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THE EFFECTS OF MICROFINANCE INTERVENTIONS ON THE DEVELOPMENT OF SMEs IN THE BEKWAI MUNICIPALITY, GHANA

BY

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DECLARATION

I hereby declare that this submission is my own work towards the MSc and that, to the best of my knowledge it contains neither materials previously published by another person or materials that have been accepted for award of any other degree by the University or any other university except where due acknowledgement has been made in the text.

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DEDICATION

This work is dedicated to my lovely family, as without their caring support it would not have been possible to complete this study.

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ABSTRACT

Most Small and Medium Enterprises (SMEs) in the developing world rely mainly on microfinance for their operations. There is therefore the notion that the boom in the SMEs sector, particularly in developing countries is due to the advent of micro financing. However, some critics of the microfinance concept differ on this notion. The purpose of this research is therefore to assess the effects of microfinance interventions on the development of small and medium enterprises (SMEs) in Ghana using the Bekwai Municipality as the study area. The cross-sectional survey approach was employed to carry out this research. Simple random sampling technique was employed in selecting 144 SMEs that constituted the sample size in addition to five Micro-finance Institutions (MFIs). Structured questionnaire was designed to facilitate the acquisition of relevant data which was used for analysis. Descriptive statistics which involves simple percentage graphical charts and illustrations were used in the data presentation and analysis. The findings of the study show that, for SMEs in the study area to be eligible for microfinance, they are required to have an account and must have saved for six months with the MFIs, provide collateral security, and perhaps, demonstrate the viability of the project/business for which the microfinance is being sought. It also revealed that, in addition to the mainstream financial assistance (microfinance loans) given to SMEs by the MFIs, other vital non-monetary supports including financial advisory services, book keeping and managerial capacity training are provided to the SMEs. The study therefore shows that, as a result of microfinance interventions in the Bekwai Municipality, most SMEs have experienced growth and this is manifested mostly in terms of increased working capital and average monthly earnings. However, the main challenges that face SMEs in the study area include the insistence of collateral (42.4 percent), high rate of loan application rejections (34.7 percent) and lack of support for startup SMEs (22.9 percent). The study recommends that, microfinance institutions should always monitor the activities of SMEs they grant loans and provide them with the necessary technical assistance to put them on track to ensuring that microfinance loans are invested profitably to bring down the rate of default in loan repayment; SMEs should endeavour to register their businesses to enhance their credibility and also, form associations to promote their collective interests.

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LIST OF ACRONYMS

GEDC	Ghana Enterprise Development Commission
GDP	Gross Domestic Product
IMF	International Monetary Fund
MASLOC	Microfinance and Small Loans Centre
MDGs	Millennium Development Goals
MFIs	Microfinance Institutions
MSC	Microcredit Summit Campaign
NBSSI	National board for small scale industries
NGOs	Non Governmental Organizations
RCTs	Controlled Trials
ROI	Returns on Investment
SAP	Structural Adjustment Programme
SMEs	Small and Medium Scale Enterprises
SPSS	Statistical Package for Social Sciences

CHAPTER ONE GENERAL INTRODUCTION

1.1 Background

Microfinance is a term generally used to describe the delivery of financial services to usually poor household who could hardly access traditional formal banking (Schreiner and Colombert, 2011). It is usually characterized by the provision of small loans, often at high interest, to individuals, groups and small businesses. More recently, it has also been extended to include the provision of micro-savings and money transfer services (Karlan and Zinman, 2010). These interventions have been hailed by many as a solution to poverty, enabling the poor to invest in their future and bring themselves out of poverty (Steel and Andah, 2003; Bateman, 2007). The advocacy movement behind these initiatives is powerful and many evaluations highlight the benefits of these services.

Since the 1970s, and especially during the new wave of microfinance interventions in the 1990s, microfinance has come to be seen as an important development policy and a poverty reduction tool. Researchers such as Littlefield et al (2003) and World Savings Bank Institute (2010) argue that microfinance is a key tool to achieving the Millennium Development Goals (MDGS). The assumption is that, if one gives more microfinance to poor people, poverty will be reduced. But the evidence regarding such impact is challenging and controversial, partly due to the difficulties of reliable and affordable measurement. Questions regarding the actual impact of microfinance on the welfare and income of the poor have therefore been raised many times (Rogaly, 1996; Hulme and Mosley, 1996; Copestake, 2002; Khandker, 2003).

Despite various studies, the effectiveness and impact of microfinance on the poor is still highly questionable (Westover, 2008). Roodman and Morduch (2009) reviewed studies on micro-credit in Bangladesh, and similarly conclude that 30 years into the microfinance movement, there is still little evidence that it improves the lives of clients in measurable ways. Even the World Bank (2007) indicates that „the evidence from micro-studies of favourable impacts from direct access of the poor to credit is not exceedingly strong. Recently, this debate became heated when the findings of two randomized controlled trials (RCTs) in the Philippines and India by the Massachusetts Institute of Technology‟s Jameel Poverty Action Lab raised questions about the impact of microfinance on improving the lives of the poor (Karlan and Zinman, 2010). These studies did not find a strong causal link between access to microfinance and poverty reduction for the poor.

Six of the biggest network organization in microfinance – Accion International, FINNCA, Grameen Foundation, Opportunity International, Unitus and Women‟s World Banking in their reluctance to accept the findings, responded by pointing to undependable evidence of the positive impact of microfinance, while also highlighting the weaknesses of the randomized controlled trials (RCT) Studies. Their criticisms included the short timeframe, small sample size, and the difficulty of quantifying the impact of microfinance. There is therefore a clear need for rigorous systematic reviews of the evidence of the impact of microfinance on the poor.

In Ghana, the microfinance movement started in the 1970s, leading to the establishment of rural banks, community-based development institutions like self-help groups and credit unions, during the 1990s, a number of privately owned financial services companies that concentrated in the provision of small loans – along the model of the Grameen Bank- to individuals, and small and medium scale enterprises (SMEs) sprang up across the country (Adjei and Arun, 2009). Also, in 2006, the Government of Ghana established the Microfinance and Small Loans Centre (MASLOC) as a microfinance apex body to provide, manage, regulate and approve funds for microfinance and small scale credit schemes for the productive poor, and SMEs who are engaged in micro and small scale businesses (Quansah et al, 2012). These institutions have since then been offering varied financial services to a number of SMEs many of who may ordinarily not get financial assistance from the traditional banks, reinforcing the need to grow and develop the Ghanaian SME sector – the engine of growth.

Indeed, small and medium scale enterprises (SMEs) have been recognized, globally, as the most probable means of growing the economies of developing countries (Kayanula and Quartey, 2000; Harvie and Lee, 2005; World Bank, 2009) SMEs have thus been tagged as the engine of growth whose productive economic activities can trickle down to households and hasten the desired lifting of communities from poverty. Country specific statistic shows that the sector in Ghana employs over 20 percent of the entire labour force in the country, with an even higher potential for growth when given the necessary support. It has again been recognized that in spite of the potential contribution of SMEs to employment generation, wealth creation and poverty reduction in the Ghanaian economy in general, the sector‟s growth and development has been largely constrained by a number of challenges; paramount among these is the extreme difficulty in accessing finance (Kayamula and Quartey, 2000; Mensah, 2004). Access to finance in terms of working capital and for purchase of raw materials were cited by earlier studies (Aryeetey et al, 1994; Parker et al, 1995; Mensah, 2004) as being at the fore front in this challenge. It is this challenge that microfinance institutions (MFIs) have joined other traditional financial services providers to address.

In 2004, the first microfinance institution (MFI) was set up in Bekwai, the municipal capital to provide credit to individuals and small business units aimed at providing capital for business units for improved productivity. Ten years on, there are now five MFIs in the entire municipality. A study to assess the effects of these financial interventions on the development of SMEs in the municipality is therefore appropriate and necessary.

1.2 Problem Statement

On the global scene, there is expanse of literature on the effect of microfinance interventions on the development of SMEs, particularly from Latin America (World Bank, 2009), South Asia (Harvie and Lee, 2005) and Africa (Adjei and Arun, 2009). Even though a number of studies on the influence of microfinance interventions in Ghana have been undertaken (Afrane, 2002; Adjei and Arun, 2009), majority of such works examine the impact of microfinance interventions from the welfarist‟s perspective (i.e. their works relate to how microfinance interventions have impacted on the reduction of poverty in the context of individuals and households that accessed such loans).

However, due to high information asymmetry arising from SMEs lack of accounting records and inadequate financial statements (Abor and Quartey, 2010), many researchers have found difficulties trying to assess the impact of microfinance interventions on the development of SMEs in Ghana (Ahiabor, 2013). Consequently, literature is relatively scanty when it comes to the relationship between microfinance interventions and the growth of SMEs in Ghana against the background of information asymmetry.

Ever since microfinance activities were introduced to the people and small businesses in the Bekwai Municipality ten years ago, not much has been done in terms of subjecting the financial services rendered by these institutions to an empirical scientific assessment. This makes it difficult to draw informed conclusions about the suitability and effects of such microfinance facilities on the performance and growth of SMEs in the Municipality.

Meanwhile, studies such as Ahiabor (2013), Adjei and Arun (2009), and Afrane (2002) have shown some positive impacts of microfinance services on the growth of SMEs; but as to whether SMEs in Ghana that have experienced growth can conclusively attribute their success to micro financing is a major question that requires further investigation. Besides, there could be instances where SMEs in Ghana might have become vulnerable to microfinance loans" repayment and related challenges which current literature is silent on. These are gaps in knowledge, and it is these gaps that this study seeks to fill.

1.3 Objectives

The purpose of this study is to assess the effects of microfinance interventions on the development of SMEs in the Bekwai Municipality. The specific objectives of the research are to:

a) Examine the factors (i.e. eligibility criteria) considered by MFIs before providing SMEs in the municipality with microfinance support for their businesses;
b) Assess how SMEs in the municipality have been influenced as a result of the interventions received from the MFIs in the municipality; and
c) Suggest recommendations on how microfinance interventions to SMEs can be enhanced to ensure the development of SMEs in the municipality.

1.4 Research Questions

The study seeks to find relevant answers to the following questions:

a) What are the factors (i.e. eligibility criteria) considered by MFIs before providing SMEs in the municipality with microfinance support?
b) How has SMEs been influenced as a result of microfinance interventions received from the MFIs in the municipality?
c) In what ways can microfinance interventions to SMEs in the municipality be enhanced to ensure the development of the SMEs?

1.5 Significance

It is believed that the findings from the study may serve a number of useful purposes. First of all, at policy level, an investigation into the effect of microfinance interventions on the development of SMEs would equip policy makers at Ministry of Finance, Donor Agencies, microfinance funding agencies, National Board for Small Scale Industries (NBSSI) and other bodies that are stakeholders in policy decisions that affect the operations of both MFIs and SMEs. Premised on the information gathered, policy makers would be adequately informed on the various dimensions to the application of microfinance interventions for

SME development. This will put the policy makers in an informed position to formulate policies that will enhance the application of microfinance support for SME development.

Furthermore, it is believed that findings from the study can also aid the management of various microfinance companies to put in place appropriate mechanisms that can lead to successful interventions for SMEs to achieve the desired impact. This is because, from the findings of the study, management would become aware of weak points as well as the strong points in the granting of financial support to SMEs. The feed-back can then be integrated appropriately into future microfinance schemes and programmes to forestall the recurrence of previous difficulties and rather guarantee successful operation of the schemes.

It is also believed that from the findings of the study, credit (or loan) officers and other schedule officers of MFIs and other financial institutions would themselves be adequately informed of the knowledge, skills and strategies they need to deploy to ensure that financial assistance offered by MFIs to SMEs achieve the intended purpose. At the same time, these MFI officers can use the findings from the study to enhance their skills and strategies in advising other operators of SMEs to achieve their desired development.

Finally, in the academic field, the completed work may be used as a valuable secondary source of information to augment the existing store of knowledge on the subject matter. The results may also be used by other researchers for their scholarly work, as well as serve as a catalyst for future research.

1.6 Scope

In terms of context, the study concentrated on literature that contained information on the concept of microfinance, SME development, and the link between the two. Geographically, the study focused on microfinance interventions for SMEs in the Bekwai Municipality in the Ashanti Region of Ghana, mostly concentrated in towns like Bekwai, Kokofu, Ofoase Kokoben and Domenase. The growing spate of SMEs in the Municipality in recent times calls for research attention.

1.7 Limitations

In terms of limitations to the study, the researcher identified two main limitations: finance and time. Firstly, the researcher realized that he could not interview all microfinance beneficiaries within the municipality. It is believed that such a wide scope of coverage would have given conclusions from the research exercise a more conclusive reliability.

However, financial constraints did not allow the researcher to cover all SMEs within the Municipality that have ever benefitted from microfinance support over the years. Secondly, there was the factor of time constraint. In that, it would have taken a lot of time to travel the length and breadth of the municipality to distribute questionnaires, conduct interviews and follow up later to collect the responses from respondents. If the researcher had done all these travel and tasks before sitting down to write the report, the researcher would not have met the deadline for submission of the completed research work.

In addressing these limitations, the study scientifically sampled some of the SMEs in the study area that had benefitted from microfinance, and interviewed them extensively in order to understand the relationship between microfinance intervention and SME development in the municipality. This helped the researcher to address the identified limitations.

1.8 Organization

Chapter One of the study provides the general introduction which include; background of the study, problem statement, objective of study, research questions, justification of the study, scope of study, limitations to the study, and organization of the study. Chapter Two provides a review of relevant literature; it evaluates the works of other researchers on the topic. The third chapter focuses on the profile of the study area and research methodology of the study. Analysis of the data collected through the administration of questionnaires and semi-structured interviews were presented in chapter four. Chapter five covers the summary of key findings, recommendations and conclusion of the study.

CHAPTER TWO THE CONCEPT OF MICROFINANCE; EFFECTS AND CHALLENGES

2.1 Introduction

This Chapter reviews a number of studies related to microfinance and its impact on the development of SMEs within communities. The Chapter therefore covers areas such as the concept of microfinance and the various theories, the types of microfinance interventions available, and the various approaches used in assessing the effect of microfinance on its beneficiaries. The Chapter also covers the existing debate regarding whether microfinance interventions, ultimately, improve the living conditions of beneficiaries or worsen their plight. Finally, the chapter reviews the contributions of other authors regarding the concept of SMEs, their important role in economies, their challenges and their growth and development. The Chapter concludes with a conceptualized framework to summarize the key issues raised in the literature review.

2.2 The Concept of Microfinance

Microfinance, according to Otero (2009) is "the provision of financial services to lowincome poor and very poor self-employed people". These financial services according to Ledgerwood (2009) generally include savings and credit but can also include other financial services such as insurance and payment services. Azevedo (2007) add another dimension to the definition of microfinance by relying on the rationale for the provision of microfinance services. He therefore defines the term microfinance to mean the provision of financial services for low-income households and micro entrepreneurs (both urban and rural) for productive purposes. However, this study opines that whether microfinance is always provided for productive purposes or not is a debatable matter. This issue is, therefore, further discussed in subsequent sections of this chapter.

On the other hand, Rutherford (2006) perceives microfinance as the means by which poor people through petty works convert small sums of money into large sums, while Copestake (2007) also contributes to the debate by submitting that microfinance should be defined from the perspective of its users. He defines microfinance as a powerful tool to fight poverty that can help poor people to raise income, build their assets and cushion themselves against external shocks. Thus, it is seen that Copestake (2007) defines microfinance in relation to its users – rather than in relation to other forms of finance – such as the supply of savings, credit, insurance and payment services to relatively poor people. This study submits that although Copestake and Rutherford‟s definitions are important dimensions to the definition of microfinance, they do not mention the various services that the beneficiaries access through microfinance. In addition, Rutherford‟s conception of microfinance does not indicate how microfinance enables beneficiaries to convert sums of money into lump sums.

Gallardo (2002) investigates how microfinance is defined in the Ghanaian context from the perspective of the central bank; Bank of Ghana classifies microfinance as lending to borrowers with the capacity to support loans of less than one hundred (GH¢100) and in the case of group lending – with joint and several guarantees of members of the group – for an amount not exceeding five hundred cedis (GH¢500). This study however concludes that, with the level of inflation in Ghana, definitions that give precise figures become out of date after a short while.

Buyske (2004) estimates the average global microfinance loan to be around $400 per application. He argues that it is poor people‟s inability to access formal financial services that triggered the use of innovative methods of making financial services available to them. Microfinance loans must therefore be small amounts which beneficiaries can effectively manage.

From the various perspectives of the selected authors, the researcher concludes that microfinance can be defined as the provision of financial services such as micro savings, micro insurance and micro credits to relatively poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector. It is however noted that these micro financial services come in varying forms.

2.2.1 Microfinance and Microcredit

In the literature, the terms microcredit and microfinance are often used interchangeably by certain authors. It is however important to highlight the difference between them because both terms are often confused. Sinha (2008) states that; "microcredit refers to small loans, whereas microfinance is used where Non-Governmental Organizations (NGOs) and other Micro Finance Institutions (MFIs) supplement the loans given with other financial services including savings and insurance". Also, Okiocredit (2005) defines microcredit as a component of microfinance in that is involves providing credit to the poor, whiles microfinance involves additional non-credit financial services such as savings, insurance, pensions and payment services. These forms of credit are no new as they have been historically employed in a number of countries, including India and Bangladesh.

2.3 The Historical Perspective of Microfinance

According to Yaron (1992), changes in development thinking and ideological climate from the 1950s posed major challenges to how anti-poverty strategies, especially microfinance, were conceptualized and implemented. Tracing and analysing these developments through time helps explain how and why microfinance took the forms and feature that it did and also account for the state of the present microfinance industry. Morduch (2000) also contends that modes and rational for the delivery of microfinance services have undergone changes over the years with the major drivers being change in development paradigms and perceptions of poverty have proved to be crucial determinants in the management, nature and scope of poverty and ways to address it, three major waves have been identified concerning the provision of financial services to the poor (UNCFD, 2004).

The first was the provision of heavily subsidized credit to poor farmers with almost exclusive emphasis on poverty reduction during the 1950s to the 1970s. Yaron (1992) indicates that the creation of formal agricultural credit systems, also known as Agricultural Development Banks (ADBs) by donors and governments between the 1950s and the 1970s was inspired by the idea that, widespread shortage of credit constituted a major constraint to development of agriculture which happened to be the backbone of most developing countries. The dearth of credit they envisaged, resulted in low rates agricultural productivity, lack of employment opportunities, inadequate incomes and low savings rates (UNCFD, 2004).

