EFFECTS OF MICROFINANCE INSTITUTIONS ON SMALL AND MEDIUM SCALE ENTERPRISES IN RURAL GHANA: THE CASE OF THE JAMAN NORTH DISTRICT.

BY

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DECLARATION

I hereby declare that this submission is the result of my own work towards the M.ScDevelopment Policy and Planning Programme, and that to the best of my knowledge this study contains no materials previously submitted for the award of any other degree of the university, except where acknowledgement has been duly made in the text. Any opinion or views expressed and errors found in the work, however, entirely are my responsibility and do not necessarily represent the organizations or individuals who have been cited in this work

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ABSTRACT

The advent of Small and Medium scale Enterprises (SMEs) has received international attention. In Ghana, about 70 percent of enterprises are said to be micro to small sized and estimated that nearly 40 percent of Ghana's Gross National Income (GNI) is attributable to SME activity. Microfinance, which is the provision of an appropriate range of financial services such as credit, savings, insurance, training and fund transfers is very important to the growth of these SMEs over time and more importantly for those in rural Ghana.The Jaman North District, has witnessed growth in the numbers of SMEs recently.

Despite the role of microfinance in SME growth, SMEs in the Jaman North Districtt are still fraught with challenges of access to financial services. Most of these SMEs therefore begin small and eventually die small, without ever having to see any expansion in terms of output and profits in this rural community. The study therefore aimed at exploring the effects of microfinance institutions (MFIs) on SMEs in rural Ghana in order to suggest some planning guidelines that meet the needs of both MFIs and SMEs.

The Nafana and Suma Rural Banks in the Jaman North District were chosen as multiple cases to examine the effects of these MFIs on SMEs in thedistrict. The multiple cases were used in order to compare results and fully understand the effects of MFIs on rural SMEs. To fully understand the effects of MFIs on SMEs in the district, the researcher purposively chose SME clients of the Suma and Nafana Rural Banks who have dealt with the banks for five (5) or more years. The probability proportional sampling technique was used to determine samples from each stratum to obtain the sample sizes for the SME clients for the Suma and Nafana Rural Banks as a means of giving all SME types equal chances of being represented in the sample.

All the 93 SME clients accessed loans and training from the banks. Loans were given by the Suma and Nafana Rural Banks on different conditions including collaterals and saving with the bank for a minimum of six months. The majority of SME clients of the Suma and Nafana Rural Banks indicated that the services they received from the banks over time enabled them to increase productivity and increase in incomes. At the household level, SME clients of the Suma and Nafana Rural Banks indicated that their businesses enabled them to increase household incomes and savings. It was recommended that MFIs disburse loans on time, increase loan sizes to engender major investment in SMEs, provide loans with flexible repayment terms revise interest rates downward and help to upgrade the managerial skills of SME operators.

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DEDICATION

To my parents Mr Samuel Sange and Mad Cecilia Anane

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
AfDB	African Development Bank
ARB	Association of Rural Banks
ASCAs	Accumulating Savings and Credit Associations
ASSFIN	Association of Financial NGOs
BoG	Bank of Ghana
CGAP	Consultative Group to Assist the Poor
CUA	Credit Unions Association
CUs	Credit Unions
EC	European Commission
ERP	Economic Recovery Programme
EU	European Union
FNGOs	Financial NGOs
FUSMED	Funds for Small and Medium Enterprises Development
GCSCA	Ghana Cooperative Susu and Credit Association
GDP	Gross Domestic Product
GHAMFIN	Ghana Association of Microfinance Institutions Network
GNI	Gross National Income
JND	Jaman North District
MASLOC	Microfinance and Small Loans Centre
MDAs	Ministries and Departments
MFIs	Microfinance Institutions
MIX	Microfinance Information Exchange
MMDAs	Metropolitan, Municipal and District Assemblies
NBSSI	National Board for Small Scale Industries
NGOs	Nongovernmental Organisations
NRB	Nafana Rural Bank
OECD	Organisation for Economic Cooperation and Development
PAMSCAD	Programme of Action to Mitigate the Social Cost of Adjustment
PNDC	Provisional National Defence Council
RCBs	Rural and Community Banks
RNFE	Rural Non Farm Economy

ROSCAs	Rotating Savings and Credit Associations
SH	Self Help
SMEs	Small and Medium Scale Enterprises
SRB	Suma Rural Bank

CHAPTER ONE

BACKGROUND TO THE STUDY

1.0 Introduction

The advent of Small and Medium scale Enterprises (SMEs) throughout the world is noticeable and has received international attention. This is partly because SMEs play a critical role in employment creation, innovation, advancement and sustainable development. According to the World Bank (2010), micro, small and medium-sized enterprises are socially and economically important as they represent 99 per cent of an estimated 19.3 million enterprises in the EU and provide around 65 million jobs representing two-thirds of all employment. In Africa, SMEs form a greater majority of businesses and employ a significant portion of the population. In Ghana, it is estimated that about 70 per cent of Ghanaian enterprises fall between micro to small sized and that nearly 40 per cent of Ghana's Gross National Income (GNI) is attributable to private sector activity (Ghana Statistical Service, 2002).

The role of small and medium scale enterprises (SMEs) in national economic development cannot be overemphasized especially in income generation and distribution, capital accumulation, employment generation, poverty reduction and the empowerment of people especially women(Lisa, 2009). SMEs help in creating a new class of small entrepreneurs leading to the expansion of the middle class and a wider distribution of income. Small firms can survive in rural areas of the country because of their location flexibility, their lower requirement of infrastructure, their nature to serve small geographic markets and their firm commitment to local development (Lisa, 2009).

At the household level, SMEs are believed to be able to over time increase household incomes, diversify household income sources, reduce household poverty and vulnerability levels through the easy access to basic needs such as education and health care and earn entrepreneurs respect in the community. This is even more visible in rural Ghana where on farm incomes are no more reliable due to weather and other challenges.

The concept of 'rurality' has had implications on the type of economic activity that is expected in rural areas. This is because in Ghana, the concept of 'rurality' in functional terms connotes a place with less than 5000 people, reliance on agrarian activities, characterised by strong social ties and surrounded by the natural environment (Gartner, 2004). This has made some people to believe that 'rurality' is equal to agriculture. According to the Ghana Statistical Service (2002), about 56.4 per cent of the people in Ghana were said to be living in rural areas in the 2000 Population and Housing Census hence to fully understand the concept of 'rurality', this study looks at the definition of 'rurality' by Gartner (2004) to fathom that 'rurality' is not equal to agriculture but rather equated to the proliferation of small scale activities. To Gartner (2004), 'rurality' connotes a place dominated by small scale enterprises, surrounded by nature, home to distinct culture and depend on local resources, implying that 'rurality' is not the same as agriculture.

'Rurality' has been tagged with agriculture, a phenomenon which is worrying especially in the face of changing attitudes towards agriculture as a result of changing weather conditions that make agriculture a risky activity in Ghana. In the words of Csaki and Lerman (2000 cited in Davis, 2006), rural economies are not limited to the agriculture sector but encapsulates all the economic activities, infrastructure and natural resources in rural areas. This view is shared by Ellis (1998 cited in Davis, 2006) that rural non farm economy (RNFE) is not limited to income earned solely from agriculture but may come from diverse sources including non-farm activities such as small and medium scale enterprises. Davis (2006) defines RNFE as all those economic activities associated with waged work or self employment, income generating activities that are not agricultural but located in rural areas. Thus, the RNFE might include manufacturing (agro processing) and setting up small businesses and switching from cash crop cultivation to commodity trading (especially in circumstances such as agricultural off seasons) or simply as a survival strategy as a wakeup call to restore livelihood shocks such as droughts, floods and bush fires (Davis, 2007, Reardon et al, 2007).

To Reardon et al (2007), the uncertainty in overall performance of the agricultural sector in African economies is not surprising and this has resulted in the birth of new enterprise jobs in rural areas as start up firms to counter the sluggish rural economy.According to Reardon et al, (2007), the traditional vision of rural economies as purely agricultural is obviously obsolete. This is because households across the developing world earn an increasing share of their income from non-farm economic activities. According to Meijirink and Roza (2007), increasing evidence brings to light that farmers do not live by farming alone because it is estimated that rural non-farm income constitutes on average 42 per cent of rural income in Africa, 32 per cent in Asia and 40 per cent in Latin America and even in areas with predominantly subsistence agriculture, such as many regions in Africa, non-farm employment can constitute as high as 40 per cent of rural household income.

In the Jaman North District, seasonality in agriculture, coupled with shocks such as poor yields, bush fires and unreliable patterns of rains have called for investments in non-farm activities as a way of diversifying income sources. Rural households' income from non-farm activities to support livelihoods according to Reardon et al (2007) in developing countries is thus important and needs policy direction.

Reasons given in the face of this change include declining on-farm incomes and the desire to insulate agricultural production and market risks (Matsumoto et al 2006, Reardon et al 2007). That is, when on-farm activities become less profitable and more risky due to population growth and crop market failures, households diversify their income sources and go into non-farm activities. This is evident in Ghana because in the 2011 and 2012 budgets statements, services' contribution to GDP overtook the agriculture sector whose contribution to GDP topped for decades (Republic of Ghana, 2011). Rural development is a system that incorporates both on-farm and non-farm activities.

This is because to Chenery and Syrquin (1975 cited in Davis et al, 2009) as the economy grows, agriculture sheds labour and the percentage of agriculture to GDP dwindles, with manufacturing and services engaging this excess labour. Kessey (2011) emphasises this economic transformation by arguing that when the economy grows to a point, agriculture sheds excess labour which in turn goes into other businesses and in return provide the agriculture sector with some essential services such as markets and the provision of agricultural inputs. There is therefore a link between the agriculture sector and the rural non-farm economy. A holistic approach to rural development therefore is the one that incorporates both on-farm and non-farm activities as a form of building a synergy between agriculture and the non-farm rural economy.

Davis (2006) believes that the expansion of the RNFE and the diversification of income sources are desirable policy objectives since they offer individuals and households other options to improve their livelihood security and their standard of living through accessing alternative income generating activities as returns to farming decrease. The major problem faced by rural SMEs is access to financial services to grow and sustain their activities and in the words of Meijirink et al (2007) in rural areas, capital markets are often incomplete, limiting the opportunity of rural households to borrow money for investments and this is where the role of microfinance becomes very important as a local level developmental tool to help rural SMEs grow sustainably. This study therefore focuses on the effects of microfinance institutions (MFIs) on SMEs in the Jaman North District as a step to appreciating the impacts of MFIs on the businesses of SME owners, the challenges they face and the way forward.

In the Jaman North District, SMEs are growing faster than agriculture. This is partly due to the fact that access to land is now difficult and women for instance do not own land

and agriculture is mainly rain fed; making agriculture a seasonal activity. This means that the people can no longer depend on agriculture to sustain their livelihoods. The population of the district is made up of about 55 per cent women according to the 2004 District database. (The Jaman North District Assembly, 2011).Consequently, these women who are not allowed to own land invariably will venture into starting their enterprises to earn a living. This partly explains why SMEs have grown very fast in this rural community to diversify their sources of incomes and livelihood. The Jaman North District is said to be made up of 37 villages out of the 42 settlements because their populations are less than the threshold population of 5000 by Ghana's standards and coupled with low levels of service provision, especially the provision of financial services. The numerous SMEs in the District have therefore found it difficult to access financial services to grow and sustain their businesses.

The issue of finance has been central in the operations of rural SMEs because such services enable entrepreneurs to start, grow and sustain business without which most rural SMEs will begin small and eventually die small, without ever having to see any expansion in terms of output and profits in these rural communities that mostly lack the finances to start these enterprises. Financial products have therefore become a centre stage issue because with such products one can have access to the other resources that will kick the business started. By virtue of their nature and what they offer, rural SMEs do not employ high levels of technology and sophisticated infrastructure; hence the little financial assistance they receive can be the beginning of a vibrant venture in the future. Financial assistance has therefore been noted as a fulcrum about which rural SMEs revolve to grow sustainably. A study into the effects of microfinance institutions (MFIs) on SMEs in rural Ghana is therefore pertinent and worthwhile. The challenges of microfinance outreach to rural SMEs in Ghana are therefore discussed below.

1.1 Statement of the Problem

According to some proponents of Microfinance (such asYunus, Otero and Littlefield), micro enterprise is seen as one option to reduce poverty levels. Microfinance is seen as playing a pivotal role about which many families and SMEs revolve to engage themselves in business to cater for their children's needs and themselves. In 2005, Kofi Annan indicated in a speech that sustainable access to microfinance helps alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care and empowering people to make the choices that best serve their needs (Asiama et al, 2007).

Critics however doubt MFIs' contribution to SME growth and have expressed concern over the overestimation of what microfinance can do in bettering the livelihoods of people especially the poor (Asiama et al, 2007). A study by Hulme and Mosley (1996) confirms the inability of microfinance to reduce poverty as it was found that most contemporary schemes have been less effective than they seek to achieve, and that microfinance is not a panacea for poverty alleviation and that in some cases the poorest people have been made worse-off. Microfinance can therefore not be the silver bullet in the fight against poverty and rural enterprise sustenance in Ghana and other developing countries (Hulme and Mosley, 1996).

There is the tendency, as Boudreaux and Tyler (2008) suggest, to overestimate the "micromagic of microcredit." deAghion and Morduch (2005) have, however, warned that rigorous impact studies have been few and have had mixed results. Microfinance is therefore not appropriate for every situation and every individual (McGuire et al. 1998). However, although microfinance may not solve all the problems of the rural SMEs, it remains stable to providing credit facilities to the poor to start their business especially in the informal sector. Yunus (1997) wrote he has seen bowed and subdued people transformed into proud and creative entrepreneurs when credit came their way to change their lives for the better through enterprise formation.

Despite the role of microfinance institutions in SME growth, especially those in rural Ghana, SMEs in the Jaman North District are still fraught with challenges of access to financial services and access to appropriate technology. The most serious among these is access to finance or credit because the other problems could be minimized in the wake of access to credit (Yunus, 1997). In the Jaman North District, rural development efforts have dwelt much on on-farm activities by subsidizing prices of farm inputs with little emphasis on the RNFE partly because 'rurality' has been associated with agriculture in functional terms either deliberately or unknowingly and access to financial products for the RNFE has been a challenge to rural entrepreneurs.

According to Lee (2006), rural communities still remain largely underserved financially except for informal means such as borrowing from friends and relatives, with high interest rates (sometimes 100 per cent or more). The Jaman North District is characterized by low levels of cash flowing easily between the people and financial institutions, seasonality of incomes and highly segmented markets. In providing financial services to these rural SMEs, microfinance institutions encounter high transaction costs, low rates of internal capital mobilization and a low density population makes outreach expensive. MFIs are faced with challenges of inadequacy of financial professionals such as accountants and economists. The rural nature of the district makes it difficult for most financial professionals to accept working there. The low financial standing of the MFIs makes it impossible for them to adequately remunerate employees. This has led to high turnover of employees, who leave to seek greener pastures in well established financial institutions after acquiring some appreciable levels of experience. This has deprived most of these MFIs of the right calibre of workers with the required skills to adequately deliver the necessary services.

