDENT'S BACKGROUND INFORMATION (Please; tick where appropriate)

1. Gender: Female [ ] Male [ ]
2. Social Status: Married [ ] Single [ ] Divorce [ ] Widowed [ ]
3. How many children do you have?  
.....
4. What is your last level of education?  
Primary / JHS [ ] SHS/SSS [ ] Vocational [ ] Tertiary [ ] None [ ]

### BUSINESS INFORMATION

5. What is the name of your institution/organization.....
6. What type of business do you operate?  
Trade [ ] Food [ ] Services [ ] Agric production [ ] others.....
7. What is your position (occupation) in the organization?.....
8. How often do you pay tax? Do not pay tax [ ] Weekly [ ] Monthly [ ]  
Quarterly [ ] Yearly [ ] others specify.....
9. Please specify what kind of tax you pay.....
10. If you do not pay tax? why?.....



## RELATIONSHIP WITH MICROFINANCE INSTITUTION

11. What Microfinance Institution do you deal with?.....

12. How long have you worked with the microfinance institution?.....

13. Ever since you joined the MFI, have your business expanded? Yes [ ] No [ ]

14. How many workers have you employed since the expansion?.....

15. How do you perceive their performance in relation to the following: (Please tick one)

	<b>Excellent</b>	<b>Very Good</b>	<b>Good</b>	<b>Satisfactory</b>	<b>Poor</b>	<b>Very Poor</b>
Receive Loans early						
The personnel treatment						

16. In which ways have the MFI helped you? Please tick the response that applies.

	<b>Yes</b>	<b>No</b>
In improving my business (supply of Capital)		
Enable me to save money		
Gives me expertise advices		
Helped me to expand and increase my profit		
If there are other ways please specify ,.....		

17. How do you use the loans received from the Microfinance Institution (MFI)?

<b>Please tick only those that apply.</b>	
To expand my business	
To fund my children's education	
To take care of health issues	
Others, please specify.....	

18. a. Do you have difficulty with your loan repayment?    Yes [   ]            No [   ]

b. If “yes”, which of the following cause you to default in your loan repayment?

- a. I repay debt to other lenders [   ]
- b. My business is seasonal [   ]
- c. Repayment schedule not convenient [   ]
- d. Unforeseen situation [   ]

19. Please tick the three (3) most important challenges for your business today?

- Inadequate capital [   ]
- Competition from others [   ]
- Loan repayment [   ]
- High interest rate [   ]
- Low sales [   ]
- others.....

20. How do you think the MFI has impacted the economy?.....

**Thank You**

**THE ROLE OF MICROFINANCE INSTITUTIONS ON THE ECONOMIC  
DEVELOPMENT OF GHANA  
(A CASE STUDY IN KUMASI METROPOLIS SMEs)**

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**MILLICENT ATTAKORA**

**COMFORT CARL**

**A DISSERTATION SUBMITTED TO THE DEPARTMENT OF BUSINESS  
STUDIES, CHRISTISN SERVICE UNIVERSITY COLLEGE IN PARTIAL  
FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF  
BACHELOR OF BUSINESS ADMINISTRATION**

**JUNE 2012**

## DECLARATION

I hereby declare that this project work is the result of our own research and has neither in whole nor in part been presented in the University or elsewhere except where due acknowledgement has been made in the text .

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## **ABSTRACT**

Microfinance refers to the provision of financial services to the poor-low income clients, including, consumers and the self – employed (Ledgerwood, 2000), Christen et al (2004) asserted that microfinance refers to a movement that envisions “a world which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality finance services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients.

The aim of the study was to identify the role of microfinance institutions on the economic development of Ghana in relation to employment, revenue generation to the economy of Ghana and their social responsibility to their operating areas.

The targeted groups for the study were the sampled managers of Microfinance institutions, employee working at the institutions as well as SME’s benefiting from the microfinance institutions.

The researcher also obtained information from published documents which include; written records, articles, brochures, internet etc. The study again provide a clear description of how data was collected to enhance the readers understanding and evaluation and also aid interested parties in replicating the study. It includes sections such as research design, population, data source and data analysis, sampling techniques and methods of analysis.

After the analysis, the researcher found out that microfinance institutions have contributed immensely to the development of Ghana through provision of monetary services in the form of loans, promoting small scale businesses and reduction of unemployment rate.

## **DEDICATION**

This research work is dedicated to our parents for their prayers and support, which enabled us to devote much time, attention and financial resources to make the work see the light of the day.

## **ACKNOWLEDGEMENT**

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