

Microfinance as a tool for Small Business Growth in Urban Ghana

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Abstract

Microfinance provides a great potential to support economic activities of small businesses in Ghana. This study examined the impact of microfinance on the growth of small businesses in urban Ghana. It used responses to structured and unstructured questionnaire elicited from a cluster sampling of 213 clients from 58 microfinance institutions (MFIs) in the Ashanti and Greater Accra regions, the two most urbanized regions of Ghana. Simple and logistic regression analyses showed that the increase in business stock, profits and business assets after the acquisition of microfinance loans were statistically significant, indicating that the loan amount had significant impact on stock adjustments, profit levels and acquisition of business assets. However, the change in employment was statistically insignificant, indicative of the type of clients MFIs normally deal with. The study found that most of the clients of MFIs use family members to assist in the running of their businesses hence the insignificant impact of loans on employment. The study recommends the development of appropriate loan products and services that meet the needs of small business operators to sustain and enhance the growth of their businesses.

Keywords: *Microfinance, Small businesses, Profits, Business Assets, Employment, Ghana.*

Introduction

A growing small and medium enterprise (SME) sector can contribute to the production of goods and services that meet the basic needs of the poor (Cook and Nixon, 2005). Such growth also creates employment and entrepreneurship (Abor and Quartey, 2010; Edmiston, 2004), improves income distribution, and facilitates poverty reduction. The rapid and sustainable growth of these small businesses is critical to Ghana's socio – economic development since they account for about 92% of all enterprises in the country. Small businesses make up the largest portion of the employment base and are the bedrock of the local private sector (Kufuor, 2008).

Despite the substantial role of small businesses in developing economies like Ghana, their development is hampered by a lack of adequate financial resources (Carpenter, 2001 cited in Babajide, 2012; Bigsten et al 2000). Parker et al (1995) report that about 90 percent of small enterprises surveyed cited credit as a major constraint to new investment. Unfortunately, the formal financial institutions have failed to provide this service effectively. Small businesses are expected

to be sustainable, and be able to grow into large businesses. But most of such businesses find it difficult to survive due to inadequate financial support. This prevents them from playing their expected role in the economy.

It is to address this problem of inadequate credit facilities to small businesses that microfinance institutions (MFIs) have emerged to provide financial services to small businesses focused on poverty reduction and the economic survival of the poor (Afrane, 2002). Microfinance is seen as the provision of a broad range of financial services such as loans, savings, money transfer services and micro insurance to the poor (CGAP, 2009) with the intention of helping poor households out of poverty by enabling their engagement in productive economic activities (Adjei, 2010). Littlefield (2005) argues that access to credit enables poor people to set up their own businesses, take care of their children's education, meet their health care needs and improve their livelihood. This underscores the growing importance of microfinance as an essential poverty alleviation mechanism (Khandker, 2005; Brau and Woller, 2004; Chowdhury et al, 2005).

The services delivered by MFIs are expected to have a positive impact on the lives of the poor. Since MFIs aim at improving the socio-economic lives of their clients, impact assessment would provide them an opportunity to know whether or not they are achieving this aim. Assessing impact is also necessary because development agencies, foundations and governments seek to ensure that funds are well spent. Additionally, the microfinance programme impact can be validated externally for continuity in intervention. Furthermore, the effectiveness of microfinance can be compared with the rate of return on alternative uses, which will invariably contribute to efficient allocation of resources (Khalily, 2004; Hulme, 2000).

Of late, the government of Ghana has shown great interest in microfinance because of its potential role in poverty reduction. Consequently, the government is committed to the achievement of the Millennium Development Goals (MDGs). As a strategy in reaching the MDGs, the government aims at building a robust and sustainable microfinance industry which addresses poverty reduction, women empowerment and household welfare (Adjei, 2010). Although it has not been proven that microfinance can lead to poverty reduction on a large scale, when properly harnessed microfinance can make sustainable contributions through financial investment which will ultimately lead to the empowerment of people (GHAMP, 2006), especially the poor who operate micro and small businesses.

This study examined the impact of microfinance on the growth of small businesses in urban Ghana. It used responses to structured and unstructured questionnaire elicited from a simple random sample of 213 clients from 58 microfinance institutions (MFIs) in the Ashanti and Greater Accra regions, the two most urbanized regions of Ghana. The outcome of this study would therefore add to the literature on impact assessment and would arguably confirm the benefits or otherwise of microfinance. The following section of the paper reviews the literature on the impact of microfinance on beneficiaries. This is followed by the research methodology. The findings of the research are then presented and discussed. The paper ends with a conclusion and recommendations.