In Ghana therefore, efforts are being made both at national and local levels by successive governments to tackle the problem of inaccessibility to funds to do business especially in rural areas. Instituting the National Board for Small Scale Industries (NBSSI), ARB Apex Bank, Ghana Microfinance Institutions Network (GHAMFIN), and the policy to allow the operations of rural banks, Credit Unions, savings and loans companies, and the registration and recognition of several financial and non financial nongovernmental organizations to provide microfinance services have been in the forefront in making sure funds are accessible to rural SME clients. The formation of bodies like the Consultative Group to Assist the Poor (CGAP) and research at both local and international levels continues to advocate making available microfinance to the poor and women in particular in the bid to reducing poverty. The Nafana Rural (NRB) and Suma Rural Banks (SRB) in the Jaman North District in the BrongAhafo Region are two of such bodies that provide microfinance services to rural SMEs and the poor. This study therefore seeks to assess the effects of microfinance institutions on SMEs in the Jaman North District.From the foregoing, the study seeks to answer the following questions:

i. What types of SME clients do MFIs support in the Jaman North District?
ii. What products and services do MFIs in the district lend to SME clients and on what conditions?
iii. What have been the effects of these products and services on the SMEs?
iv. How have the rural SMEs impacted on the households of owners?
v. How can the relationship between MFIs and SMEs be improved and sustained?

1.2 Objectives of the Study

Generally, the study seeks to examine the effects of microfinance institutions on SMEs in the Jaman North District. The study will specifically seek to:

i. examine the types of SMEs who access support from MFIs in the Jaman North District;

ii. assess the specific products and services offered by the MFIs to SMEs and on what conditions;
iii. analyze the effects of microfinance products and services on SMEs in the Jaman North District;
iv. assess the effects of SMEs on households of SME operators;
v. examine the challenges faced by MFIs and SMEs in dealing with each other in the Jaman North District; and
vi. make recommendations to improve the relationship between SMEs and MFIs.

1.3Significance of the Study

The advent of microfinance in national development, women's empowerment, poverty reduction and microenterprise growth and sustenance in developing countries and Ghana in particular will continue to revolutionalize the banking platform and democratize access to financial services. This is because the poor and rural dwellers are given the chance to also have access to capital to support their activities, interestingly without the constraint of collaterals. This study is believed to be of immense help to government and policy makers, microfinance institutions and practitioners, SMEs and all stakeholders in planning in a number of ways, among which are:

i. It will enable policy makers in charting the way forward for integrating various MFIs in national development agenda;
ii. It will also serve as a guide to MFIs on the need to upgrade their services to meet required standards;
iii. MFIs will also be informed on the types of assistance needed by SMEs and the training required to help their clients on sustainable basis and;
iv. It will contribute to the body of knowledge on similar studies and serve as reference for future research.

1.4 Scope of the Study

Microfinance encapsulates an array of issues such as microfinance and rural development, microfinance and the development of poor countries but the study will look at microfinance institutions and SMEs as rural development tools in rural SME growth, poverty reduction in national development and the challenges they face. Geographically, the study looked at Ghana with emphasis on the Jaman North District (JND) in the BrongAhafoRegion. The Jaman North District is chosen because access to credit poses as a major challenge to the majority of SMEs due to the smaller number of MFIs operating in the district. The study spanned from 2005 to 2010 because this is the period at which microfinance took a turning point in the district with the coming in of several Credit Unions to complement the services of the only two rural banks in the district. This period also gave the researcher current data from which conclusions could be made for further policy interventions, and also aid trend analysis.

1.5 Limitations of the Study

The study should have taken the state of microfinance institutions in rural Ghana as a whole but time and other resource constraints confined the study to only one rural district. This made it difficult to generalize the results to cover the whole country; however, it is believed that since the issues of microfinance institutions in one district are not different entirely from other districts the results could still be used for policy making. Nonetheless a lot of important issues were covered to make this work a masterpiece for further research and policy direction on the effects of microfinance institutions on SMEs in rural Ghana.

Methodologically, since more than one method of data collection (questionnaires, observation and personal interviews) were used in data collection, the study will be very difficult to be replicated. Combining two or more methods in collecting data is, therefore, not a suitable method for every issue or study. The use of more than one method was also a way of legitimising personal views and interest (Sarantakos, 1998). However, the flaws of one method are often the strengths of another method and so by combining methods, the strengths and weaknesses of the various methods are complemented and supplemented. It is, therefore, believed that the results of the study are not affected negatively.

In collecting data, the researcher encountered some instances where some respondents were busily selling and were not ready to give any information. The researcher had to wait several minutes before respondents could sit and answer questions. Other respondents feared they were going to be made to pay more taxes by the District Assembly and so were not ready to give information. Extra minutes had to be used to explain the intention of the researcher vividly to some respondents before they agreed to answer the questions. Despite these limitations the researcher was able to make headway and collected the necessary data to fulfil the objectives of the study.

1.6 Organization of the Report

The study is organized and presented in five chapters. Chapter One covers the introductory information about the study, which involves background to the study, statement of the problem, objectives of the study, significance of the study, research questions, scope of the study, limitations of the study and the organization of the report. Chapter Two covers the review of related literature. In this section, books, articles, and other works, which have been done by other researchers on the subject, are reviewed. Chapter Three covers the methodology and comprises the research approach, sampling technique, sources of data, data collection methods and instruments, sample size and sampling technique, and data analysis methods. Chapter Four covers data analysis. Statistical tables, cross-tabulations and other analytical tools are used to draw meanings from data into information to aid discussions. The fifth chapter covers the summary of findings, conclusions and recommendations.

CHAPTER TWO

EFFECTS OF MICROFINANCE INSTITUITIONS ON RURAL SMEs

2.0 Introduction

This chapter delves into a wide range of relevant publications that relate to the subject matter of the study. The main purpose of this chapter is an attempt to synthesize the important works of other researchers and writers or scholars pertaining to the effects of MFIs on rural SMEs. Some time-tested theories have also been examined carefully in this section. This chapter has thoroughly delved into the following areas:

i. Meaning of Microfinance
ii. Evolution of Microfinance
iii. Aims of microfinance
iv. Features of Microfinance
v. Scope of Microfinance in Ghana
vi. Microfinance and women's empowerment
vii. Challenges of Microfinance Institutions in Ghana
viii. Meaning and evolution of SMEs in Ghana
ix. SMEs and National development
x. General Challenges of SMEs in Ghana
xi. Conceptual Framework

2.1 Meaning of Microfinance

Microfinance can be defined as the provision of financial services to poor or low income clients who are normally excluded from traditional financial systems as they are considered "unbankable" due to lack of collateral, steady employment and a verifiable credit history (Westover, 2008). It refers to a movement that envisions the poor or low income clients having permanent access to an appropriate range of financial services that include credit, savings, insurance and fund transfers (Yunus, 1997). In this regard, microfinance also means integrating the financial needs of all people into national mainstream financial systems. This move relieves those who find it difficult accessing finance from the hustle they go through in accessing financial services to support their businesses.

To the Microfinance Information Exchange (MIX, 2011), microfinance refers to a variety of financial services that target low-income clients, particularly women. This definition brings to light the issue of women's empowerment through the availability of small loans. Microfinance is, therefore seen as a catalyst in assisting the poor and especially women, who are mostly affected by conditions of loans simply on the grounds of not possessing property to serve as collaterals. To Hagen (2004), microfinance does not only mean providing very poor families with small loans to help them engage in productive activities or grow their small businesses but over time, microfinance has come to include a broader range of services such as credit, savings, insurance, money transfer facilities, as developers have come to realize that the poor who lack access to traditional formal financial institutions require a variety of financial products to help them grow their businesses, support their households and to engender sustainable livelihoods.

For analytical purposes, the MIX (2011) defines microfinance services as the ones opposed to financial services in general, but as retail financial services that are relatively small in relation to the incomes of both individuals and SMEs, and to the Asian Development Bank (ADB, 2011) microfinance plays an important role in both the household and the SME levels by helping people with services such as deposits, loans, money transfers and insurance to the poor and low-income households to support the household and their microenterprises.The inclusion of insurance in microfinance, popularly called 'micro insurance' aims at insuring the businesses of SME clients so that in cases of default in paying loan and the collapse of businesses, there becomes an option to revamp the businesses.

This helps SMEs to withstand unforeseen situations and to also recover from shocks from the business environment in the bid to making SMEs sustainable. This component of microfinance is however limited in the Ghanaian situation due to factors such as volatile business environments and the low capital portfolio of most of the MFIs. In the same light, microfinance is considered a service that offers poor people access to basic financial services such as loans, savings, money transfer services and micro insurance (Consultative Group to Assist the Poor; CGAP, 2010, Helms 2006). Todaroand Smith (2009), however see microfinance not only as the supply of credit, savings and micro insurance but also some financial services made available to the poor and vulnerable people who might otherwise have had no access to them or could not borrow only on highly unfavourable terms.

The ongoing definitions depict that the term 'microfinance' encapsulates more than savings, loans and insurance for the poor. The term 'micro' reoccurs in the meaning of microfinance services because the financial status of clients suggests that they receive loans in small amounts or limited services. Microfinance has therefore come to serve the needs of these people who are otherwise not 'attractive to the traditional sector banks' and to also diversify the financial services platform.

The ongoing definitions depict that microfinance as a service, a product, a movement and a vision that encapsulates savings, loans and insurance for the poor. This way, microfinance services aim to provide working capital which can help the recipient to start or improve a small scale business and thus improve and sustain his or her livelihood and their family who would otherwise have been in poverty. Very broadly defined institutional wise, microfinance might even include old and informal lending services from friends or family members (Helms, 2006). This highlights that the scope of microfinance encapsulates a number of financial services both formal and informal as posited by Helms (2006). This also complicates the regulation environment of microfinance institutions. Steel andAndah (2003), note that microfinance involves small financial transactions with low income households and micro enterprises, using non standard methodologies such as character-based lending, group guarantees and short term loans. Here, the solidarity concept is applied in the sense that when the loan is given, the repayment of the loan gives the other group members the chance to also get similar loans. The other group members awaiting their turns serve as "collateral" in this concept (Yunus, 1997).

All in all, microfinance can be described as financial services or products that are targeted at the poor in society as a means of taking them out of poverty and to better their lives. This involves savings and the provision of small loans and in some cases insurance for small business owners and prospective entrepreneurs. The term encompasses the provision of financial and non financial services as well as the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients.

2.2 Evolution of Microfinance

Microfinance is said to have existed in various forms throughout economic history, usually as part of the informal sector itself, as is the case of local money lenders. Microfinance has evolved to include credit unions and rotating credit associations (ROSCAs) with a long history (Asiama et al, 2007) as a means of extending credit, usually in the form of small loans with no collateral, to nontraditional borrowers such as the poor in rural areas to support their enterprises and earn a living (Encyclopedia, 2010). Modern microfinance institutions are believed to have emerged as part of a wider trend toward grassroots development efforts that were critical of the state-led, top-down approaches which had dominated until the 1960s as advocates of grassroots projects generally pointed to the inability of "trickle-down" economics to reach the poorest populations and instead focused on small-scale, local community-driven approaches (Friedman, 1992; Kingsbury, 2004; Schumacher, 1973).

More recently, critics of centralized development approaches argue that the main failure of development policy has been the act of ignoring the informal sector and thus has done little to increase the productivity of the poor (DeSoto, 2000; Woller and Woodworth, 2001). From these arguments, microfinance emerged as a result of the failure of the old models of development finance (Rhyne, 2001). The ineffective initial attempts of state-subsidized rural credit programmes have given way to a microfinance sector dominated by nongovernmental organizations (NGOs) and private operators, with far less state involvement (Woolcock, 1998). Microfinance has existed throughout man's existence but the approach was said to have been institutionalized in 1976 by Muhammad Yunus, an American-educated Bangladeshi economist who had observed that a significant percentage of the world's population has been barred from acquiring the capital necessary to engage in entrepreneurship and move out of poverty. At the Chittagong University, Yunus had been convinced from his research that the lack of access to credit on the part of the poor was one of the key constraints on their economic progress, a conclusion that has been supported by later studies from around the developing world and consequently setting out to solve this problem through the creation of the Grameen Bank in Bangladesh (Encyclopedia, 2010).

The Grameen approach has been seen as unique because the small loans are guaranteed by members of the borrower's community; pressure within the group encourages borrowers to pay back the loans in a timely manner (Encyclopedia, 2010). With the concept of 'stepped lending', a borrower begins with a very small loan, repays it, and qualifies for successive loans at higher values with peer pressure acting as a replacement for traditional loan collateral. Therefore Yunus (1997) believes that microfinance has a key role to play in reducing poverty with access to credit for microenterprises as an important condition. Microfinance have therefore evolved to become important means of encouraging entrepreneurship and economic development at the grassroots level and to Daley-Harris (2006), there are presently over 3,000 MFIs serving over 100 million clients in some of the most impoverished countries of the world.

2.3 Aims of Microfinance

Microfinance diverges from the formal sector banking approach to assisting clients as 'material' collaterals are replaced by 'social collateral' through group solidarity and peer pressure. In this way, microfinance aims at some of the following according to Yunus (1997):

i. It seeks to provide technical guidance to the client or group of people on how to maintain their accounts and savings. Beneficiaries are given advice and options as to how one can brighten his or her chances to continue to benefit from similar products and even bigger loans in the future by teaching beneficiaries on basic book keeping and accounting;

ii. It also aims to help people to make savings in the bank as a group, rather than doing savings as one person. After savings, people can easily get loans from the bank for their business activities. Peer pressure is key to sustainable access to credit as the cost of dealing with the group will mean less loan management cost on the side of the MFIs;

iii. It aims also at activities that help poor people to improve their financial and life style. Status does not matter in microfinance as everyone is a potential entrepreneur as posited;

iv. Microfinance is given for a variety of purposes, frequently for SME development. The diversity of products and services offered reflects the fact that the financial needs of individuals, households, and SMEs can change significantly over time, especially for those who live in poverty. Because of these varied needs, and because of the movement's focus on the poor, microfinance institutions often use non-traditional methodologies, such as group lending or other forms of collateral not employed by the formal financial sector;

v. It also aims at targeting women in the form of empowering them by making small loans accessible to them to start and sustain their businesses. Women play vital roles in the family especially in Ghana and some developing countries where men dominate the society and women are mostly not allowed to own property. Making loans accessible to women is one trait of microfinance as portrayed by the Grameen Bank where according to Todaroand Smith (2009), about 97 percent of Grameen Bank's customers are poor women. This revolutionalizes the financial environment of society where everyone has access to credit no matter one's status.

2.4 Features of Microfinance

In addressing the unique financial needs of the poor, MFIs have tended to be characterized by group lending models and mobile and decentralized structures and according to Todaroand Smith (2009), these institutional features are designed to address some of the fundamental difficulties of lending to the poor. In the Grameen Bank's model for example, lending groups consist of five people who meet once a week and work to mutually reinforce the discipline of the members. The design of this group system is such that no collateral is necessary from the borrowers as Yunus (1997) explains, that, "social collateral replaces material collateral" where individual greed is suppressed by collective responsibility. Group lending has been found to reduce transaction costs and allows the organization to build upon existing social groupings. Most importantly, for areas where credit information is lacking and contract enforcement mechanisms tend to be weak, mutual group reinforcement provides a reliable alternative (Woolcock, 2001).

