

**THE IMPACT OF MICROFINANCE ON SMALL AND MEDIUM SCALE  
ENTERPRISES IN GHANA**

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## ABSTRACT

This study discusses the impact of Microfinance Institution (MFIs) on the growth of Small and Medium Scale Enterprises (SMEs) in the Kumasi Metropolis. The study examined the detailed profile of SMEs in the Kumasi Metropolis of Ghana, the contribution of MFIs to entrepreneurial growth, the challenges encountered by SMEs in accessing credit and the rate of credit utilization by SMEs. An analysis of the profile of SMEs shows that most SMEs are at their Micro stages since they employ less than six people and these are considerably dominated by the commerce sub-sector. The search also indicates that MFIs have had a positive effect on the growth of SMEs. Some of the critical contributions of MFIs include; greater access to credit, savings enhancement and provision of business, financial and managerial training. Irrespective of the contributions of MFIs to the development of SMEs, there are challenges that affect the operations of both SMEs and MFIs. The major challenge faced by SMEs is the cumbersome process associated with accessing credit of which collateral security and high interest rate are major setbacks. On the other hand, MFIs face some challenges relating to credit misappropriation and non-disclosure of the relevant facts of the business operations of SMEs. The final analysis of their search clearly reveals that MFIs have a positive effect on the growth of SMEs. In order to enhance a sustained and accelerated growth in the operations of SMEs, credits should be client-oriented and not product-oriented. Proper and extensive monitoring activities should be provided for clients who are granted loans.

## **DEDICATION**

This dissertation is dedicated to the lovely spouses and wonderful working colleagues.

Your inspiration, encouragement and support in diverse forms would always be remembered and cherished.

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## TABLE OF CONTENTS

<b>Title</b>	<b>Page</b>
Declaration.....	ii
Abstract.....	iii
Dedication.....	iv
Acknowledgements.....	v
Table of Content.....	vi

### CHAPTER ONE

#### INTRODUCTION

1.1 Background of the study.....	1
1.2 Statement of the problem .....	2
1.3 Objectives for the study.....	3
1.4 Research questions .....	3
1.5 Significance of the study.....	4
1.6 Scope of the study.....	4
1.7 Limitation of the study.....	4
1.8 Organization of work .....	5

### CHAPTER TWO

#### LITERATURE REVIEW

2.0 Introduction .....	6
2.1 Theoretical Review.....	6
2.2 The Concepts (SMEs) in Ghana.....	7
2.3 Concept of Microfinance.....	10

2.4 Definitions supporting Microfinance.....	12
2.5 Forms of Microfinance providers.....	14
2.6 Economic development .....	15
2.7 Major challenges facing SMEs.....	17
2.8 Prospects of SMEs and MFIs in Ghana.....	22
Refined Procedures.....	23

## **CHAPTER THREE**

### **METHODOLOGY**

3.1 Introduction.....	25
3.2 Research Design .....	25
3.3 Population and sampling.....	26
3.3.1 Sampling techniques.....	27
3.4 Brief profile of Deson Microfinance and GIFS Microfinance.....	27
3.5 Type of Data collection tools.....	28
3.6 Data analysis.....	28

## **CHAPTER FOUR**

### **ANALYSIS, DISCUSSION AND PRESENTATION OF RESULTS**

4.1 Introduction .....	29
4.2 Response Received.....	29
4.3 Background of selected SMEs.....	30
4.3.1 Years of operation.....	30
4.3.2 Purposes of Establishing business.....	30
4.3.2 SMEs and Employment.....	31
4.3.4 Sources of Business capital.....	32
4.3.5 Products offered by MFIs and their effects on SMEs.....	32
4.4 The Impact of Micro-Credit on SMEs Performance .....	33
4.5 Volume of Loan Granted .....	34
4.5.1 The level of satisfaction of SMEs.....	36
4.6 Challenges SMEs face in accessing credit.....	37
4.7 Types of credits requested by SMEs.....	38
4.8 Frequency of credit requested by SMEs.....	38
4.9 Credit misappropriation.....	39
4.10 Major contributions of Deson and GIFS Microfinance .....	40
4.11 The Contribution of MFI in the Growth of SMEs.....	41
4.12 Prerequisites for accessing MFI loans.....	42



## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

5.1 SMEs Profile in Kumasi Metropolis .....	43
5.1.1 MFIs Contribution to the business activities of SMEs.....	43
5.1.2 Challenges SMEs have to surmount in order to access Loans.....	45
5.1.3 Credit Utilization Rates.....	46
5.2 Conclusion.....	46
5.3 Recommendations.....	47
References .....	49
Appendix .....	50
Appendix .....	54

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the study

Ghana is said to have a relatively long history of government initiatives to promote and finance, small and medium enterprises (SMEs). The contributions these SMEs make to the economic development and growth of Ghana are substantial because so many people are employed by these enterprises. This is so because it is accepted worldwide that the development and growth of SMEs can play an important role in turning the growing unemployment situation around. In the light of foregoing, policies and programmes that would support the development of SMEs are formulated and implemented to better the lives of the citizenry. According to Mbuta and Nkandela (1998), the importance of SMEs in contributing to job creation and output growth is now widely accepted in both developed and developing countries. Of particular interest is the process of expansion of these enterprises from micro or small into medium size, as it is when they become medium-sized that growth-oriented SMEs make their most tangible contribution to economic growth and job creation. Dynamic medium-sized enterprises provide a competitive edge in two ways – as leading subcontractors and as venture firms in their own right. *(Cited in the research work of Owusu, 2011)*

Also as cited in the research work of Owusu, 2011 Abugre (1994) micro and small enterprises are those enterprises employing 29 or fewer workers. Microenterprises are those that employ between 1 to 5 people with fixed assets not exceeding 10,000 US Dollars excluding vehicles, land and buildings. Small enterprises employ between 6 and 29 or have fixed assets not exceeding 100,000 US Dollars excluding land and building. It must be emphasized that lack of finance remains the major constraint to small and medium enterprises in the country.

It is believed that Ghana began officially promoting the activities of small and medium businesses in 1969 with the establishment of the credit guarantee scheme by the Bank of Ghana to assist entrepreneurs in obtaining bank credit. This was followed in 1970 by the creation of the Ghana business promoting programme. The objective of these initiatives was to promote financial and technical assistance to newly established and existing micro, small and medium scale businesses, but their impact was limited. The schemes benefited mostly politically connected Ghanaian managers of foreign owned manufacturing companies (Abugre, 1994).

In fact, the need for sustainable sources of funding for SMEs had necessitated the emergence of financial non-governmental organisations on the economic and business scene of the country. According to Opare-Djan (2002), the role Kraban Foundations has played in the microfinance business is substantial. One can also cite the case of Kiva, Sinapi Aba among others in NGOs implementation of micro financing activities.

## **1.2 Statement of the Problem**

In the 2009 Bank of Ghana report on the major operations of Banks and other financial institutions in Ghana, it was established that most formal banking institutions do not cultivate the habit of doing business with individuals and small business customers, since they consider them to be high risk clients. SMEs are considered as high risk businesses because they lack the necessary collateral to serve as security for loans and it is costly. This is because applicants from the informal sector tend to apply for small loans which require the same administrative procedure and oversight that are required for the relatively larger loan request made by medium or large scale firms. Hence, the co-operate culture of banks and financial institutions are far removed from the informal world of the micro-entrepreneur.

Microfinance institutions are therefore expected to fill this gap and provide financial and other business support to small and medium scale businesses. Also like other countries of the world, SMEs in Ghana have the tendency to serve as sources of livelihood to the poor, create employment opportunities, generate income and contribute to economic growth. Despite its increasing roles, access to credit by SMEs remains one major constraint. The study therefore seeks to find out whether SMEs in Ghana, specifically Kumasi have access to loans from the various microfinance institutions (Deson Microfinance & GIFS Microfinance) and to investigate the contributions of these loans to SMEs performance.

### **1.3 Objectives of the study**

The general objective of this study is to find out the impact of micro credit on SMEs performance. Specifically the study aims at:

1. To find out the volume of loans granted by MFIs to SMEs
2. To find out the challenges SMEs face when assessing micro-credit
3. To compare the rate at which SMEs borrow from MFIs as against other sources of capital

### **1.4 Research Questions**

1. What is the impact of micro credit on SMEs performance
2. What is the volume of loans granted by MFIs to SMEs
3. What are the challenges SMEs face when assessing micro-credit
4. What is the rate at which SMEs borrow from MFIs as against other sources of capital

### **1.5 Significance of the Study**

The outcome of this research, which seeks to investigate the impact of microfinance on SMEs in Kumasi, will serve as a guide to policy formulation and decision making input over the years. Also the findings of this study would be used as an additional guide by economic policy makers into SMEs in Ghana. Also the results of the study can be adopted and used as a guide to take more pragmatic decisions. The study will also make known the activities of the two microfinance institutions under study, which will highlight their activities in the broader perspective in terms of granting loans and credit to the various SMEs. The study will also serve as literature which will contribute and add up to the existing knowledge of the proposed topic.