According to Morduch (2000) received wisdom and the general perception of the poor during this period was that they were ignorant of the means of lifting themselves out of poverty and did not work hard enough. It was assumed that the poor could not save enough to accumulate assets and could not afford credit on commercial interest rates. In conformity with the then prevailing state-led development paradigm, which provided a justification for greater economic role for governments, the Agric Development Banks, which were usually state-sponsored financial institutions, were tasked with the responsibility of offering subsidised microloans to small scale farmers. They encouraged the adoption of new technology through training and education in agricultural production techniques and entrepreneurship and thus ensuring the growth of the agricultural sector in general (Yaron, 1992; Morduch, 2000).

Microfinance reflected the top-down and supply-driven ideas prevalent at that period. In spite of the good intentions and the advantage of operating on national scale, the ADBs nearly failed universally and their disaster stories are well-documented (Gonzalez-Vega and Graham, 1995; Robinson, 1995; Morduch, 2000). As already mentioned, the ADBs mostly adopted supply driven strategies that neglected savings-mobilization and other financial services in favour of external funding and emphasized top-down controls. These banks also had weak and dysfunctional governance structures and internal control mechanisms which were unable to prevent political intrusion and the disciplining of delinquent borrowers (Gonzalez-Vega and Graham, 1995).

The second wave which began in the 1980s involved the provision of microcredit to mainly non-farm micro-enterprise by mostly NGOs. This was premised on the realisation that the poor were not ignorant after all and that they were entrepreneurs who needed an institutional environment that would permit them to play their part in the development process (Chamlee-Wright, 2005). The structural explanation of poverty was in vogue: poverty was mainly a result of the market game and the unfair distribution of resources in the society (Khandakar, 2004). General development ideas therefore began to shift from supply to demand-driven approaches. This new thinking led to the increased realisation of the multiple and complex financial requirements for microfinance assistance. As a result, household and livelihood sustainability dynamics became important in microfinance so that the issue of fungibility, which hitherto was perceived as a hindrance in targeted financial interventions, became as important strategy for the microfinance users (Hulme, 2007). It can thus be concluded by the researcher that this current study is appropriate as it assesses the application of microfinance interventions to small scale enterprises in a peri-urban community like the Bekwai Municipality.

The third trend in microfinance interventions involved the realization of the multiple and complex financial needs of the poor and hence the introduction of microfinance which involves financial intermediation and an orientation towards profit making. This third wave started with the permeation of the ideology if neo-liberalism into most developing countries which resulted in the removal of controls in financial sectors through programmes such as the Structural Adjustment Programme (SAP) in Ghana and Malawi, and other interventions

(Cashin et al, 2001). These developments, together with the Microcredit Summit of 1997, spawned the idea of a new concept for microfinance (Khandakar, 2004). It is worth noting that up till that time, microfinance consisted almost entirely of allocating only loans or microcredit to service users. It was around this time that moist MFIs began engaging themselves in financial intermediation, and undertaking profit making venture (Robinson, 2005).

Contemporary microfinance institutions usually intend to become self-sustaining and end their dependence on external finance. This objective, which is to ensure institutional sustainability and growth (outreach), has now become the central issue in the microfinance industry. Burkett (2007) says microfinance enjoys ever-growing funding and enthusiasm in recent times because the concept of microfinance is in consonance with the neoliberal and neoconservative economic agenda which emphasize market-oriented solutions to development. Microfinance is attractive because it promotes the means of building people"s capacity to participate in economic activities and create social capital but deemphasizes structural analysis and collective responses.

In summary, the researcher can conclude that microfinance programmes have reflected the development ideology prevalent during the different periods. Thus it is important to understand that as much as it is argued that microfinance is driven by research and innovations, the underlying drivers of change in microfinance have been development ideologies. The implementation of microfinance interventions have however been done using models.

2.4 Types of Microfinance Interventions

According to the United Nations (2004), there are approximately 10,000 MFIs in the world. However, they are able to reach only four percent of potential clients which is estimated to be about 30 million people. According to the Microcredit Summit Campaign Report (MSCR, 2004), as at the end of December 2003, the 2,931 microcredit institutions that they have data on, have reported reaching 80,000,000 clients, where 54,000000 representing 70 percent were classified among the poorest when they first took the loan.

Even though they refer to microcredit institutions specifically, they explain that these include programs and other financial interventions that provide credit for self-employment and other financial and business services to very poor persons.

The researcher realizes that the difference between these sources of financing as highlighted by MSCR (2004) report stresses a number of points. Firstly, how the two terms, microcredit and microfinance are often confused and used interchangeably, though in the strictest sense microcredit should refer only to the provision of credit to the poor. Secondly, the difference between the statistics shows how difficult it is to get a true picture of how many MFIs are in existence today and how many clients they are reaching.

The International Monetary Fund (2005) states that "no systematic and comprehensive data on MFIs is collected and there are no authoritative figures on key characteristics of the microfinance industry, such as the number and size of MFIs, their financial situation, or the population served". Despite the lack of data on the sector, it is clear that a wide variety of implementation methods are employed by different MFIs. The Grameen Bank (2000) has identified 14 different microfinance models. In Ghana, three main models are generally used and in the context of this study, the researcher focused on these three; namely: Rotating Saving and credit Association (ROSCAs), the Grameen Solidarity Group model, and the village banking models.

2.4.1 Rotating Savings and Credit Associations

These are formed when a group of people come together to make regular cyclical contributions to a common fund, which is then given as lump sum to one member of the group in each cycle (Grameen Bank, 2000). According to Harper (2002), this model is a very common form of savings and credit. He states that the members of the group are usually neighbours and friends, and the group provides an opportunity for social interaction: and are very popular with women. They are also called merry-go-round or Self-Help Groups (Fisher and Sriram, 2002).

2.4.2 The Grameen Solidarity Group Model

This model is based on group peer pressure whereby loans are made to individuals in groups of four to seven (Berenbach and Guzman, 2004). In this model, the group members collectively guarantee loan repayment, and therefore, access to subsequent loans is dependent on successful repayment by all group members. Payments are usually made weekly (Ledgerwood, 2006). According to Berenbach and Guzman (2004), solidarity groups have proved effective in deterring defaults as evidence by loan repayment rates attained by organizations such as the Grameen Bank, which uses this type of microfinance model. Groups, usually, contain five members and savings must be contributed for four to eight weeks prior to receiving a loan. Savings must also continue for the duration of the loan term.

Only two of the group members receive a loan initially. After a period of successful repayment, two more members receive loans and after another period of successful repayment, the final member receives a loan (Ledgerwood, 2006). According to Ledgerwood (2006), this model has contributed a broader social benefit because of the mutual trust arrangement which is at the heart of the „group guarantee‟ system. He continues that, the group itself often becomes the building block to a broader social network.

2.4.3 Village banking Model

Village banks, also referred to as Unit Desas, are community-managed credit and savings associations established to provide access to financial services, build community self-help groups, and help members accumulate savings (Holt, 2004). They have been in existence since the mid 1980s. They usually have 25 to 50 members who are low-income individuals seeking to improve their lives through self-employment activities. These members run the bank, elect their own officers, establish their own by-laws, distribute loans to individuals and collect payments and services (Grameen Bank, 2000). The loans are backed by moral collateral; the promise that the group stands behind each loan (Global development Research Centre, 2005).

The sponsoring MFI lends loan capital to the village bank, who in turn lend to the members. All members sign a loan agreement with the village bank to offer a collective guarantee. Members are usually requested to save 20 percent of the loan amount per cycle (Ledgerwood, 2006). Members‟ savings are tied to loan amount and are used to finance new loans or collective income generating activities and so they stay within the village bank. No interest is paid on savings but members receive a share of profit from the village bank‟s re-lending activities. Many village banks target women predominantly, as according to Holt

(2004) “the model anticipates that female participation in village banks will enhance social status and intra – household bargaining power.

The researcher believes it is worth pointing out that each model as applied in a given environment produces particular impacts on poverty reduction. Therefore, the impact that may be produced by a particular model in a given environment may be different from the impact that may be experienced when a different micro finance model is employed. It is therefore essential that in assessing the impact of the various microfinance interventions received by small scale enterprises, it should be done in relation to how such interventions have helped the SMEs to grow and develop.

2.5 Microfinance and its effect on development

The general consensus among researchers within the microfinance field demonstrates that microfinance is inextricably linked to small scale economic activities, particularly in developing countries (Haynes et al, 2000; Simanowitz and Brody, 2004; UNCDF, 2004). For instance, Haynes et al (2000) argues that microfinance does not aim at just providing services; it is also a development tool that can be manipulated to achieve various development goals. One of such goals is apply the financial interventions to the development of SMEs in developing and transitional economies.

Littlefield, Murdoch and Hashemi (2003), Simanowitz and Brody (2004); UNCDF (2004) all claim that microfinance plays significant role in the achievement of the Millennium Development Goals. Similarly, UNCDF (2004) argues that microfinance underpins the achievement of many Millennium Development Goals and plays a key role in many of its strategies. They all, however, contend that most of the goals have been achieved through the efforts of SMEs which are operated particularly by women.

Although many studies postulates two or three other objectives of microfinance, there is overwhelming evidence that at least in developing countries microfinance, applied to SMEs, serve as an important poverty reduction tool. Microfinance therefore has a very important role to play in development. Further to this, UNCDF (2004) states that studies have shown that microfinance plays three key roles in development:

- ❖ It helps very poor households meet basic needs and protects against risks.
- ❖ It ensures improvements in household economic welfare; and

- ❖ It helps to empower by supporting women‟s economic participation in national economic activities.

Otero (2006) argues that microfinance should create access to productive capital for small enterprises in poor communities, which together with issues of human capital development addressed through education, training, and social capital enable people to move out of poverty. By providing material capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society (Otero, 2006).

Littlefield and Rosenberg (2004) go a bit further to even classify MFIs as enterprises that can also grow and develop in poor communities to sustain the economic activities in those poor communities. They contend that the poor are generally excluded from the financial services sector of the economy so the emergence of MFIs is necessary in addressing previous market failures. By addressing this gap in the market in a financial sustainable manner, and MFI can become part of the formal financial system of a country and so can access markets to fund their lending portfolios, allowing them to dramatically increase the number of poor people they can reach (Otero, 2006).

As stated by Simanowitz and Brody (2004), "Microfinance is a key strategy in reaching the MDGs and in building global financial systems that meet the needs of the most poor people". Littlefield et al (2003) also argue that microfinance is a critical contextual factor with strong impact on the achievements of the MDGs, and that microfinance is unique among development interventions: it can deliver social benefits on an ongoing, permanent basis and on a large scale. Referring to various case studies conducted mostly in Asia and Latin America, Littlefield et al. (2003) show how microfinance has played a role in eradicating poverty, promoting education, improving health and empowering women.

However, not all commentators are as enthusiastic about the role of microfinance in development and so it is important to realize that microfinance is not a universal remedy when it comes to fighting poverty. Hulme and Mosley (2006), while acknowledging that role microfinance can play in helping to reduce poverty, concluded from their research on microfinance conducted across three continents that "most contemporary scheme are less effective than they might be". They stated that; microfinance is not a panacea for povertyalleviation and that in some cases the poorest people have been made worse-off by the implementation of a microfinance scheme or programme. Rogaly (2006) finds five major faults with MFIs. He argues that:

- MFIs encourage a single-sector approach to the allocation of resources to fight poverty
- microcredit is irrelevant to the poorest people
- an over-simplistic notion of poverty is used
- a number of studies rather over-emphasized on scale, and
- there is inadequate learning and change taking place

Wright (2000) states that much of the skepticism of MFIs stems from the argument that microfinance project "fail to reach the poorest, generally have a limited effect on income, drive women into greater dependence on their husbands and fail to provide additional services desperately needed by the poor". In addition, Wright (2000) claims that many development practitioners not only find microfinance inadequate, but that it actually diverts funding from "more pressing or important interventions" such as health and education. This claim appears to be supported by Navajas et al (2000) who have argued that there is a danger that microfinance may siphon funds from other projects that might help the poor more. Therefore, there is a need for all involved in microfinance and development to ascertain what exactly has been the impact of microfinance in combating poverty.

Considerable debate, however, remains about the effectiveness if microfinance as a toll for directly reducing poverty, and about the characteristics of the people it benefits (Chowdhury et al, 2004). Sinha (1998) argues that it is notoriously difficult to measure the impact of microfinance programmes on poverty. This is so she argues, because money is fungible and therefore it is not only difficult to isolate credit impact, but also because the definition of „poverty", how it is measured, and who constitute the „poor" "are fiercely contested issues" (Sinha, 1998). This, the researcher believes, even heightens the need to measure the impact of microfinance intervention on poverty reduction within the Bekwai Municipality so as to be able to confirm or reject the argument that microfinance interventions result in poverty reduction.

2.6 The Concept of Small and Medium Enterprises (SMEs)

Abor and Quartey (2010) indicate that the issue of what constitutes a small or medium, enterprise is a major concern in literature. Different authors have usually given different definitions to this category of business. Small and Medium Enterprises (SMEs) have indeed not been spared with the definition problem that is usually associated with concepts which have many components. The definition of firms by size varies among researchers. Some attempt to use the capital assets whiles other use skill of labour and turnover level. Others define SMEs in terms of their legal status and method of production. Storey (1994) tries to sum up the danger of using size to define the status of a firm by stating that in some sector all firms may be regarded as small, whilst in other sectors there are possibly no firms which are small.

Hulme and Mosley (2006) define a small firm by borrowing from the Bolton Committee (1971) postulation of an „economic" and „statistical" definition of a small firm. Under the „economic" definition, a firm is said to be small if it meets the following three criteria: it has a relatively small share of their market place; it is managed by owners or part owners in a personalized way, and not through the medium of a formalized management structure; and it is independent, and it is sense of not forming part of a large enterprise. Under the „statistical" definition, the Committee proposed the following criteria; the size of the small firm sector and its contribution of GDP, employment, exports, etc; the extent to which the small firm sector"s economic contribution has changed over time; and applying the statistical definition in a cross – country comparison of the small firms" economic contribution (Hulme and Mosley, 2006).

The Bolton Committee applied different definitions of the small firm to different sectors. Whereas firms in manufacturing, construction and mining were defined in terms of number of employees (in which case, 200 or less qualified the firm to be a small firm, those in the retail, services, and wholesale were defined in terms or monetary turnover (in which case the range is 50,000 – 200,000 British Pounds to be classified as small firm). Firms in the road transport industry are classified as small if they have five or fewer vehicles. However, there have been several criticisms of the Bolton definitions. Most critics believe that the Bolton definition centre mainly on the apparent inconsistencies between defining characteristics based on number of employees and those based on managerial approach.

Storey (1994) defines SMEs largely in terms of the number of employees a firms has: 0 to 9 employees – micro enterprise; 10 to 99 employees – small enterprises; and 100 to 499 employees – medium enterprise. Thus the SME sector is comprised of enterprises (except, agriculture hunting, forestry and fishing) which employ less than 500 workers. In effect, the definition is based solely on employment rather than a multiplicity of criteria. Secondly, the uses of 100 employees as the small firm"s upper limit is more appropriate, given the increase in productivity over the last two decades (Storey, 1994).

2.6.1 SMEs in Ghana

There have been various definitions given for small – scale enterprises in Ghana but the most commonly used criterion is the number of employees of the enterprise (Kayanula and Quartey, 2000). In applying this definition, confusion often arises in respect to the arbitrariness and cut off points used by the various official sources. In its Industrial Statistics, the Ghana Statistical Service (GSS) considers firms with fewer than 10 employees as small – scale enterprises and their counterparts with more than 10 employees as medium and large – sized enterprises in line with its position on this classification, the GSS in its national accounts considered companies with up to 9 employees as SMEs (Kayanula and Quartey, 2000). The value of fixed assets in the firm has also been used an alternative criterion for defining SMEs.

However, the National Board for Small Scale Industries (NBSSI) in Ghana applies both the "fixed asset and number of employees" criteria. It defines a small – scale enterprise as a firm with not more than 9 workers, and has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Ghana Cedis. The Ghana Enterprise Development Commission (GEDC), on the other hand, uses a 10 million Ghanaian Cedis upper limit definition for plant and machinery. It is important to caution that the process of valuing fixed assets poses a problem. However, the continuous depreciation of the local currency as against major trading currencies often makes such definitions outdated (Kayanula and Quatey, 2000).

Another definition is given by the Regional Project on Enterprise Development Ghana where a survey paper classified firms into: micro enterprise, less than 5 employees; small enterprises, 2-29 employees; medium enterprise, 30–99 employees; and large enterprise, 100 and more employees (Teal, 2002).

2.7 SMEs and Access to Finance

According to Mensah (2004), there are many who believe that the single most important factor constraining the growth of the SME sector is the lack of finance. There are many factors that can be adduced for this lack of finance. These include:

- A relatively undeveloped financial sector with low levels of intermediation Lack of institutional and legal structures that facilities the management of SME lending risk
- High cost of borrowing and rigidities interest rates.

In order to address such gaps associated with the operation of SMEs, a number of programmes have been put in place by a number of countries to support the financing of SMEs due to the potential that a well resourced SME carries. For instance, the Community programme in Czech Republic provides financial assistance to SMEs in the Czech Republic (Ekwem, 2011). These finance programmes include the regional business fund, venture capital fund, Czech American Enterprise Fund (supported by USAID), and Czech Moravian Guarantee and Development Bank (CMGDB). Ekwem (2011) further states that the Credit Guarantee Corporation of Hungary plays an active role in promoting SME development and improves their competitiveness. In Japan, Credit Guarantee Association acts as a guarantor for SMEs that have no collateral security. A financial safety net has been established in South Korea to help SMEs to overcome the financial shortage. South Korea also has a facilitative bankruptcy law to enable the exit and restructuring of SMEs that experience financial stress.

The most common finance programme for SMEs are revolving loans, credit guarantee schemes, equity capital financing, and subsidies. Any potential provider of external debt or equity finance will want to monitor the company to determine whether it is acting in accordance with the initial contract, to follow the progression of the firm and to have the means to oblige the user of funds to respect the interests of the provider of funds (Mensah, 2004).