Another lesson from the Grameen model and a central aim of microfinance worldwide is the idea of taking banking directly to the poor, which Yunus (1997) explains that, one of the problems with the formal financial sector is that bankers are unwilling to step out of their offices. Additionally, one study had reported that the greater physical and financial proximity of microfinance institutions to their clients was a major contributing factor to their ability to withstand economic crises (Muriel et al, 2006).

Another important feature of many MFIs is the focus on women borrowers. In some cases this is part of an effort to correct the neglect of women in development policy. Not only have microfinance programs been said to have a positive impact on women's empowerment, but women have often also proven to be better customers as several studies have found that women faithfully repay while the delinquency rate is much higher among the men who borrow from MFIs (Panjaitan-Drioadisuryoand Cloud 1999).

2.5 Key Stakeholders of Microfinance in Ghana

The structure and key microfinance stakeholders in Ghana according to The Bank of Ghana (2007) and Asiama et al (2007) consist of the following:

a. Microfinance Institutions, including:
   i. The Rural and Community Banks;
   ii. Savings and Loans Companies;
   iii. Financial NGOs;
   iv. Primary Societies of CUA;
   v. Susu Collectors Association of GCSCA;

vi. Development and commercial banks with microfinance programs and linkages; and

vii. Micro-insurance and micro-leasing services.

b. Microfinance Apex Bodies, namely:

i. Association of Rural Banks (ARB);

ii. ARB Apex Bank;

iii. Association of Financial NGOs (ASSFIN);

iv. Ghana Cooperative Credit Unions Association (CUA); and

v. Ghana Cooperative *Susu* Collectors Association (GCSCA)

c. Supporting Institutions

i. Microfinance and Small Loans Center (MASLOC);

ii. The Ghana Microfinance Institutions Network (GHAMFIN);

iii. Development partners and international non-governmental organizations;

iv. Universities, training and research institutions.

d. Government Institutions

i. Ministry of Finance and Economic Planning;

ii. Ministries, Departments, Agencies (MDAs) and Metropolitan, Municipal and District Assemblies (MMDAs); and

iii. Bank of Ghana.

e. End Users

i. Economically active poor who are clients of microfinance products and services.

f. Technical Service Providers

i. Business Development Service Providers to MFIs and their clients.

2.6 Microfinance and women's empowerment

Gender disparities are severe especially in developing countries including Ghana. In Ghana, severe gender disparities exist in all spheres of life from education, governance, access to financial assets, property ownership, decision making and a host of other areas, with females suffering the negative side. Not even the various social policies to mainstream gender in the development process will yield results because of institutional weaknesses in the policies themselves. Yunus(1997) said that all humans are born entrepreneurs but whiles some get the chance to find this out, others never get this opportunity. A small loan can be a ticket to exploration of personal ability (Todaroand Smith, 2009). This means gender does not matter in realizing one's abilities. Women are therefore seen as capable as men in the world of enterprise and this is why about 97 percent of Grameen bank's clients are women (Todaroand Smith, 2009). It is believed that women are empowered and emancipated in this direction to help reduce gender disparities in society and also raise their status. It is in the light of this that the relationship between microfinance and women's empowerment is looked at with interest.Since microfinance efforts generally have targeted women, it could be argued from this perspective then that the most successful efforts have been matched with gender-focused reforms which come from the top-down approach.

2.7 Challenges of Microfinance Institutions in Ghana

The growth of the microfinance movement has not been without its attendant challenges. These challenges are sometimes inherent in the microfinance institutions themselves or posed by the external environment such as taxes, government regulations and rate of economic growth. Microfinance institutions that cannot accumulate assets means that they cannot provide collaterals to enable them secure larger financial products from the bigger banks.

To Morduch (2000), just as SMEs do not most at times have collaterals to access loans from the formal sector banks, the same kinds of difficulties arise when the microfinance institutions themselves seek commercial funds, since they lack collateral to back their portfolios. This has left most of the MFIs especially those in rural Ghana to grow at a slower pace hence not meeting all the needs of their clients and has also made interest rates higher in dealing with MFIs. Most people are therefore left unattended to, which undermines sustainability.

For microfinance programmes to be sustainable however, they are said to be able to reach as many people as possible in order to accumulate excess capital. Thus, even financially sustainable banks will not necessarily be able to gain sufficient access to wider capital markets according to Morduch (2000).

As Conning argues in Morduch (2000), banks focused on poor borrowers are likely to face the greatest difficulties in creating leverage since their portfolios are likely to appear that much riskier to capital suppliers hence reliance on commercial finance can lead to further reductions in the depth of outreach.

According to Steel andAndah (2003), rural microfinance institutions still face the following challenges:

i. Inadequacy of financial professionals such as accountants, bankers and economists on the Boards of rural microfinance institutions, leading to inappropriate decisions at some times. Owing to the nature of microfinance institutions, the work of financial professionals remains crucial to growing sustainably. Most of these professionals refuse to work in the rural areas where the banks are located and even in instances where they are ready to work, unattractive remuneration due to low financial standings of the MFIs deter these professionals from rendering their services. This has left most rural microfinance institutions with workers without the requisite skills to help the banks grow; and

ii. High turnover of most qualified staff. The conditions of work at most rural microfinance institutions mean that employees and especially the most qualified ones leave these banks and join the formal financial institutions to seek greener pastures. This has also made most managers at the microfinance institutions to neglect training programmes for employees because there is a belief that they will leave after acquiring new skills. Most of these microfinance institutions in Ghana are therefore left with people with no or little knowledge on their functions, especially those in rural areas. This affects the quality of service rendered to customers thence reducing sustainability.

On the macroeconomic front, most microfinance institutions, especially rural ones suffer from high corporate taxes to government. Partly due to the low financial portfolios of these MFIs, any slightest increase in corporate taxes means that there is a bigger toll on their financial strengths and sustainability becomes critical. Corporate taxes have become a major challenge to microfinance institutions in Ghana and worse for rural ones.

All in all, because most of these MFIs are owned locally with no external financial support and the state of the economy in general affects their activities. In instances where the economy is not healthy, it becomes critical for MFIs to survive. Healthy micro and macroeconomic growth are therefore pre requisites for sustenance of MFIs. This brings the government into the picture because just as the government is seen as playing the role of creating conducive atmosphere for MFIs to thrive, regulations and corporate taxes should always be made with caution in order not to kill these MFIs especially those that serve rural communities.

2.8 Meaning and Evolution of Small and Medium Scale Enterprises in Ghana

SMEs, as they are popular called have contributed to the growth in the economies of countries throughout the world and as such national governments have devised policies to support the sector. According to the Ghana Statistical Service (2002), the 2000 Population and Housing Census in Ghana indicated that about eighty (80) percent of the population are found in the private informal sector; which includes a significant number of SMEs. SMEs in rural Ghana are said to be small and mostly family owned and managed (Osei et al, 1993).

Their activities, according to Liedholmand Mead, (1987), Osei et al, (1993), include the making of soap and detergent, fabrics, clothing, tailoring, textile and leather, blacksmithing, ceramics, beverages, food processing, bakeries, furniture, electronic repairs, mechanics among others. They engage in such ventures partly because of the ease of entry in terms of size of capital and technology, reliance on local resources (Gartner, 2004), family owned and managed and because of the labour intensiveness nature of these activities.

The term SMEs has had different national and individual standards and classifications in terms of definitions because what is considered an SME in one country or to an individual might differ elsewhere. Some authorities have even posited that the term SME is difficult to define and defies a clear definition (Storey, 1994).

Definitions of SMEs have had to do with issues such as size of assets, size of employee required, annual turnover, technology and infrastructure required, ease of starting it and management structure. This means that depending on what one considers in judging what an SME is, different definitions will surface. Nonetheless, efforts have been made to find the boundaries of SMEs in this study.

An attempt to remove the difficulty in defining SMEs was put forward by the Bolton Committee in 1971 by providing an "economic" and a "statistical" definition. "Economically", a firm is regarded as small if the following three criteria hold:

i. It has a relatively small share of their market place;
ii. It is managed by owners or part owners in a personalized way, and not through the medium of a formalized management structure; and
iii. It is independent, in the sense of not forming part of a large enterprise.

This classification depicts most family owned and managed firms in Ghana which are sole proprietorships. These small enterprises are independent and mostly managed by the family of the proprietor. They are easily managed and flexible as they do not require huge start up capital and demand less regulatory formalities. Analytically, the first criterion is a little bit problematic because in terms of turnover, a small firm with a small share of its market place may be doing better than a larger firm.

"Statistically", the Bolton Committee classified a small firm by considering three main areas:

i. Quantifying the size of the small firm sector and its contribution to Gross Domestic Product (GDP), employment, exports and others;
ii. Comparing the extent to which the small firm sector's economic contribution has changed over time; and

iii. Applying the statistical definition in a cross country comparison of the small firms' economic contribution.

These criteria are however not mutually exclusive as the factors mentioned may all or some will run through definitions. Some small firms might even miss all the criteria but would still be small firms hence the term is convoluted and defies a static definition. Firms are in a growth process and may satisfy some of these criteria at one point and can also miss some as the firms grow. In the wake of this controversy as to what businesses qualify to be called SMEs, the European Commission (EC) coined the term Small and Medium Enterprises (SME). The SME sector according to the EC is made up of three components, namely:

i. Firms with 0 to 9 employees are micro enterprises;
ii. 10 to 99 employees are small enterprises; and
iii. 100 to 499 employees are medium enterprises.

That is, the SME sector is comprised of enterprises (but for agric, hunting, forestry and fishing) which employ less than 500 workers. The EC's classification is based solely on the number of employees other than an array of criteria. Plus, the use of 100 employees as a small firm's upper limit is more appropriate given the increase in productivity over the last two decades Storey, (1994).

Finally, the EC's classification does not assume the SME group as homogenous, that is, the classification makes a distinction between micro, small, and medium-sized enterprises. Alternatively, still in a search for a concise definition that encapsulates all the necessary features of SMEs, the European Union (EU) came out with classification of SMEs based on the number of employees. A firm with no employee apart from the proprietor is considered as self employed, 2 to 9 is a micro business, 10 to 49 as a small business and 50 to 249 as a medium sized business. This classification is in line with the EC's with only one criterion as the basis for determining what SMEs are.

In Ghana however, several classifications of SMEs have been put forward also focusing on different criteria. Steel and Andah (2003) in defining Small Scale Enterprises in Ghana used an employment cut off point of 30 employees to indicate Small Scale Enterprises. Osei et al (1993) however disaggregated small scale enterprises into 3 categories: (a) micro enterprises employing less than 6 people; (b) very small as those employing 6 to 9 people; and (c) small enterprises as those employing between 10 and 29 employees.

Mensah (2004) also posits that in Ghana the SME sector is classified by the National Board for Small Scale Industries (NBSSI) as:

i. Those that employ up to 5 employees with fixed assets not exceeding $10,000 but excluding realty; (buildings, land, vehicles);

ii. Those that employ between 6 and 29 employees with fixed assets of $100,000 are small enterprises; and

iii. Those that employ 30 to 99 employees are considered medium enterprises with fixed assets of up to $1 million

This classification is not farfetched as it also builds upon the criteria of the EC and the EU but adds fixed assets to employment to form the criteria. With this classification, clear lines of heterogeneity in the various types of SMEs are compromised and centred on an easily measurably variable; that is the number of employees. It is pertinent to note that the term SMEs truly defies a static definition and carries different meanings depending on who is defining it and which factors the person is using. What is important therefore is not to over concentrate on definitions but to realise that SMEs play a critical role in the Ghanaian economy and devise measures to reduce the challenges they face in order to give them a competitive edge to remain in the course to reducing poverty and earning decent incomes for sustainable livelihoods through the spirit of enterprising.

The advent of SMEs in Ghana is as old as the country because SMEs have sprung up as man looks for means of satisfying his needs. However, the SME sector in Ghana is said to have been conceived as a result of some structural problems in the economy in the 1920s when the public sector could not provide adequate jobs for the people, especially for graduates. It is believed that during the colonial era, there was much emphasis on exports of primary commodities such as gold, cocoa and timber and imported manufactured goods according to Ayeetey, (1992).

This structure did not focus on domestic industrialisation hence the neglect of industry meant that the monetisation of the economy was to be without the technical capacity to create more wage employment for the numerous young people Ayeetey, (1992). This structure is believed to have created disequilibrium on the labour market because unemployment levels skyrocketed with no corresponding increase in employment avenues. Consequently, the unemployed resolved this by going for their own jobs; self employment and by 1940, self employment had become widespread among artisans (Ayeetey, 1992).

It is posited that by 1957, self employment in SMEs had become a trademark of Ghana's economy and this could no longer be attributed to a natural phenomenon but a developmental impetus. The trend continued and according to Ayeetey, (1992), the first major attempt to promote SMEs was made in 1970 with the enactment of the Ghanaian

Business (Promotion) Act of 1970 (Act 334) and the Small Business Loans Scheme and consequently in 1971, a Credit Guarantee Scheme administered by the BoG through a number of commercial banks was initiated to further boost SME activities in the country. These policies aimed at providing capital and strengthened the capacities of SME proprietors to offset the challenges that have engulfed the sector from the onset. The disbursement of loans to these SMEs is said to have been biased as the intended beneficiaries did not receive the loans; which posed as another challenge to the sector. The dream did not die and support to SMEs was rekindled in the 90s and the National Board for Small Scale Industries (NBSSI) was born.

The NBSSI according to the AfDBandOECD (2005) managed a credit line financing scheme called the Fund for Small and Medium Enterprises (FUSMED) and financed by the World Bank. The credit facility sought to offer credit to enterprises in all sectors of the economy except in primary agriculture, real estate and trading. The government also established a credit-assistance scheme under the Programme of Action to Mitigate the Social Cost of Adjustment and Development (PAMSCAD) after the Economic Recovery Programme (ERP), intended to cushion the effects on SMEs of the Structural Adjustment Programmes (SAPs).

The credit facility, which was managed by the NBSSI, was intended to assist entrepreneurs in procuring scarce but essential raw materials. Initiatives to fully set in motion the sustainable growth of SMEs in the country are still being pursued up to date to support the sector and create employment for the people.It is worthnoting however, that the people who are in dire need of such loans and capacity development facilities are mostly left not benefiting especially those in rural Ghana. This has also increased the over reliance of SMEs on the services of MFIs and other informal sources. It is seen that MFIs are now synonymous with SMEs and this calls for concerted efforts by government and all industry stakeholders to seek the most efficient and effective measures to ensure sustainability of both SMEs and MFIs.

2.9 SMEs and National development

The contribution of SMEs to Ghana's socio economic development efforts cannot be overemphasised as the sector has contributed and still contribute in terms of employment generation, income generation and the diffusion of intermediate technology among others. According to Daniels (2004), these enterprises have been recognised as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries and estimated that SMEs employ 22 percent of the adult population in developing countries.

According to the AfDBand OECD (2005), some estimates put the contribution of SMEs to total GDP at about 22 per cent in Ghana, with the largest contribution coming from those in the agriculture, trade and transport sectors. Quartey and Abor (2010) reiterate the sector's contribution to Ghana's development by affirming that SMEs in Ghana have been noted to provide about 85 percent of manufacturing employment of Ghana and are also believed to contribute about 70 percent to Ghana's GDP and account for about 92 percent of businesses in Ghana.