### **1.6 Scope of the study**

The study will focus on the city of Kumasi which has an appreciable level of development with an equally appreciable influx of both SMEs and MFIs. The phenomenon has in effect resulted in making the city quite vibrant for business and hence a precise location for this research works. Specifically, the study focused on Deson microfinance and GIFS microfinance institutions in the Kumasi metropolis as well as the various individuals and groups within the SME sector who form the client base of these two MFIs.

### **1.7 Limitation of the study**

The possible limitation of the project is attributed to the lack of time as well as insufficient funds. The study would have been quite broad and representative if it had covered all microfinance institutions nationwide. However, the research is limited to only two microfinance Institutions in Kumasi.

## **1.8 Organization of the study**

The entire project is organized in five chapters. The introductory part is chapter one. It deals with background information on the topic, the problem statement, research objectives, and significance of the study, research questions, limitations and delimitations. Chapter two comprises review of the relevant literature of the study. Some of the notable areas reviewed included: Concepts of micro, small and medium scale enterprises, sources of finance of SMEs, activities of financial non-governmental organizations and challenges facing the microfinance sector.

Chapter three consists of the methodology, the instrument used for the study, population, sample, and sampling techniques. Chapter four presents the results of the study through an analysis of the data from the field survey and finally the summary, conclusions and the recommendations are presented in chapter five.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter primarily seeks to review literature related to the two main subjects of discussion; micro, small and medium scale enterprises as well as microfinance Institutions.

#### **2.1 Theoretical Review**

The need to attain economic stability and survival necessitates the invention and creation of income generating activities both by nations and individuals. In Ghana and the world over, poverty is a common phenomenon. Despite various attempts by Governments, donors and other Development programs to handle/reduce poverty, this problem has significantly increased in the past decade with approximately 50% of the sub-Saharan Africa living below the poverty line, defined as subsisting on less than 1 US dollar a day. At the national level of many African countries therefore, poverty is a crisis that will require the concerted efforts of different actors. Among the poor persons, women are more vulnerable to poverty than men. For instance, 69 per cent of the active female population in Kenya work as subsistence farmers compared to 43 per cent of men (Nwaniki, 2006. Owing to this fact, series of attempts are made by various organizations and bodies with the primary aim of reducing and eradicating poverty. Over the last two decades, an increasing number of formal sector organizations (non-government, government, and private) have been created for the purpose of achieving these same goals.

## **2.2 The Concept of SMEs in Ghana**

In Ghana, available data from the Registrars' General Department indicated that 90% of companies registered are micro, small and medium enterprises. This target group has been identified as the catalyst for the economic growth of the country as they are a major source of income and employment. Data on this group is however not readily available.

As cited by Mensah (2005), the Ministry of Trade and Industry (MOTI), in 1998 estimated that the Ghanaian private sector consisted of approximately 80,000 registered limited companies and 220,000 registered partnerships. Generally, this target group in Ghana is defined as: (i) Micro enterprises – they are businesses that employ up to 5 employees with fixed assets (excluding real estate) not exceeding the value of \$10,000; (ii) Small enterprises – are business that employ between 6 and 29 employees with fixed assets of \$100,000; and (iii) Medium enterprises – they are business entities that employ between 30 and 99 employees with fixed assets of up to \$1 million (*Mensah, 2005; Bell, 1990*).

Several forms of definitions for Small and medium scale enterprises have been churned out for academic purposes. Interestingly, the varying forms of definitions across the world primarily take into consideration headcount (number of people employed) as well as asset base of businesses in classifying them into either small or medium enterprises. Different research papers have on the other hand sought to establish a standard definition with the use of varying approaches, but the most commonly used, is the number of employees approach.

According to the Ghana Statistical Service (GSS), firms with less than 10 employees are Small Scale Enterprises whereas their counterparts with more than 10 employees are considered as Medium and Large-Sized Enterprises. This brings to fore a level of distinction



between the two. Ironically, the GSS in its national accounts considered companies with up to 9 employees as Small and Medium Enterprises. Government agencies such as the National Board of Small Scale Industries (NBSSI) in Ghana apply both the 'fixed asset and number of employees' criteria. Hence, it defines a Small Scale Enterprise as one with not more than 9 workers with an ownership of plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Cedis (US\$ 9506, using 1994 exchange rate. In Europe however, small and medium-sized enterprises are defined according to their staff headcount and turnover or annual balance-sheet total. Consequently, a medium-sized enterprise is defined as an enterprise which employs fewer than 250 persons and whose annual turnover does not exceed EUR 50 million or whose annual balance-sheet total does not exceed EUR 43 million. Other definitions, state a small enterprise as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million (*Yaron, 1997*)

He (Yaron) further defined a microenterprise as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million. Additionally, certain traits and characteristics can be identified with major businesses within the Ghanaian economy. However, the main difficulty or challenge has been how to identify and classify these businesses within the SME bracket. A clear case scenario happens to be that of SSNIT as cited in the work of Mensah (2005). In his work, data from the Social Security & National Insurance Trust (SSNIT) indicated that, by size and classifications, the Ghanaian private sector is highly skewed, with 90% of companies employing less than 20 persons, and a small number of large-scale enterprises.

They are dominated by one person, with the owner/manager taking all major decisions. The entrepreneur possesses limited formal education, access to and use of new technologies. Other studies provide a more detailed outline of the peculiar nature of SMEs. Extensive research findings on SMEs have attested to the fact that characteristics of SMEs are quite similar amongst many countries the world over. Notable amongst these findings is that of the INAFI African trust research project carried out by (Nwaniki, 2006).

**Table 2.1 Characteristics Of SMES**

<b>Peculiar Characteristics</b>	<b>Rank</b>	<b>Remarks</b>
Most do not or rarely keep records	1	Majority of 18 institutions studied mentioned that their clients do not have business records
Lack of traditional collateral  Limited access of financial services	2	They lack the conventional collateral required by banks  SME's lack or have no initial financial resources and lack financial information
Lack of capital stability  Use of simple technology	3	Entrepreneurs within the SME sector have limited capital and as a result they are generally unstable  They rarely use technology and when they do, the technology itself is simple and rudimentary
Mostly owned and managed by an individual  Mostly lack entrepreneurial and management skills	4	Majority of SME's are sole proprietorships and family based enterprises  High illiteracy levels abound among SME's especially small holder farmers. They lack even basic skills in entrepreneurship and business management

With the layout above, one can easily be able to assess and analyse the numerous business set up within the economy and classify them accordingly. It is a point worth noting, that further classifications could also be available in other rich sources of literature. In spite of the similarities in characteristics of SMEs in numerous research papers, this does not necessarily determine a uniform definition across the world. In summary, there appears to be no unique definition for SMEs. This stems from the fact that every country in its attempt to determine a definition basically makes use of different employment yardsticks as cited in the work of Al-Zubayer (2004).

### **2.3 The Concept of Microfinance**

SMEs face numerous challenges including lack of access to credit due to their inability to provide collateral being demanded by the commercial banks, lack of Entrepreneurial & Business Management Skills, Regulatory Constraints, threats from International Markets, local marketing constraints, difficulties in gaining access to appropriate technologies and information on available techniques. Owing to the reasons above, SMEs are considered high risk enterprises and hence do not receive the needed support from banks and other traditional financial institutions.

Microfinance institutions now became the obvious solution to this booming sector. The apparent progress which was to be anticipated needed a certain push and drive. The phenomenon of expected growth appeared far from materialising due to the unstable framework upon which SMEs began. It is against this backdrop that a new system for provision of microcredit was to be introduced. SME development became a major issue of concern within the economic environment of fast growing economies.

In the research paper of Idowu (2010), a major impediment to rapid development of the small and medium enterprises sector is an absence of both debt and equity financing. Accessing finance has been identified as a key element for small and medium enterprises to thrive in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries Idowu (2010). Small business especially in Africa can rarely meet the conditions set by financial institutions, which see small and medium enterprises as a risk as already stated above because of poor guarantees and lack of information about their ability to repay loans Idowu (2010). Without finance, small and medium enterprises cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms Idowu (2010). Cork and Nisxon (2000), also emphasizes on the fact that poor management and accounting practices do hamper the ability of smaller enterprises to raise finance. This is coupled with the fact that small businesses are commonly owned by individuals whose personal way of life may have far reaching effects on the operations and sustainability of such businesses according to Idowu (2010).

#### **2.4 Definitions supporting Microfinance**

The term microfinance refers to a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very or extremely poor in growing or establishing their businesses. It is mostly used in developing economies where SMEs do not have access to other sources of financial assistance (Robinson, 1998).

In another breadth, the term microfinance is usually understood to refer to the provision of financial services to micro-entrepreneurs and small businesses which lack access to banking and related services due to high transaction cost associated with dealing with such range of clients. Generally, provision of credit by MFIs is undertaken using two major approaches, namely; relationship- based banking which is structured for individual entrepreneurs and small businesses as well as group – based modules in which several entrepreneurs come together to apply for loans and other financial services as a group. Research, the world over has come to establish quite a wide range of functions of MFIs since their inception.

One other function of MFIs can be said to be financial intermediation which involves the provision of social intermediation services such as the formation of groups, development of self confidence and the training of members in that group on financial literacy and management cited in the work of Ledgerwood (1999). Other sections of social advocates like gender activists also from another perspective consider microfinance as a means of empowerment through support for women and other women groups in order to forge economic participation. Boyle (2009) claims that by supporting women's economic participation, microfinance helps to improve household well-being.