There are numerous reasons why securing finance for an SME is effectively more problematic for SMEs than for larger firms. Hence, banks are more likely to engage in credit rationing (I.e. not extending the full amount of credit demanded even when the borrower is willing to pay higher rates) to SMEs than to larger companies (Weiss, 2008;

Hoff and Stiglitz, 2009). For instance, Hoff and Stiglitz (2009) reveal that the SME sector is characterized by wider, unpredictable variance of profitability and growth than larger enterprises. SMEs also exhibit greater year-to-year volatility in earnings and therefore the survival rate of SMEs is considerably lower than that of larger firms (Hoff and Stiglitz, 2009).

Weiss (2008) on the other hand, found that manufacturing firms with fewer than 20 employees were five times more likely to fail in a given year than larger firms. Thus, when banks consider these problems, they become reluctant in giving out financial support to SMEs. Weiss (2008) further states that, in some other instance, application by SMEs for financial support is very difficult for the bank to grant as the banks have difficulty in distinguishing the financial situation of the firm from that of its owners. For instance, the use of company cars and home accommodations for both private and business purposes are clear cases in point. Furthermore, estate tax and intergenerational succession are important issues in SMEs but usually unimportant for larger companies.

In the Ghanaian context, because of the persistent financing gap faced by SMEs, Ahiabor (2013) discloses that many interventions have been launched by governments and development partners to stimulate the flow of financing to SMEs over and above what is available from exiting private sector financial institutions. In Ghana, SME financing interventions can be classified under:

- Official Schemes, and
- Financing provided by financial institutions

2.8 Challenges to SME Financing

The findings of Heather (2013) corroborates that of Mensah (2004) that a number of factors have been indentified that work as barriers against the provision of financial support to SMEs in the country. These barriers could be summarized as:

- Inadequacy of the institutional framework
- Problems with the legal and regulatory framework
- Inadequate SME managerial capacity and lack of training.

2.8.1 Inadequacy of the Institutional Framework

Lenders may have no means of verifying whether borrowers actually use the funds for the declared objectives. Without the requisite institutional framework to help financial institutions monitor their clients, it puts the lender‟s funds at risk since the risk of default increases. In addition to the difficulty of monitoring actions of the borrower, there is a second problem called adverse selection relating to the information requirement of a lending contract (Kauffmann, 2005). In order for a lender to be able to make a sound lending decision, he needs to know more about the borrower‟s financial situation, their assets and liabilities and character indicators that would give the borrower the confidence that the loan would be repaid. The borrower, on the other hand has an incentive to hide all negative information from the lender. For example, the borrower may not have the assets that she or he claims to have; or the profitability of the business that he or she runs may be less rosy than the picture she paints to the lender.

As revealed by Kaufmann (2005), when a prospective borrower knows more about her true finances than the lender, negative information which is relevant to the lending decision is not revealed and the lender is exposed to the risk of selecting borrowers with a high credit risk. In the absence of opportunities for monitoring borrower actions and for verifying the information provided by borrowers, there might be situations where both lenders and borrowers either withdraws from the market or the lenders impose borrowing conditions which are difficult for most borrowers to comply. Thus a condition is created where SMEs are unable, or find it extremely difficult to borrow the required loan to inject into their businesses (Kauffmann, 2005).

Furthermore, Ahiabor (2013) suggests that in economies with advanced credit markets, a significant investment has been made in building an infrastructure for collecting, storing and retrieving information about participants in the financial system, as reflected in the widespread existence of credit bureaus that maintain information. It therefore becomes relatively easier for banks in such jurisdictions to retrieve reliable data when needed in appraising loans for SMEs. A starting point for a credit information system is the availability of systems for identifying participants in the market. The absence of such an identification system in Ghana has been a major factor in the low level of SME financing in the country (Ahiabor, 2013).

Finally, there is a problem faced by SMEs in respect of raising funds from equity financing schemes (Heather, 2013; Ahiabor, 2013). For most SMEs, equity is only available from friends and family, and from foreign investors as domestic private equity is scarce. There are a number of reasons for the equity shortage such as: equity investors seek highest return consistent with the risk of the investment; SME investments are difficult to evaluate; SME investments take time to mature; and Investments are difficult to liquidate.

2.8.2 Problems with the Legal and Regulatory Framework

The absence of supportive laws and regulations severely limits the availability of financing for SMEs, especially from non-governmental and foreign sources. The most serious barriers to investment in SMEs come from problems related to the adequacy of laws and enforcement mechanisms for:

- Formation of companies
- Required disclosures to relevant parties
- Protect the interest of stakeholders with general laws establishing rights and enforcement.

2.8.3 Inadequate SME managerial capacity and lack of training

Training programs are required in all aspects of SME finance: training of loan officers; training of loan guarantee officials; training of investment fund managers; and training of entrepreneurs. These training programmes would include accounting, business management, preparation of business plans, financial statement analysis, personnel management, marketing and other subjects as well as one-on-one counseling for business owners. The lack of such training adversely affects the ability of SMEs to acquire financing, and raises the risk taken by SMEs and lenders who enter into transactions without the benefit of such training.

2.9 Measuring Performance of SMEs

According to Chong (2008), SME owners-managers usually use hybrid approaches combining both financial and non-financial measures to evaluate performance of their

SMEs against the predetermined goals and time. The financial measures include profit before tax and turnover while the non-financial measures focus on issues such as customers" satisfaction, customers" referral rates, delivery time, waiting time and employees" turnover. Recognizing the limitations of relying solely on either the financial or non-financial measures, owner-managers of the modern SMEs have therefore adopted a hybrid approach of using both the financial and non-financial measures in assessing how their businesses are performing Chong (2008). These measures serve as precursors for their next line of actions.

A large portion of earlier literature, according to Daft (2005), has however identified a number of approaches in assessing the performance of SMEs. These were categorized into goal approach, system resource approach, stakeholder approach and competitive value approach. The goal approach measures the extent to which an organization attains its goals while the system resource approach assesses the ability of an organization obtaining its resources (Yuchtman and Seashore, 1967). For the stakeholder approach and the competitive value approach, they evaluate performance of an organization based on its ability to meet the needs and expectations of the external stakeholders including the customers, suppliers, and competitors (Daft, 2005). All four approaches intend to measure the extent to which organizations meet their planned targets; the first two approaches focus on meeting the internally-set targets while the latter two focus on meeting the needs and expectations of the external stakeholders.

Unlike the other three approaches, the goal approach is the most commonly used method due to its simplicity, easy to understand, and internal focus orientation (Daft, 2005). Information required in this approach is easily accessible by the owners-managers for the evaluation process. The goal approach directs the owner-managers to focus their attention on the financial measures. These measures include profits, revenues, returns on investment (ROI) (Dechesneau and Gartner, 2009), returns on sales (Barney, 2007) and returns on equity (Richard, 2000; Barney, 2007) rather than the non-financial measures. Financial measures are objective, simple and easy to understand and compute, but in most cases, they suffer from being historical and are not readily available in the public domain.

Further, profits are subject to manipulations and interpretations. It has thus been suggested by a number of authors that the best way forward is to adopt a hybrid approach by applying the non-financial measures, though subjective in nature, as supplements to the financial measures (Covin and Slevin, 2009; Begley and Boyd, 2007). The combinations of these two measures provide a wider perspective on measuring and comparing the performance of the businesses. The most common non-financial measure adopted by the SMEs are number of employees (Orser et al, 2000; Mohr and Spekman, 2004), growth in revenue across time (Miller et al, 2008), market share (Bouchikhi, 2003) and revenue per employee (Johannisson, 2003).

For this research therefore, the study focuses on measuring the performance of SMEs including both the financial (e.g. revenues and profits) and non-financial (e.g. employees or number of employment opportunities created) within the study area.

2.10 Case Studies of Micro-financing from China and Cameroon

Case studies from China and Cameroon were explored to examine the experiences of micro-financing in both the developed and developing world. China is currently one of the powerhouses in the world with a flourishing SMEs industry having a rich experience with regard to micro-financing (Chen, 2006). For Cameroon, information on its experiences with micro-financing was readily available. These reasons underscored the selection of China and Cameroon for the case studies.

Wang (2013) carried out an investigation into the impact of microfinance on the development of SMEs in Taizhou, Zhejiang in China. The research examined the difference in firm"s financial conditions and characteristics of different groups of SMEs defined by participation status and to estimate how the microfinance and firm characteristics determine SME development. The study suggests that firms that participate in micro-financing see a significant increase in their revenues and net profits. The labor (number of employees) and level of productivity are the most important firm characteristics that determine SMEs development in China. The study also showed that; SMEs that have participated and received micro-finance before are very likely to apply for and receive micro-finance in the future again.

Moreover, Ngehnevu and Nembo (2010) in their studies asserted that; microfinance institutions are an asset to the developing and transition countries. They pointed out that, many SMEs in Cameroon started in the informal sector with relatively small capital but have grown overtime into larger businesses owing to the support from the micro-financing sector. That is; the services provided by micro-finance institutions are tailored to meet the needs and aspirations of the local inhabitants and emphases are towards the poor. The products and services put forth to the members are not by itself a solution to the numerous problems affecting the poor. These problems range from business skills, lack of financial intermediation services, and the lack of markets, technology among others. This financial intermediation services provided a plat-form for those who are considered not fit to meet the obligations of the banks to be a client. SMEs are very much affected by these constraints and these MFIs are towards bridging the gap between formal and informal financial services.

2.11 Institutionalist and Welfarist Approaches to Microfinance

The services of MFIs are not diverse when compared to banks in the formal sector; however, a pattern has emerged in the development of MFIs as semi-formal lending institutions (Morduch, 2000). According to Brett (2006) and Morduch (2000), the concept of microfinance can be viewed in two distinct approaches. These are the Welfarist and Institutionalist approaches to microfinance. While the Institutionalist approach considers microfinance as a means for combating poverty through the financing of incomegenerating activities for poor households, the welfarists opposes the approach to that of institutionalists. Although they share the goal of poverty reduction, these two approaches put microfinance in the crossroads (Morduch, 2000).

The welfarists are based on the theory of social responsibility as against the customer to meet its expectations (Seibel, 2007). This school of thought evaluates the performance of MFIs in terms of the customer through the social (outreach) and impact analysis (impact assessment): it targets the extremely poor and aims to improve their living conditions. It is composed mainly of supportive institutions NGOs or cooperatives that see microfinance as a key means to reduce poverty of the poorest. Despite its emphasis on the rational management of resources and does not exclude that MFIs can conduct a profitable business after a period of 5 to 12 years, this school of thought advocates an offer financial services at rates interest and a relatively low reliance on subsidies (Farrington and Abrams, 2002). The welfarists doubt that unsubsidized credit delivered through the market can be cheap enough to benefit the poor, who are most often conceived as the target of microfinance. Even though well-known innovations, beginning with Grameen‟s group lending, have reduced costs, private firms motivated by profit still have not found this sector an attractive investment. Indeed, if they had, the microfinance phenomena would never have been born. NGO practitioners interpret the unavailability of financial services for the poor as an instance of “market failure” which reflects fundamental limitations of what markets and firms can contribute to poverty alleviation. Thus, acceptance of the necessity of subsidies is an element of a “welfarist” approach which is defined by the vision that microfinance is but one tool to achieve broad-scale social or human development. Consequently, the practitioners and development-oriented scholars who make up this school of thought naturally compare the performance of microfinance against various forms of foreign aid and other humanitarian programs that seek developmental outcomes (Zeller, 2003).

Under the Institutionalist concept, it views microfinance from the perspective of banking practices and its adherents remain transfixed by the potential of microfinance to surmount the four great problems of small-scale lending: high transaction costs, the difficulty of measuring risk, the cost of monitoring clients, and the absence of collateral (Pischke, 2007). Adherents to this approach seem committed in principle to commercialized microfinance and more interested in determining its profitability than determining its impact on poverty. To the institutionalist approach, small loans are disseminated to potential entrepreneurs in a community, where the main target of the program is increasing the volume of loans (Pischke, 2007; Seibel, 2007).

The institutionalists evaluate the performance in terms of the institution by targeting a clientele of poor households and to the financial sustainability of MFIs. They design a set of "best practices" to increase the effectiveness of management systems (finance and accounting, marketing, service delivery, etc), whose adoption is a step essential to achieving financial self-sufficiency in industrial scale and access to financial markets (Zeller, 2003). They consider financial independence as a criterion that best fulfills the social mission. They are essentially financial institutions: either specialized microfinance institutions regulated (NGOs, NBFIs and microcredit associations) that falls clearly within the realm of profitability or village banks and some commercial banks that are more traditional recently involved in microfinance. The institutionalist argues that, those commercialized MFIs which operate without subsidies are able to grow in scale to meet more of the nearly limitless demand for access to credit. The key performance criteria for this school of thought is “sustainability” and the practical essence of their position is that the best, perhaps only feasible, method of delivering microfinance services is through the quintessential market participant, the for-profit enterprise.

The respective approaches of welfarists and institutionalists have the subject of a number of criticisms. The welfarist approach faces the problem of viability and sustainability induced by subsidies, low reimbursement rates and rising operating costs. The institutionalist approach is criticized for not actually helping the poor to come out of poverty as high interest rates enough to ensure the financial autonomy and profitability of MFIs are charged (Morduch, 2000; Brett, 2006).

2.12 Conceptual Framework

From the literature reviewed, it is obvious that micro-financing is crucial to the starting up, survival and growth of SMEs. Microfinance is only a portion of what is needed to boost an enterprise activity in the rural areas and those who are incapable of getting the necessary assistance from a commercial bank. The requirements needed by banks are not easy to be met by these SMEs owners including poor individuals and therefore, micro-financing becomes the alternative that meet the needs of the poor. It is noticed that Micro-finance Institutions (MFIs) have as main target the poor and the poorest. These MFIs interventions help to develop new markets, increase income, creates and accumulates assets and promotes a culture of entrepreneurship. However, it should be noted that microfinance does not serve or solve all the problems of the poor but it serves as a means of helping them to boost their economic activities or augmenting their status.

As conceptualized in Figure 2.1, microfinance interventions generally come in three forms, namely: provision of microfinance loans; credit facilities (hire purchase); and technical support to SMEs. However, before SMEs could benefit from such microfinance interventions, they have to fulfill certain requirements provided by MFIs e.g. providing collateral security. The microfinance loans coupled with the technical support provided by MFIs to SMEs help in their startups, survival and growth when properly harnessed. The growth and development of SMEs stemming from microfinance interventions are manifested in the increase in SMEs working capital, asset, employees and above all, the stimulation of additional jobs stemming from the multiplier effects. Thus, the effectiveness of microfinance interventions on the development of SMEs should be measured in terms of the aforementioned criteria.

The Figure 2.1 provides a conceptual model on the impact of effective microfinance interventions on the growth of SMEs

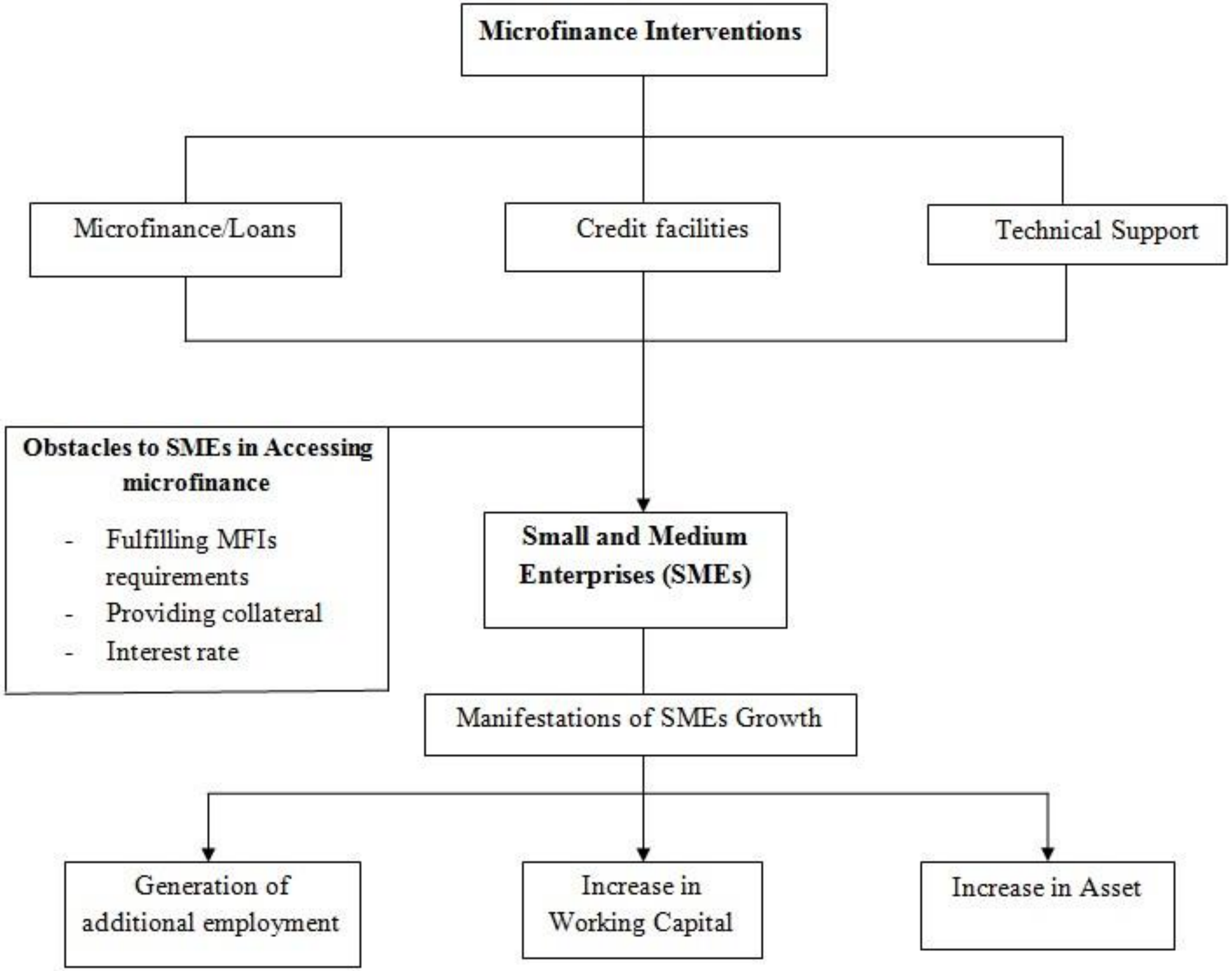


Figure 2.1: A Conceptual Model of the impact of effective microfinance interventions on the growth of SMEs

Source: Author's Construct, 2015

CHAPTER THREE

PROFILE OF STUDY AREA AND RESEARCH METHODOLOGY

3.1 Introduction

The previous Chapter of the study reviewed literature on micro-finance focusing on concepts, history, effects, challenges and other key issues of micro-finance relevant to the topic. This Chapter looks at the profile of the Bekwai Municipality, which forms the study area. In addition, the Chapter provides the research methodology that was employed to conduct the research. The research methodology covers the research design used, population and sampling techniques, sample size determination, data needs, sources of data and collection methods, as well as the method of analysis. Furthermore, the ethical considerations as well as the reliability and validity of the methodology are all explained in this Chapter.