SMEs are said to have a favourable impact on income distribution in those new entrepreneurs with limited financial resources and according to Lisa (2009), technical skills can gain entry into the industrial sector through small industry operations. In this way SMEs have the effect of creating a new class of people, leading to the expansion of the middle class and a wider distribution of income. SMEs can survive in rural parts of the country because of their location flexibility, their lower requirement of technology and infrastructure, their nature to serve small geographic markets, and their firm commitment to local development goes a long way to contribute immensely to job creating and rural development efforts. This has remained one of the arguments of proponents of SMEs in national development.

Furthermore, SMEs are believed to be behind innovation in the economy and can cause reduction in prices of goods through competition and new improved products will be more frequently introduced; consequently leading to the provision of better services for their customers. In this regard, SMEs diversify the product base of the economy and gives room for competition and removing monopolistic tendencies, leading to reduction in prices and service quality provision.

It is believed that SMEs serve as training grounds for developing the skills of industrialised workers and entrepreneurs (Lisa, 2009). The low cost of setting up a firm enables an enterprising worker not only to provide himself a livelihood but also offer employment to others. SMEs are said to employ relatively more unskilled and semi-skilled workers and training is mainly given on-the job in the premises itself. SME proprietors often do not have the time or the personnel to engage in formal training. For the newly-initiated entrepreneur, the setting up of a small establishment enables him to put his skills and knowledge into practice and enables him to acquire further experience and to improve his ability gradually with the growth of the business (the practice makes man perfect concept).

According to Quartey et al (2010) from an economic perspective, SMEs are not just suppliers, but also consumers; they play an important role if they are able to position themselves in a market with purchasing power, their demand for industrial or consumer goods will stimulate the activity of their suppliers, just as their own activity is stimulated by the demands of their clients. SMEs also mop up excess capital in the economy which will otherwise have been consumed in the household on food and other household consumables.

This increases the propensity to savings in the economy thereby making funds available in the financial sector to provide loanable funds for businesses. It is therefore clear to admit that SMEs play a pivotal role about which economies and households in particular revolve to survive. SME sustainability however is very key to enable businesses stand the test of time. This is ensured by making credit available to SMEs and encouraging a business friendly environment where regulations like business registration procedure, taxes, subsidies and financial issues come to play to level grounds for the sustenance of SMEs.

2.10 General Challenges of SMEs in Ghana

Despite the role of SMEs in national development, they are fraught with numerous challenges which are either inherent in the SMEs themselves or come from the macro environment, with access to credit topping the list in most instances with rural ones facing the brunt of these challenges. According to Quartey et al (2010), the lack of managerial know-how places significant constraints on SME development and even though SMEs tend to attract motivated entrepreneurs, they are not able to compete with larger firms.

The inadequacy of support services or their relatively higher cost can hamper SMEs' efforts to improve their management, because consulting firms are often not equipped with appropriate cost effective management solutions for SMEs and despite the numerous institutions providing training and advisory services, there is still a skills gap in the SME sector as a whole.

Ayeetey (1992), in explaining this,talks about the fact that the cost of training and advisory services are high while others do not see the need to upgrade their skills as a result of complacency while in terms of technology, rural SMEs often have difficulties in gaining access to appropriate technologies and information on available techniques.

Moreover, Regulatory constraints remain an albatross around the neck of SMEs' development efforts. Quartey et al, (2010) posit that the high start-up costs for firms, including licensing and registration requirements, can impose excessive and unnecessary burdens on SMEs. The high cost of settling legal claims, and excessive delays in court proceedings adversely affect SME operations. In the case of Ghana, the cumbersome procedures for registering and commencing businesses are key issues often cited. The World Bank Doing Business Report (2006) indicated that it took approximately 64 days register to register a business in Ghana and there were sixteen (16) procedures involved in licensing a business in and in 2009, the number of days to register a business in Ghana stood at approximately 33 with eight (8) procedures to go through. The decentralization of business registration as a result of the ongoing business registration reforms is however yet to produce full benefits. Until the reforms, one had to travel to Accra in order to register a business. This situation has left most SMEs unregistered and this has exacerbated the problem of getting adequate data on SMEs, especially those in rural Ghana.

Snow and Buss (2001), note that sound bottom-up development policy requires a long-term increase in human capabilities. People need education; businesses need infrastructure, a regulatory environment that will not stifle risk taking, and a financial sector that can meet the needs of the smallest and the largest players in the market are all critical to enterprise growth and ultimately, development must be sustainable on a national scale. Programs undertaken at the rural areas are important, especially in a bottom-up development model but it is worth noting that national policies determine the environment for local development. This means that institutions could pose as problems for SMEs if they are not well positioned within the development agenda.

Therefore, for the growth of SMEs in the economy it is not enough to depend only on the institutions which are in place, but also their effectiveness in working towards the realisation of SMEs' dreams. Paramount among these problems is the issue of capital to start a business. To Robinson (2002), about 90 percent of the people in developing countries lack access to financial services from institutions, either for credit or savings, which further fuels the Vicious Cycle of Poverty. Problems of credit availability and outreach are believed to be double that of other problems faced by SMEs in their survival, growth and development. In Ghana, Ayeetey(1992) argues that SMEs have little or no access to credit from commercial banks and other traditional-like financial institutions and mostly depend on their own small savings and credit raised from other informal sources. These enable them to start a business but the sustainability of such investment becomes volatile in the face of numerous challenges.

The reason for the problems in credit outreach is partly attributed to the fact that there are high costs of administering small loans to SMEs and especially those in rural areas. It is said that the cost of administering a GH₵10 loan is the same as that of a Gh₵100 loan. The problem is that some of the SMEs in rural areas have no formal sources of income and in cases of default or death, it becomes difficult to trace and get such loans; the rate of bad debts becomes high thereof.

A lot of people are said to have entrepreneurial abilities and as Yunus (1997) posited, everyone is born an entrepreneur but while others realise it through credit availability, others do not because they do not have the financial means. It is in this regard that the role of MFIs has become a topical issue internationally, and in Ghana efforts are on course to making credit available to SMEs, although mostly benefited by those in urban areas. It is also pertinent to not that credit alone cannot sustain SMEs until there is the interplay of institutional and industry efforts; regulations, capacity building, and the political will. Strong institutions therefore matter in the quest to sustain the SME sector in Ghana to improving the wellbeing of the people.

From the literature above, microfinance is seen to rest on some of these principles in the course of providing the needs of SMEs:

i. SMEs need a variety of financial services, not just loans. Just like everyone else, SMEs need a wide range of financial services that are convenient, flexible, and reasonably priced. Depending on their circumstances, SMEs need not only credit, but also savings, cash transfers, and insurance to bring poor people out of poverty in a sustainable fashion (Todaroand Smith, 2009, CGAP,2010);
ii. Microfinance is a powerful instrument against poverty. Access to sustainable financial services enables SMEs to increase incomes, build assets, and reduce their vulnerability to external shocks. Microfinance allows poor households to move from everyday survival to planning for the future, investing in better nutrition, improved living conditions, and in their children's health and education;
iii. Microfinance means building financial systems that serve the poor. Poor people constitute the vast majority of the population in most developing countries. Yet, an overwhelming number of the poor continue to lack access to basic financial services. In order to achieve its full potential of reaching a larger number of the poor, microfinance should become an integral part of the financial sector;
iv. Financialsustainability is necessary to reach significant numbers SMEs.Most SMEs are not able to access financial services because of the lack of strong retail financial intermediaries. Building financially sustainable institutions is not an end in itself. It is the only way to reach significant scale and impact most SMEs. Sustainability is the ability of a microfinance provider to cover all of its costs. It allows the continued operation of the microfinance provider and the ongoing provision of financial services

to the poor. Achieving financial sustainability means reducing transaction costs, offering better products and services that meet client needs, and finding new ways to reach the "unbankables". Microfinance is about building permanent local financial institutionsand building financial systems for the poor means building sound domestic financial intermediaries that can provide financial services to poor people on a permanent basis. Such institutions should be able to mobilize and recycle domestic savings, extend credit, and provide a range of services.

v. Microfinance is not always the answer**.** Microfinance is not appropriate for everyone or every situation. The destitute and hungry who have no income or means of repayment need other forms of support before they can make use of loans. In many cases, small grants, infrastructure improvements, employment and training programs, and other non-financial services may be more appropriate tools for poverty alleviation. Wherever possible, such non-financial services should be coupled with building savings; and

vi. Interest rate ceilings can damage poor people's access to financial services**.** It is said to cost much more to make many small loans than a few large loans. Unless micro lenders can charge interest rates that are well above average bank loan rates, they cannot cover their costs, and their growth and sustainability will be limited by the scarce and uncertain supply of subsidized funding.

In ensuring the growth and sustainability of SMEs, Helms (2006) posits that, microfinance has to satisfy the following:

i. Widening the breadth of outreach to providing access to as many people as possible;
ii. Widening the depth of outreach to reaching as far down the income scale as practicable;
iii. Providing Service quality by offering a suitable variety of financial products (savings, loans, remittances and insurance) that are well-matched with the real needs of clients; and
iv. Ensuring financial sustainability by pricing financial services so that their costs are covered and they do not disappear when donors or governments are no longer willing or able to subsidize them.

The government's role is to create a friendly business environment, not as a direct provider of financial services**.** National governments play an important role in setting a supportive policy environment that stimulates the development of financial services while protecting poor people's savings. The key things that a government can do for microfinance institutions are to maintain macroeconomic stability and avoid distorting the market with unsustainable subsidized, high-delinquency loan programs. Governments can also support financial services for the poor by improving the business environment for entrepreneurs, clamping down on corruption, and improving access to markets and infrastructure.

2.11 Conceptual Framework

The conceptual framework discusses in practical terms how microfinance operates when introduced as an input in a business and the output that is expected in terms of addressing the challenges of the business. The section analyses the conditions that make microfinance services sustainable to be able to reach its target consumers. These include the issues such as widened breadth and depth of outreach, service quality and cost recovery.

2.11.1 Indicators of Sustainable Microfinance Services

Figure 1 depicts the role of sustainable microfinance as being multi-fold and could give several benefits towards SME growth over time. Sustainable microfinance is the type that has widened breadth in terms of outreach. This means that microfinance is able to reach as many as possible people. When a lot of people are reached, the total capital that is accumulated increases all other things being equal to increase the capital portfolio of an MFI. Likewise, sustainable microfinance is indicated by its widened depth in terms of outreach.

This means that an MFI should be able to reach people deep down the income scales (rich, middle income, poor and the very poor). When this happens, it is believed that an MFI would be able to diversify its client base and include the vulnerable. This is done to exhibit cross subsidization, where the very rich subsidize for the poor and the very poor. Much the same way, sustainable microfinance is indicated by service quality.

Being able to reach many people only does not make an MFI sustainable but also it depends on how the services are delivered to the satisfaction of the clients. The level of service quality affects the utility one gets from a service or a product. Offering technical as well as functional advice to clients goes a long way to suggest how clients can come back to an MFI for assistance. Service quality should be at a point where the perceived service equates or exceeds the expected service. Training for microfinance clients and other services such as visits to their workplaces will go a long way to buttress service quality.

Sustainable microfinance means that financial products and services should be priced and offered at prices where costs can be recovered and be able to operate even in instances where the financial market becomes very competitive and volatile and also in times when key stakeholders move out with their monies invested.

To be sustainable, a microfinance institution should be able to recover its costs of borrowing and also remain in business when donors withdraw their services or help especially where an MFI is financed by an external donor. The concept of sustainability is very important in microfinance because this helps to shape the sector while increasing the number of people who benefit from their services. The relationships or linkages between microfinance institutions and the growth of rural SMEs in Ghana are outlined in Figure 1:

Figure 1: The Microfinance and Small and Medium Scale Enterprises Nexus

Sustainable microfinance
Indicators:
1. Widened breadth of outreach
2. Widened depth of outreach
3. Service quality
4. combination of affordable financial products (savings, loans, remittances, insurance)
5. Cost recovery

Growth and sustenance of SMEs
Key issues:
1. Access to appropriate financial products
2. Favourable financial terms (such as repayment periods)
3. Availability of a mixture of financial products (loans, savings insurance and skill acquisition such as management, record keeping, costing or pricing, marketing and customer care among others)
4. Availability of appropriate technology

Effects of microfinance services on business:
1. Ability to stand shocks (theft and natural disasters) through insurance
2. Increased earnings and productivity or output
3. Increased savings
4. Increased income
5. Reinvesting in business
6. Formalization of SMEs through business registration

Socio economic impacts on households:
1. Increased household income and consumption expenditure
2. Increased household savings
3. Better access to basic services (health care, education and shelter)
4. Greater control over household decision making
5. Self esteem

Source: Adapted from Helms, 2006

2.11.2 Key Issues of SMEs Addressed by Microfinance Services

To ensure growth and sustainability of SMEs over time and especially those in rural Ghana, there should be sustainable MFIs to provide services to as many SMEs as possible and also serve deep down the ladder all SMEs with service quality as an integral part of the system. This will ensure that SMEs have access to financial services to address issues that affect them in terms of the following:

i. Access to appropriate financial products
ii. Favourable financial terms (such as period to receive loans, procedures to go through and repayment periods)
iii. Availability of a mixture of financial products (loans, savings and insurance)
iv. Skills acquisition in areas of management, record keeping, costing or pricing, marketing, customer care and other essential business techniques.
v. Availability of appropriate technology

2.11.3 Effects of Microfinance Services on SMEs

When the key issues of SMEs are addressed by microfinance services as discussed above, it is hypothesised that SMEs stand the better edge of benefitting in the following ways:

i. Stand shocks such as theft and natural disasters. To be able to grow on sustainable basis over time, an SME should be able to stand shocks and remain in business in cases of fires, theft and natural disasters. This could be done through micro insurance. It is therefore believed that microfinance is not complete if it is not mixed with an insurance component because it is the insurance component that helps an SME to recover and withstand unforeseen situations. With the introduction of an insurance component in microfinance, SMEs are believed to be able to grow sustainably;
ii. Increased earnings and productivity or output. One result of microfinance on SMEs over time is the ability to increase earnings through increased productivity or output. It is believed that when microfinance services are offered, SMEs over time can increase their productive capacities and in the end increase productivity and earnings. This helps to plough back some profits back into the business to increase output and in the end increase the number of employees. Before an SME can grow sustainably, there has to be increased productivity and earnings, which can be achieved through microfinance. This also makes SMEs to be able to save in the MFIs from which they obtained loans funds for their businesses hence making available loanable funds available for other SMEs who will need similar services;

iii. Increased savings. When production and earnings increase as time goes on, it helps an SME to re invest in the business and also do some savings in the financial market. This savings will on the other hand be mobilized by the MFIs to further widen their breadth and depth of outreach. There will be loanable funds for either the SMEs themselves or whoever will need funds to do business. SMEs are therefore very important in terms of mopping up excess capital in the economy to strengthen the financial market;

iv. Increased income. One of the effects of microfinance services on SMEs is increased income. When SMEs access loans and increase their production capacities thereof, incomes will invariably increase as time goes on to further expand their businesses hence increasing household income and creation of employment opportunities for others;

v. Re investment in business. It is believed that when one type of business flourishes over time, there are future reinvestments in other business venture to diversify income sources and also create more jobs for people. When microfinance brings about increase in incomes of SMEs over time, all other things being equal, they will re invest in other areas of the economy to bring about growth in the economy. This has rippling effects on all facets of the economy in general in terms of increasing the size of working capital over time, acquisition of equipment and other fixed assets and employment creation as the business grows over time;

vi. Adopt appropriate technology. SMEs are very important in the use of intermediate technology in the drive towards industrialization. Most SMEs however, without microfinance cannot afford the appropriate technology to facilitate production. With the coming of microfinance into the picture, it is believed that SMEs over time can be able to afford appropriate technology to enhance production and also create employment for those who will operate these technologies. SMEs serve as industry leaders in terms of diffusing intermediate technologies in an economy but they can do that by seeking help from MFIs; and

vii. Formalization of business. When SMEs grow over time, they can become part of the formal sector through business registration with government agencies such as the Registrar General's Department. This makes it easy for government to put up the necessary policies in place to help the sector. This will also make tax collection easy as businesses are known in terms of location, the type of business and their tax obligations. SMEs in going formal will also need to open separate bank accounts for their business as their businesses grow over time. This goes on to also strengthen the microfinance industry in terms of widening outreach to other consumers. This suggests why microfinance institutions and SMEs are bed fellows, with a strong bond for survival.