Elsewhere across the African continent, precisely South Africa, this is supported by a study by Karlan and Zinman (2006) where recipients of microcredit were shown to be better off, economically, than non recipients. Further research works also attest to the fact that the opportunities created by credit availability helps a lot of poor people to invest in their own businesses, educate their children, improve their healthcare and promote their overall well-being (Littlefield, 2005). In another study by Khan and Rahaman (2007) in the Chittagong

district in Bangladesh, recipients of microfinance facilities were reported to improve their livelihoods and moved out of poverty. More importantly, Khan and Rahaman (2007) reported that microfinance recipients had empowered themselves and become very active participants in the economy.

Not only that, an attempt to examine the impact of microfinance using regression module as stated by (Priya, 2006) established that there is significant positive relationship between credit recipients and income; the findings suggest that program participation led to a 10% increase in income. However, the UNCDF (2009) report suggests that though microcredit may be helpful in reducing poverty, it is never a panacea and that it is only one of such tools to reduce poverty or the vulnerabilities of the poor. Buckley (1997) and Rogaly (1996) have also noted that microfinance may not always be the best tool to help the poorest of the poor.

Similarly, Hashemi and Rosenberg (2006) are of the opinion that in spite of the prime focus of microfinance as a tool for poverty eradication; it really does not reach the poor. The target group of MFIs are self employed low income entrepreneurs including; traders, seamstresses, street vendors, small farmers, hairdressers, rickshaw drivers, artisans blacksmith etc. (Ledgerwood, 1999). These groups of individuals may not necessarily fall within the poverty bracket even though they currently form the major group of beneficiaries.

## **2.5 Forms of microfinance providers**

The advent of microfinance operations in Ghana dates back to the early 1970s as established in the opening chapter of this work piece. The main purpose, to promote the activities of small and medium scale businesses. Since the traditional finance houses were not willing enough at the initial stages of SME development to support these businesses, other agencies

found them potentially viable and hence took up the business of seeing to their growth and development. Notable amongst these organisations in the bracket of providers of microfinance (MF) services include; non-governmental organisations (NGOs), savings and loans cooperatives, credit unions, government banks, some commercial banks or non- bank financial institutions etc.

The core mandate of MFIs had still not been clearly spelt out. The challenge has always been how to categorize the target beneficiaries. The question is, should they provide services for already established SMEs or support the poor and unemployed who appear to be the object for their inception. Again, are MFIs supposed to be profit oriented setups or Non – profit oriented entities. These and some other reasons brought about the involvement of Non-governmental organizations and other cooperative unions, the advent of which brought an equilibrium between the non- profit oriented MFIs and the others.

In spite of the numerous developments over time, there still appears a worrying trend. Studies have shown that core sectors of SMEs still do not get the needed push owing to reasons quite different from the ones afore mentioned. Manufacturing activities within the sector (such as shoes, carpentry, clothes etc.) are only supported by less than half of the huge chunk of financial institutions. On the whole, this sub-sector remains relatively small and underdeveloped mainly because of stiff competition from high quality imports and other established local manufacturers within the countries they find themselves.

## **2.6 Economic Development**

Studies all over the world have unequivocally established SMEs as the backbone of every growing economy specifically in the private informal sector (SMEs) and most employments in Ghana largely focuses on small and medium-scale enterprises (SMEs). Hence, the contributions the sector makes to economic growth and development through job creation cannot be overemphasized.

Statistical figures made available by Ghana's National Industrial Census (NIS) made it known that there were a total of 26,190 MSMEs in Ghana around 2003. Amongst these, micro and small enterprises were the predominant business units at the time, constituting more than 95% of all business units. Some 14,438, or 54.5%, of the total number of SMEs, were classified as micro-enterprises based on the classifications set forth by the National Board for Small Scale Industries (NBSSI). In manufacturing, for instance, out of a total of 26,088 business units, only 251 units were large scale enterprises. The figures simply painted the tremendous role and its associated unparalleled impact to the Ghanaian economy.

This impact can be said to a global phenomenon as far as SMEs are concerned. For instance, in countries with large corporations such as the United States, SMEs are noted for contributing a very substantial percentage to employment generation. It is estimated that SMEs employ 22% of the adult population in developing countries (Daniels & Ngwira, 1992; Fisseha & McPherson, 1991). According to Schmitz (Schmitz, 1995) SMEs perform useful roles as flexible in nature and are able to withstand adverse economic conditions. They are more labour intensive than larger scale firms and therefore, have lower capital costs associated with job creation.



The positive phenomenon of contribution made by SMEs to the employment situation in Ghana is worth noting. By the early 1990s, Steel and Webster (1990) SMEs employment grew by 2.9% per annum (ten times as many jobs than large scale enterprise). The SMEs provide employment to 60% of the work force in Ghana, 55% of employment in Canada (<http://www.cfib.ca/research/reports>), 70% of total employment in the European Union (<http://www.enterpriseurope-network.ec.europa.eu/files/SMEs>) and at least 70% of private sector workforce in South Korea. The table below shows the employment distribution of enterprises among SMEs in Ghana. In addition to job creation, SMEs help in equitable allocation of resources as well as wealth redistribution especially among low income groups. SMEs tend to be widely dispersed reaching remote and relegated settings, hence helping reduce the income gap between urban and rural areas.

According to Abor and Quartey (2010), there is a general consensus that the performance of small and medium enterprises is important for both economic and social development of developing countries. From an economic perspective, Advani (1997) comes up with the fact that small and medium enterprises provide a number of benefits, thus small and medium enterprises have been noted to be one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low-income countries. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are thus potential sources of employment and income in many developing countries.

As cited in the work of Kayanula and Quartey (2000), small and medium enterprises seem to have advantages over their large-scale competitors in that they are able to adapt more easily to market conditions, given their broadly skilled technologies. They are able to withstand

adverse economic conditions because of their flexible nature. Other research works by (Anheier and Seibel, 1987; Liedholm and Mead, 1987; Schmitz, 1995) contributed that small and medium enterprises are more labour intensive than larger firms and therefore have lower capital costs associated with job creation.

## **2.7 Major challenges confronting SMEs**

The SME sector just like any sector of the economy is saddled with fundamental issues which generally hampers their growth and development. These issues could be attributed to several factors including the business environment, nature and other societal factors. However, the impact varies from one economy to the other even though there may exist certain similarities. This study seeks to identify the following;

### **Input Constraints:**

Scarcity, cost and unavailability of raw materials to feed SMEs which are into manufacturing have been the most common constraint. The specific problems differed by country, but many of them were related, with a few variations depending on whether the business perceived that their access, availability or cost was the most important problem and whether they were based primarily on imported or domestic inputs (World Bank, 1993; Parker et al, 1995). The situation in Ghana according to Parker et al (1995) had to do with the high cost of obtaining local raw materials; which did stem from their poor cash flows.

In a further research by Aryeetey et al (1994), it was found out that 5% of their sample cited the input constraint as a problem. Essentially, finance may not have necessarily been the problem but availability of raw materials. Additionally, Daniels & Ngwira (1993) established that about a third of Malawian SMEs reported input problems. In other parts of Africa,

specifically, Botswana, Swaziland and Lesotho, statistical figures also established that only 8.2%, 7.5% and 6.3% of proprietors alluded to the same issue of input constraints. The study further brought to bare that input constraints did vary with firm size.

### **Financial constraints:**

The issue of access to finance and basic capital remained a dominant constraint to many small and medium scale enterprises in Ghana. Credit constraints pertaining to working capital and raw materials were cited by respondents (between 24% and 52% in Parker et al, 1995). In a survey carried out by Aryeetey et al (1994), he reported that 38% of the SMEs surveyed mentioned credit as a major constraint. The situation did not pertain to only countries in the West African sub-region. Further research carried out indicated that in Malawi, financial constraints accounted for 17.5% of the total sample (Daniels & Ngwira, 1993). In effect, it was established that SMEs have limited access to capital markets, both locally and internationally, owing to the general perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms. As a result, SMEs often cannot obtain long-term finance either in the form of debt or equity.

### **Labour Market:**

Labour, in our part of the world appears a less important constraint to SMEs considering the widespread unemployment or underemployment situation in our countries. SMEs generally use simple technology which does not require highly skilled workers. However, where skilled labour is required, an insufficient supply hampers the specialization opportunities, raise costs, and reduce flexibility in managing operations. The situation largely affects productivity. According to Aryeetey et al 28 (1994), 7% of their respondents indicated that they had

problems finding skilled labour, and 2% had similar problems with unskilled labour. However, only 0.9% of firms were reported to have had labour problems.

### **Equipment & Technology:**

SMEs have difficulties in gaining access to appropriate technologies and information on available techniques. This limits innovation and SME competitiveness. Besides, other constraints on capital, and labour, as well as uncertainty surrounding new technologies, restrict incentives to innovation. 18% of the sampled firms in Aryeetey et al (1994) mentioned old equipment as one of the four most significant constraints to expansion (18.2% in Parker et al, 1995), this is in contrast to the 3.4% reported in Malawi (Daniels & Ngwira, 1993; Makoza & Makoko, 1998).