Literature Review

This section gives a background of microfinance in Ghana and discusses the empirical evidence of the impact of microfinance on small businesses.

Background of Microfinance in Ghana

Over the past few decades, microfinance in Ghana was provided by three main types of microfinance institutions (MFIs). These were formal providers (rural and community banks, savings and loans companies), semi-formal (credit unions, financial non-governmental organizations and co-operatives), and informal providers (susu collectors and clubs, rotating and accumulating savings and credit associations) (Asiamah and Osei, 2007; GHAMFIN, 2008). The microfinance industry previously dominated by unregulated providers attracted the attention of the formal financial institutions such as the commercial banks, following the success of the informal institutions in providing finance to the small business sector. Many of the commercial banks in Ghana now have microfinance units which provide microfinance for the growth of small businesses, and some of them employ the “susu” methodology in their microfinancing.

Realizing the positive impact of microfinance in poverty alleviation and hence in nation building, the government of Ghana implemented a number of programmes to promote microfinance. One of such programmes is the Micro Finance and Small Loans Centre (MASLOC). MASLOC was established in 2006 to manage micro finance schemes introduced under the second phase of Ghana’s Poverty Reduction Strategy to promote the private sector. High default rate in loan repayment is however, crippling the scheme and denying other small-business operators access to credit (Domfeh, 2010). The government of Ghana through the then Ministry of Women and Children’s Affairs (MoWAC) also provided microfinance to poor women to help finance their micro and small-scale enterprises. MoWAC established the Women’s Special Microfinance Fund with assistance from the Japanese government. The fund aimed at helping in the development of women-owned enterprises, especially those in rural and deprived areas. The fund was disbursed through some of the commercial banks, rural and community banks (RCBs) and other microfinance institutions at special interest rates to ensure sustainability of the fund (Adjei, 2010).

However, with the proliferation of MFIs in Ghana, the need to ensure financial system stability and safeguard the deposits of the customers of MFIs (Christen, Lyman and Rosenberg, 2003; Arun, 2005) became very pressing. This prompted the Central Bank to initiate a process of regulating the activities of MFIs in 2011. This action led to the restructuring of the microfinance sub-sector into tiers for the efficient running of the sector (Bank of Ghana, 2011). Microfinance institutions which fall under tier 1 are the rural and community banks (RCBs), finance houses and savings and loans companies. Tier 2 MFIs consist of susu companies (now referred to as microfinance companies) and financial non-governmental organizations (FNGOs) that are deposit taking and profit making. Money lenders and FNGOs that do not take deposits fall under tier 3 while susu collectors fall under tier 4 (Bank of Ghana, 2011). This study uses clients of tier 1 and tier 2 MFIs to assess the impact of microfinance.

Empirical Evidence on the Impact of Microfinance on Small Businesses

The interest in microfinance as a development tool that seeks to alleviate poverty has called for a number of impact assessments of MFIs’ programmes. Researchers and practitioners of microfinance have therefore investigated the impact of MFI programmes on the lives of their clients in such areas as income, employment, acquisition of business assets, education, nutrition,

health and gender equity (Coleman, 2006; Banerjee et al, 2009; McKenzie and Woodruff, 2008; Karlan and Zinman, 2009; Remenyi and Quinones, 2000; Fosu, 2008).

Studies on impact assessment show mixed results. While some argue that microfinance has a positive impact on the lives of the beneficiaries (Khandker, 1998; 2005; Remenyi and Quinones, 2000; Zaman, 2000; Otero and Rhyne, 1994; Wright, 2000; UNICEF, 1997) others caution against such optimism and draw attention to the negative impacts that microfinance can have (Mallick, 2002; Rogaly, 1996). A third category of research work located between these two views, identifies the beneficial impacts of microfinance and argues that it does not help the poorest as claimed (Hulme and Mosley, 1996) or that the poorest are deliberately excluded from microfinance programmes (Simanowitz, 2000). Some of the empirical studies are reviewed below.

de Mel, McKenzie and Woodruff (2008) researched into return to capital in micro enterprises in Sri Lanka and report that average profits of microenterprises increase more than 5 percent per month or at least 60 percent per year. They however, note that returns are higher for recipients with more entrepreneurial ability. Investigating the effect of microcredit on small business investment in Manila, the Philippines, Karlan and Zinman (2009) in a randomized study also found that profits from business increased especially for male and higher-income entrepreneurs. Profits increase more seriously in households with above median income. They however, found no significant effect on household incomes and poverty. Contrary to the findings of de Mel et al (2008), Priya (2006, cited in Adams and Bartholomew, 2010) reports a significant positive relationship between credit recipients and income. According to the study programme participation led to a 10 percent increase in income.