2.11.4 Socio economic Impacts of Successful SMEs on Operators' Households

The outcome of the microfinance and SME relationship is also seen at the household level. When SMEs become successful in utilising the microfinance products they receive, it results in socioeconomic benefits to the SME operators' households. These socio economic impacts include the following but not limited to:

i. Increased household income and consumption expenditure. The households of SMEs will invariably be able to raise their incomes levels when their businesses do well. This will go a long way to increase household consumption expenditure because households will be able to afford consumables that could not come home without the business. This increases the wellbeing of the households of SMEs;

ii. Increased household savings. When SMEs get access to microfinance, one of the outputs is increased productivity and earnings. This means that there would be excess incomes to be saved in the financial market as savings. This makes available loanable funds for both households and businesses alike to further invest in the economy. Households are also able to get bigger loans from the financial markets because of their savings made through their businesses;

iii. Better access to basic services. When businesses do well and incomes as well as household savings go up, households would be able to enjoy basic services such as potable water, shelter, health care and education. These are services which should be central to the wellbeing of everybody and as such when SMEs become successful their households invariably have better access to such basic services to better their life chances in society;

iv. Greater control over household decision making. Successful SMEs owners enjoy self esteem both outside and inside their households. For instances women entrepreneurs will have greater control over the household when they become successful in their businesses. They are also able to voice their cases in decision making at the household level because they now contribute in whatsoever activity that goes on in the household. This strengthens the relationship between spouses at the household level because they all contribute something at table;

v. Self esteem. The self respect a successful businessman or woman enjoys alone is worth noticing in the Ghanaian society. For some, when their businesses do well, their names are mentioned at special occasions such as weddings, funerals and at church because they are perceived to have money and for some, this alone is enough for them. People are well regarded when they become successful in whatever business they do. This self respect can be acquired through their businesses which were helped to grow by microfinance.

The relationship between microfinance institutions and SMEs is very clear as the two depend on each other. It is established throughout the discussion SMEs by their nature do not benefit from the formal financial institutions and for that matter, microfinance institutions have come to serve as a grass root financial intervention in the wake of bottom up development approach. Microfinance institutions have come to provide services such as savings, loans, insurance, training services among others. Sustainable microfinance services are said to be the type that widens outreach to cover as many people as possible. It cuts across both the rich and the poor in targeting clients. The services offered to SMEs are to address issues that affect rural SMEs such as inaccessibility to appropriate financial products and unfavourable financial terms among others.

When these issues are addressed, SMEs are hypothesised to be able to withstand shocks, increase productivity or output, increase income, savings and increase in business size over time. This in turn goes to strengthen the microfinance institutions since SMEs can repay their loans and increase savings, which increases loanable funds for other businesses to borrow.

The households of SME operators also are able to increase household income and consumption expenditure over time as the business grows. SME operators' households also stand in the position to increase household savings as the business grows over time. Better access to education, health care and shelter is also ensured when businesses grow over time. Also of importance is the self esteem that is attained by SME operators as their businesses grow over time. This also strengthens the SMEs to repay the loans they receive from MFIs and also increase savings. There is therefore the need to nurture the interplay between the SME sector and microfinance institutions to better create an enabling environment that ensures a sustainable platform for mutual benefits. The next chapter will however delve into how the study will be undertaken in terms of the approach, data needs and their sources, the instruments that will be used to collect data, sampling techniques and data analysis methods.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

The chapter describes the methods and procedures that were used in conducting the research. These involved the following: research approach, data needs and their sources, Sampling procedure and sample size, methods of data collection and instruments and data processing and analysis.

3.1 Research Approach

The research approach was a mixed type comprising descriptive multiple case study and a survey because while the survey was most suitable for data collection and analysis on some variables under study, the case was equally most suitable for other variables as well. The survey was suitable for analysing quantitative data and helped the researcher to strive for breadth rather than depth towards making valid observations. On the other hand, the case study sacrificed breadth for depth, allowing the researcher to do a thorough assessment of phenomena in gaining insight into processes through a qualitative research approach (Verschuren et al, 1999). These approacheshad the purpose of examining the effects of microfinance institutions on SMEs in the Jaman North District. The Nafana and Suma Rural Banks in the Jaman North District in the BrongAhafo Region were taken as the cases under the study. The two Rural Banks were chosen due to their championing role in providing microfinance services to SMEs in the district. It was also anticipated that the Nafana and Suma Rural Banks would be able to give a clear direction and dimensions of dealing with SMEs due to their long periods of operation.

Yin (2003) defines a case study as an empirical inquiry that investigates a contemporary phenomenon within its real-life context. This allows ongoing issues in society to be investigated and understood for the appropriate interventions thereof.To Eisenhardt (1989),the underlying notion of a case study is that it focuses upon understanding in breadth and depth the specific situation or phenomenon to be studied within its context. This allows the researcher to fully grasp the context of the issues under study from the people concerned for the purposes of validating a proposition.In the same vein, Yin (2003) posits that a case study is suitable for examining “why” as well as “how” and “what” questions (among question series: “who”, “what”, “where”, “how” and “why”).These are enquiries about a contemporary set of events over which the investigator has little or no control and especially, the “how” question is suitable for a case study. This is because this question deals with operational links needed to be traced over time, rather than mere frequencies.

The case study approach was selected because it has the advantage of producing good amount of resources from a wide range of people. Again, it provides a meaningful and accurate picture of events and helps to explain people's perception and behaviour on the basis of data collected at a point in time. The case study approach was selected in the sense that it places more emphasis on a full contextual analysis of fewer events or conditions and their interrelations. Similarly, its emphasis on details also provides valuable insight for problem solving, evaluation and strategy. Again, a case study was used because a single, well-designed case study can provide a major challenge to a theory and provide a source of new hypothesis and constructs simultaneously (Cooper and Emory, 1995). It relies on multiple sources of evidence and benefits from prior development of theoretical propositions and can be based on a mix of quantitative and qualitative evidence.

Case study research is known for its flexibility, in-depth study of phenomenon, ability to help the researcher understand complex interrelationships, its position in "lived reality" and its adaptability to different study objectives (Phil and Heather, 2001). Again, the case study approach sacrifices breadth for depth, allowing the researcher to do a thorough assessment of phenomenon in gaining profound insight into processes through qualitative analysis (Verschurenand Doorewaard, 1999).

This study however, used a multiple case study due to its ability to augment external validation of findings. The cases in the study included the Nafana and Suma Rural Banks and the SME clients of each of the banks who have dealt with the banks for five or more years. The units of analysis were the Nafana and Suma Rural Banks and the managers and project officers were the sources of information and the SME clients who have dealt with these two banks for five or more years. Yin (2003) contends that while much case study research is single case, often chosen because of its unique characteristics, the multiplecase studies approach allows the researcher to explore the phenomena under study through the use of a replication strategy and suggests that even two cases provide the possibility of direct replication. Thus the contexts of the two cases are likely to differ to some extent; and if common conclusions can be derived, the external generalisation of the findings will be increased.In the views of Eisenhardt, (1989) and Miles and Huberman, (1994)the use of multiple cases allows the researcher to search for cross case patterns and themes to provide accurate and reliable theory and capture fresh or original findings that may exist in the data. On the other hand, multiple case studies extend the scope of the investigation and the degrees of freedom, increase the potential for the generalisation of results and provide more robust results (Eisenhardt, 1989 and Patton, 2002).

3.2 Data Needs and their Sources

Primary data was collected for further analysis as a means of verifying what truly exists on the ground in terms of the effects of MFIs on SMEs in rural Ghana. The interview with the managers and project officers of the Nafana and Suma Rural Banks was guided by but not limited to the following:

i. Types of SMEs supported
ii. Reasons for the support of that category of clients
iii. Services and products given to SMEs
iv. Amounts of loans given and recovery rates of loans given to SMEs
v. Achievements and Constraints of dealing with SMEs
vi. Perception on the effects of services given to SMEs
vii. Challenges of dealing with SMEs in the district
viii. How can the relationship with SMEs be improved

The SME respondents answered questions related to but not limited to the following:

i. Socio demographics
ii. Type of SMEs
iii. Sources of funds
iv. Types of microfinance services received and under what conditions are funds given
v. Perception on microfinance services received from MFIs and their effects on businesses.
vi. Perception on the impacts of successful SMEs on owners' households
vii. Challenges of doing business
viii. How can the relationship with MFIs be improved

These data was collected through interviews, observation, and semi-structured questionnaires. The annual general meeting reports of the Nafana and Suma Rural Banks and other relevant documents were also reviewed to get data for analysis. This data was important because it gave first hand information about the topic under study.

3.3 Sampling Procedure and Sample Size

There are two rural banks in the district that provide microfinance services to SMEs. The researcher selected the Nafana and Suma Rural Banks due to the fact that the Banks have had appreciable experience in dealing with SMEs in the district and for that matter were better sources of gathering data on SMEs. The sample frame for the SME survey component included all SMEs who dealt with the two banks and were five or more years old with the banks. This was to give clear indications for measuring the effects of MFIs as a period of five or more years was believed by the MFIs to be able to inform appreciably the effects of products and services received by SME on their businesses and the effects of these businesses on the owners' households.

The Suma Rural Bank had 547 SME clients with five or more years with the bank to constitute the population while the Nafana Rural Bank had 397 clients. The sample frame indicated that the SMEs were into different categories in terms of what they dealt in and as a result of this heterogeneity a stratified sampling was adopted by the researcher to proportionally select the sample size from the various strata.

The stratified sampling method was used to lower known variances in the populations of the various SME categories and ensure precision and representativeness since SME clients of both banks showed considerable heterogeneity in terms of activity type. The SME client population of each of the banks was put into strata based on a single criterion of activity type (tailoring, baking, food vending, carpentry, smithery, hairdressing, fitting, oil extraction, soap making etc)in order to represent all SME categories (services, trading, manufacturing and agro processing) as shown in Table 3.1. To ensure representativeness, a proportionate criterion was used to determine the sample size from each stratum as indicated in Table 3.1. This was used because it proved economical and simple to use as the heterogeneity of SME clients in terms of activity types was taken care of.

The population of each bank was large and due to resource constraints and research deadlines, the researcher decided on a sample size based on 10 per cent of the populations for the SME clients of the two banks based on the views of Alreck and Settle (1985), who indicate that a 10 per cent sample of a population is capable of producing results with adequate confidence. The 10 per cent has some disadvantages because it does not allow a large sample size to be used but for the inadequacy of finances and limited duration for the study, the 10 per cent was used taking cognisance some of these disadvantages. To obtain the final sample sizes for each bank's SME clients therefore, the researcher calculated a sample from each stratum by taking 10 per cent of each stratum for the Sumah Rural Bank and obtained a sample size of 54 while 10 per cent of each stratum was calculated and obtained a sample size of 39 SME clients of the Nafana Rural Bank as showed in Table 3.1.

The simple random sampling technique was used to select the study sample from each of the stratum (SME category)as shown in Table 3.1.The populations of each of the SME categories formed a stratum and were numbered to get the sample frame as shown in Table 3.1. For example, the list of all SME clients of theSumah Rural Bank who were classified

Comment [a1]: Can this hold for a frame of le than 1000 people. I think you ought to have used more rigorous approach. If we were to deal with frames which consisted of millions of units, then t argument on the 10% could have been given a consideration.

under services was 212. Out of the total sample size of 54 SME clients of the Sumah Rural Bank, the sample proportional to this stratum (services) was 21 as shown in Table 3.1. The lottery method was subsequently used to select the 21SME clients proportional to thoseunder services. In the process papers were numbered according to the list in the sample frame and put in a box. The researcher picked from the papers until the 21 people were reached. The same procedure was repeated for the rest of the strata until the sample sizes of 54 and 39 were obtained for the SME clients of Sumah and Nafana Rural banks respectively as shown in Table 3.1. The simple random sampling was used because it gave every element of the population in each stratum an equal chance of been selected into the sample. It also strengthened the ability to generalise results since cases of bias were minimised.

Table 3.1 Summaries of Sample Sizes for SME Clients for the Sumah and Nafana Rural Banks

	Sumah Rural Bank		**Nafana Rural Bank**	
SME Category	Population	Selected sample (10 % of each stratum)	Population	Selected Sample (10 % of each stratum)
Services (dress making, hair dressing, fitting, food vending, baking and sachet water production)	212	21	154	15
Trading (selling assorted products including household consumables, building materials etc)	193	19	140	14
Manufacturing (carpentry, and smithery)	98	10	71	7
Agro processing (cashew processing, groundnut oil extraction and gari processing)	44	4	32	3
Total Samples	547	**54**	397	**39**

Source: Suma and Nafana Rural Banks, 2012

After selecting the sample sizes for both the SME clients of the Nafana and Suma Rural Banks, the respondents were located in the following towns: Sampa (district capital), Suma Ahenkro, Seketia, Kabere, Mayera, Kokoaa, Duadaso, Goka and Dawuri as shown in Figure

3.4 Methods of Data Collection and Instruments

The major or primary instrument of data collection involved the application of semi-structured questionnaires developed by the researcher. It was supplemented by other tools such as reviewing of available records of the banks, observation and personal interviews. This method of data collection enhanced triangulation, which involved the combination of two or more data collection tools.

The reason for using two or moretools of data collection was that the flaws of one tool are often the strengths of another and so by combining tools, the strengths and weaknesses of the various tools were complemented and supplemented. For instance, the use of observation helped to capture useful situations such as the natural settings of respondents, thereby adding merit of crosschecking on the facts that were compiled through the other tools. The structure of the questionnaire followed the parameters of the objectives set to be achieved by this study mainly by examining the effects of MFIs on rural SMEs in Ghana.

The questionnaires were administered personally to the respondents in a bid to ensure that copies get to the right respondents at the right time and also to be able to ask follow-up questions. In all, a set of questionnaire was administered with the same items or questions to the sampled SME client respondents of the two banks in order to get in-depth information for the purposes of comparison. In assessing the perception of SME client respondents and managers of the Nafana and Suma Rural Banks on the effects of MFIs on businesses and the effects of these businesses on owners' households, the questions were structured with the aid of the Likert Scale.