### **Domestic Demand:**

24.9% of Malawian proprietors indicated they had marketing constraints, while 5% of respondents were the figure quoted in the Ghanaian case (Aryeetey et al, 1994; Daniels & Ngwira, 1993). The business environment varied markedly among SMEs in countries, reflecting different demand constraints after adjustment. There were varying levels of uncertainty caused by macroeconomic instability and different levels of government commitment to private sector development. Recent economic policies have led to a decline in the role of the state in productive activity but a renewed private investment has created new opportunities for SMEs. Nonetheless, limited access to public contracts and subcontracts, arising from cumbersome bidding procedures and/or lack of information, inhibit SME participation in these markets. Also, inefficient distribution channels often dominated by larger firms pose important limitations to market access for SMEs. As noted in the case of Ghana, demand constraints limited the growth of SMEs (Parker et al, 1995).

### **International Markets:**

Previously insulated from international competition, many SMEs are now faced with greater external competition and the need to expand market share. However, this problem was mostly identified in medium-sized enterprises in Ghana (12.5% in Aryeetey et al, 1994:13), less than 1% of the total sample complained there were too many imported substitutes coming into the country. Daniels & Ngwira(1993) also reported a similar figure for Malawi (0.9%).

However, Riedel et al (1988), reported that Tailors in Techiman (Ghana) who used to make several pairs of trousers in a month went without any orders with the coming into effect of trade liberalisation. Limited international marketing experience, poor quality control and product standardisation and little access to international partners, impede expansion into international markets. It is reported that only 1.7% of firms export their output (Aryeetey et al, 1994).

### **Regulatory Constraints:**

Although wide ranging structural reforms have improved, prospects for enterprise development remain to be addressed at the firm-level. (Quaye obli, 2006)

**Legal:** High start-up costs for firms, including licensing and registration requirements can impose excessive and unnecessary burdens on SMEs. The high cost of settling legal claims and excessive delays in court proceedings adversely affect SME operations. In the case of Ghana, the cumbersome procedure for registering and commencing business were key issues often cited. However, Aryeetey et al (1994) found that this accounted for less than 1% of their sample. Meanwhile, the absence of antitrust legislation favours larger firms, while the

lack of protection for property rights limits SME access to foreign technologies. (Quaye, 2006)

### **Managerial Constraints**

As cited in the work of Quaye (2006) even though SMEs tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, prevalent in most countries in the region, has a magnified impact on SMEs. The lack of support services or their relatively higher unit cost can hamper SME efforts to improve their management because consulting firms often are not equipped with appropriate cost effective management solutions for SMEs. Furthermore, absence of information and/or time to take advantage of existing services results in weak demand for them. Despite the numerous institutions providing training and advisory services, there is still a skills gap among the SME sector as a whole. According to Daniels & Ngwira (1993), about 88% of Malawian SMEs desired training in various skills but as of 1992, less than 6% have actually received it. In Ghana, a lot has actually been achieved in this regard, though there is still room for improvement.

### **Associations and collective action:**

For the purpose of oneness as well as the creation of a vibrant force to seek the welfare of SMEs, associations and groups are formed. The vision of these entrepreneur associations are yet to be achieved i.e. to complete the transition of their goals from protectionism to competitiveness as cited in the by World Bank (1993). Moreover, the potential economies of collaborative arrangements in production and sales among SMEs have not been adequately explored. Reports have shown that about 98% of all SMEs in Malawi sell their products to the final consumer with the exception of chemicals, plastics, and wholesale trade which sell to other commercial or manufacturing enterprises Makoza & Makoko (1998).

The dependence of the SME sector in Ghana on large-scale enterprises as purchasers of output, either for sale, as final goods or to be used as intermediate inputs, are very limited. In spite of the formation of such associations, they struggle to ensure a fine tuning of SMEs performance on a broader scale owing to perceived individual interests and goals.

## **2.8 Prospects of SMES and MFIs Institutions in Ghana**

Global trends, approaches and policies aimed at poverty alleviation have come to appreciate the effort of these two economic development machineries. As already stated in this study, a fundamental relationship exists between the two. By implication, they both depend on each other even though one's development can be said to be highly reliant on the other i.e SMEs on MFIs. Despite the challenges posed by larger industry players, they are foreseen as engines of growth for the advancement of a global economy.

Ghana is no exception to this imminent progress. As a member of the third world economies, SMEs and MFIs are tipped to spearhead this voyage into a destination of sustainable growth and prosperity. The numerous services provided by by SMEs in the area of manufacturing, supply, sales and distribution in addition to other services continue to attain progressive levels of innovations. The use of modern technology even on small scale has introduced a new wind of change. Agricultural inputs such as fertilizers and modern technology are gradually being embraced by local farmers through attractive and resourceful services being made available by MFIs to SMEs.

The poor, account for over-half of the population. However, they do not have access to formal banking services and hence rely heavily on formal and informal microfinance

institutions for credit. For instance in Nigeria's large population, (over 130million people) require the production of goods and services on daily basis and funding is required for the production. The microfinance institutions operations are therefore expanding and have a prominent role to play in the development of small scale enterprises in Nigeria.

Since the microfinance institutions are in everyway financing the small scale enterprises in order to keep them in line and also ensure that funds which they need are available and at the right time, the future of SMEs therefore is very bright in Nigeria. The growth of SMEs would in turn have a positive effect on MFIs .The first is for the microfinance institutions to reach a greater number of the poor. A CBN survey conducted in 2005 indicated that their client base was about 600,000 in 2001 and there are indications that they may achieve a remarkable increase in subsequent years.

## **2.9 Refined procedures**

The potential of SMEs are often not realized because of problems highlighted in previous section of this study. It is therefore imperative that special efforts be made to strengthen the private sector so as to enable it function as an engine of growth. To preserve their narrow profit margins, SMEs in Ghana need to be innovative in their provision of goods and services as well as resort to strategies that encourage their growth in the long run. The need today is also to embrace modern trends of trade and business management to harness human capabilities through the process of increased communication, co-operation and linkages, both within the enterprise as well as across enterprises and knowledge-producing organizations to increase networking (Ayibani, 2011)



Additionally, there should be policy framework aimed at fine tuning the operations of SMEs given them a formidable and sustainable image which attract private sector support in boosting their existence. MFIs may have their own difficulties. Despite criticisms meted out to them, micro-credit is considered an effective strategy for poverty reduction globally with the potential of transforming the lives of poor people. The Government of Ghana in her GPRS I & II now “Ghana Shared Growth and Development Agenda” (GSGDA) which aimed at reducing poverty adopted micro-credit policy and launched MASLOC as a National Policy. This targeted poverty reduction strategy was aimed at empowering women, assisting vulnerable groups, and improving standards of living. Its importance was summarized by the former UN Secretary General Kofi Annan during the launch of the International Year of Micro Credit; “Sustainable access to microfinance helps 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 choices that best serve their needs," (Kofi Annan, 2005).

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Introduction**

This section of the study primarily seeks to cater for the specific methods and techniques employed in undertaking this research. The entire chapter clearly spells out the means through which these techniques are used and how effectively they contribute to the realization of the set objectives. Notable within the section are in- depth information with regards to the population, sample and sampling techniques which are employed in carrying out this research. Further information is provided concerning the research design, data collection and mode of analysis.

#### **3.2 Research Design**

The main purpose of this study is to ascertain the impact of Microfinance Institutions on SMEs. Hence sampling methods are employed in this research work in the entire process of gathering data from the chosen population. As an investigative academic exercise, this study is a means through which the characteristics of a given population are put under scrutiny by collecting data from a sample of the said population in an attempt to ascertain their characteristics through the systematic use of statistical methodology. It is a point worth noting that, for this research work, the approach can be said to be quantitative. This was quite evident since the survey basically combined both primary and secondary data as a determinant of the expected results. For an effective and a near absolute representation of the sample of the chosen population, the survey was highly dependent on the use of simple and well-designed questionnaires with which gave respondents much ease at opening up and freely provided sufficient information by answering the research questions. Most importantly, it gave room for the interview to be undertaken without external interference which could

have altered the qualitative nature of the required information. In spite of the above observation, one could not rule out the certainty of inaccurate information from an insignificant number of respondents for various reasons highly exclusive to these respondents. .

### **3.3 Population and sampling**

The population of the study consists of the number of SMEs, individuals and groups who fall within the client bracket of Deson financial services as well as Global investments financial services. Records from both institutions disclosed a client base of 2,345 and 3,170 for Deson and GIFS respectively. Owing to the fact that the two institutions are located within the same vicinity as most of their clients, the study did focus specifically on their clients located within Kumasi even though each company had clients in other parts of Ashanti region. With a sample size of 200 SMEs; 100 from each institution, the study covered two main categories of clients. The first group being already established businesses which joined these MFIs, saved with them and obtained facilities for expansion. The second group comprised businesses that began from scratch with support from these MFIs after a reasonable period of savings by owners .The businesses covered comprised, commerce, manufacturing and service. Forty eight (48%) percent are engaged in commerce whereas 28% are into service. The manufacturing sector was known to comprise 24% of the total sample. The research established a higher patronage of MFIs services by the commerce group than the service and manufacturing group probably owing to the fact that the amount of capital invested in commerce may be quite lesser than the amount invested in both service and manufacturing respectively.