Banerjee, Duflo, Glennerster, & Kinnan, (2008) also carried out a randomized study on the impact of microfinance and report that the estimated effects of access to microfinance on business profits, monthly business evenness, and spending on business inputs were all positive, although not statistically significant. Estimated business profit in treated neighborhoods was 1,025 rupees compared to 550 rupees in the control neighborhoods. The estimated monthly input spending was 18 percent higher in treatment areas, and estimated monthly business revenue was 20 percent higher. Using a quasi-experimental setting in evaluating the impact of microfinance in Northeast Thailand, Coleman (2006) finds that microfinance has a positive impact on the more wealthy borrowers than the target group of the “poorest of the poor”. He argued however that Thailand is not a typical environment for the evaluation of microfinance because of its overall relative wealth and the widespread availability of credit. Using regression, a related study by Dunn (2005) on the impact of microfinance found evidence for increases in income, employment and wages.

Another study that found evidence of positive impact of microfinance on business profit and household income is that of Copestake, Bhalotra and Johnson (2000). They report of higher average growth in profits and household incomes, but such growths were associated with those who obtained a second or more loans. Nanor (2008) also investigates the impact of microfinance on four districts in Ghana and found evidence of a positive impact of microfinance on household income and business profits of clients in two out of the four districts surveyed but found no significant impact in the other two districts. He attributed the insignificant impact to the small loan sizes which was too small to cause a real change in incomes and profits of beneficiaries. However, contrary to the findings of Copestake et al (2000), Nanor (2008) found evidence of clients’ profits getting worse as they stayed longer on the credit scheme.

In a case study of the impact of microfinance on rural women farmers, Effa and Herring (2005) report that rural women who participated in the MFI's programme gained an increase in income and savings compared to those who did not. Clients also adopted agricultural innovations at a significantly higher rate than non-clients. Fosu (2008) in another study on impact assessment of financial NGOs in Ghana finds evidence that 70 percent of clients increased their capital and stock as a result of loans given to them to start or expand their businesses, 24 percent had increases in their profit level, 32 percent had expanded their businesses and 6 percent did not experience any change in their businesses. She concludes that even though a greater percentage of the beneficiaries had found the intervention to be of benefit to them, some felt worse off due to the inadequate loan sizes and stringent loan terms. A study by Afrane (2002) on the impact of two microfinance institutions in Ghana and South Africa also revealed a positive impact on the businesses of the clients of the two MFIs. Using turnover as a proxy for income and profit, the findings show that the businesses of clients in both projects increased significantly after the disbursement of the loans. On the average the turnover of clients of Snapi Aba Trust (SAT) from Ghana and Soweto Microenterprise Development (SOMED) from South Africa, increased by 157 percent and 118 percent respectively. However, 12 percent of the eighty-two sampled enterprises in South Africa recorded negative growth.

Adjei et al (2009) in a study on microfinance programmes and the poor also report that a greater percentage of the Snapi Aba Trust (SAT) microfinance programmes (46 percent) went to the less poor, while 39 percent went to the moderately poor and 15 percent benefited the very poor. The results of the study indicate that SAT microfinance programmes target a disproportionately smaller proportion of the very poor in its operational areas. This is not surprising since SAT aims at providing both financial and non financial services to the economically active poor for enterprise development and income generation. This finding supports other studies which argue that most MFIs tend to serve the moderately poor and not the poorest of the poor (extremely poor) (Montgomery and Weiss, 2005; Hashemi and Rosenberg, 2006).