The Likert Scale was used because it was found to be mostly suitable for measuring people's views, opinions and perceptions. The statements on the Likert Scale were expressed on a five-point scale which asked respondents to indicate the extent to which they agreed with the statements ranging from strongly agree (SA), agree (A), uncertain (U), disagree (D) and strongly disagree (SD).The Managers and the Project Officers of the two banks were interviewed by using an interview guide to get first hand information about their dealings with SMEs. These people were chosen purposively because of their positions in the decisions making process of the banks about SMEs and being in the position to contribute immensely to the quality of this study.

3.5 Data Processing and Analysis

The completed questionnaires were first edited for consistency. For the open-ended items, a short list was prepared from the original responses in order to get the key responses given by the respondents. The descriptive nature of the study called for the use of descriptive statistical tools necessary in the data analysis. The data was put into frequency distribution tables and percentages and interpreted. The data wasanalyzed using both descriptive and quantitative approaches. Some data was presented in frequency distribution tables to facilitate easy understanding. That is, statistical methods such as frequency distribution tables, elaborations and cross-tabulations with the aid of the Statistical Package for Service Solutions version 16 (SPSS v16) were used to explore the effects of MFIs on SMEs in rural Ghana. With regards to some qualitative data, the researcher used narratives to tell the story from the respondents. The issues gathered from the field were synthesised and put in a logical narrative to give the views of the respondents. Responses from respondents were recorded and put together in a fashion that allowed comparisons and deviations from the literature reviewed. The next chapter discusses the data collected from both the banks and their SME clients and the effects of these services on the businesses of beneficiaries and the effects of these businesses on the households of business owners. The challenges faced by the Nafana and Suma Rural Banks in lending to SMEs in the Jaman North District and the measures to improve MFI services to SMEs are also discussed in detail.

CHAPTER FOUR
DATA ANALYSIS

4.0 Introduction

This chapter deals with the analysis of the data collected for the study. The analysis is in three parts. The first part analyses the profile of the study area to help put the study into context. The second part analyses data collected through semi-structured questionnaires and in-depth interviews with the management of the two MFIs to ascertain the effects of microfinance institutions on SMEs in the district and the outcome of the businesses on the households of SME operators. The last part is in two fold and analyses the data collected through interviewer administered questionnaires, in-depth interviews, and observation from the sampled SME clients of the two banks. The analysis looks at the socio demographics of the respondents, the financial services they receive and the effects of these financial services on their businesses. The outcomes of the businesses on the households of SME operators are assessed and lastly the challenges of SMEs in dealing with MFIs and the way forward are analysed.

4.1 Profile of the Study Area

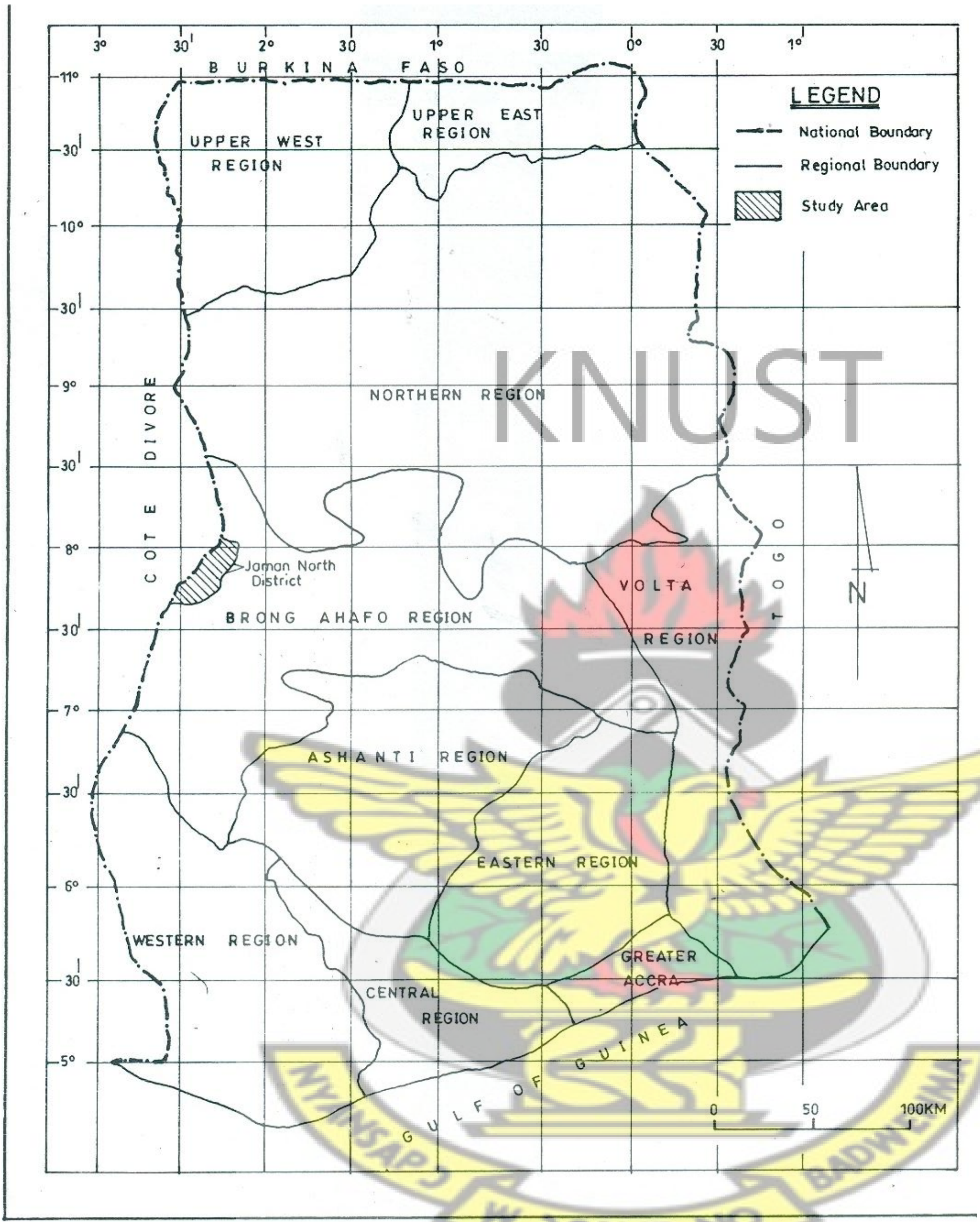
4.1.1 Location

The Jaman North District is one of the twenty two (22) administrative districts in the BrongAhafo Region of the Republic of Ghana. It was created under the Legislative Instrument (LI) 1779 of 2004. It is located between latitude 7^{o}40" N and 8^{o}27"N, and longitude 2^{o}30"W and 2^{o} 60"W. The district is strategically located to the western part of the region and to the north western fringes of neighbouring Ivory Coast. It shares local boundaries with Tain District to the north through to the eastern part of the district, Jaman South District to the south west and Berekum Municipal to the south east.

4.1.2 Demographic Characteristics

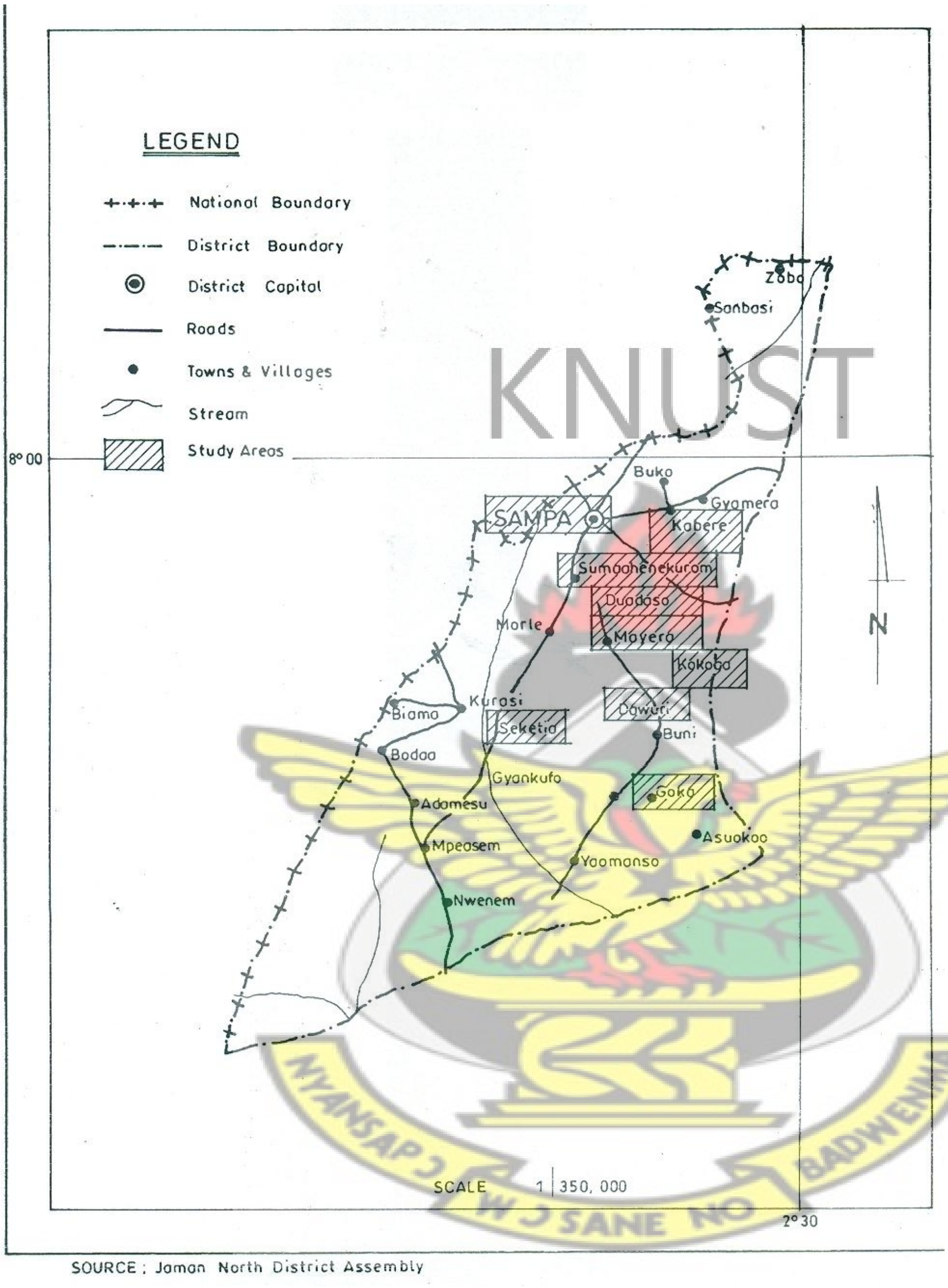
The population of the district according to the Ghana statistical service (2012) is 83659 based on the 2010 population and housing census with respective male and female populations of 39889 (48.8%) and 43170(51.52%). Figures 2 and 3 show the map of the study area in national context and map of the study area showing the study communities respectively:

Figure 2: Map of the Study Area in National Context



SOURCE : Survey Dept of Ghana (1994)

Figure 3: Map of the Study Area Showing Study Communities



4.1.3 Physical Characteristics

The relief of the district is undulating and rises between 150 and 600 meters above sea level. The drainage pattern of the district is largely dendritic and flows in a south and south eastern direction. The major river in the district is the Tain. On climate and vegetation, the district lies within the wet semi-equatorial region, with a mean annual rainfall ranging between 120mm to 178mm. The district enjoys a bi-modal rainfall pattern with the major one occurring between April and July and the minor one between September and October each year. Relative humidity is generally high, ranging between 70-80 percent during the rainy season. The month of August usually experiences a short dry season with the major one occurring between November and March.

4.1.4 Economic Characteristics

The major economic potential of the district is cash crop production. The major crops cultivated in the district are yam, maize, pepper, groundnut, tomatoes and garden eggs while the district is reputed to be the largest producer of cashew nut in the country. The district has seen rapid increase in SME activities partly due to dwindling on farm incomes and again sharing borders with the Ivory Coast has also opened up a platform for the exchange of goods and services between both countries. The major challenges confronting the agriculture sector in the district include but not limited to the following:

i. Inadequate access to agriculture extension services;
ii. Difficulties in access to capital/credit for farming;
iii. Lack of irrigation facilities to promote all year round farming;
iv. Erratic rainfall pattern; and
v. Low and unstable prices of on farm produce.

4.1.5 Financial Institutions

There are two rural banks in the district. The banks are the Suma Rural Bank Limited headquartered at Suma-Ahenkro and have branches at Sampa and Goka whilst, the Nafana Rural Bank Limited at Sampa has only one revenue mobilization center at Duadaso. There is however, a Commercial Bank in the district which was opened in the 2009. Until 2009, the nearest Commercial Bank was located 45 kilometres away at Drobo. The occupation of the people in the district makes it difficult for them to access financial services from the formal sector banks partly because they do not have any formal source of incomes. SMEs in the district therefore have only a chance and that is, dealing with microfinance institutions to start and grow their businesses. People have to travel long distances to be able to access financial products and services for their businesses. This partly explains why this study seeks to explore the effects of these microfinance institutions on SMEs in this rural district, the successes, challenges and the way forward.

4.2 Management of the Nafana Rural Bank

The Nafana Rural Bank was established in 2000 with the vision to providing affordable financial products and services to the community. The bank seeks to assist all manner of clients who need their services to do business or other activities deemed fit to attract the bank's assistance. The bank according to the project officer of the bank had about 9778 customers as at 30th November 2011.

4.2.1 Categories of SMEs Assisted by the Nafana Rural Bank in the District

The management of the bank indicated that the bank provided services to all clients provided they engaged in a legal trade. The bank lends its services to SMEs that are into manufacturing such as soap making and pot making, agro processing and service provision such as petty trading, tailoring, baking and food vending. The management iterated that because poverty levels are high in the district, the bank does not discriminate against any client provided the business they engaged in was legal. According to the management of the bank, about 50 per cent of its SME clients are into trading selling assorted consumables. Most of theseSME clients have their businesses in 'containers', selling almost everything one can think about. This according to management of the bank makes them suitable to deal with compared to farmers because by virtue of the assorted products they vend, the bank is assured of fast loan repayment and are also easily located.

4.2.2 Preferred Category of SMEs Assisted by the Nafana Rural Bank in the District

The management of the bank iterated that the bank preferred to deal with women clients because they are credit worthy. Women pay loans promptly and also spread their profits to cater for the whole household. Some men at times according to management of the bank decide to marry extra wives and change the types of drinks they used to take when they receive loans for their businesses. Management of the bank advanced that the loan default rate of men over the years is more than twice that of women; hence the bank's preference for women SME clients who make up 89 per cent. Women are seen by management of the bank as the housekeepers in this rural district and so for the bank to assist clients, women become central. Management of the bank also stated that since the rural community shows heterogeneity in terms of SME activities, the bank welcomed all types of SMEs in the district so far as they engaged in legal businesses and were ready to accept the terms and conditions of the bank. This helps the bank to increase its outreach deep and wide across all categories of SMEs and to also increase the bank's capital portfolio to ensuring the growth and sustainability of both the bank and its clients' businesses Helms (2006).