### **3.3.1 Sampling Technique**

For the purpose of accuracy and precise data representation, the sample was selected based on purposive non- random sampling. This was used for the purpose of locating specifically, clients of the selected MFIs. Snowball sampling techniques was also used for the purpose of easily locating these same clients who were out of reach during the period of carrying out this research. This approach made it quite easier locating customers who were not reached at the banking hall during the time of administering the questionnaire. With the assistance of mobile bankers of the respective financial institutions, locating these clients was quite easier.

### **3.4 Brief profile of Microfinance Institutions being studied**

The two main Institutions were chosen for the purpose of this study mainly due to their legal status as registered outfits with their license approved by B.O.G and also the Registrar general as well as the fast pace of growth they appear to be attaining in spite of the boisterous competition in the sector. They add up to the growing number of MFIs in Kumasi, specifically, thirteen in number according to the NBSSI (quaye obli, 2011). Located at Asokwa and Aboabo respectively, GIFS and Deson microfinance were both established in the late 2000s. With an average client base of close to five thousand (5000), they are both thriving so well and seem to be contributing in quite a considerable way in assisting not only SMEs but also individuals and groups with loans and other credit facilities .According to GIFS, loans given out to about 635 customers including SMEs in the last two years amounted to GHC2000, 000. (GIFS microfinance)

### **3.5 Type of Data and data collection tools**

Data collected for the study comprised both primary and secondary data. Primary data did consist of data gathered from selected SMEs within the scope of the research field. This was done with the use of interview guide and well designed questionnaires. Face-to- face interviews characterized the data gathering sessions on the field with owners of these selected businesses. Additionally, further information gathered from the individual MFIs were added to the set of data gathered as primary.

The secondary data was obtained from financial records of the two microfinance institutions under study and their existing data on granting of loans to SMEs. Since the study was undertaken using the purposive sampling technique, the research covered strictly the two MFIs and their respective clients.

### **3.6 Data Analysis**

Data collected by use of the questionnaire were analysed, summarised, and interpreted accordingly with the aid of descriptive statistical techniques such as total score and simple percentage. Qualitative as well as quantitative methods were used in the analysis of the primary data collected. In order to ensure statistical accuracy, the available quantitative data was analysed using Statistical Package for Social Scientists (SPSS) and Microsoft Excel. The findings were presented in the form of tables, charts and figures.

## CHAPTER FOUR

### ANALYSIS, DISCUSSIONS AND PRESENTATION OF RESULTS

#### 4.1. Introduction

This chapter presents a detailed discussion and analysis of findings of the study with much emphasis on the responses received, findings of the study, tables and figures and other related charts that are useful to the study. The chapter again seeks to present detailed discussions on the profile of SMEs who are beneficiaries so the products of the respective MFIs under study, the contribution of MFIs on the entrepreneurial activities that lead to sustainable growth of SMEs in the Kumasi metropolis. Additionally, the challenges SMEs face in accessing credit, and the utilization of credit by SMEs for business growth are also discussed and analysed in this chapter. Data collected for the study were quantitatively and qualitatively analysed.

#### 4.2 Responses Received

The questionnaires distributed were into categories, one category for SMEs and the other for MFIs. In all, 170 questionnaires were distributed for responses. Out of 170 questionnaires given to respondents, 162 were received representing an overall response rate of 95.29%. The collected responses were made up of 2 completed questionnaires from MFIs, and the remaining 160 were collected from the SMEs. This is represented below in

**Table 4.2 Responses (SMEs and MFIs)**

Category	Questionnaires	Responses	Responses Rate
SMEs	168	160	94.11
MFIs	2	2	1.18
Total	170	162	95.29

**Source:** Field Survey, April2013

### **4.3 Background of Selected SMEs**

This study sought to establish the background of all the respondents covered during the research. This became necessary owing to the fact that a comprehensive outlook of the sample of the study was required in order to determine and know if they fit in the category of the right respondents needed for the research. For this purpose, the research needed to identify the extent of existence of these SMEs and it was of much relevance knowing when these SMEs began operations.

#### **4.3.1 Years of Operation**

Majority of businesses, about 60% percent out of the 100 respondents (SMEs) began their operations between the period 2003 and 2006. It goes on to show that a little over 20% of SMEs who have subscribed to the main MFIs under study, sprung up in the early and late 2000s respectively. The study also could identify that all the respondents (SMEs) started their businesses between 2001-2011. This could be sufficient evidence to support the fact that most SMEs began operations just within the same time frame as the inception of many MFIs within the Kumasi metropolis. Owing to this, one can generally allude to the fact that most of the SMEs sampled for the study were established in the 21st century, a somewhat clear indications of the joint relationship between MFIs and SME.

#### **4.3.2 Purposes of establishing businesses**

In establishment of business, various objectives are taken into consideration before such establishment come into existence. When respondents were asked about these objectives; varied objectives were given such as:

- To generate income to support their family

- To serve the community
- For better growth of Ghanaian economy
- To create employment opportunities for other Ghanaians
- To be self employed

### **4.3.3 SMEs and Employment**

The preceding chapters of this study brought to fore the employability rate of SMEs in Ghana, Nigeria, South Africa and other parts of the world. The study identified and concluded on the premises of other research works thus, ME employability was quite limited owing to several reasons such as inability to pay salaries and finance operations. Consequently, the study went further to ascertain the real employment situation on the ground with regards to SMEs in Ghana.

The number of employees borne by the individual SMEs across the various categories captured in this study ranged between 2 and 99. In terms of the statistics, majority of these businesses employed between 6 to 9 people comprising 38% of the sample whereas those 30% employ between 10 to 29 people. A considerable number, specifically, 28% did employ less than 6 people. The least of the sample were those who employed between 30 and 99 people.

The statistics then shows how much SMEs are contributing in terms of employment in spite of their low rate of employment. This finding falls in line with that of Kumasi Metropolitan Assembly (KMA) which says that Kumasi is predominantly trade and commerce with an employment level of 71 percent. Also, it is imperative to mention that most SMEs in the Kumasi metropolis area employ less than six people in their businesses.



In defining small- scale enterprises in Ghana, Steel and Webster (1991), and Oseieta l (1993) used an employment cut-off point of 30 employees. Oseieta l (1993), however, classified small- scale enterprises into three categories of which the first category is Micro which employs less than six people.

#### **4.3.4 Sources of Business Capital**

On the sources of business capital which remains an integral part of every business, it was found that, 16percent sponsored themselves for the initiation of their businesses, 12 percent relied on friends and relatives, 4 percent were from partnerships, with a majority of 51 percent acquiring loans from other financial institutions, with only17percent acquiring capital from other sources. However, it was unanimously agreed among all respondents that the capital for the operation of their businesses are not adequate as per the demand of goods and services they need for their operation.

#### **4.3.5 Products Offered by MFIs and their effects on SMEs**

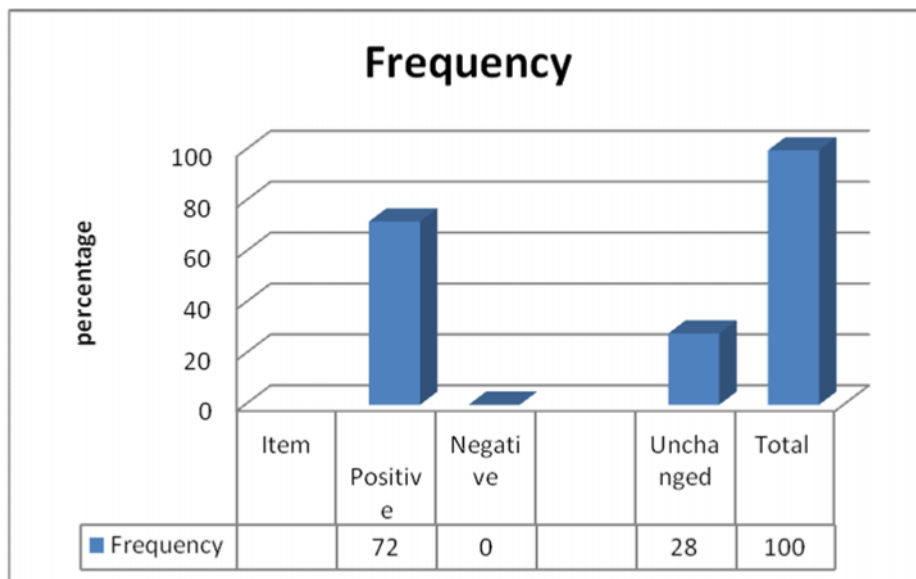
In a related discovery, most of the respondents who had knowledge of MFIs alluded to the fact that loans from MFI shave to some extent been enhancing their managerial, financial and management skills of their businesses. This was due to the fact that the need to pay back the loan with its interest made them vigilant and cautious in the usage of money in the running of the business.