3.2 Profile of Bekwai Municipality

This section of the study gives a general overview of Bekwai Municipality (the study area) in terms of its location and size, demographic characteristics and local economy.

3.2.1 Location and Size

The Bekwai Municipality is one of the 30 District Assemblies in the Ashanti Region of Ghana. The Municipality is located in the southern part of Ashanti Region and shares boundaries to the North with Bosomtwe District, to the South with Adansi North District, to the East with Bosome-Freho District and to the West with Amansie Central District and Amansie West District (see Figure 3.2). The Bekwai Municipality lies within latitude 6º 00‟N - 6º30 „N and Longitudes 1º00W and 1º 35W and covers a total land area of about 633 square kilometres representing 2.2 percent of the total land area of the region (Ashanti). Bekwai is the capital of the Municipality (Bekwai Municipal Statistical Service, 2012). The Figure 3.1 and 3.2 show the Bekwai Municipality in national and local context respectively.

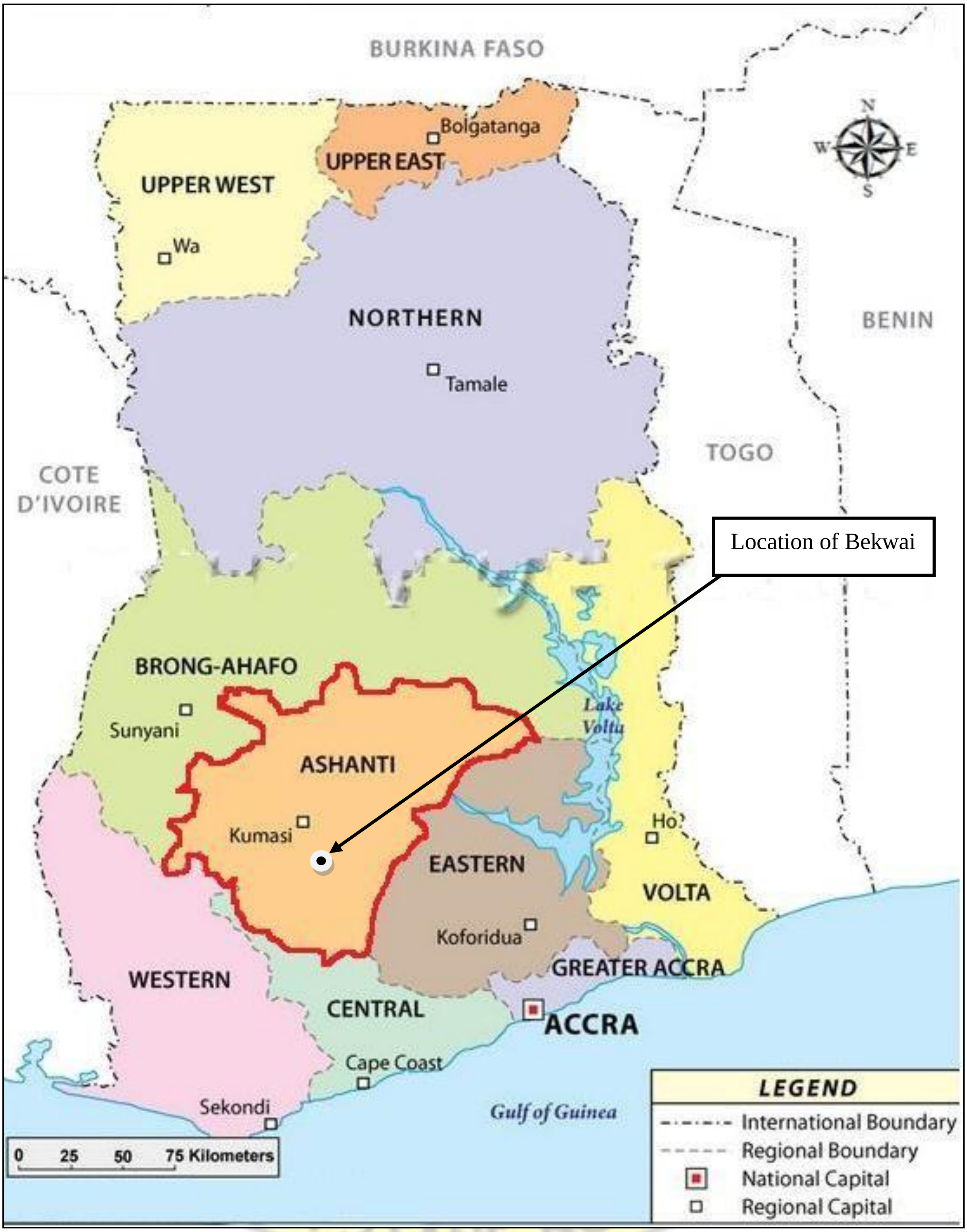


Figure 3.1: Location of Bekwai in National Context Source: Bekwai Municipal Assembly, 2015

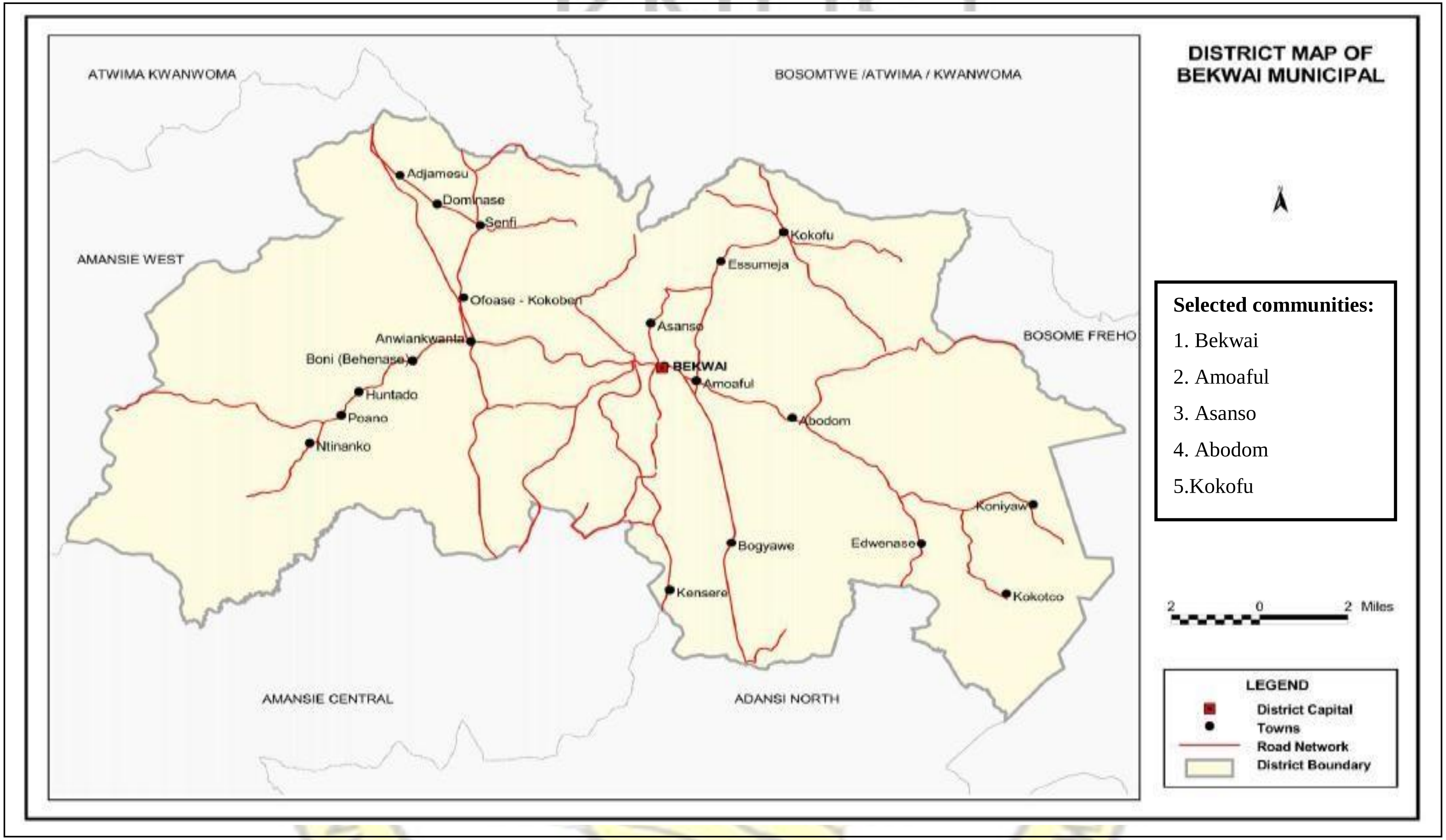

DISTRICT MAP OF
BEKWAI MUNICIPAL
ATWIMA KWANWOMA
BOSOMTWE /ATWIMA / KWANWOMA
AMANSIE WEST
BOSOME FREHO
AMANSIE CENTRAL
ADANSI NORTH
Adjamesu
Dominase
Senfi
Kokofu
Essumeja
Ofoase - Kokoben
Asanso
Anwiankwanta
Boni (Behenase)
BEKWAI
Amoaful
Huntado
Poano
Ntinanko
Abodom
Koniyaw
Edwenase
Bogyawe
Kensere
Kokotco
Selected communities:
1. Bekwai
2. Amoaful
3. Asanso
4. Abodom
5.Kokofu
2 0 2 Miles
LEGEND
District Capital
Towns
Road Network
District Boundary

Figure 3.2: Map of Bekwai Municipality showing selected communities where SMEs were sampled for the study Source: Bekwai Municipal Assembly, 2015

3.2.2 Demography

The population of Bekwai Municipality, according to the 2010 Population and Housing Census, is 118, 024. Males constitute 47.1 percent and females represent 52.9 percent. The male-female ratio of the Municipality stands at 89.1:100 implying that there are approximately 89 males to every 100 females in the Municipality. The current rate of population growth is 3.0 percent. This is about the same as the National Population growth rate of 3.1 percent and higher than the regional figure of 2.8 percent. The Municipality has 82.4 percent of its population in the rural area (Bekwai Municipal Statistical Service, 2012).

The population of the Municipality is youthful (40.9 percent) depicting a broad base population pyramid which tapers off with a small number of elderly persons (6.5 percent). The age-dependency ratio for the Municipality is 10:9; this implies that every 100 independent population (15-64) caters for 90 persons in the dependent population in addition to themselves. The Municipality has 413 settlement concentrated in the central part of the district with numerous dispersed small villages. The population sizes of nearly all the communities are very small. Major towns in the Municipality are Bekwai, Ofoase Kokoben, Domenase, Poano, Bogyawe, Abodom and Kokofu (Bekwai Municipal Statistical Service, 2012).

3.2.3 Local Economy

The major occupation of the people in the Municipality is agriculture which employs about 58.2 percent of the labour force and constitutes the main source of income for the people. As an agricultural dominated area, the Municipality has comparative advantage in the production of maize, cocoyam and cassava as compared to the production of yam and plantain. The service sector employs about 25.8 percent of the economically active population whilst the remaining labour force (16 percent) of the Municipality is engaged in industry. The type of industry in the Municipality can be categorized into five; Textile based industry, Agro industry, craft, metal based industry and services. About 40 percent of these industries are agro- based with palm oil and palm kernel extraction as a major agro based industry. Significantly, the informal economy of the Municipality employs about 88.9 percent of the economically active population and those in the formal sector comprising mainly public sector workers including teachers, civil servants and health professionals constitute 11.1 percent (Bekwai Municipal Statistical Service, 2012).

3.2.4 SMEs and Microfinance in Bekwai Municipality

The local economy of the Municipality is diverse comprising several types of SMEs engaged in industry, service as well as petty trading activities. A recent activity count conducted by the Bekwai Municipal Assembly revealed 288 SMEs in the Municipality (Bekwai Municipal Statistical Service, 2012). In response to the needs of the growing SMEs in the industrial sector, the Assembly has established the Denyase Industrial Centre near Bekwai to resettle local artisans to improve skills of master craft persons. The project is a one stop shop centre aimed at improving quality of products and in the long run increase the income levels of these artisans and address the problem of unemployment and under-employment. The activities of the centre include Welding and Fabrication, Metal machining, Auto Engineering Auto Body Works, Auto Electrical Electronics, Blacksmithing, Carpentry and Vulcanizing (Ibid).

Moreover, some of the SMEs in the Municipality are in the manufacturing sector which engage in processing of agric products e.g. Oil Palm products, fruit juice, cassava starch, powder and chips. Others are also into manufacturing of ceramic products, bricks, roofing tiles and pottery products. Although the industrial and manufacturing SMEs play significant roles to the local economy, SMEs within the service sector form the chunk of the local economy. The sector contributes between 25-35 percent to the gross domestic product (GDP) of the local economy. This sector covers a wide range of activities such as wholesaling and retailing, petty trading, watch repairs, hairdressing and telecommunication centres (Bekwai Municipal Statistical Service, 2012).

Consequently, the microfinance sector in the Municipality has also seen significant growth evidenced by the springing up of several new Micro-Finance Institutions (MFIs) in addition to the existing ones. As at 2012, the Municipality could boast of 13 different MFIs operating in its jurisdiction engaged in the provision of microfinance and business advisory services to SMEs (Ibid).

3.3 Research Methodology

3.3.1 Research Design

The study adopted the cross-sectional survey approach. According to Lavrakas (2008), a cross-sectional survey collects data to make inferences about a population of interest at one point in time. Also, Saunders et al (2009) described cross-sectional surveys as snapshots of the populations about which they gather data and may be repeated periodically. However, in a repeated cross-sectional survey, respondents to the survey at one point in time are not intentionally sampled again, although a respondent to one administration of the survey could be randomly selected for a subsequent one. Crosssectional research approach is useful where one needs to holistically understand a particular phenomenon, activity or situation in great-depth (rather than for generalization purpose).

Since the study sought to have a deeper understanding of the extent to which microfinance interventions have affected the development of SMEs in the Bekwai Municipality, the cross-sectional survey approach which involves the use of both qualitative and quantitative research instruments was deemed appropriate and therefore adopted for this study.

3.3.2 Population and Sample Size

The population of this study was made up of all SMEs operating in the Bekwai Municipality that have accessed loans and credit facilities from any of the MFIs in the municipality. The common SMEs identified in the municipality include those engaged in businesses such as petty-trading, bread baking, mechanical and electrical works, hairdressing, tailoring and furniture making. This decision was fundamental in getting the required information the study sought in order to assess the effectiveness of microfinance interventions on the development of informal SMEs. It was therefore appropriate to gather such information from the very players who are involved in such ventures. A reference to data at the Business Advisory Centre of the Municipal Assembly (updated to 2012) showed that there are 288 SMEs operating in the Municipality. Moreover, statistics from the major MFIs in the Municipality shows that only about 78 percent which translates into about 225 out of the total 288 SMEs do access loans from the MFIs. Thus, the sample frame for the study was 225 SMEs from which a sample was drawn.

Due to the usually large sizes of populations involved in research works, researchers often cannot test every individual in the population because it may be too expensive and timeconsuming. To address this issue, researchers usually rely on sample size that is representative of the study population instead of researching on the entire population. For this study, the sample size is derived from the study population using the Slovin‟s method of determining sample size. The Slovin formula is presented as; n = N/ [1+N (e)^2] (where n = sample size; N = sample frame; and e = margin of error/ confidence level). The population of SME operators in the informal sector in the study area that access microfinance is 225. Therefore, using a margin of error of 5 percent, and applying the Slovin‟s formula to the population of 225 gives the following:

$$n = \frac{N}{1 + N(e)^2} = \frac{225}{1 + 225(0.05)^2} = \frac{225}{1.5625} = 144$$

The researcher therefore sampled and interviewed 144 informal SME operators in the study area that access microfinance. The identification of SMEs that access microfinance was facilitated by the help of five MFIs that were contacted during a reconnaissance survey.

3.3.3 Sampling Techniques

The purposive and simple random sampling techniques were applied in the study. The purposive sampling technique was used to select five towns leading in the number of SMEs in the Bekwai Municipality. The rationale for doing this was because; virtually all the SMEs within the Municipality are concentrated in these five towns. The communities were Bekwai, Amoaful, Asanso, Abodom and Kokofu. On the other hand, the simple random sampling technique was used to select the actual 144 SMEs. The simple random sampling technique was deemed suitable for the selection of the SMEs as a randomly selected sample from a larger population gives all the SMEs in the sample an equal chance to be chosen (Saunders et al, 2009). Since there‟s a sample size of 144 SMEs to be selected from a larger population of 225 SMEs in a manner that gives all the SMEs equal and unbiased chance to form part of the sample, the choice of the simple random sampling is therefore justified. In operationalising this method, all the 225 SMEs were identified and assigned with numbers. Each number was written on a piece of paper, folded and then put into one bag. The 144 SMEs were then drawn by hand picking the papers one after the other from the bag. As indicated earlier, the SMEs surveyed were sampled from five different communities in the Municipality and the distribution of the sample is as follows: Bekwai-70, Amoaful-20, Asanso-15, Abodom-15 and Kokofu-24. Most of the SMEs were concentrated in Bekwai and this explained why 70 SMEs were selected from there.

Besides, data from MFIs such as GIFS Microfinance Ltd, Money Link Microfinance Ltd and A-one Microfinance Ltd (see Appendix I for list of MFIs sampled) in the Municipality was also important for the study. All the MFIs in the Municipality are located in the Bekwai-the capital and thus, the five MFIs sampled were all drawn from Bekwai. This helped the researcher to understand the operations of the MFIs and the various factors they consider before giving out loans and other financial assistance to the SMEs. In gathering data from the MFIs, the purposive sampling was adopted. According to Yin (2011), the purposive sampling approach is adopted where the study requires in-depth information about a phenomenon, situation or event, and particular respondents can be identified to provide such information. In this research, the MFIs were considered to have in-depth information regarding the provision of microfinance intervention to SMEs, and therefore such institutions were purposively selected.