While studies reviewed above suggest a positive impact of microfinance on profits, income, business assets, wages and employment, Bateman (2007) argues that microfinance activities did nothing to alleviate poverty or worsened it. Mallick (2002) also asserts that participation in microfinance programme sometimes worsen rather than improve the economic conditions of the clients. Too much pressure from group members to pay promptly often compelled participants to resort to moneylenders to pay off their debts. Some rather tend to be worse off or poorer than they used to be. This is supported by a study by Coleman (2001) which reveals the negative impact of microfinance on household wealth. According to him, clients are given small loan sizes which are too small for investment purposes. Such clients use the loans for consumption instead of investing and end up falling on moneylenders to finance the repayment (robbing Peter to pay Paul syndrome). The study by Copestake et al (2000) also report of some borrowers being made worst off as a result of inflexible group enforcement of loan obligations. Afrane (2002) also asserts that pressure of time resulting from increased business activities worsen family relations.

Microfinance, although acclaimed by many as able to improve upon the lot of poor people (Littlefield, 2005; Zaman, 2000) may not be a panacea for poverty but a component for the fight against poverty (Remenyi, 2000). In the light of this, Robinson (1998) argues that the "poorest of the poor" do not need credit but have prior needs such as food, health services and other basic requirements which have to be met by the government. Microfinance can therefore, be more

effective when given to the poor who could make good use of the loans and not spend them on basic needs.

Study Area

Ashanti and Greater Accra regions have 18.4 percent (2.8million) and 34.4 percent (3.6 million) respectively of their populations engaged in wholesale and retail trade, the sector that has most of the micro and small business operators. Kumasi metropolis for instance has about 71 percent of its population engaged in commerce while 12.2 percent and 16.7 percent of the population of the Ashanti and Greater Accra regions respectively are in manufacturing (Ghana Statistical Service, 2012; KMA, 2014; Ghana District Repository, 2006, cited in Mabe et al, 2013). The high urban populations in the two regions have attracted a lot of MFIs who provide financial and non-financial services to small businesses. The study therefore sought to find out how microfinance activities have led to the growth or otherwise of the small businesses.

Research Methodology

Both quantitative and qualitative techniques were employed for effective triangulation of data. Three main data collection instruments were employed: questionnaire (structured and unstructured), interviews and focus group discussions. The focus group discussions enabled respondents to confirm responses to the questionnaire. It also provided opinions and feelings about the impact of the MFIs' programmes on small businesses in an unrestrained way not captured in the quantitative data.

In assessing the impact of microfinance, Banerjee et al (2008); Kondo (2007) and Coleman (2006) suggest the use of new (entrants) clients in a MFI to serve as a control group since they are yet to be given credit, while the regular clients would be the treatment group. However, in Ghana it is very difficult to find new clients in a particular MFI who have not been regular clients in other MFIs. An interview with some of the managers of the MFIs revealed the fact that it is almost impossible to get a client who has not received any credit from a MFI. Thus, it is almost impossible to identify a controlled group which is unaffected by access to microfinance in Ghana. In view of this, the study adopts the "before and after" methodology where clients are interviewed based on what used to be the situation before they contracted the loan and the change that has occurred after the loans.

The main limitation grappled with was how to empirically establish the counterfactual situation of the clients who had benefitted from the loans. This is because the study used a cross-sectional data without any baseline study to establish the situation of the beneficiaries before contracting the loans. This limitation notwithstanding, the study made an assumption that the respondents would be able to remember fairly accurately what their condition used to be before going for the loans (Afrane, 2002). Afrane (2002) notes the possibility of having inaccurate responses in some cases. He suggests the need for the interviews to be carried out in a way that could reduce the problem of unreliability of data. In the light of this, the interviewers were well trained and equipped to carry out the interviews in an efficient manner. The findings of this study must therefore be interpreted bearing in mind the strengths and weaknesses of the "before and after" methodology.

The survey was carried out in 2013. MFIs that were established before 2012 were targeted to ascertain their impact on small businesses. Small business operators who are clients of both rural

banks (tier 1) and microfinance companies (tier 2) in Ashanti and Greater Accra regions are the population for the study. Ashanti region has a total of 23 rural banks. However, 21 of the rural banks allowed us to interview their clients. A maximum of 4 clients from each of the 21 rural banks were provided by the banks for interview. A total of 74 clients of rural banks were therefore interviewed. While the rural banks are scattered throughout the region, the microfinance companies are concentrated in the Kumasi metropolis. A total of 38 microfinance companies were established before 2012. The microfinance companies were put into 5 clusters based on geographical location and the first 4 companies in each of the clusters were selected. In all 20 microfinance companies were selected. Each of the microfinance companies provided a maximum of 4 clients to be interviewed.