In terms of applying for a credit facility, 84% of respondents had done so. The remaining 16% had either never attempted going for a credit facility or got discouraged along the way. This outcome gives much evidence that, not all the SMEs are granted loans and other financial credit from the MFIs except in cases where policies and requirements of the MFIs are met by the SMEs. It further reveals that, much of the loan facilities granted by the MFIs are either used as an add up of the accumulated amount towards the expansion of their business or for the day to day operation of their business as MFIs do not always grant some part of the full amount of credit facility applied for by SMEs.

#### **4.4 The Impact of Micro-credit on SMEs Performance**

The existence of MFIs has in one way or the other contributed to the development of SMEs. When SMEs were asked whether the existence of MFIs have had any effect on their business, it was found that majority of them, precisely, 72 percent recorded a positive effect, while 28 percent remained unchanged as shown in Table 4.7.1 below. However, none of the respondents indicated a negative effect of the existence of MFIs on their business a positive indication of MFIs impact on SMEs. A similar revelation was made in the research work of Rhyme and Otero (1992), when they indicated that MFIs that financially sustainable with high outreach have greater livelihood and also have a positive impact on SME development because they guarantee sustainable access to credit by the poor.

**Table 4.1: Results on the effect of MFIs on SMEs**

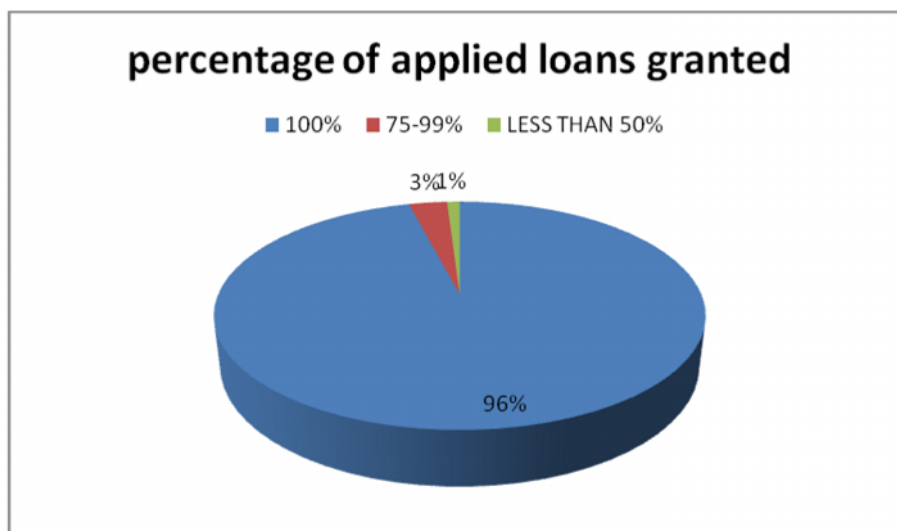


**Source:** Field Survey, April 2013

#### **4.5 Volume of Loan Granted**

The study shows that, majority of the SMEs are granted the total amount they applied for. Ninety six percent (96%) of the studied sample were granted exactly 100% of the loan they applied for with 3 percent of the SMEs also being granted between 75- 99% of the loan. Only one percent of the total sample was given less than 50% of the loan they applied for. However, indication from the beneficiaries shows a period of uncertainty in the granting of loan facility.

**Figure 4.2 Volume of Loan Granted**



**Source:** Field Survey, April 2013

The Waiting Period Required to Access Credit. The preceding statistics on volume of loan granted though encouraging did not point out the actual time taken before these loans applied are granted. As shown in table 4.4.2 below, majority of the beneficiaries take between 2-3 weeks to access loans from the MFIs, while 28.68 percent takes 3-4 weeks, 24.81 percent takes 1-2 weeks and 14.73 percent takes more than 4 weeks to access credit facility from the MFIs. Evidently none of the respondents take less than a week to access credit facility from the MFIs; this may be due to the documentation and authentication of documents associated with the accessing of credit facilities. The study also revealed that various reasons could be attributed to the length of time it takes for loans applied to be granted.

**Table 4.3 Period it takes to Access Credit**

<b>ITEMS</b>	<b>FREQUANCY</b>	<b>PERCENTAGE</b>
Less than a week	2	2
1 – 2 weeks	2	2
3-4 weeks	52	52
Above 4 weeks	44	44
<b>Total</b>	<b>100</b>	<b>100</b>

**Source:** Field Survey, April 2013

#### **4 5.1 The level of Satisfaction of SMEs**

Transacting business with MFIs come with varying expectations from partners involved in the business. When respondents were asked of their expectations before transacting with MFIs, it became known that, each respondent and his/her own expectation but were all converging to the point of acquiring loan, some of their expectations include:

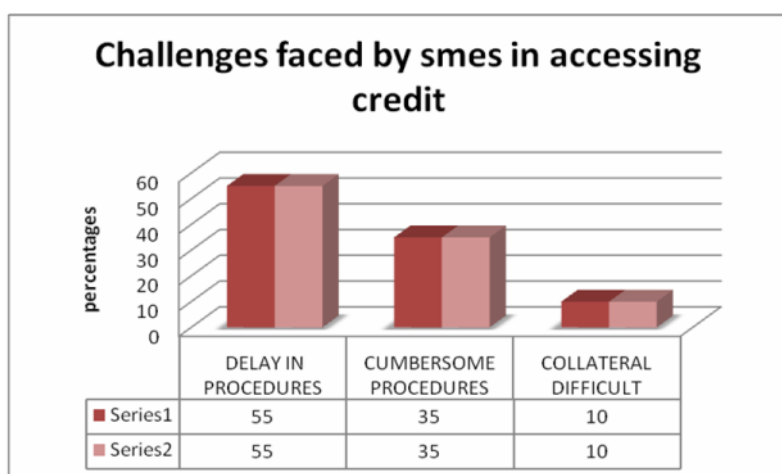
- To access prompt credit
- To be assured of getting credit on time and as and when needed
- To access more funds to expand their business
- To receive support such as management training and accounting skills to manage their businesses.

Figure4.6.1below shows an overwhelming expectations being met by the beneficiaries of the product so MFIs as indicated, a little over 70 percent of the beneficiaries expectations were met, with 6percent not having their expectations met. The remaining percentage (24%) could hardly tell whether expectations were met or not. However, their response gave every indication that most SMEs have high level of satisfaction in the operations of MFIs.

#### 4.6 Challenges SMEs Face in Accessing Credit

The issue of credit access from MFIs even though quite remarkable has with it challenges which mostly discourage SMEs from accessing credit when the need arises. Available data from the various respondents brought to fore several challenges they face in accessing of loans some of which are captured and displayed in the figure below. As shown, 55% of respondents had issues with delay in the processing of loans by MFIs with regards the duration which can linger from several weeks into months. The findings also showed that 35% of respondents saw the entire process quite cumbersome owing to the numerous documentations and other clerical processes one needs to pass through before securing the facility. The remaining ten percent (10%) had difficulty in securing the required collateral.

#### 4.3 Challenges faced by SMEs



Source: Field Survey, 2013

As common to many schemes, especially with respect to financial institutions, accessing credit facilities come with its own challenges that impede the process and hinder the full potential of utilization of credits granted.

#### **4.7 Types of Credits Requested by SMEs**

Credit accessibility was found to be mainly in short term which dominated with a percentage of 54 whereas 44 percent of the respondents indicated they wanted to have a medium term credit facility from the MFIs and 2 percent requested for long term credit facilities. Majority of the respondents have been successful in almost all of the loans they have applied. Short Term credits dominates in MFIs find it very risky too offer Medium-Long term credit as loans defaults are likely to be higher with such facilities. In addition, the need for short-term credits is driven by the fact that most SMEs use their loans to finance recurrent expenditure incurred in the day-today running of their business.

#### **4.8 Frequency of Credit Requests**

The rates at which SMEs need credit for varied purposes; for business expansion or otherwise was also put in perspective. The issue about credit request and intended purposes received varied responses from SMEs. As some needed recapitalization as often as possible, majority of the respondents are not of how often they needed credit.

As indicated in Table 4.10.1 below, the research pointed out that 58 percent of respondents did not often need loans as compared to 34 percent who often required loans. The minority consisting of 6 percent of respondents did require loans very often. This analysis gives credence to the fact that even though beneficiaries of MFIs do need credit most of the time for their business they do not apply for loans as many times as the need arises. Also, the researcher also found that, SMEs hesitate in applying for credit as often as they need them due to the high interest rate associated with the facilities given to them and the difficulties they face in satisfying some prerequisites needed for the facility.

**Table 4.4 Rate at which credit is accessed**

<b>Item</b>	<b>Very often</b>	<b>Often</b>	<b>Not often</b>
How often do you need a loan	58%	34%	6%
How often do you apply for loans	32%	66%	2%

**Source:** Field Survey, April2013

#### **4.9 Credit Misappropriation**

On the issue of how credits are utilized for business purposes, respondents gave some indication of situations not relating to business for which credits acquired applied.

Below are some of the most frequent purposes for which credits are applied for by some SMEs.