4.2.3 Measures put in place by the Nafana Rural Bank to Increase the Depth of Outreach

As to the measures to increase the depth of outreach, management of the bank indicated that it was doing this by providing products and services at affordable prices so that as many as practicable SME clients can afford the bank's products and services. The Manager indicated that management has introduced a wide range of products and services including micro insurance so that no matter the needs of clients, they can find a product that meets their needs as posited by Helms (2006). These measures include improving access to financial services with favourable terms, ensuring service quality, assisting all incomes groups and providing tailor made services to meet the specific needs of clients.

4.2.4 Products and Services Offered by the Nafana Rural Bank to SME Clients in the District

An interview with the Manager of the bank revealed that the bank offers loans to SME clients to start and expand their businesses. In instances where clients face challenges in paying their wards' school fees, the bank offers loans that cater for such fees. This ensures that one does not fold up his or her business to pay his or her wards' school fees. Loans are also given to SME clients to start the building of their houses so that such investments do not collapse the owners' businesses. To facilitate cash transfers between SME clients and their business counterparts, the bank offers the platform for money transfers within the country and also across borders.

With most of the rural folks travelling to other parts of the country and outside, remittances need to be taken care of and this is where the bank offers local and international money transfers services to clients. To avoid SME clients carrying huge sums of monies during transactions, the bank offers payment orders where the client buys goods and the bank paying for the goods. This has helped in curbing armed robbers attacking businessmen and women on the way to doing business. Apart from financial products, the bank organises training sessions for its SME clients in the district.

This involves giving technical advice to clients on how to improve upon their businesses' performance and how to fast track loan repayments. Training of SME clients according to the bank is in the areas of book keeping, proper loan utilisation, appropriate business habits, techniques for increasing savings and general business management techniques among others. The provision of a combination of these products and services by the bank is to improve service quality, widen the breadth and depth of outreach and ensure financial sustainability as opined by Helms (2006).

4.2.5 Eligibility to Access the Bank's Services

The management of the bank indicated that despite the fact that the bank offers assistance to all clients there were some qualities an SME had to possess before he or she can access the bank's products and services. An SME qualifies to access the bank's products and services if it had an account with the bank and also located in the bank's catchment area to facilitate easy monitoring. An SME also must accept to join a group in order to benefit from the bank's products and services. This is because microfinance services depend on group solidarity to serve as collateral since 'material collateral' is ruled out as iterated by Yunus (1997).

4.2.6 Procedure for Loan Disbursement

In providing service quality to SME clients in the district, the Nafana Rural Bank has very simple steps or processes to finally offer its services. The SME clients have to fill a standard form which collects information on the clients and account records. The standard forms are forwarded to the loans committee for appraisal and approval. This process depending on the circumstances prevailing and the quality of information provided by the client can be completed within a day to fast track loan disbursement. This according to management of the bank is done to provide service quality and value for money. The Manager of the bank stated that

"when you tell your client to wait for one week before getting a loan to go and bring supplies to sell, you have killed his or her business forever".

This is so because in a rural district of this nature, most SMEs wholly depend on the bank to do almost everything for survival, the manager indicated.

4.2.7 Perception of the Nafana Rural Bank's Officials on Effects of Loan Processes and Conditions on their SME Clients

Management of the bank admitted that the conditions of providing services and the processes clients passed through to access services were not very excellent and there were measures to improve upon what qualifies one to access services. The Manager indicated that the time for processing loans for instance was under review so that clients could receive products and services of the bank in time. The manager perceived that the conditions and process have delayed loan disbursement in some instances and has deterred some clients from accessing the bank's products and services. Some clients have also received the loans when the purposes for which they contracted the loans were no more possible or the costs of products have gone up and for that matter the loans contracted could not accomplish the purposes they were contracted.

4.2.8 Primary Use of Products and Services Accessed by SME Clients

Management of thebank indicated that the loans contracted by SME clients have been used mainly for either starting a trade or expanding an existent venture while other clients have used loans to pay their wards' school fees in order not to close down their businesses. Some clients have also used loans contracted to start or furnish their houses. The bank admitted that although some clients have used their loans to do other things, the above mentioned ones were what the bank considered during loan application vetting.

4.2.9 Mechanisms Put in Place by Management of the Bank to Ensure Service Quality

As to how management of the bank ensured the provision of service quality to its SME clients, the Manager indicated that the bank has introduced a wide range of services to cater for all the needs of its clients and has also delivered services promptly, a trademark its competitors could not match. Management of the bank has also put in place frequent training programmes for its clients on the innovative ways to become successful in their businesses. According to the Manager, management has also introduced flexible loan repayment terms so that loans could yield benefits for the businesses and households of owners. These measures according to Helms (2006) and Morduch (2000) are believed to help increase the depth and breadth of outreach and also ensure financial sustainability for the bank.

4.2.10 Performance of the Nafana Rural Bank Compared to Competitor Banks and Plans for the Future

When asked how the bank was doing compared to its competitors, the Manager indicated that despite intense competition in the financial market, the bank was making annual profit and increasing clientele. The bank, according to the Manager has since its inception in 2000 recovered over ninety percent of loans disbursed; a sign of financial sustainability according to Helms (2006). Officials of the bank indicated that measures being put in place in the areas of enhancing cost recovery, introducing a wide range of products and services, building strong human capital base and strengthening the capital portfolio of the bank.

4.2.11 Perception of the Bank's Officials onthe Effects of MFIs on SMEs Assisted in the District

In an interview to ascertain the impacts of microfinance institutions on rural SMEs in the district, management of the bank strongly agreed that their products and services helped their SME clients to withstand shocks in times of theft, death and other unforeseen happenings. The Manager iterated that although it was yet to roll out its micro insurance in January 2012, it has saved over one thousand SMEs from collapsing when challenges befell them.

Regarding whether MFIs contributed to increase in business earnings and productivity over time, management admitted that the field visits to its SME clients strongly pointed to the fact that their assistance has increased their clients' earnings and productivity over time. This according to the officials of the bank has made loan repayment very excellent and the manager iterated that the fact that our clients do not default in paying their loans and new clients come in everyday partly suggests that they are reaping a lot of benefits from our services.

As to whether MFIs impacted positively on their SME clients' savings and further investment in their businesses over time, the Project Officer agreed that from the savings accumulated on its books, it points to the fact that the SME clients have been able to save a lot to even make them independent from further borrowing from the bank. The Project Officer stated that some clients who came for assistance to start their businesses have now invested in other areas and some have expanded their businesses, a development the bank was very proud of as a major achievement.

On management's opinion on whether their SME clients have over time increased their incomes after benefiting from the bank's services, management strongly agreed that the incomes of their clients have over time increased tremendously judging from the level of savings accumulated from clients in its records. The Project Officer stated that increased incomes of clients have been evident in prompt loan repayments and an increase in savings, something which has increased the bank's capital portfolio, a requirement for sustainable microfinance (Morduch, 2000, Helms, 2006).

With regards to MFIs helping SMEs to adopt appropriate technology, the Project Officer(PO) strongly agreed that the bank's services have enabled majority of its SME clients to acquire machinery and other implements that enhance production and storage. The PO stated that clients in areas of baking, tailoring, sachet water production for instance have been able to buy their own machinery for their production processes, something that would have been very difficult or impossible without the bank's services. The PO admitted that the bank pre finances the purchasing of machinery so that their clients pay back in bits when production starts. The bank mentioned that two sachet water producers in the district were pre financed in terms of purchasing machines for their operations to start.

As to whether microfinance services have helped SMEs in skills acquisition, the PO strongly agreed that training programmes for SME clients have over time immensely improved the business skills of clients. The PO stated that the bank has over the years taught its SME clients on how to keep records, price products, prepare budgets and general business ideas. These according to the PO have sharpened the skills of SME clients to become successful in their enterprises and have also strengthened the bank's ability to lend to a lot more clients, another condition for sustainable microfinance (Morduch, 2000, Helms, 2006).

On whether SMEs over time are able to employ more hands when they receive microfinance services, the PO was uncertain and stated that most of these rural SMEs are family owned and managed without necessarily employing 'outsiders' but being it as it was, SMEs contribute to employment in the family. ThePO however, stated that those into production such as those into sachet water production have employed people in actual production, packaging, transportation and marketing. This according to the bank makes SMEs clients who are into production and manufacturing more suitable to deal with as they engage a lot more people to work with.

As to whether MFIs contributed to the registration of SMEs, the PO admitted that clients are advised to register their business in order to enjoy more services both from the bank and government's interventions but the problem has been the perception of SMEs that when they register their businesses they were going to pay more taxes.

4.2.12 Perception of the Bank's Officialson the Effects of SMEs on Operators' Households

In the views of management as to whether SMEs contributed to increase in household income and savings of its SME clients over time, the PO strongly agreed and iterated that the businesses of SME clients affect their households because the identified increase in savings and incomes from their businesses automatically affected owners' households.

The POagain strongly agreed that SME clients' businesses have helped diversify household sources of incomes. This is because with those in agriculture, their businesses help them to offset agriculture off seasons and maintain their households. The PO iterated that SME clients have therefore no off season in terms of sources of incomes for their households. Again for those who have over time reinvested in other ventures, they have insulated their households' incomes because even when one business failed, there was another to rely upon and according to the PO

"This has been possible for our SME clients than their counterparts who have still not joined us".

When asked whether SME have enabled clients' households to easily access education, health care and shelter, PO strongly agreed that the increases in the incomes and savings of SME clients means that all other things being equal, they can easily provide their households with basic services such as education, health care and decent housing. This according to the PO has reduced household poverty and vulnerability levels.

Regarding whether SME clients have greater control over their households in terms of decision making, the PO agreed and stated that most women clients for instance have confessed they were now respected by their husbands for example because they were now income earners and could take care of the household. This according to the PO empowers the women for instance to have a say in whatever decision that is taken at the household level, a condition for female emancipation. This was elaborated further by the Manager when he stated that the businesses have made several SME clients to earn respect among their peers and in the community.

4.2.13 General Challenges Faced by the Nafana Rural Bank

The Manager mentioned Bank of Ghana requirements as a major challenge that faces the bank. Upon raising the minimum capital requirement in 2010, the bank according to the Manager was almost liquidated because it found it difficult to satisfy the minimum capital requirement of the BoG. This led to the bank floating shares in 2010 up to date in an attempt to meet the basic capital requirements by the BoG. This has also affected the bank in its operations as some assets have been sold to increase the financial capital of the bank. Poor financial infrastructure such as slow internet services and poor road networks has impeded the bank in its operations. Despite the challenges, the Manager indicated the bank was on track to providing assistance to as many SME clients as practicable in the bid to ensuring financial sustainability of the bank (Morduch, 2000, Helms, 2006).

4.2.14 Challenges Faced by the Nafana Rural Bank in Dealing with SME Clients in the District

Coming from a rural location, the PO said the bank encounters several challenges in dealing with SMEs, a condition affecting the bank's operations in many ways. According to the PO one major challenge was multiple loan contraction. When one client contracts two loans from different financial providers running concurrently, it leads to slow loan repayments and high default rates. This has been a major challenge for the bank because to the PO, when you refuse a client, he or she can easily join another bank, making loan repayment very difficult. The distances covered to inspect the businesses of clients before loan disbursement is another challenge faced by the bank in dealing with SMEs in the district.

The rural nature of the district means that poor roads leading to some communities sometimes make it virtually impossible to reach some clients.

4.2.15 Perception of the Bank's Officials onEffects of the Challenges on their Operations in the District

The effects of the challenges on the bank's operations according to the Manager are double fold and drain a lot of resources from the bank. The bank said it puts extra funds to pursue loan defaulters. The vehicles and fuel used have in some instances deterred the bank from pursuing some defaulters, a condition that has increased the rate of bad debts of the bank. It has also resulted in slow growth in the bank's capital portfolio, something that threatens the sustainability of the bank. According to the Manager, these challenges have led to the bank not satisfying several Bank of Ghana requirements. The expansion drive of the bank has also been slow due to the challenges it faces in dealing with these rural SMEs in the district, according to the Manager.

4.2.16 Recommendations by Officials of the Nafana Rural Bank on Improving and Sustaining the Relationship with SME Clients in the District

On the way forward to improving and sustaining the relationship of the bank with its SME clients, the Manager said strengthening of group lending was one way to reduce loan default rates as group members serve as collateral and that the payment of one group member guarantees the others from enjoying similar products and services. The Managersaid management was putting measures in place to reduce members in a group from ten (10) to five (5) so that amounts to each member can be increased. The Manager also indicated that management was going to intensify training programmes for SME clients. This according to the Manager was going to enlighten the clients on the need to repay loans and how to do that with ease. Lastly, the Manager iterated putting a package in place to reward clients who promptly repaid their loans. This was going to be in the form of absorbing the school fees of clients' wards or giving such clients reduced interest rates when they contracted subsequent loan facilities. The Manager also iterated that frequent reviews in products and services was also going to be intensified so that clients could contract value for money services such as flexible loan repayment terms and the provision of long term facilities. All these measures are believed to put the bank on track and provide service quality (Helms, 2006) to its SME clients in the district.

4.3 Management of the Suma Rural Bank

The Suma Rural Bank was established in 1981 but started formal operations in 1982. The initial focus was not on SMEs but targeted rural farmers in the district who had farms in the district and cocoa farms in the Western region. The bank provided the avenue for these farmers to cultivate the habit of savings to help them in times of need. As the years went by and entered into the 2000s, rapid growth in rural SMEs in the district shifted the attention of the bank to assist SMEs. The bank is headquartered in SumaAhenkro, about two (2) kilometres from the district capital, Sampa. The bank has currently over twelve thousand customers comprising SMEs and non SME clients. The bank's vision is to provide affordable and tailor made products and services to its clients to reduce rural poverty.

4.3.1 Categories of SME Clients Assisted by the Suma Rural Bank in the District

An interview with the management of the bank revealed that the bank supports all categories of SMEs in the areas of service provision such as tailoring, hair dressing, mechanics and food vendors. SMEs into manufacturing, trading and agro processing are also assisted by the bank. Management of the bank indicated that in the direction of increasing clientele, the bank opens its doors to all SME clients who are into legal businesses. This is done to widen the breadth of outreach by providing assistance to as many SMEs as possible as posited by Helms (2006).

4.3.2 Preferred Category of SMEs Assisted by the Suma Rural Bank in the District

As to whether the bank had preference for some SME category, management indicated it has no preference for particular SME clients. Management however said that in terms of gender, women were targeted more than men because MFIs by nature focus on women. Women according to management were credit worthy and by virtue of the fact that women are sidelined in many situations in the society; the bank has special packages for women SME clients in the district. This according to management of the bank was initiated to empower women entrepreneurs in the district as well as reducing poverty levels of women. This is done to increase the depth of outreach by targeting all the income groups (poor or rich) so that no group is discriminated against. This according to Helms (2006) is important for financial sustainability for the MFIs.