Greater Accra region had 7 rural banks scattered throughout the region. Four of the rural banks were selected based on simple random sampling. One declined and three rural banks provided us with a maximum of four clients each for interview. Greater Accra region had about 115 microfinance companies. The microfinance companies were grouped into 5 clusters based on geographical location and the first 4 companies in each of the clusters were selected, making a total of 20 microfinance companies. However, 14 companies out of the 20 allowed their clients to be interviewed. Each of the 14 companies provided a maximum of 4 clients to be interviewed. The total number of clients interviewed were therefore 213 (made up of 82 and 131 rural bank and microfinance company clients respectively).

Results and Discussion

The results are discussed under four main areas: impact of microfinance on profits, stock of goods, business assets and employment. The null hypothesis tested in each case was that there is no difference between the variable of interest before and after loan acquisition.

Impact of loan on Profit

Table 1: Estimation of the t-test

Variable	Mean	t	P-value
PA	1,063.85	7.6243	0.0000
PB	570.666		

MFIs provide loans to their clients with the aim of helping them grow their businesses. The results as presented in table 1 show that average profit after the loan was 1063 Ghana cedis while average profit before the loan was 570.65. Through the t-test, the null hypothesis that no difference between average profit before and after is rejected since the t-statistic is 7.6243 and its p-value is 0.0000. This indicates that profit after loan is statistically higher than profit before the acquisition of loan. The loans therefore, had a positive impact on the profits of the clients.

A simple regression between change in profit and loan amount presented in table 2 below also shows that about 12.88 percent of the variation in change in profit is explained by variations in loan amount. The coefficient is positive and statistically highly significant even at 1 percent level of significance. The result indicates that a 1 Ghana cedi increase in loan amount is associated with 0.07 Ghana cedis increase in profit. In other words, for every 1 Ghana cedis of loan received, an average profit of about 7 pesewas was made. The rejection of the null hypothesis provided

evidence of the impact of the loans on clients profits, which is consistent with other studies (Copestake, Bhalotra and Johnson, 2000; Nanor, 2008; de Mel et al, 2008).

Table 2: Regression Results of the Impact of loan on Profits

Variables	Coefficient	Standard Error	t	P-value
Constant	314.17	81.1133	3.87	0.0000
Loan	0.0705	0.01358	5.19	0.0000
N = 184	F(1, 182) = 26.91	P-value = 0.0000	R ² = 0.1288	Adj. R ² = 0.1240

Increase in profits notwithstanding, clients bemoaned the high interest rates of about 48 to 80 percent they pay annually on loans. This according to them, reduce their profit levels drastically. One participant of the focus group discussion for instance lamented “I cannot do without the MFIs, they have made me what I am today, but their high interest rates are having adverse effects on my profits.” Another one complained “I only work for the MFIs, I use almost all my profits to repay loans and this is affecting my business.”

Impact of loan on Stock of goods

Table 3: Regression Results of the Impact of loan on Stock of goods

Variables	Coefficient	Standard Error	t	P-value
Constant	5524.987	2007.25	2.75	0.007
Loan	0.856918	0.332993	2.57	0.011
N = 168	F(1, 182) = 6.62	P-value = 0.0109	R ² = 0.0384	Adj. R ² = 0.0326

Table 3 shows the impact of the loans received on the stock of goods. The coefficient of loan is positive and statistically significant at the 5 percent level of significance. The coefficient is 0.8569 and implies that a 1 Ghana cedis increase in loan amount is associated with about 85 pesewas increase in stock. This implies that the loan amount had a significant impact on stock adjustment. The evidence support other studies (Fosu, 2008).

Generally, the initial evidence of access to loans is the increase in stock of goods. This was confirmed by the focus group discussions where all participants allude to increase in stocks of goods as a result of access to loans. One of the participants, a tailor, testified that he was able to buy more materials for his tailoring business as a result of access to loans which ultimately increased his productivity. However, some complained of the small size of loans, which did not help to increase their stock of goods appreciably. Commenting on the small size of loans, Coleman (2001) argues that small sizes of loans may be too small for investment purposes and may not have a positive impact on the growth of small businesses. The irregular energy supply was also mentioned as having a negative effect on their stock of goods, especially those who trade in frozen goods (like fish, chicken, meat).