3.3.4 Data Needs, Sources and Method of Data Collection

As the study sought to assess the effectiveness of microfinance interventions on the development of informal SMEs in the Bekwai Municipality, data on various issues including the type of SMEs, the kind of businesses engaged in, type of interventions received from MFIs, the scale of their operations before and after accessing microfinance supports among others, were therefore required to address the research objectives. The study utilized both primary and secondary data sources. Primary data were obtained directly from respondents (SME operators) and MFIs through field surveys while secondary data on the other hand were obtained from selected text, journal articles, and publications.

Moreover, as the study adopted the cross-sectional survey approach, the main data collection instruments that were used to capture the data included structured questionnaires and interview guides (primary data) whereas secondary data were collected from existing literature and documentary sources using the internet search to gather data from web sources. The Table 3.1 summarizes the data needs and sources as well as the method of data collection.

Table 3.1: Data Needs, Sources and Method of Data Collection

Research Questions	**Key Variables/ Data Needs**	**Data Sources**	**Data Collection Method**
What are the eligibility criteria for SMEs who access microfinance support for their business?	- Minimum requirements to be met by SMEs before getting support from MFIs - MFIs policies on loan disbursement and financial support to SMEs - Type of MFIs support for various SMEs category and sizes	Microfinance Institutions (MFIs) and SMEs	Questionnaires and Interviews
To what extent can the growth experienced by the SMEs be attributed to the interventions received from the MFIs in the Municipality?	- Average earnings of SMEs before and after accessing microfinance support - Number of employees before and after accessing microfinance - Working capital before and after accessing microfinance - Amount of business assets before and after accessing microfinance support	SMEs	Questionnaires and Interviews
In what ways can microfinance interventions to SMEs be enhanced to ensure the development of SMEs in the Municipality?	- Challenges faced by the SMEs and MFIs - Proven ways of improving micro-financing	MFIs, SMEs and Literature sources	Questionnaires, Interviews and Internet searches.

Source: Author's Construct, 2015

3.3.5 Data Analysis

As the study adopted both qualitative and quantitative approaches in gathering the data; similarly, it employed the same approaches in presenting and analyzing the data. Regarding the analysis of the quantitative data, the data were first checked for errors, organized, coded and entered into the SPSS software. The result was then analyzed and discussed in the form of frequencies, percentages, and charts with the aid of Statistical Package for the Social Sciences (SPSS). For the analysis on growth of SMEs, the study employed a comparative quantitative analysis using *before and after studies* strategy to assess the changes that have occurred in SMEs before and after accessing microfinance interventions.

Moreover, qualitative data gathered through the interviews were subjected to content analysis to ensure that the responses are checked against each other for consistency and relevancy within the context of the objectives of the study. They were also analyzed to complement the quantitative analysis.

3.3.6 Ethical Considerations

One very important consideration a researcher must not overlook is the issue of ethics in research (Malhotra and Birks, 2007). The researcher, in accordance with this principle, took steps to make sure that respondents and any participant in this research work was not harmed in any way. Permission was first sought from the respondents and the researcher explained the aims and objectives of the study to them before soliciting the needed research data. The respondents were also assured that the data they provide would be kept and treated with confidentiality as the study was only for academic purposes and not for any other use.

3.3.7 Reliability and Validity

Reliability is concerned with the question of whether similar results of a study could be produced when conducted with the same methodology, under the same conditions. According to Yin (2011), the role of reliability is to minimize errors and biases in a case study. The term is commonly used in relation to the question of whether the measures that are devised for arriving at conclusions in the study are consistent. In this study, the methodology used was appropriate while the respondents chosen were the right people who could give a better view of the subject matter being investigated. The researcher thus believes that the results of the study can be reproduced under a similar methodology and conditions.

On the other hand, validity refers to the accuracy of measurements (Yin, 2011). Conscious efforts were made to ensure the validity of this study. It is believed that the choice of approach as well as the structure of the questions posed was objective and appropriate in increasing the validity of the information gathered. The questions were filled in the presence of the researcher and this ensured that any difficulty or ambiguity was clarified.
This helped to enhance the validity of the methodology adopted.

CHAPTER FOUR ANALYSIS AND DISCUSSION OF MICRO-FINANCE INTERVENTIONS, GROWTH AND CHALLENGES OF SMEs IN BEKWAI MUNICIPALITY

4.1 Introduction

Since this study is focused on the effectiveness of microfinance interventions on the development of SMEs in the Bekwai Municipality, two sets of questionnaires for both SMEs and MFI were administered. The questionnaires administered were 144 for the SMEs and five for MFIs.

This Chapter thus presents the analysis and discussion of data gathered from the field. It provides information about the background of the SMEs‟ operators, type of SMEs and activities involved. It also analyses the various microfinance interventions provided to support the SMEs and their corresponding impacts on the growth of the SMEs in the Municipality.

4.2 Background of Respondents

The section discusses the demographic characteristics of the respondents: sex, ages, educational background, marital status, place of origin, computer literacy among others

4.2.1 Sex of Respondents

Out of the 144 respondents interviewed, 36 percent were males whilst 64 percent were females. This shows that women dominate the local economy particularly in terms of SMEs ownership in the Bekwai Municipality. Figure 4.1 provides information on the sex distribution of the respondents.

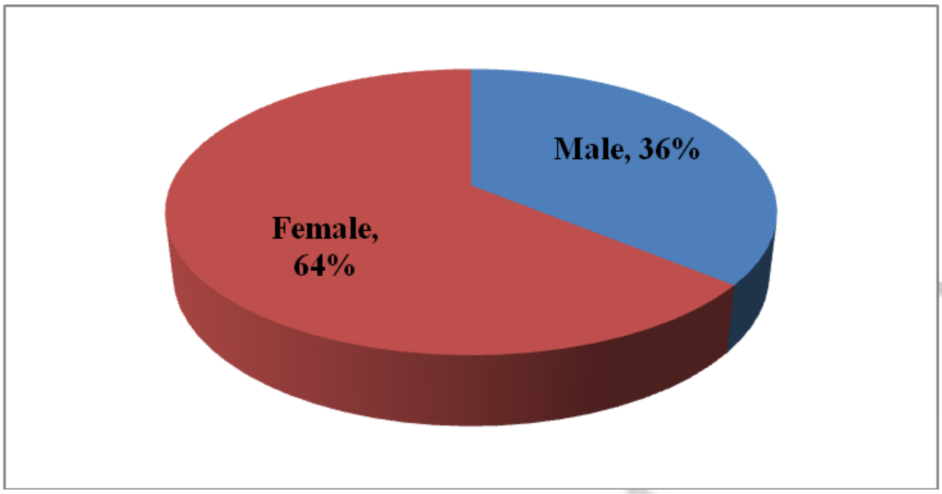


Figure 4.1: Sex Distribution of the Respondents

Source: Author's field survey, April 2015

4.2.2 Ages of Respondents

The study shows that the SMEs sector in the Municipality is dominated by the youthful population as majority of the SMEs (45.1 percent) in the Bekwai Municipality are owned by people within the age bracket of 26-35 followed by those aged between 36-45 (23.6 percent). Given the fact that youth unemployment is on the rise in the country, this finding implies that the SMEs sector can be fostered to assuage the unemployment problem by encouraging and supporting youth-led enterprises. The rest are distributed as follows: 17.4 percent, 9.0 percent and 4.9 percent for ages between 46-55, 18-25 and above 55 respectively. Table 4.1 provides the data on the ages of the respondents.

Table 4.1: Ages of Respondents

Age	**Frequency**	**Percentage (%)**
18-25	13	9.0
26-35	65	45.1
36-45	34	23.6
46-55	25	17.4
Above 55	7	4.9
Total	**144**	**100.0**

Source: Author's field survey, April 2015

4.2.3 Place of Origin of Respondents

The survey revealed that, 57.6 percent of the SMEs in the Bekwai Municipality are owned by people who hail from districts such as Atwima Mponua, Atwima Nwabiagya, Amansie West and East other than the study area whilst the 42.4 percent are owned by people who come from within the Municipality. This implies that the Municipality has some pull factors such as economic opportunities/market for businesses among others that are attracting outsiders to invest in SMEs to drive its local economy. Table 4.2 provides the data on the place of origin of the respondents.

Table 4.2: Place of Origin of SMEs Operators

Place of Origin	**Frequency**	**Percentage (%)**
Within the Municipality	61	42.4
Outside the Municipality	83	57.6
Total	**144**	**100.0**

Source: Author's field survey, April 2015

4.2.4 Level of Education

The survey showed that; majority of the SMEs operators (35.4 percent) had their education up to Junior High School. It is only 1.4 percent of the respondents who never had any formal education whilst 10.4 percent had some form of formal education but up to Primary level. Additionally, 29.2 percent, 20.1 percent and 3.5 percent of the SMEs operators had formal education up to Vocational/Technical, Senior High and Tertiary levels respectively. This compares favourably with the regional figures as only about 26 percent of SME operators in the Ashanti region have had education up to SHS level with many having low levels of education (Bekwai Municipal Statistical Service, 2012). In theory, the level of education informs the level of skills and knowledge acquired. Against this backdrop, the local economy (SMEs) of the Bekwai Municipality is relatively dominated by educated/skilled and this is likely to have positive implications for the local economy. Table 4.3 shows the level of education of the SMEs operators in the study area.

Table 4.3: Level of Education of Respondents

Education Level	**Frequency**	**Percentage (%)**
Never	2	1.4
Primary	15	10.4
JHS	51	35.4
SHS	29	20.1
Vocational/Technical	42	29.2
Tertiary	5	3.5
Total	**144**	**100.0**

Source: Author's field survey, April 2015

4.2.5 Mode of Entrepreneurial Skills Acquisition

The study sought to ascertain how the informal SMEs operators under study obtained their entrepreneurial skills. From the survey, it was revealed that quite a significant number of them (45.8 percent) acquired their entrepreneurial skills through their own life experiences or informal sources. This group of respondents generally held the belief that; entrepreneurship is not necessarily taught, but involves just the application of common sense and basic knowledge. Also, 29.9 percent of the operators acquired their entrepreneurial skills through apprenticeship training whilst 15.3 percent acquired their skills through formal education. Finally, the remaining 9.0 percent opined that, entrepreneurship lies in their families and therefore gained entrepreneurial skills through their parents or family relations. It is also important to note that, the generality of the respondents who acquired their entrepreneurial skills through heredity are mostly involved in trading or commercial activities. The results from this data implies that, entrepreneurial skills training and development is not well-aligned with the formal education system and therefore, many people in Ghana, even the educated ones who venture into entrepreneurship depend on common sense and their own experiences. This corroborates the study of Bateman (2007), whose findings revealed that; formal education in most developing countries does not teach entrepreneurship and consequently, start up enterprises (of even the educated) in many developing countries are poorly established and managed leading to their failures. Table 4.4 provides data on how the respondents acquired their entrepreneurial skills

Table 4.4: How the respondents acquired their entrepreneurial skills

Mode	**Frequency**	**Percentage (%)**
Formal Education	22	15.3
Apprenticeship	43	29.9
Life Experiences/ informal learning	66	45.8
Hereditary	13	9.0
Total	**144**	**100.0**

Source: Author's field survey, April 2015

4.2.6 Computer Literacy of SMEs Operators

The survey showed that; the vast majority (80.6 percent) of the SMEs operators are computer illiterate. This is however not too different from the national statistics on the level of computer literacy as the 2010 census report suggests that; less than 30 percent of Ghanaians are conversant with ICT while only 7.9 percent of households own either laptops or desktop computers (Ghana Statistical Service, 2012). Obviously, this situation would affect the ability of the operators to access the necessary information for scaling up their businesses. It also renders them less competitive. This is therefore not too good for the growth and development of SMEs, and the socioeconomic development of the Municipality and by extension, the country, considering the significant role of Information and Communication Technology (ICT) to doing business in this contemporary era. This therefore calls for rigorous ICT policy interventions, training workshops among others not to help only SMEs operators but the generality of the citizenry lacking ICT knowledge.

Table 4.5 provides data on the computer literacy of the respondents.

Table 4.5: Computer Literacy of the respondents

Status	Frequency	Percentage (%)
Yes	116	80.6
No	28	19.4
Total	**144**	**100.0**

Source: Author's field survey, April 2015

4.2.7 Years of Existence and Size of SMEs

Apparently, in the law of nature, an organism grows with time. The researcher therefore wanted to examine the correlation between the size of the enterprises and their years of existence. The survey revealed that; 60.5 percent, 28.5 percent and 11.0 percent are micro, small and medium scale enterprises respectively. Additionally, the survey showed that; 23.6 percent, 13.2 percent and 16 percent of the SMEs still remain as micro enterprises despite being in existence for 6-10 years, 11-15 years and over 15 years respectively. This implies that, the growth of SMEs is not necessarily linked to the years of existence unlike organisms that grow with time; but a combination of several factors including managerial competences, size of capital, and economic environment among others (Morduch, 2000).

Table 4.6 provides data on the years of existence and size of the SMEs.

Table 4.6: Size of Business and Years of Existence

Years of Existence	Size/Category of Business						Total	
	Micro		Small		Medium			
	Freq	(%)	Freq	(%)	Freq	(%)	Freq	(%)
Less than 1	4	2.8	6	4.2	0	0.0	10	6.9
1-5	7	4.9	13	9.0	3	2.1	23	16.0
6-10	34	23.6	9	6.3	2	1.2	45	31.3
11-15	19	13.2	8	5.5	7	4.8	34	23.6
Above 15	23	16.0	5	3.5	4	2.8	32	22.2
Total	**87**	**60.5**	**41**	**28.5**	**16**	**11.0**	**144**	**100.0**

Source: Author's field survey, April 2015

4.2.8 Reasons for being in the Industry and whether respondents are happy in the industry or not

The study sought to determine whether operators of the SMEs are happy working in the industry or not and also find out the reasons for operating in the sector in spite of the numerous economic activities that pertain to the Bekwai Municipality. The survey revealed that; 66.7 percent are happy working in the industry whilst the remaining 33.3 percent expressed discontentment. Three main reasons underscored the two positions. Of those who are happy working in the industry, 40.3 percent indicated that, they enjoy independence and other benefits including solely enjoying business profit, going to and closing from work at one‟s convenience, taking decision solely and among others.

Moreover, 22.2 percent revealed that, even though they are happy working in the informal SMEs industry, they landed in the sector because they were unable to find jobs in the formal sector. Finally, 4.2 percent showed that; they are working in industry because they had little formal education and therefore had little or no alternative in terms of jobs in the formal sector. Conversely, of the 33.3 percent who are unhappy working in the industry, 28.5 percent indicated that; they are in the sector because they are unable to secure jobs in the formal sector and some of them (about 20 percent) hinted that, if they get jobs in the formal sector, they are most likely to leave the informal SMEs industry. Again, the remaining 4.8 percent are in the industry because they have little or no option and are unhappy working in the industry. It is therefore necessary to put in place planning interventions to improve the activities of the SMEs which are mainly informal in nature in order to retain the operators as the formal sector cannot employ everybody. Table 4.7 provides data on the reasons why respondents are in the SMEs industry and whether they are happy being in it or not.

Table 4.7: Reasons for being in the industry and whether respondents are happy working in the industry or not

Whether happy working in the industry or not	**Reasons for being in the Industry**						**Total**	
	Independence/other benefits of sole proprietorship		Unable to find job in the formal sector		Low level of education with little or no option			
	Freq	(%)	Freq	(%)	Freq	(%)	Freq	(%)
Yes	58	40.3	32	22.2	6	4.2	**96**	**66.7**
No	0	0	41	28.5	7	4.8	**48**	**33.3**
Total	**58**	**40.3**	**73**	**50.7**	**13**	**9.0**	**144**	**100.0**

Source: Author's field survey, April 2015

4.3 Nature and Operations of SMEs in the Bekwai Municipality

4.3.1 Types of Business

The SMEs sector in the Bekwai Municipality comprises Manufacturing, Trading/Commerce, Service and Artisanal works. The survey revealed that; 43.1 percent of the SMEs are engaged in trading or commerce (basically buying and selling), 28.5 percent are engaged in the service sector (e.g. hairdressers, barbers, tailors etc), 18.7 percent are into artisanal works and 9.7 percent are engaged in manufacturing. This dynamics is not too different from the regional and national statistics where the SMEs sector of the economy is dominated by the service industry including trading/commerce (see Abor and Quartey, 2010; GSS, 2012). This implies that, priority should be given to the service sector in terms of planning/policy interventions as it employs majority of the population and any downturn in the sector would have significant effects on the economy. Table 4.8 provides data on the type of businesses engaged in by the SMEs in the Bekwai Municipality.

Table 4.8: Type of businesses engaged in by the SMEs

Type	**Frequency**	**Percentage (%)**
Manufacturing	14	9.7
Trading/Commerce	62	43.1
Service	41	28.5
Artisan works	27	18.7
Total	**144**	**100.0**

Source: Author's field survey, April 2015

4.3.2 Registration of Business

When an enterprise is registered, it gains some credibility and leverage compared to those unregistered (Barney, 2007). The study therefore sought to assess the registration status of the SMEs in the Bekwai Municipality as there is a positive correlation between business registration and the tendency to secure external funding including loans, investments and so forth. The survey showed that, the vast majority (88.9 percent) of the SMEs are not registered. It was discovered that many of the SMEs operators did not see the need for registering their businesses as to them, it does not in any way affect their operations and moreover, business registration comes at a cost and additionally, it would subsequently call for the regular filing of tax revenues in order to pay income taxes. As cited in Ahiahor (2013) "figures from the Registrar General‟s Department as at August 2011 according to the Ministry of Trade and Industry suggest that; 88 percent of registered businesses in Ghana are in the small and medium scale enterprise (SMEs) sector of the economy. With the 88 percent, it might appear that the national statistics on SMEs" registration is high but the reality is that; majority of the SMEs operate in the informal economy and are unregistered (Ibid) even though national data on unregistered SMEs is difficult to obtain if not unavailable. There is therefore the need to track all SMEs and develop database at the national and regional levels to assist in widening the tax net of the country. Table 4.9 provides data on the business registration status of the SMEs in the Bekwai Municipality.