- Payment of school fees
- funerals
- housing building project

Data relating to the usage of the loans also indicates to some extent, the non-usage of the credit acquired for the intended purposes, which amounts to misapplication. It became clear that, 88 percent of SMEs always felt the need to acquired loans for other purposes, and literally use the loans specifically meant for business for other purposes as shown above. The responses show that 28 percent do not use exactly what they have acquired as loans for solely business use but rather used for settling of other pressing social and family issues. Furthermore, majority of the respondents conceded that the loans they acquire lead to increase in their capital base for business operation. This shows that, the operations of the MFIs lead to improvement in the daily activities of the beneficiaries.

However, the non-usage of credit for its intended purpose largely which amounts to credit misappropriation. This is one of the major set backs in the growth of SMEs as admitted by



SME operators. Due to this when respondents were asked to suggest ways by which misappropriation could be minimized or avoided, the following were some of the suggestions given:

- Educating clients on the proper usage of loans by encouraging beneficiaries to use the credit for the intended purpose.
- MFIs should increase their rate of inspection of the shops and the daily activities of their clients.
- By investing in profit-generating businesses that have enough cash flow for repayment of loans given.

It is therefore essential to indicate that favourable structures should be put in place, beyond credit offer, to ensure that SMEs can generate enough income to cater for the needs of their households in order to minimize credit misappropriation.

#### **4.10 Major Contributions of Deson Microfinance and Gifs Micro Finance**

The major contributions of the main microfinance institutions being considered under this

It was found that, all the selected eight (8) MFIs begun their business in the 2000s. They were set up by different group of companies/individuals for various objectives such as:

- To provide timely and attractive financial solutions in a friendly and highly environment
- To provide basic and simple financial services to the lower end of the society
- To encourage savings and investment and give them access to financial intermediaries not open to individuals in the traditional banks.

These MFIs were found to be providing all types of services such as the savings, loan/credit, investment and other non-financial services. Unanimously, all the MFIs selected for the study have all the various forms of businesses as their target market. These include service, manufacturing and commerce. Percent of patronage, manufacturing sector has 25 percent and the other forms of businesses have 12.5 percent.

This is because majority of the clients of the MFIs are mostly found in the areas where selling and buying is the most predominant occupation among the inhabitants and the Kumasi Metropolis is one of such areas where commerce employs about 71 percent of the population. (KMA)

#### **4.11 The Contribution of MFI in the Growth of SMEs**

All the MFIs indicate vast knowledge about the activities of SMEs, and mostly provide credit to them on short term basis alone, and on rare occasions provide medium term loans mostly for the manufacturing industry. Further, observation shows that, most of the beneficiaries normally do not request for huge loan facilities, thereby making it possible for the MFIs to provide the entire credit facility to them.

With regards to the period it takes before a loan is granted, the MFIs indicate that, it takes within 1-4 weeks before credits are granted, however, the speediness, to a large extent, depends on the information provided by the clients since the MFIs authenticate the information before authorization is given for the granting of credits. This assessment of the client's credit worthiness is mainly based on his/her ability to repay the loan and the managerial skill of the client.

#### 4.12 Prerequisites for accessing MFI Loans

On the provision of collateral securities, it was observed that, security is required for certain kind of credits. Some MFIs do not require any form of security at all but rather grant credit based on the savings capacity of the client. In situations where collaterals are needed, it was found that, the MFIs requested any of the following collaterals;

- Land
- Car
- Shops as a reference point for guarantee

On the whole, out of the total percentage of applicants who apply for loans with in amount, the research found that, less than 25 percent of loan applicants qualify for loans as per data given by MFIs. The operations of the MFIs were also associated with some challenges as were enumerated by the MFIs. These challenges are provided below:

- Problem of repayment of loans
- Lack of collateral security required on the part of the SMEs
- Poor records keeping on the part of the SMEs
- Non-disclosure of detailed operations of the SMEs
- Lack of transparency in the business accounts and related business information
- Misappropriation of loans granted
- Lack of proper documentation in terms of business registration and a permanent business address

## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 SMEs Profile in Kumasi Metropolis

The contribution of the SME sector to the economy in terms of employment creation cannot go unnoticed. There are various SME subset or such as; Manufacturing, Service, Commerce and others. Commerce i.e. buying and selling vastly dominates the SME sector (93%) according to this research. There search reveals that it is due to the fact that little investment is required to initiate and run such businesses plus, they do not require any supervisory procedures.

The research shows clearly that a large majority of the SMEs i.e. 72% in Kumasi Metropolis area their Micro stages as they hire the services of six or less staff in their various businesses. The sector though with a huge potential for grow this however faced with a huge money constraint.

Micro Financial Institutions have come to surmount this money constraint by providing start-up capital, as most respondents indicated MFIs to be their chief source of start-up capital according to the research.

##### 5.1.1 MFIs Contribution to the Business Activities of SMEs

The research findings establish the enormous contribution of Micro Finance Institutions (MFIs) to the growth of the SME sector to curb the issue of money constraints since most SME entrepreneurs indicated they could not readily access credit from traditional banks. These contributions are enumerated as follows:

### **Better access to loans**

In this research it was indicated that about 99% loans requests of most SMEs were granted by the MFIs. Most of the SMEs were in the micro stage of operation and some were even newbie's in business therefore they required small loans and also a lot of the SMEs dealt with more than a single MFI. These loans facilitated to increase their capital base thus their businesses.

### **The Saving Habits of SMEs were improved**

MFIs have created an attractive platform that allows Micro businesses to save the little income they earn on a daily basis with little cost. The savings accumulated are the basis for the amount of loans to be granted. With this background, the habit of saving has been improved through such activities of MFIs.

### **Business, Financial and Managerial Training**

MFIs have provided support services for SMEs in the form of business, financial and managerial training. As most SMEs lack the requisite knowledge and some have little knowledge in financial management, this sort of training had beneficiaries make informed financial decisions.

### **General Effects**

From the research a large majority, 86% of the respondents indicated that the general services offered by MFIs have had a progressive result on their various businesses of SMEs.

### **5.1.2 Challenges SMEs Have To Surmount In Order To Access Loans**

The research exposed some of the major challenges SMEs had to overcome in their bid to get meagre loans for their business as most respondents reiterated. These are delay in processing as most documents took a longer time than usual to process.

Cumbersome procedures had to be overcome as most entrepreneurs in this sector were semi-literate and so filling of loan application forms proved to be difficult. Also and inability to provide minimum deposits and collateral difficulties despite the contribution of MFIs in the activities of SMEs, there are some challenges faced by SMEs in the process of accessing credit. Some of the SME respondents find the process of accessing credit as cumbersome.

Some of these challenges are:

- Inability to provide the collateral securities in cases where they are demanded.
- High interest rate was mentioned as one of the challenges faced in accessing credit. The high interest rates in most cases make clients unable to repay their loans.

The MFIs on their part provided some of the challenges they also face in granting credit.

These are:

- Problem of repayment of loans
- Lack of collateral security required on the part of the SMEs
- Poor records keeping on the part of the SMEs
- Lack of transparency in the business accounts and related business information
- Lack of proper documentation in terms of business registration and a permanent business address.

### **5.1.3 Credit Utilization Rates**

The research shows that 72% of SME respondents used the loans for the intended purpose and this brought about a major growth in the SME sector. It also stabilizes the operations of the MFIs for progress and better services. However, ca. 28% of respondents misapplied the loans, which meant inability to achieve growth in business. This misapplication of business loans defeats the purpose of MFIs; in the worst case clients would be unable to repay loans thereby causes a steady rise in loan percentage default and the need for collateral securities for even meagre loan requests.

### **5.2 Conclusion**

We embarked on research to find the impact of MFIs on SMEs that revealed the upsurge of Micro Finance Institutions in the Kumasi Metropolis proved very progressive notwithstanding the associated challenges. It is worthy to note that the operations of MFIs have curbed the major challenge of the SME sector to a very large extent i.e. ready access to loans. The research findings also show that the MFIs have contributed to the development of SMEs through the delivery of non-financial service such as Business, Financial and Managerial training programmes.

Microfinance Institutions have largely established and developed the area of revenue mobilization with their saving schemes which has brought savings to the door steps of the clients, the readiness to receive meagre amounts on a daily basis and above all less costly. This has enhanced the savings habit of the sector as little revenue recipients who where hither to unable to save with the commercial or traditional banks are offered a big opportunity to save. This has aided in reinvestment of the capital saved. It is

also worth mentioning that MFIs provide better access to loans than the traditional banks. As the upsurges of MFIs in the Kumasi Metropolis have improved the activities of SMEs tremendously, the research reveals however that MFIs are faced with few challenges that can undermine their purpose of making ready loans easily accessible to SMEs. It is worthy to highlight these challenges.

The research shows that a quite good number of MFIs require collateral security before loans are granted and this has an adversely effects on SMEs as some are unable to provide the collateral requested. Some members of the SME sector misappropriated their loans for non-business purposes and others. Aside these challenges, the research findings on the impact of MFIs on SMEs in the Kumasi Metropolis have tremendously progressive as the sector can boast of entrepreneurs with a solid financial support.

### **5.3 Recommendations**

From the research findings, the following recommendations can be made to improve service of MFIs in the metropolis and also sustain the progress and perhaps improve the growth of the SME sector.