Impact of loan on Business assets

Table 4: Regression results of Impact of loan on Business assets

Variables	Coefficient	Standard Error	t	P-value
Constant	1365.9	2553.159	0.54	0.0591
Loan	1.1018756	0.4665994	2.38	0.0180
N = 213	F(1, 182) = 5.65	P-value = 0.018	R ² = 0.0261	Adj. R ² = 0.0214

The aim here is to find out the impact of loans on the acquisition of business assets. The regression result of the impact of loans on business assets is presented in table 4. The coefficient of loan is positive (1.1087) and statistically significant at 5 percent level of significance. The result indicates that a 1 Ghana cedi increase in loan amount is associated with 1.1 Ghana cedis increase in business assets. The study found that about 71.4 percent of the clients of the MFIs operated in trading activities, 23.5 percent provided various kinds of services and 5.1 percent were in manufacturing. While some of the clients in trading activities invested little in business assets, quite a number of the clients also invested almost all their loan amounts in acquiring business assets such as containers and structures to display their goods, sewing machines, printers, driers, and equipments for various purposes. The evidence therefore suggests that the loan amounts had positive impact on the acquisition of business assets which enabled the growth of many of the small businesses. The findings are consistent with other studies (Owusu, 2011; Afrane, 2002).

Impact of loan on Employment

Table 5: Logistic Regression on the Impact of loan on Employment

Variables	Coefficient	Standard Error	t	P-value
Constant	0.764863	0.26387	2.90	0.004
Loan	0.0000128	0.00004	0.32	0.750
N = 101	LR chi2 (1) = 0.11	P-value = 0.7415	Pseudo R ² = 0.0214	

The idea here is to find out whether the loans acquired helped the clients to employ more people. The dependent variable is employment coded as 1 for those firms that employed after receiving the loan and 0 for those who did not employ after the loan. The results of the logistic regression presented in table 5 above shows the coefficient to be positive (.0000128) but statistically insignificant implying that the amount of loan received did not have any significant impact on the likelihood that the firm will employ after the loan. In other words, the probability that a firm will employ more people was not significantly influenced by the amount they received as loan. The results reflect the type of clients who do business with MFIs. The study found out that while some of the clients of the MFIs who are operators of small businesses run their businesses single handedly, majority of them make good use of family members who are not paid wages, but are taken care of. It is however, interesting to note that some of the clients received loans to start their businesses. The loans therefore helped them to become self-employed.

Table 6: Trickledown effect of loans on the livelihood of clients

Area of Improvement		Frequency	Percentage (%)	
Household income		194	91	
Children's education		144	68	
Household assets		111	52	
Access health care services		99	47	

It is expected that the gains experienced by the clients through the acquisition of loans may have a trickledown effect on other areas of their lives. In view of this the clients were asked to identify areas of their lives which have been improved as a result of access to loans. Ninety-one (91) percent of the clients indicated an improvement in their household income (table 6), 68 percent said the loans have helped in their children's education, 52 percent said they have been able to buy some household assets with the profits from the business and 47 percent indicated they are able to access healthcare services as a result of increased profits which was made possible through the acquisition of loans.

Clients emphasized the important role played by MFIs in providing financial services to them. A client in the focus group discussion said it this way “loans have contributed to the stability of my business. Although sales have fallen drastically the loans have helped to sustain my business, in view of this I will always go for loans.” Some of the clients however, complained about their inability to make regular repayment of loans. They attributed this problem to the high interest rates they pay on loans and the short-term within which they are to pay for the loan. Some of the MFIs also employ inflexible and harsh mode of collection, which to them, compounds the problem of irregular repayment of loans. Furthermore, clients are made to pay a penalty in the event of missing a day or two loan repayments as a result of low sales. Such a situation rather exacerbates their indebtedness.

Conclusion

The study examined microfinance as a tool for small business growth in Urban Ghana. The impact of microfinance on the growth of small businesses through variables such as profits, stock of goods, business assets and employment levels were investigated. The findings suggest a positive and statistically significant impact of microfinance on the growth of small businesses through increase in profits, stock of goods and business assets while impact of microfinance on employment was positive but insignificant. The results confirm the fact that most of the clients of the MFIs who operate micro and small businesses often engage family members to assist in the running of the business.