Table 4.9: Registration of SMEs

Status	**Frequency**	**Percentage (%)**
Registered	16	11.1
Not Registered	128	88.9
Total	**144**	**100.0**

Source: Field survey, April 2015

4.3.3 Source of Initial Capital for Starting up Business

The survey showed that majority (63.2 percent) of the SMEs operators started their businesses with their own savings whereas the remaining 36.8 percent started their businesses with borrowed capital from relatives, friends, cooperative unions and individual moneylenders. This implies that most SMEs in the study area start on a subsistence scale operating with capital realized from personal savings, which are usually small, and later access microfinance to augment their capital after being in the industry for some time. This finding compares favourably with Mensah (2004) who asserted that many startups in developing countries, particularly in the informal sector hardly commence with loans (borrowed capital) for three main reasons; first, they are unable to secure loans because they are loosely organized (e.g. they are without business plans, not registered etc), second- they are unable to meet the eligibility criteria used by banks and or MFIs for granting loans (e.g. without collateral, credit history etc), and third- some informal SMEs operators who are even in the position to secure borrowed capital do not take them due to the fear of high interest rates and unfavourable repayment arrangements. Table 4.10 provides data on the source of initial capital for starting up SMEs.

Table 4.10: Source of Initial Capital for starting up SMEs

Source of Initial Capital	**Frequency**	**Percentage (%)**
Personal Savings	91	63.2
Borrowed Capital e.g. loans from friends, relatives, moneylenders etc	53	36.8
Total	**144**	**100.0**

Source: Author's field survey, April 2015

4.3.4 Business Premise and Ownership Status

The survey showed that 36.8 percent of the SMEs operate in rented premises whereas 49.3 percent of them operate in their own premises. The remaining 13.9 percent operate in other premises other than rented or owned premises. These include free occupancy, public spaces, mobile shops and others. Moreover, 23.6 percent of the SMEs operate in kiosks whilst 31.3 percent operate in stores in buildings. Additionally, 24.3 percent and 20.8 percent of the SMEs operate in containers and other structures such as stalls, mobile shops respectively. Table 4.11 provides data on the type of business premise and ownership status.

Table 4.11: Type of Business Premise and Ownership Status

Premise Type	**Type of Ownership**						**Total**	
	Rented Premise		Business/Operator owned Premise		Others (e.g. free occupier)			
	Freq	(%)	Freq	(%)	Freq	(%)	Freq	(%)
Kiosk	5	3.5	28	19.4	1	0.7	34	23.6
Store (Building)	33	22.9	9	6.3	3	2.1	45	31.3
Container	15	10.4	16	11.1	4	2.8	35	24.3
Others e.g. stalls, mobile shops etc	0	0	18	12.5	12	8.3	30	20.8
Total	**53**	**36.8**	**71**	**49.3**	**20**	**13.9**	**144**	**100.0**

Source: Author's field survey, April 2015

4.3.5 SMEs Association

Associations help businesses to develop common front that gives them leverage and better bargaining power (Wright, 2000). The study therefore sought to know the SMEs" operators that are joined to associations. It was found out that, business associations in the study area operate like cooperative societies where the welfare and interest of the members and their businesses are promoted. Among the numerous roles of the associations discovered include price standardizing for member SMEs (i.e. setting standard prices for the goods and services of members), protection of their collective interests by advocating for better policies from the municipal authorities, providing solidarity to members in times of needs among others. Notwithstanding the vital services and benefits provided by the associations, the survey showed that; 72.9 percent of the SMEs operators are not affiliated to any association whilst only 27.1 percent have associations they belong to.

None of those who never attended school and those who had up to primary education was affiliated to any association. Moreover, 4.9 percent, 3.5 percent, 16.7 percent and 2.0 percent totaling the 27.1 percent of respondents joined to associations have JHS, SHS, Vocational/Technical and tertiary education respectively as their highest level of educational attainment. This shows that, regardless of the educational background of the respondents, their understanding of the importance of business associations is low as reflected in the high level of non-membership. Therefore, as most of the SMEs are not affiliated to any associations, it deprives them of the strength that they would have gained as a common front to promote their collective interest. There is therefore the need to advise the various informal SMEs in the Bekwai Municipality to form associations that give them common front and leverage to foster their collective/mutual interests. Table 4.12 shows a cross tabulation of level of education and membership of SMEs" Associations.

Table 4.12: Level of Education and SMEs' Associations

Level of Education	Membership				Total	
	Yes		No			
	Freq	(%)	Freq	(%)	Freq	(%)
Never	0	0.0	2	1.4	2	1.4
Primary	0	0.0	15	10.4	15	10.4
JHS	7	4.9	44	30.5	51	35.4
SHS	5	3.5	24	16.6	29	20.1
Vocational/Technical	24	16.7	18	12.5	42	29.2
Tertiary	3	2.0	2	1.5	5	3.5
Total	**39**	**27.1**	**105**	**72.9**	**144**	**100.0**

Source: Author's field survey, April 2015

4.4 Eligibility of SMEs for Microfinance Acquisition

4.4.1 Criteria used by MFIs for granting loans

According to Robinson (2005), not all banks are created equal but many of them focus on the same areas throughout the loan review process. The most fundamental characteristics that most banks concentrate on giving loans to businesses include myriad pieces of loan documentation including business and personal financial statements, income tax returns, business plan and that essentially sums up and provides evidence of credit history, cash flow history and projections for the business, and or collateral to secure the loan.

From the survey, it was realized that SMEs that access microfinance must first have an account with the MFIs. The survey also showed that SMEs are required to have saved with the MFIs for a minimum period of six months before they are considered eligible to access the microfinance products. Similarly, the information supplied by the three MFIs on the criteria used for granting loans to SMEs broadly revealed the following four criteria:

- The SME seeking the loan should have an account with the MFI and must save for about six months
- Collateral security/Guarantor

- Credit history (for customers that have accessed loans in the past)
- Viability of the project for which the SME loan is being sought

This information was also sought from the SMEs operators. From the survey, it was confirmed by the SMEs‟ operators that SMEs in the Bekwai Municipality are required to have an account and must have saved with the MFIs for a minimum period of six months before they are considered eligible to access the microfinance products. It was also revealed in the survey that another critical criterion used by the MFIs is the provision of collateral security/guarantor by the SMEs before being granted loans. The Figure 4.2 diagrammatically summarizes the criteria employed by the MFIs in granting loans to SMEs in the Bekwai Municipality.

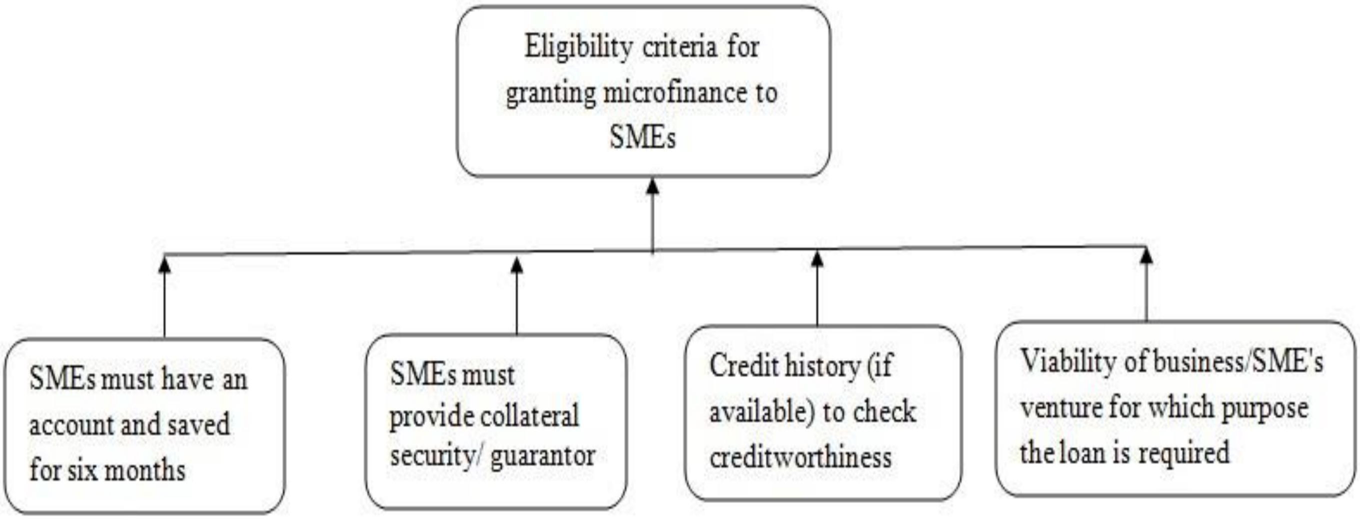


Figure 4.2: Criteria for granting Loans to SMEs

Source: Author's field survey, April 2015

4.4.2 Collateral Security

The study sought to examine the SMEs operators that usually provide collateral security before accessing microfinance. From the survey, 42.4 percent responded that they usually present collateral security before they are granted microfinance for their businesses whereas 57.6 percent answered that they generally did not present collateral security before they are given loans by the MFIs they deal with. This implies that though collateral security is a major criterion used by the MFIs for granting loans, however, in some exceptional cases, they consider other criteria including credit history, viability and potential of the SME to succeed without dwelling so much on collateral security. Table 4.13 shows data on respondents who provide collateral security before getting access to microfinance.

Table 4.13: SMEs Operators that provide Collateral Security before Getting Access to Microfinance

Response	**Frequency**	**Percentage (%)**
Yes	61	42.4
No	83	57.6
Total	**144**	**100**

Source: Author's field survey, April 2015

4.4.3 Access to Microfinance

The respondents were asked whether accessing loans from MFIs is easy or not. From the survey, the majority (76.4 percent) said they do not find it easy accessing microfinance whereas 23.6 percent responded affirmatively. For those who responded negatively, the sampled reasons include: insistence of collateral security by the MFIs and cash flows report from the SMEs to determine their capacity of repayment, which in most cases they are not able to meet these conditionalities and thereby, resulting in the refusal by the MFIs to grant the needed loans. Table 4.14 shows the data on responses of the SMEs operators on whether accessing microfinance is easy or not.

Table 4.14: Responses on Whether Accessing Microfinance is Easy or Otherwise

Response	**Frequency**	**Percentage (%)**
Yes	34	23.6
No	110	76.4
Total	**144**	**100**

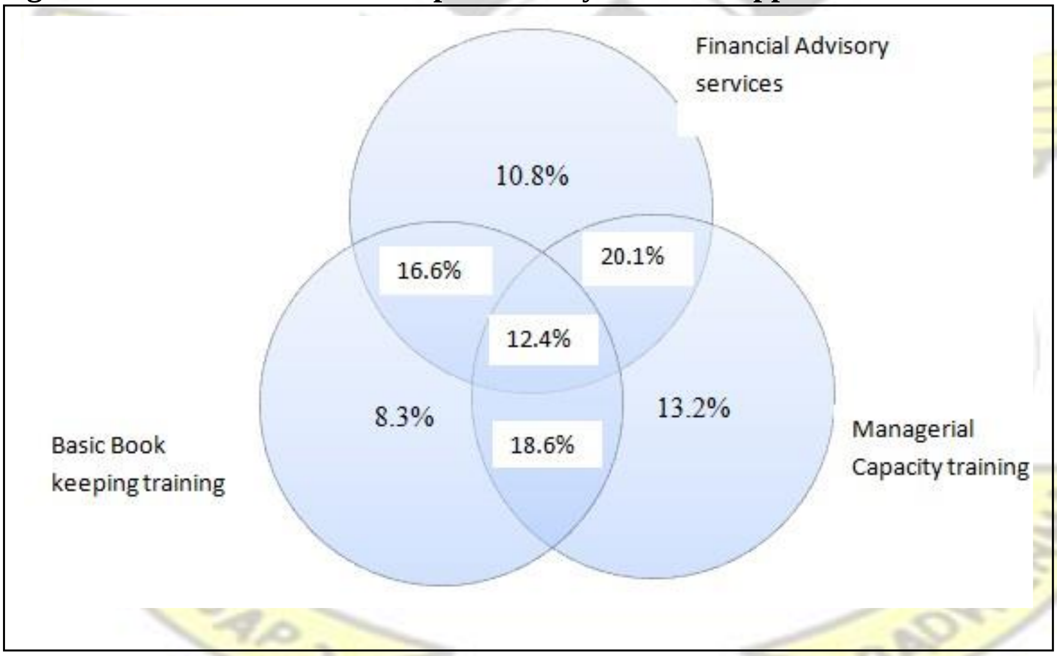
Source: Author's field survey, April 2015

4.5 Interventions of MFIs and Development of SMEs

4.5.1 Types of Assistance of MFIs to SMEs

The main role of MFIs is providing financial assistance to SMEs. However, ample studies exist to show that MFIs also provide other non-financial services. Therefore, the study sought to examine interventions of MFIs in addition to the mainstream financial/loan assistance they provide to SMEs in the Bekwai Municipality. The survey showed that, other interventions provided by MFIs in the Municipality include: financial advisory services, managerial capacity training and basic book keeping training. It was realized through the survey that apart from microfinance assistance 10.8 percent, 8.3 percent and 13.2 percent of the SMEs benefit solely from financial advisory services, book keeping support and managerial capacity support respectively from the MFIs. Moreover, 16.6 percent benefit from both financial advisory and book keeping support; 20.1 percent benefit from both financial advisory and managerial capacity support and 18.6 percent benefit from basic book keeping and managerial capacity training. Above all 12.4 percent of the SMEs benefit from all three services. Figure 4.3 shows the other interventions provided by MFIs in support of SMEs in the Bekwai Municipality.

Figure 4.3: Other interventions provided by MFIs in support of informal SMEs



Source:* *Author's field survey, April 2015

4.5.2 Other Sources of Finance for SMEs

The study sought to examine whether the SMEs get financial support from other institutions/organisations apart from microfinance from MFIs. The survey indicated that the majority (95.1 percent) rely mainly on microfinance without support from anywhere whilst the remaining 4.9 percent responded affirmatively. Other sources of finance received include grants from NGOs, gifts from relatives/friends etc. For instance, an interview with a physically-challenged man operating a small shoe-making shop revealed that, he receives support from the Municipal Assembly periodically as part of the government support for people with disabilities and this support has been a major source of funding for his business. However, since the majority (95.1 percent) of the SMEs depends on microfinance, it implies that MFIs/micro-financing forms the bedrock of the SMEs industry in the Bekwai Municipality and therefore, helping MFIs to flourish through policy actions would go a long way to support SMEs in the Municipality. Table 4.15 shows data on respondents who get financial support from elsewhere apart from MFIs.

Table 4.15: Other Sources of Finance for SMEs Apart from MFIs

Response	**Frequency**	**Percentage (%)**
Yes	7	4.9
No	137	95.1
Total	**144**	**100**

Source: Author's field survey, April 2015

4.6 Assessing Growth of SMEs

The study conducted comparative analysis (before and after studies) using three indicators, namely; working capital, employees and monthly turn over to assess the degree of growth of the SMEs.

4.6.1 Working Capital Before and After First Loan

The survey revealed that, 13.9 percent of the SMEs began operating with a capital of less than GH¢ 1000 before taking their first loan from the MFIs but currently, their average working capital in nominal terms is between GH¢ 3001-4000. Similarly, 9.7 percent, 7.6 percent and 2.1 percent of the SMEs began business with capital of less than GH¢1000 before their first loans but have steadily grown their working capital over the years and are now operating with working capital between GH¢ 2001-3000, GH¢ 1001-2000 and GH¢ 4001-5000 respectively. Additionally, 3.5 percent, another 3.5 percent, 6.3 percent, and

4.2 percent of the SMEs (see 2nd Column of Table 4.17) were operating with GH¢ 1001-2000 before taking their first loan but are currently having GH¢ 2001-3000, GH¢ 30014000, GH¢ 4001-5000 and above GH¢ 5000 as working capital after benefitting from microfinance interventions. However, 10.4 percent of the SMEs began with less than GH¢ 1000 but are still working with less than GH¢ 1000 despite benefitting from microfinance.

Again the average working capitals (i.e. in nominal terms) of the SMEs before and after accessing first microfinance are GH¢ 1,648.67 and GH¢ 2853.53 respectively. This shows an increase of 73.11 percent over the average startup capital of the SMEs. Thus, given the statistics from the survey the overall picture shows that a greater proportion of the SMEs have been able to increase the sizes of their working capital after having received microfinance support. Table 4.16 shows the cross tabulation of SMEs Capital Before and After accessing microfinance.

Table 4.16: SMEs Capital Before and After Accessing Microfinance

Current Capital (GH¢)	**Size of Capital Before Taking First Loan (GH¢)**										**Total**	
	Less than 1000		1001-2000		2001-3000		3001-4000		4001-5000			
	F	%	F	%	F	%	F	%	F	%	F	%
Less than 1000	15	10.4	0	0.0	0	0.0	0	0.0	0	0.0	**15**	**10.4**
1000-2000	11	7.6	9	6.3	10	6.9	0	0.0	0	0.0	**30**	**20.8**
2001-3000	14	9.7	5	3.5	0	0.0	0	0.0	0	0.0	**19**	**13.2**
3001-4000	20	13.9	5	3.5	8	5.5	0	0.0	0	0.0	**33**	**22.9**
4001-5000	3	2.1	9	6.3	5	3.5	4	2.8	0	0.0	**21**	**14.6**
Above 5000	0	0.0	6	4.2	9	6.3	5	3.5	6	4.2	**26**	**18.1**
Total	**63**	**43.7**	**34**	**23.6**	**32**	**22.2**	**9**	**6.3**	**6**	**4.2**	**144**	**100.0**

NB: Average working capital (AWC) for the 144 SMEs before accessing first microfinance = **GH¢ 1,648.67**

AWC for the 144 SMEs after accessing microfinance = **GH¢ 2853.53**

Source: Author's field survey, April 2015

4.6.2 Number of Employees Before and After First Loan

The survey shows that 90.3 percent of the SMEs began operations with one employee (i.e. the SME operator him/herself only) while 9.7 percent began with two employees (i.e. the SME owner and an additional person) before they accessed their first microfinance. Currently, 61.1 percent of the SMEs still work with one person despite receiving microfinance interventions. Moreover, 4.9 percent, 20.1 percent, 6.2 percent and 7.7 percent of the SMEs after receiving microfinance interventions provide employment to two, three, four and five individuals respectively. Even though majority of the SMEs started with and are still operating with only one employee, it was realized during the survey that, the main reason was that these SMEs operators did not want to incur extra cost of employing additional people as they were able to solely operate their businesses and where necessary, get support from family relations.