- The growth of SMEs does not only rely on access to loans but also the creation of favourable and for mid able business environment.
- The MFIs have a great responsibility of making sure that proper use of loans for the purposes intended as that facilitates business acceleration. This can be achieved by making credits or loans client-oriented and not product-oriented.
- Also, appropriate and wide spread monitoring activities should be provided for clients who are granted loans to sustain MFI operations and enhance the growth of SMEs.



- The MFIs could be swift to measure chalked successes by considering factors like high rates of loan repayment, client outreach and financial sustainability, however these cannot be considered as success if their activities do not replicate in the progress of the SMEs.
- The Micro Finance Institutions can research into very profitable business lines and grant loans to clients who have the capacity to capitalize such business lines in order to reduce default rates.

As a final point, it is recommended that the MFIs provide business and financial training on regular basis and in most cases tailor-made toward the training requirements of their clienteles.

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**APPENDIX I**

**QUESTIONNAIRE FOR DATA COLLECTION FROM SMALL AND MEDIUM SCALE ENTERPRISES(SMES) ON THE TOPIC.“THE EFFECT OF MICROFINANCE INSTITUTIONS ON THE GROWTH OF SMALL AND MEDIUM SCALE ENTERPRISES (SMES); A CASE STUDY OF DESON MICROFINANCE AND GLOBAL INV. FINANCIAL SERVICES.**

We would be very grateful if you could spend some time to respond to these questions for us. You are assured that any information provided would be used for academic purposes only and will be held strictly confidential.

Please, tick [] or fill in as appropriate.

**A. DEMOGRAPHICS (To provide detailed profile of Small and Medium Scale Enterprises)**

1. When did your business begin operations?.....

1. What was the objective for establishing your business?

.....  
.....

2. What is your line of business?

a. Manufacturing[  ]    b. Commerce[  ]    c. Service[  ]    d. Others  
(Please specify).....

3. What is the number of your employees?

a. Less than 6 people [  ]    b. 6-9 people [  ]    c. 10-29 people [  ]  
d. 30-99 people [  ]    e. Above100 [  ]

4. What is (are) the source(s) of your business capital?

a. Self[  ]    b. Friends &Relatives [  ]    c. Partnership [  ]  
d. loans from banks &finance institutions    e. Others  
(Please specify).....

5. Do you have adequate capital for your business? a. Yes [ ] b. No [ ]
6. If NO, in what ways do you intend to acquire additional capital for your business?

.....

.....

.....

**B. THE CONTRIBUTION OF MFIs IN THE OPERATIONS OF SMEs**

7. How did you get to know about Micro Finance Institutions (MFIs)?
- a. Friends [ ] b. Media [ ] c. MFI official d. Handbill [ ] e. Others (please specify) :.....
8. Which products of Micro Finance Institutions have you benefited from?
- a. Credits [ ] b. Financial & Management training [ ] c. Others (please specify).....
9. Has the availability of MFIs contributed to the enhancement of your managerial skill, financial management skill and overall business knowledge? a. Yes [ ] b. No [ ]
10. Have you ever applied for credit facility from any other MFI? a. Yes [ ] b. No [ ]
11. What percentage of loan applied was granted?
- a. 100 percent [ ] b. 75-99 per cent [ ] c. 50-74 per cent d. Less than 50 percent [ ]
12. How long does it take to access credit from your Deson/GFIs?
- a. Less than a week [ ] b. 1-2 weeks [ ] c. 2-3 weeks [ ] d. 3-4 weeks [ ]
- e. above 4 weeks [ ]
13. How many Micro Finance Institutions do you work with?
- a. 1 [ ] c. 2 [ ] d. 3 [ ] e. 4 [ ] f. 5 and above [ ]
14. Do you access more credit from MFIs than the traditional banks? a. Yes [ ] b.

No [ ]

15. Did you have any expectations about Deson/ GFIs before doing business with them?

a. Yes [ ] b. No [ ]

16. Have these expectations been met? a. Yes [ ] b.No [ ]

17. Has the existence of MFIs affected your business in anyway

a. Don't know[] b. Positive [ ] c. Negative[ ] d. Unchanged [ ]

### **C. THE CHALLENGES FACED IN ACCESSING CREDITS**

18. What kind of credit do you normally request from MFIs?

a. Short term [ ] b. Medium term [ ] c. Longterm [ ]

19. How many times have you applied for loans from MFIs?

.....

20. Out of the number of times you applied for loans, how many times were you successful in getting the loan?.....

21. Do you find the process for accessing loans from MFIs cumbersome?

Yes [ ] No [ ]

22. Do Deson/GFIs always require collateral securities before granting loans? a. Yes [ ]  
b. No [ ]

23. What kind of collateral do they request?

a. Land [ ] b. House [ ] c. Car [ ] d. Shop [ ] e. Other (Please specify).....

24. Do you always get the collateral requested? a. Yes [ ] b. No [ ]

25. What are the major challenges you face in accessing loans from MFIs?

.....  
.....

**D. THE RATE OF UTILIZATION OF CREDITS BY SMEs**

6

26. How often do you apply for loans from MFIs?

a. Not Often [ ] b. Often [ ] c. Very Often [ ] d. Not sure [ ]

27. Have you ever felt the need to acquire a loan for other purposes apart from business?

a. Yes [ ] b. No [ ]

28. Do you always use the loan solely for the purpose of business ?

a. Yes [ ] b. No [ ]

29. If no, what other purposes do you use your loans for?

.....

30. Do the loans acquired enhance your capital? a. Yes [ ] b. No [ ]

**APPENDIX II**

**QUESTIONNAIRE FOR DATA COLLECTION FROM MICROFINANCE INSTITUTIONS (MFIS) ON THE TOPIC. “THE EFFECT OF MICROFINANCE INSTITUTIONS ON THE GROWTH OF SMALL AND MEDIUM SCALE ENTERPRISES(SMES);ACASE STUDY OF SELECTED SMES IN THE KUMASI METROPOLIS.**

We would be very grateful if you could spend some time to respond to these questions for us. You are assured that any information provided would be used for academic purposes only and will be held strictly confidential.

Please, tick [] or fill in as appropriate.

**A. DEMOGRAPHICS (To provide a detailed profile of MicroFinance Institutions)**

1. When did your MicroFinance Institution(MFI)begin operations?

.....

2. What was the main objective for establishing this Micro Finance Institution?

.....  
.....

3. What products do you provide?

- a. Savings [  ]                      b .Loan/Credit[  ]                      c.Investment [  ]  
d. Non-financial services [  ]                      e. Others

(Please specify).....

4. Which category of SMEs serve as your target market?

- a. Manufacturing[  ] b. Commerce[  ] c.Service[  ] d. Others (Please specify).....

5. Which category of SMEs patronize your products the most?

- a. Manufacturing[  ] b. Commerce[  ] c. Service[  ] d. Others (Please specify).....

6. What challenges do you face in doing business with SMEs?

.....  
.....

**B. THE CONTRIBUTION OF MFIs INTERGROWTH OF SMALL AND MEDIUM SCALE ENTERPRISES (SMEs)**

7. Do you know about the activities of SMEs? a. Yes [ ] b. No [ ]

8.1. What kind of credit facility do you offer?

a. Long term [ ] b. Medium term [ ] c. Short term [ ]

8. What percentage of loans requested do you grant?

a. 100 percent [ ] b. 75-99 per cent [ ] c. 50-74 per cent d. Less than 50 percent [ ]

9. How long does it take to process and disburse credits?

a. Less than a week [ ] b. 1-2 weeks [ ] c. 2 -3 weeks [ ] d. 3-4 weeks [ ]  
e. above 4 weeks

10. What are your criteria for providing credit?

.....  
.....

11. Do you find the criteria for loan processing cumbersome? Yes [ ] No [ ]

12. Do you always require collateral securities before granting loans to SMEs?

a. Yes [ ] b. No [ ]

13. What kind of collateral do you request?



a. Land [ ] b. House[ ] c. Car[ ] d. Shop[ ] e. Other (Please specify).....

14. Do SMEs always get the collateral requested? a. Yes [ ] b. No [ ]

15. What percentage of total applicants qualify for loans within a month?

a. less than 25 [ ] b. 26 to 50 [ ] c. 51 to 75 [ ] d. 76 to 100 [ ]

**C. THE CHALLENGES SMEs FACE IN ACCESSING CREDITS**

16. Do you face any challenges in granting credits to SMEs? a. Yes [ ] b.No [ ]

17. If yes, kindly provide the challenges you face in granting credits to SMEs.

.....  
.....

**D. THE RATE OF CREDIT UTILIZATION BY SMEs**

18. How often do your regular clients request for credit?

a. Not Often [ ] b. Often [ ] c. Very Often [ ] d. Not sure[ ]

19. As per your evaluation, do loans granted lead to growth in their businesses?

a. Yes [ ] b. No [ ]

20. In your own evaluation, do you think clients use all loans granted for business activities? a. Yes [ ] b. No [ ]

21. If no, what activities do you know clients use the loans for?

.....  
.....  
.....

22. Kindly suggest how credit misappropriation can be avoided.

.....

23. Kindly provide suggestions as to how credits and other non-financial services provided for SMEs can be improved?

.....  
.....