Access to loans also had a trickledown effect on their general livelihood. Most of the clients (91 percent) experienced an increased in their household income, 68 percent were able to take care of their children's education, and 52 percent could buy household assets while 47 percent could access health care services.

The study however, found other factors that militate against the growth of small businesses and prevent them from realizing their full potentials. One of such factors is the high interest rates charged on loans. High interest rates increase the incidence of poor repayment of loans and consequently increase the default rate (Amonoo, Acquah and Asmah, 2003). A study by Aryeetey et al (1994) using an average annual interest rate of 19.5 percent which was below the market interest rate at the time shows that high interest rates was not a concern for small businesses since they considered the rates to be fair and reasonable (Amonoo, Acquah and Asmah, 2003). Others are also of the view that small businesses are capable of paying high interest rates and still make profits. However, evidence has shown that high interest rates affects the repayment of loans and is detrimental to investment and growth (Rittenburg, 1991, cited in Hoque and Hossain, 2014). Thus, the Government through the Bank of Ghana should take a closer look at the high monetary policy rate (prime rate) of 21 percent and review it since the interest rates charged by MFIs is typically influenced by the prime rate (and other factors). By making the borrowing rate (21 percent) attractive to the public, government, crowds out the funds in the system. Small businesses which are the backbone of many developing economies should therefore be supported to grow and not collapse as a result of high interest rates.

While credit is essential in promoting the growth of small businesses, credit alone is not enough. The study realized that most MFIs provide only financial services to their clients. Meanwhile, most of the clients do not keep proper accounts of their business. The need for providing other services such as training in book-keeping and business development by MFIs cannot be overemphasized. This is supported by empirical studies of Cook et al (2001) and Edgcomb (2002) who report that business development training significantly improves micro and small enterprise performance and empowers the entrepreneur.

Another area that was highlighted in the findings is the inflexible nature of credit repayment employed by some MFIs. Most of the clients make daily loan repayments. However, a penalty is slated against clients who are unable to make consistent repayment due to sickness or poor sales. This further compounds their indebtedness. Furthermore clients are expected to save for three to six months before qualifying for a loan. That is a disincentive to them and makes it difficult for them to access the loan at the time they need it.

Respondents also mentioned the negative effect the energy crisis is having on the growth of their business. Traders who deal in frozen goods (chicken, fish, meat, etc.) are the most affected. They end up disposing off their wares because most of them get rotten.

It must be noted however, that, despite the challenges mentioned above, MFIs have succeeded where commercial banks have failed in extending credit to the poor and in most cases the success of the small business enterprises depends heavily on the financial intermediation role played by the MFIs. Findings of this research have shown that although MFIs have the potential of helping to grow small businesses in urban Ghana there are other militating factors which have to be addressed to make microfinance more effective in Ghana. Finally, since MFIs in Ghana are now regulated, an agenda for future research is to investigate whether regulation improves impact or not.

Recommendations

The following recommendations are given based on the findings of the research.

Policy interventions to promote microfinance would have to address the harsh effect of high interest rates on small businesses to ensure their growth and sustainability.

The risk of poor repayment could be reduced if repayment amounts are matched with the repayment capacity of clients (Idolor and Imhanlahimi, 2011). This means MFIs should employ flexible loan repayment conditions such that clients who have the ability to make frequent payment of smaller amounts over a longer period should be allowed to do so in order to reduce the undue pressure often put on small businesses. The short-term period of about six months allowed for the repayment of loans should also be reconsidered. An extended period to at least a year would enable the clients to make enough profits and make the repayments at ease.

One innovation that has promoted microfinance is non-collateralized loans with increase in loan size conditional on loan repayment. An increase in loan size is likely to have a multiplier effect on the growth of the business through increase in profits and incomes of clients. Loan sizes that are too small may not have a significant impact on investment. Loan sizes should therefore be matched with the needs of the clients.

Since the provision of financial services such as credit alone is not enough, MFIs should also provide non-financial services such as training in book keeping and business development to ensure prudent financial management of clients' businesses.

MFIs should be able to design and deliver innovative products and services that meet the needs of small business operators to sustain and enhance the growth of their businesses.

Finally, the Government should address the harsh economic environment by improving the energy sector, which is negatively affecting the growth of small businesses

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