Notwithstanding, about 33 percent of the SMEs after receiving microfinance interventions currently have more than two employees compared to the fact that none of them began operations with more than two employees. The increase in the workforce of some of the SMEs after microfinance interventions is a clear reflection of growth and this implies that, micro-financing is necessary for scaling up SMEs activities, which could result in additional jobs. Figure 4.4 summarizes the data the number of employees before and after accessing microfinance.

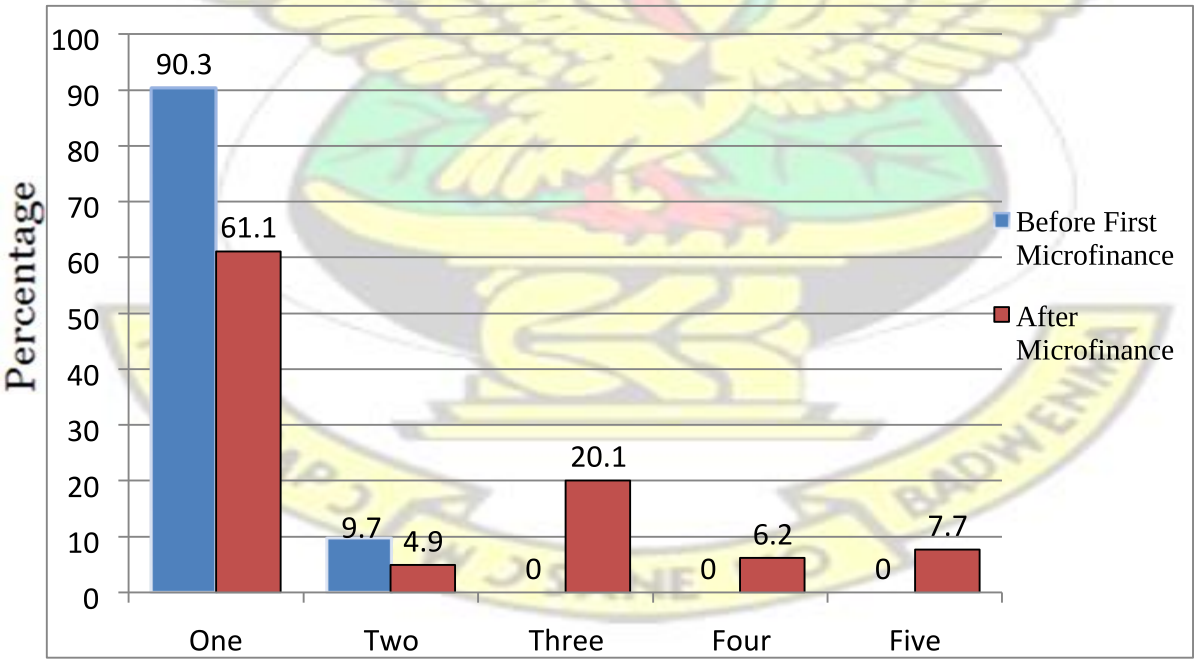


Figure 4.4: Employees of SMEs Before and After Accessing Microfinance

Source: Author's field survey, April 2015

4.6.3 Average Monthly Earnings of SMEs Before and After First Loan

From the survey, it was discovered that before accessing first microfinance loans only 2.1 percent of the SMEs were able to have an average monthly earning of above GH¢ 1000. However, after accessing microfinance to scale up their businesses, the figure has risen to 36.2 percent SMEs that are currently able to averagely earn above GH¢ 1000 on a monthly basis (nominal figures). Moreover, SMEs that had their average monthly earnings between GH¢ 801-1000 have increased from 9.7 percent to 20.8 percent after accessing microfinance to grow their enterprises. The results thus show that average monthly earnings of the SMEs have increased and this can be attributed to microfinance support to some extent even though other factors such as managerial capacity, business climate, technology etc come to play. Table 4.17 presents the data on the average monthly earnings of SMEs before and after first loan.

Table 4.17: Average Monthly Earnings of SMEs Before and After First Loan

Average Monthly Earning (GH¢)	**Before Microfinance Loan**		**After Microfinance Loan**	
	Frequency	Percent (%)	Frequency	Percent (%)
Less than 200	29	20.1	6	4.2
201-400	41	28.5	10	6.9
401-600	33	22.9	18	12.5
601-800	24	16.7	28	19.4
801-1000	14	9.7	30	20.8
Above 1000	3	2.1	52	36.2
Total	**144**	**100.0**	**144**	**100**

Source: Author's field survey, April 2015

4.6.4 Opinions of Respondents on Microfinance towards the Growth of their SMEs

The SMEs operators were asked whether the development and growth of their SMEs could be partly attributed to micro-financing or not. From the survey, it was shown that the majority (82.6 percent) believed that microfinance has helped in sustaining and growing their businesses. According to them, apart from the financial assistance they received from MFIs which has tremendously helped their businesses, the financial advisory services, managerial capacity support and book keeping training have also been invaluable to the development of their SMEs. However, 17.4 percent expressed dissenting opinions. The sampled opinions included the fact that MFIs charge higher interest rates than the commercial banks coupled with the fact that, repayment arrangements they get from the MFIs are not favourable to them. Consequently, this makes the repayment of loans very difficult, which has usually affected their businesses. Table 4.18 shows the data on the opinions of the SMEs operators on microfinance towards the growth of their SMEs.

Table 4.18: Opinions of Respondents on Microfinance towards the Growth of their SMEs

Response	**Frequency**	**Percentage (%)**
Yes	119	82.6
No	25	17.4
Total	**144**	**100**

Source: Author's field survey, April 2015

4.7 Challenges facing SMEs and Micro Finance Institutions in Bekwai Municipality

4.7.1 Challenges facing SMEs with Microfinance

From the survey, 42.4 percent of the SMEs indicated that providing collateral or guarantor is the main challenge that stands their way with respect to accessing microfinance. Also, 34.7 percent indicated that, high rate of microfinance loan application rejections was a problem that demotivate them from accessing the loans from the MFIs. Finally, 22.9 percent also indicated that, the criterion of granting loans to only SMEs that have saved for a minimum of three months with the MFIs serves as a challenge for start ups. Thus, it is only SMEs that are already in existence that benefit from microfinance since MFIs do not provide loans to start fresh SMEs. Figure 4.5 summarizes the challenges faced by the SMEs in the Bekwai Municipality.

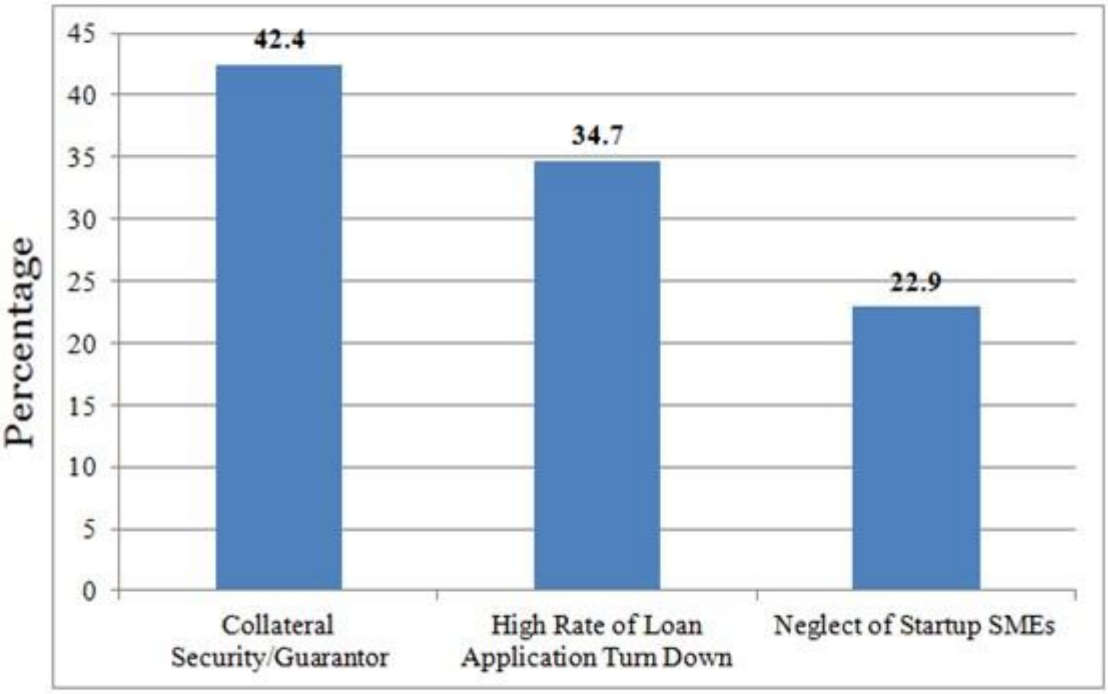


Figure 4.5: Challenges faced by the SMEs in the Bekwai Municipality

Source: Author's field survey, April 2015

4.7.2 Challenges facing Micro Financial Institutions

The interview with the Micro Financial Institutions revealed that their main challenges include high rate of default among the SMEs they provide loans (i.e. loan default rate given by the MFIs ranges between 25-30 percent) and weak regulations regarding entry and exit of MFIs which allows fraudulent people to enter the industry with ease to defraud unsuspecting people and quickly fold up (see Figure 4.6). This is making the MFIs to lose credibility or trust in the eyes of the public. Additionally, MFIs are not able to attract the best of staff as they unable to compete with the banks and the other institutions in the financial sector. From the survey, 50 percent of the MFIs acceded to high rate of default among customers whilst 30 percent and 20 percent acceded to weak regulations and lack of high quality workforce respectively as the major challenges facing MFIs in the Bekwai Municipality. Figure 4.6 summarizes the challenges faced by the MFIs in the Bekwai Municipality.

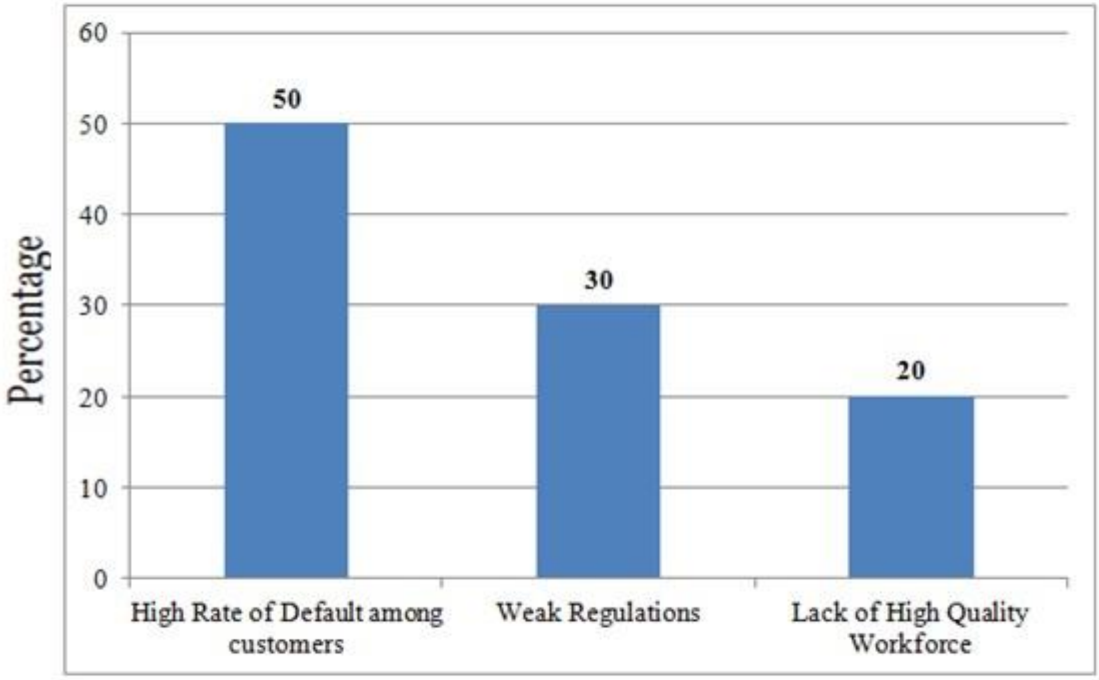


Figure 4.6: Challenges faced by the MFIs in the Bekwai Municipality

Source: Author's Field survey, April 2015

4.8 Summary of Analysis and Discussion

This chapter was devoted to the analysis and discussion of data gathered to answer the research questions. It examined variables such as the background of SMEs operators (their gender, ages, educational background, and level of entrepreneurial and computing skills); size of SMEs in relation to the years of existence; type of business engaged in by the SMEs, registration status of the SMEs, and sources of initial capital of SMEs among others. These variables were explored to find out how they might have influenced the growth of SMEs aside microfinance.

However, the substantive variables that were analyzed to address the research questions were the eligibility criteria or requirements subjected SMEs to before they are granted microfinance; the type of microfinance interventions received by the SMEs, and how such interventions have affected their working capital, employment generation, income earnings and asset base. However, due to data gap on the asset base of the SMEs, the analysis could not cover the effects of the microfinance interventions on the asset base of the SMEs surveyed.

By and large, the study revealed some positive correlations between the microfinance interventions and the growth of SMEs although the interplay of other factors such as market conditions, production methods, market strategies, cost of production inputs among others cannot be discounted. Since these factors were outside the scope of the study, the general conclusion that can be drawn is that, holding the aforementioned factors constant, microfinance interventions have positively affected the growth of SMEs in the study area (Bekwai Municipality) and this is further supported by the testimonies of the SMEs operators after surveying their opinions. The subsequent chapter summarizes the findings of the study in great depth.

CHAPTER FIVE SUMMARY OF FINDINGS, RECOMMENDATION AND CONCLUSION

5.1 Introduction

This Chapter presents the summary of the research findings, recommendations and conclusion of the study.

5.2 Summary of Findings

5.2.1 Characteristics of SMEs/Operators in the Bekwai Municipality

The SMEs industry in the Bekwai Municipality is dominated by females (64 percent) and also, dominated by people who hail from outside the Municipality (57.6 percent). Additionally, the majority of the SMEs (88.2 percent) in the Municipality are being owned and managed by people who have had at least basic education, even with some (3.5 percent) having attained tertiary education.

The study also showed that most of the SMEs operators (45.8 percent) acquired their entrepreneurial skills through their own life experiences or informal sources, and to them, entrepreneurship is not necessarily taught but involves just the application of common sense and basic knowledge. Also, 29.9 percent of the operators acquired their entrepreneurial skills through apprenticeship training whilst 15.3 percent acquired their skills by studying entrepreneurship in school. Interestingly, 9.0 percent of the respondents intimated that, they acquired their entrepreneurial skills through heredity, in that, entrepreneurship runs through their families and therefore learnt from either their parents or family relations. Furthermore, 80.6 percent of the SMEs operators were found to lack computer literacy.

Again, whilst 66.7 percent were happy working in the industry, 33.3 percent said they were not happy but are in the industry due to two main reasons. About 28.5 percent showed that, they have been forced to be in the industry because they were unable to find decent jobs in the formal sector; and the remaining 4.8 percent indicated that, they are in the industry due to the fact that they are less educated and therefore have little or no option apart from working in the informal sector. It was also discovered that, the SMEs industry was mostly dominated by the service sector (71.6 percent) including trading and commerce which formed the bulk of the sector. The other economic sectors included artisan works (18.7 percent) and manufacturing (9.7 percent). In addition, the study showed that the majority (88.9 percent) of the SMEs are not registered. The main reason for the failure to register their businesses boils down to lack of sensitization as many of the informal SMEs operators did not see the need for registering their businesses because, according to them it does not in any way affect their operations and moreover, business registration comes at a cost, which they always try as much as possible to avoid such costs including taxes.

With regard to source of initial capital, it was found out that 63.2 percent of the SMEs operators started with their own savings whilst only 36.8 percent began with borrowed capital. In terms of size and description, it was also realized that 60.5 percent of the SMEs fall within micro enterprise category, 28.5 percent and 11.0 percent fall within small and medium scale enterprises respectively. Though about 60 percent of the SMEs have been in existence for over ten years yet they are still found operating under micro scale. It therefore implied that, the growth of SMEs is not necessarily linked to the years of existence unlike organisms that grow with time; but a combination of several factors including managerial competences, size of capital and the economic environment. It was also revealed that, almost half of the SMEs (49.3 percent) have their own business premises whilst 36.8 percent operate in rented premises.

5.2.2 Eligibility for Granting Microfinance to SMEs

It was revealed in the study that Micro Financial Institutions (MFIs) in the Bekwai Municipality use four main criteria for granting loans to SMEs including collateral security or guarantor, account holding with three months savings with the MFI, credit history to check creditworthiness (if available) and viability of the project/business for which the microfinance is being sought. The eligibility criteria provided by the MFIs was also confirmed by the SMEs. Against the backdrop of the eligibility criteria, the majority of the SMEs operators (76.4 percent) indicated that it is not easy accessing microfinance. They argued that the insistence on collateral security or guarantor is usually difficult to meet, which therefore presented the greatest challenge to them in accessing microfinance. The MFIs also indicated that though collateral plays a critical role in the eligibility criteria, they sometimes examine the credit history of customers coupled with the cash flow/outflow history and savings of their businesses to predict the ability of the SMEs to pay back the loans they are seeking. Moreover, the MFIs as part of the eligibility checks scrutinise the purpose or intended SMEs project for which the loan is sought, to determine the viability of the project in order to guard against high risk investments on the part of both parties.

5.2.3 Types of Interventions Received by the Informal SMEs in the Bekwai Municipality

It was shown in the study that in addition to the mainstream financial assistance (microfinance loans) received by the SMEs from the MFIs, they also received other vital non-monetary support including financial advisory services, book keeping and managerial capacity training. This was found to be extremely useful as the majority of the SMEs operators were found to have acquired their entrepreneurial skills from informal sources. The study also showed that only 4.9 percent of the SMEs get financial support from other institutions apart from the general microfinance from MFIs. This means that the generality of the SMEs (95.1 percent) largely rely on micro-financing and as a result, improving the MFI industry through policy initiatives would greatly go a long way to foster the development and growth of the SMEs industry.

5.2.4 Extent of Growth of SMEs due to Microfinance Interventions

Using a comparative approach with three indicators, namely; working capital, number of employees and average monthly earnings of the SMEs before and after taking their first microfinance loans, the study was able to give a picture of the extent of growth within the SMEs in the Municipality that access microfinance. It was revealed that before the access of first microfinance loan, none of the SMEs was operating with a capital of more than GH¢5000. However, 18.1 percent of the SMEs are currently operating with capital above GH¢5000.

Additionally, 14.6 percent have had their working capital grown from between less than GH¢1000 and GH¢3000 to over GH¢4000 after accessing microfinance to scale up their businesses. Moreover, the average monthly earnings of the SMEs have significantly improved and this is evident as 36.2 percent of the SMEs currently on the average earn above GH¢1000 on a monthly basis as against 2.1 percent in the past without microfinance assistance. Moreover, SMEs with average monthly earnings between GH¢801-1000 have increased from 9.7 percent to 20.8 percent after accessing microfinance.

However, with regard to number of employees, it was found that the majority 61.1 percent of the SMEs were operating and still operating with one employee before and after accessing microfinance. This implies that, measuring the growth of the SMEs by the number of employee criterion would not reveal the real growth of the industry. It was realized that, the rationale for not employing additional workers stem from the fact that the operators were able to individually handle the businesses considering the limited scale of work. Besides, they cannot afford to hire additional employees despite the limited growth in their businesses. The growth in the SMEs was further corroborated by the operators as the majority 82.6 percent believed that microfinance has helped in sustaining and growing their businesses. According to them, apart from the financial assistance they received from MFIs which had tremendously helped their businesses, the financial advisory services, managerial capacity support and book keeping training have also been invaluable to the development of their SMEs. On the contrary, 17.4 percent expressed dissenting opinions. The sampled opinions included the fact that; MFIs charge higher interest rates than the commercial banks coupled with the fact that, repayment arrangements they get from the MFIs are not favourable to them.

5.2.5 Challenges Facing Informal SMEs and MFIs in the Bekwai Municipality

The main challenges that stood in the way of SMEs in the Municipality include the insistence of collateral/guarantor, high rate of loan application rejections and lack of support for startup SMEs. In that, 42.4 percent of the SMEs indicated that providing collateral or guarantor is always not easy to meet that criterion and thus, provides a major barrier to accessing microfinance. Also, 34.7 percent indicated that, high rate of microfinance loan application rejections was a problem that demotivate them from accessing the loans from the MFIs while 22.9 percent showed that, the criterion of granting loans to only SMEs that have saved for a minimum of six months with the MFIs serves as a challenge for start ups. Consequently, it is only the SMEs that have being in existence for some time and have saved with the MFIs that can benefit from microfinance as MFIs hardly give loans to people to start fresh SMEs. On the other hand, the Micro Financial Institutions revealed that their main challenges include high rate of default among the SMEs they provide loans and weak regulations regarding entry and exit of MFIs which allows fraudulent people to enter the industry with ease to defraud unsuspecting people and quickly fold up. Consequently, the Micro Financial Institutions are fast losing credibility and the trust of the public. Moreover, MFIs are not able to attract the best in terms of human resources as they are unable to compete with the banks and the other institutions in the financial sector.

5.3 Recommendations

In the light of the findings of this study, the following recommendations are made:

- MFIs should always monitor the activities of SMEs they grant loans and also provide them with the necessary technical support to put them on track as a way of ensuring that loans that are acquired are invested into strategic areas of their businesses. This will help the SMEs to stay profitable and financially sound to pay back acquired microfinance loans.

- The SMEs operators in the Bekwai municipality should be encouraged by financial institutions such as MFIs, banks etc and government institutions such as Business Advisory Centre at the Municipal Assembly, NBSSI, Registrar Department etc to register their businesses in order to give them credibility and facilitate their acquisition of financial support from MFIs and banks to scale up their operations and inject growth in the local economy.

- SMEs should form business associations to gain better bargaining power to help them in negotiating for better deals, for instance, better interest rates on microfinance loans and credit services from the MFIs rather than accessing microfinance individually.

5.4 Conclusion

The study assessed the effects of microfinance interventions on the development of SMEs in the Bekwai Municipality with three main objectives underpinning it, namely: to examine the eligibility criteria for SMEs that access microfinance, assess the extent of growth experienced by the SMEs as a result of the interventions received from Micro Financial Institutions and suggest recommendations for enhancing microfinance to foster the development of SMEs in the Bekwai Municipality.

The study has shown that SMEs that access microfinance generally provide collateral or guarantor to serve as security so that in the event of default, the collateral would be sold to offset the loan acquired or the guarantor would be held liable to repay the loan. Also, SMEs that are granted microfinance operate accounts with the MFIs with a minimum of three months savings. The remaining eligibility criteria include providing credit history (if available) to determine SMEs creditworthiness and providing a justification for the project for which the loan is sought.

The study has also shown the significant role that MFIs play to the development of SMEs. This is because, a large spectrum of the SMEs are unregistered and therefore operate in the informal sector, which makes it extremely difficult for them to access funding from the banks and other financial institutions that only give loans to enterprises within the formal sector. Therefore, the MFIs help to bridge this gap by providing microfinance to these informal SMEs that are not recognized by the other financial institutions in terms of meeting their financial needs. SMEs that participate in micro-financing to a larger extent are able to expand their businesses and their earning capacities as shown in this study. It is therefore imperative to address the challenges that face both the SMEs and MFIs to promote healthy interface between both parties.

Even though the interplay of factors such as market conditions, production methods, market strategies, cost of production inputs among others affect the development of businesses including SMEs or otherwise, such factors were beyond the scope of the study. Hence, given the scope of the study and all things being equal, microfinance interventions have positively affected the growth of SMEs in the study area (Bekwai Municipality) and this is further supported by the testimonies of the SMEs operators after surveying their opinions. However, this might be unique to the study area and as the research adopted a case study method, the findings are not intended to be generalized to be the case of all regions. That notwithstanding, micro-financing and MFIs should be highly embraced by developing and transition countries taking into account the fact that majority of their SMEs operate outside the formal sector, which makes it difficult for them to access financing from the formal sector. Therefore, micro-financing from MFIs turn out to be the invaluable and only alternative. When this is properly harnessed, it would go a long way to stimulate significant growth in the local economies, which would in the long term trickle to the broader national economy.

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APPENDICES

Appendix A: Microfinance Institutions in the Bekwai Municipality Surveyed in the Study

Name of MFI	No. of Client/SMEs in the sample
GIFS Microfinance Ltd	20
Money Link Microfinance Ltd and	36
A-one Microfinance Ltd	24
Baobab Microfinance Limited	33
God is Perfect Microfinance Company	31
Total	**144**

DEPARTMENT OF PLANNING

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

DATA COLLECTION INSTRUMENT

This research is to search for empirical data for the completion of an academic exercise on the topic "The effectiveness of microfinance interventions on the development of informal SMEs in the Bekwai Municipal Assembly" for the award of a Master's degree in Development Policy and Planning from the Department o f Planning, KNUST. Your support and cooperation is very much anticipated since data collected will be treated with complete confidentiality.

QUESTIONNAIRE FOR INFORMAL SME OPERATORS

Name of Interviewer……………………………………………………………………………

Date of Interview………………………………………………………………………………

Time of Interview………………………………………………………………………………

Name of the SME ……………………………………………………………………………..

I. Basic Demographic Information about Respondent

1) What is the gender of the respondent? ……………………………………

a. Male [ ]   b. Female [ ]

2) What is your age? ………………………………………………………….

a. 18-25 [ ] b. 26-35 [ ] c. 36-45 [ ] d. 46-55 [ ] e. Above 55 [ ]

3) What is your marital status? …………………………………………

a. Single [ ] b. Married [ ] c. Widowed [ ] d. Others, (please specify)…………….

4) Where do you come from? ……………………………………………………

a. Within the Municipality [ ] b. Outside the Municipality [ ]

5) What is your level of education? …………………………

a. Never attended school [ ] b. Primary [ ] c. JHS [ ] d. SHS [ ] e. Tertiary [ ]

6) How did you acquire your entrepreneurial skill?

……………………………………………………………………………..

……………………………………………………………………………………………………

7) Are you computer literate?

a. Yes [ ]   b. No [ ]

8) Are you happy working in this industry?

a. Yes [ ]   b. No [ ]

II. Information about the SMEs

9). What is the type of business?

a. Manufacturing [ ] b. Trading [ ] c. Artisan works [ ] d. Others [ ] (Please, specify)………………………..

10) How long has the business existed?

a. Less than 1 year [ ] b. 1-5 years [ ] c. 6-10 years [ ] d. 11-15 years [ ] e. Above 15 years [ ]

11) How would you describe your business?

a. Micro [ ] b. Small [ ] c. Medium [ ]

12) What are your working hours? Kindly fill: a. Starting time ………. b. Closing time………………

13) How much was your startup capital? GH¢…………………………………..

14) What is the nature of your business premise?

a. Kiosk [ ] b. Store [ ] c. Others [ ] (please specify) …………………

15) What is the ownership status of the business premise?

a. Rented premise [ ] b. Operator/Business owned premise [ ] c. Others (please specify) ……………………………………………………………………………………………

16) Have you registered your business? …………………

a. Yes [ ] b. No [ ]

17) Have you ever applied for a loan ("borrowed capital") to finance your business?

a. Yes [ ] b. No [ ] If yes, from where? Micro Finance Institution………. ………… Bank……………………….. Others………………………….

18) How did you raise the initial capital to start up your business?

a. Own savings [ ] b. Borrowed capital [ ] If borrowed, please give the source……………………………………………………………………………………

……………………………………………………………………………………………

III. Eligibility Criteria for SMEs in accessing microfinance from MFIs

19) Was it easy when accessing the loan?

a. Yes [ ] b. No [ ] Kindly explain your answer selected…………………………………...

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………………………

20) What criteria do the Micro Finance Institutions (MFIs) use to offer your SME loans?

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……………………………

21) Do MFIs you work with insist on collateral when lending?

a. Yes [ ] b. No [ ]

22) Did you present collateral before the MFI offered your SME a loan? a. Yes [ ] b. No [ ]

23). How frequent do you take loan from MFIs?

a. Once in 6 months [ ] b. Once in a year [ ] c. Once in two years [ ] d. Others (specify) ……………………………………………….

24) How are the terms of the loan repayment?

a. Flexible [ ] b. Satisfactory [ ] c. Unfavourable [ ]

Explain your

answer…………………………………………………………………………………

………………………………………………………………………………………………

………………………………………………………………………………………………

……………..

25). Did you have problems in paying back the loan?

a. Yes [ ] b. No [ ]

25b) If yes, how did you finally pay it?

………………………………………………………………………………………………

………………………………………………………………………………………………

………………

IV. Interventions of MFIs and Development of SMEs

26) How long does it take you to obtain a loan from a Micro Financial Institution when you apply for it?

……………………………………………………………………………………………..

27) Have there been an instance(s) where you have applied but not granted a loan before? a. Yes [ ] b. No [ ]

If yes, give the reasons why you were not granted the loan(s) you applied?

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………………………

28) Have you received financial support from any other organization such as NGOs? a. Yes [ ] b. No [ ]

29) Do you belong to an Association or Union?

a. Yes [ ] b. No [ ] If yes, what is the name of the Association?

…………………………..…………………………………………………………….

30) Do the loans you take from MFIs help to expand your SME?
a. Yes [ ] b. No [ ] Explain your answer
…………………………………………………
………………………………………………………………………………………………
………………………………………………………………………………………………
………………

31) Do you agree that micro-financing has helped you in developing and growing your business?
a. Yes [ ] b. No [ ] Explain why
…………………………………………………………..
………………………………………………………………………………………………
………………………………………………………………………………………………
………………

32) Do you get loans and other credit facilities for your SME when the need arise?
a. Yes [ ] b. No [ ]

33) Apart from financial services offered by the MFIs, what other services do you get from them that has helped you to develop your business?

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………………………………………………………………………………………………
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………………………

34). Do the Micro Finance Institutions (MFIs) guide your SME on the areas to invest? a. Yes [ ] b. No [ ]

35). Do the MFIs guide you to save towards your business expansion? a. Yes [ ] b. No [ ] Explain your answer
…………………………………………………
………………………………………………………………………………………………
………………………………………………………………………………………………
………………

36) Has your business once had a problem of finance?
a. Yes [ ] b. No [ ]

37). Has MFIs once saved your business from folding up before?

a. Yes [ ] b. No [ ] Explain how?

…………………………………………………………..
…………………………………………………………………………………………………
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………………

38). Does the MFI you work with provide favourable interest rate that guarantees profit for your SME? a. Yes [ ] b. No [ ]

39) On the average, what interest rate do you usually acquire loans for your business?

…………………………………………………………………………………………………
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40). Are MFIs helpful and supportive to your business?

a. Yes [ ] b. No [ ]

41) If yes, which areas are they helpful? Tick all that apply a. Managerial capacity [ ]

b. Access to training [ ]

c. Book keeping [ ]

d. Payment of tax [ ]

42). Do MFIs give you ideas / training on areas of business expansion? a. Yes [ ] b. No [ ]

43) Would you like to obtain another loan if need be and why?

…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………
………………………

V. Growth of SMEs

44). How many employees do you have now?

a.1-3 [ ] b. 4-6 [ ] c. 7-10 [ ] d. 11-15 [ ] e. Above 15 [ ]

45) How many employees did you have before you took your first loan? …………….

46) What was your working capital before you took your first loan?

GH¢…………………….

47) What is your working capital now after taking the loan?

GH¢…………………………….

48) What is the average daily, weekly or monthly earnings of your business before taking your first loan? GH¢…………………….

49) What is now the average daily, weekly or monthly earnings of your business after taking the loan? GH¢…………………….

50) What is the worth of the asset of your business prior to and after taking the loan for your business? Kindly answer this by filling the table below:

List all the assets that your business had prior to and after taking your first loan. E.g. Van, buildings, equipment such as computers, printers etc, office furniture etc

Assets Before Loan	Value (GH¢)	Assets After Loan	Value (GH¢)

50). Would you partly attribute the growth of your SME to micro-financing? a. Yes [ ] b. No [ ]

V. Challenges in SMEs development and Micro-financing

51) What are the factors that hinder the growth and development of your business?
…………………………………………………………………………………………………
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52) What are some of the problems that hinder your business from accessing microfinance?
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53) Suggest ways of overcoming the challenges mentioned above

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DEPARTMENT OF PLANNING

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

DATA COLLECTION INSTRUMENT

This research is to search for empirical data for the completion of an academic exercise on the topic "The effectiveness of microfinance interventions on the development of informal SMEs in the Bekwai Municipal Assembly" for the award of a Master's degree in Development Policy and Planning from the Department o f Planning, KNUST. Your support and cooperation is very much anticipated since data collected will be treated with complete confidentiality.

QUESTIONNAIRE FOR MICRO FINANCIAL INSTITUTIONS (MFIS)

Name of Interviewer…………………………………………………………………………

Date of Interview……………………………………………………………………………

Time of Interview……………………………………………………………………………

Name of the MFI …………………………………………………………………………..

I. Information about the MFIs

1). What are the core functions of your MFI?

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2). How long has this MFI existed? ……………………………….

a. Less than 1 year [ ] b. 1-5 years [ ] c. 6-10 years [ ] d. 11-15 years [ ] e. Above 15 years [ ]

3). How did you raise the initial capital to start up your MFI?................................. a. Own savings [ ] b. Borrowed capital [ ] If borrowed, please give the source………………………….……………………………………………………………………

3b) How many employees do you have in this MFI?

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II. Eligibility Criteria for Providing Microfinance to SMEs

4) What considerations does your MFI use to grant loans to SMEs?

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5a) Does your MFI insist on collateral before lending?

a. Yes [ ] b. No [ ]

5b) If yes, what type(s) of collateral do you take? Tick all that applies

a. Land [ ] b. House [ ] b. Car [ ] d. Others (please specify)

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6a) On the average, how many SMEs benefit from your loan facilities annually?

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6b) Kindly complete the table below:

Year	No. of SMEs supported	Amount provided (GH¢)	Amount Repaid (GH¢)
2010			
2011			
2012			
2013			

2014			

7) Are the SMEs that you lend to creditworthy?

a. Yes [ ] b. No [ ]

8) What is the maximum amount of loan that your MFI grant to SMEs?

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9) What is the minimum amount of loan that your MFI grant to SMEs?

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10) What is the minimum and maximum repayment period for SMEs you grant loans?

a. Minimum period ………………………………

b. Maximum period ………………………………

11). How do you deal with SMEs which are unwilling to fulfill their loan obligations? ……………………………………………………………………………………………………

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12) How many startup SMEs have your MFI supported since your inception? Answer this by completing the table below

Year	No. of startups supported	Amount provided (GH¢)
2010		
2011		
2012		
2013		
2014		

II. Interventions of MFIs and Development of SMEs

13). Do you agree that your MFI has helped in developing and growing SMEs in the Municipality? a. Yes [ ] b. No [ ] Explain why

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14) What is the waiting period for SMEs that apply for loan facilities at your MFI?

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15) Apart from financial services offered by your MFI, what other services do you give to SMEs that help them to develop and grow their businesses?

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16). Does your MFI guide SMEs within the Municipality on areas of investment? a. Yes [ ] b. No [ ] Explain how

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17). Has your MFI once saved any SME from folding up before? a. Yes [ ] b. No [ ] Explain how?

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18a). Does your MFI provide favourable interest rate that guarantees the SMEs ability to repay?
a. Yes [ ] b. No [ ]

18b) Provide the average interest rates on your loan facility for the following years:

Year	Interest rate (%)
2010	
2011	
2012	
2013	
2014	

19) Does your MFI give ideas / training on areas of business expansion to SMEs? a. Yes [ ] b. No [ ]

V. Challenges and Opportunities for SMEs development and Micro-financing

20) What are the problems with legal and regulatory framework for micro financial institutions in the Municipality?

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21) What are the opportunities that exist for the development of SMEs in the Municipality?

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22) What are the major achievements of this MFI?

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23) What other factors hinder the growth and development of SMEs in the Municipality?

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24) Suggest ways of overcoming the challenges mentioned above …………………………………………………………………………………………………

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