4.3.3 Measures Put in Place by the Suma Rural Bank to Increase the Depth of Outreach

When the management of the bank was asked on the measures put in place to reach all SMEs in different income groups, the Project Officer (PO) indicated that the bank has improved the depth of outreach by making the prices of products and services affordable to all income groups. This is done to include all income groups and to also increase the clientele of the bank as a measure to making the bank financially sustainable as indicated by Helms (2006). The PO also indicated that the bank has brought its services to the door step of its clients as a way of making financial services available to all SME clients as practicable, also a measure to increase the depth of outreach.

4.3.4 Products and Services Offered by the Suma Rural Bank to SME Clients in the District

Regarding the products and services the bank provided to its SME clients, the PO indicated that it provides loans to its SME clients who needed them. These loans range from *susu*loans, school fees loans and general loans for starting or expanding a business. The POagain indicated it provided the option of receiving of remittances from within or outside the country. To reduce the carrying of huge sums of monies to buy goods, the bank provided its SME clients with payment orders that are in the form of cheques for paying for goods. This service is intended to curb armed robbers from attacking its SME clients on their way to purchasing goods. To give its SME clients the needed skills and knowledge in succeeding in their businesses, the bank undertakes training sessions for its SME clients. This training is in the areas of record keeping, budget preparation, pricing of goods, usage of loans and general business management techniques. This training is done to equip SME clients to squarely face the realities in doing business especially in a rural area. The provision of a range of products and services by the bank is to make sure that services augment each other and also serve the needs of all SME clients in the district as advanced by Helms (2006).

4.3.5 Eligibility to Access the Bank's Services

As to what qualifies an SME to access the bank's services, the PO indicated that one had to be an account holder of the bank. The clients should also have good loan repayment records with the bank if the client has ever taken loans. The client in question also needs to be in the bank's catchment area to enhance easy loan monitoring exercises. One has to also be ready to abide by the terms and conditions of the loan before loans are finally provided to SME clients. These eligibility criteria are used according to the bank to reduce loan default rates and also lend to genuine SMEs in the district. Doing this also strengthens financial sustainability of the bank to reach as many other clients as practicable as well as recover loans disbursed.

4.3.6 Procedure for Loan Disbursement

To engender service quality to its SME clients, the bank according to the PO has very simple and easy loan processing and disbursement procedures. The first step is for a client to submit an application to the bank for consideration. When the applications are vetted by the loan committee and found satisfying all requirements, the loan is readily disbursed to clients. Depending on conditions prevailing in the bank, it takes a maximum of two weeks to disburse loans to applicants. This time frame however could pose as a threat to ensuring service quality since loans received after two weeks might not satisfy the needs for which they were secured. If for example an SME client has to wait two weeks to receive a loan to go for goods for its business, it could throw such an enterprise out of business. It is therefore pertinent to devise measures to reduce the period for disbursing loans to clients to ensure service quality as posited by Helms (2006).

4.3.7 Perception of the Bank's Officials on the Effects of Loan Processes and Conditions on SME Clients

The PO perceived its loan processes and conditions as excellent and that such conditions did not affect negatively the activities of its SME clients. The PO iterated that in an attempt to secure the bank from collapsing, such conditions are put in place to make sure that loans are given to the right SME clients who can effect fast loan repayment. The PO was quick to admit that two weeks to disburse loans was being considered so that loans can be disbursed within a day or two but quickly added that it was going to take time so as not to undermine the sustainability of the bank.

4.3.8 Primary Use of Products and Services Accessed by SME Clients

When the PO was asked about the primary use of loans by its SME clients, he stated that the purposes of contracting loans by SME clients were for starting a business, expanding a business, to pay SME clients' wards' school fees so as to save their businesses from collapsing and for the purposes of starting housing projects by the SME clients. Some clients according to the PO will go out of business if they pay say their wards' school fees or when they want to start their building projects and so the bank pays the clients' wards' school fees when the need arose so that the businesses of parents could be saved from collapsing. In other instances, starting a building project can drain all the money from a small business and so the bank assists in providing funds in the form of loans so that the businesses of such clients will not collapse. The PO indicated the bank has performed very creditably in this direction by paying school fees and the costs of building of their SME clients. This is taken seriously by the bank to reduce poverty and sustain the livelihoods of rural SME clients in the district as indicated by Kofi Annan (2005).

4.3.9 Mechanisms Put in Place by the Suma Rural Bank to Ensure Service Quality

In providing value for money products and services, the bank has introduced a wide range of services to its SME clients so that the needs of every client will be taken care of. The bank has also introduced flexible loan repayment terms so that loans could be used for the intended purposes and also to engender fast loan repayment. Services according to the PO are reviewed regularly to suit current needs of clients. The bank has also put in place customer complaints unit that resolves the concerns of SME clients. This includes frequent interaction with clients to ascertain their challenges and concerns. This is in support of the views of Helms (2006), who state that services should go beyond giving loans but the provision of ancillary services such as field visits, proper handling of clients' complaints and providing a wide range of services that match the needs of clients to ensure financial sustainability.

4.3.10 Performance of the Bank Compared to Competitor Banks

The PO admitted it was doing very good in terms of volume of assets, clientele and profits. Loan recovery rates according to the PO have on yearly basis exceeded targets and this showed good signs of financial sustainability of the bank. The PO however iterated that the bank was not relenting on its efforts in introducing innovative products and services such as mobile banking and micro insurance in the coming years. Management also intends to keep on improving its human capital base through training and development programmes. Lastly, the PO indicated it was far on track to increasing the clientele of the bank as a means of securing a sustainable future in the microfinance market in the district and the country in general. These plans were believed to give the bank a competitive edge to assisting as many rural SMEs as practicable in the district to reduce poverty.

4.3.11 Perception of the Bank's Officials onthe Effects of the Bank on SMEs Assisted in the District

In an interview to solicit the views of management regarding whether the bank's services have helped its SME clients to withstand shocks such as business collapse and indebtedness, the PO strongly agreed and stated that over the past ten years it has assisted more than 5000 SME clients from collapsing. Some of these clients were almost out of business due to pressure from paying school fees of their wards and taking care of their household needs but with the support of the bank, such SMEs are back on track.

As to whether the bank's services have helped its SME clients to increase business earnings and productivity, the PO strongly agreed and indicated that field visits to clients and the financial status of clients on the bank's books confirm that earnings from the businesses have actually increased over time.

Regarding the bank's services in helping to increase savings for further investment, the PO strongly agreed and iterated that the savings mobilised from the SME clients assisted testifies that truly, the bank's services have over time helped its clients to increase savings from their businesses. The researcher was allowed to glance through the bank's books and truly, savings volume from the SMEs assisted had increased tremendously. As to the increment in the incomes of SME clients as a result of MFIs assistance, the PO strongly agreed and indicated that the increment in incomes has led to the increase in savings of their clients.

On whether the bank's services have helped its SME clients to adopt appropriate technology, the PO strongly agreed and testified that it has over time assisted majority of its clients in the areas of manufacturing to secure the implements used for production. This has helped such clients to increase production, something they could not have done without the intervention of the bank's assistance. The bank indicated there were some instances where it had pre financed some clients in purchasing vehicles, grinding machines, tailoring machines and hair dryers among others. These kinds of technologies could not have been afforded by their clients had it not been the bank's intervention.

When the PO was asked as to whether the bank's services have assisted its clients to acquire the necessary skills to manage their businesses, he strongly agreed and admitted that over time, consistent training sessions for clients have given clients skills in the areas of proper loan usage, records keeping, budget preparation and general business management skills. These skills acquired have helped the bank in introducing some tailor made services to further assist these SMEs. The skills acquired have also enabled clients to cultivate the habit of savings and prompt payment of loans, something that posed as a major challenge in the early years of the bank when training was not on its agenda. Some clients can now take stock and prepare simple accounting requirement that enhance loan application appraisals according to the bank.

As to whether the bank's services have assisted its SME clients to employ more hands in their businesses over time, the PO agreed and said its field visits have showed that some of the clients have employed a few people or have involved their family to take care of the business after the bank has assisted the SMEs to expand their businesses, something that according to the PO could not have been possible if the businesses were in their earlier state when they have not been assisted by the bank.

On the view of whether the bank's services have helped its SME clients to register their businesses, the PO disagreed and stated that the registration procedure was not done by the bank and as such did not want to persuade its clients to register but admitted that over time, as the businesses grow to some level, registering the business was going to be inevitable. The PO also believed that services have enabled SME clients to increase their market shares as a result of expansion in their businesses.All in all, the management of the bank perceived that their services have over time assisted their SME clients in the areas of ability to withstand shocks, increase in business earnings and productivity, increase in savings as well as increase in incomes, adoption of appropriate technologies and skills as well as increase in employment generation. In the same vein, the bank believed that its services have helped its SME clients to expand their market share over time through expansion in businesses.

4.3.12 Perception of the Bank's Officials on the Socioeconomic Effects of SMEs on Operators' Households

The researcher wanted to ascertain the perception of management of the bank on the effects of the SMEs on the households of clients assisted. Regarding whether the management perceived that the businesses of its clients have over time increased household incomes and savings of owners, the PO agreed and stated that the increased savings from its clients' businesses invariably have translated into the savings of the household because when the business increases incomes of owners, household income and savings will all other things being equal increase. This according to the PO has enabled clients' households to escape hardships and poverty tendencies.

On whether the businesses of clients have helped their households to diversify income sources, the PO strongly agreed and indicated that over time, the businesses of clients are diversified to provide various services and products thereby having various sources of earning incomes. The households can engage in other activities so that when one fails, there are other sources to depend on. The PO indicated that most of its clients were into farming and so with the new enterprises, they have other sources of income even when on farm income dwindled.

As to whether the businesses of clients enabled its clients' households to have better access to basic services such as education, health care and shelter, the PO strongly agreed and admitted that since the incomes from the businesses of clients have over time increased, there was the possibility for clients to have enough financial resources to provide their households with better education, health care and decent housing. This according to the PO has helped clients' households from reducing poverty and vulnerability since the household can over time have access to all its needs.

The PO also agreed that the businesses of its SME clients have over time helped its clients to have control over household decision making, especially the women, who previously were sidelined in all decision making because they were considered as not having anything to contribute. Women according to the PO over time have been financially independent as a result of their businesses. This has in turn accorded clients respect and recognition in their communities and societies. The bank indicated it has an endless list of its clients who were previously not known to the community but were now well to do in the community.

4.3.13 General Challenges Faced by the Suma Rural Bank

The PO indicated that one major challenge it faced in the microfinance market was the ability to attract the right calibre of human resources who are ready to live in a rural area as indicated by Steel andAndah (2003). This has affected the bank's performance at times because some staff lacked the required skills and orientation. The highly experienced ones were easily poached by the formal sector banks sometimes because conditions of service were better there. The attrition rate of employees has therefore been high over the years. The PO again indicated that the Bank of Ghana regulations and minimum capital requirements posed as a challenge to the bank in the bid to providing financial services. Lastly, the PO indicated that the rural community in which it operates poses as a major challenge since some essential services such as electricity and internet services were absent. These according to the PO have impeded the bank from fully networking its agencies.

4.3.14 Challenges Faced by the Suma Rural Bank in Dealing with SME Clients in the District

The PO enumerated challenges the bank faces in lending to SMEs in the district to be in the areas of slow loan repayment, long and bad roads to contact clients and high illiteracy rate of majority of its clients. These challenges according to the PO have affected the bank negatively in that it becomes very difficult to introduce certain products and services. Monitoring of clients at their business places has also been affected negatively due to the deplorable nature of some roads leading to some of the rural communities.

4.3.15 Perception of the Bank's Officials on the Effects of the Challengesthe Bank Faces

The challenges identified above according to the PO have resulted in delays in preparing annual financial reports due to manual processes adopted by the bank in some agencies that were not connected to electricity and for that computers could hardly be used. The deplorable nature of some roads leading to some clients' businesses means that the management had to spend extra resources to be able to reach them. The challenges according to the PO have also posed as threat to financial sustainability of the bank in that the capital portfolio of the bank fluctuates on annual basis, something the bank was not happy about.

4.3.16 Recommendation on Improving and Sustaining the Relationship with SMEs Clients in the District

Regarding how to improve and sustain the relationship with its SME clients, the PO directed that management has adopted a continuous training policy for both its staff and SME clients to be abreast with the realities of their engagement. The PO also iterated that management has over the years embarked on relaxing loan repayment terms and will continue to provide flexible and value for money services and products so that all income groups as well as many SMEs as possible couldaccess the bank's services, a move which according to the PO was very crucial for its future sustainability. Management of the bank in improving its relationship with its SME clients in the district proposed to review its services on regular basis so that adjustments could be made in products and services to meet present and future needs of SME clients. These measures according to the PO were targeted at providing the best products and services to clients to sustain their businesses and reduce poverty.

4.3.17 Comparison of the two Cases

From the management of the Nafana and Suma Rural Banks, the following issues came out:

i. The focus of both rural banks was to assist SMEs in the direction of reducing poverty. Poverty reduction has been a national agenda and so the banks were doing their bit to reducing poverty in the district.

ii. Both banks assisted all types of SMEs inasmuch as they were engaged in legal businesses. This was done to assist as many as practicable SMEs in the district. To management of the banks, this was to increase both the depth and breadth of outreach so as to ensure financial sustainability.

iii. Both banks had no preference for a particular SME type as they assisted all kinds of SMEs. However, on the basis of gender, the managements of both banks indicated they were more comfortable in dealing with female SME owners. This was due to the fact that women were more trustworthy in repayment of loans than men according to past records of the banks. This is partly the reason for referring to microfinance as 'women finance' by some proponents of microfinance.

iv. Both banks provided loans and training services to SME owners assisted. This was to ensure that not only cash is provided to SMEs but also ancillary services such as training is very crucial to ensuring that the managerial skills of SME owners are upgraded to ensure that the loans given to SME owners are judiciously utilized.

v. To receive assistance from both banks, one had to be account holders of the banks, live in the catchment areas of the banks, save for six months, ready to accept repayment terms and not a defaulter of loans previously.

vi. Both banks indicated that the assistance given to SMEs enabled them to increase incomes and savings. Bank officials indicated that over time, savings records of SME owners and the ability to repay loans suggested that they were making profits after receiving assistance from the banks.

vii. As to the challenges faced by the banks, officials of the Nafana Rural Bank indicated that the Bank of Ghana's minimum capital requirement was put a lot of strain on the bank. Officials of the bank also mentioned poor infrastructure to support financial institutions in the district as one major challenge faced. The Suma Rural Bank, however, indicated that the high attrition rate of staff as a major challenge the bank faced. According to the banks' officials, the bank frequently lost its human resources to other banks, especially the formal sector ones.

viii. Officials of both banks indicated that the banks were doing their utmost best to serve the needs of SMEs in the district in the face of some challenges.

ix. Officials of both banks, however indicated that there was more room for improvement and they were working towards providing the best of services to SMEs in the district.

4.4 Sampled SME clients of the Nafana Rural Bank

Respondents were easily located at their business premises and questionnaires were administered by the researcher. Respondents fully participated and assisted in giving responses to the questions. The main challenge was that majority of respondents were attending to their customers in the process of interviews with them and this delayed and interrupted the interviewing session. It took the researcher between twenty and thirty minutes to administer a questionnaire.

4.4.1 Socio demographics of Respondents

Out of the total 39 respondents, 21(53.8 %) were females while 18(46.2%) were males. This confirms the views of management of the bank that the majority of their clients were females. On age, 18 respondents (46.2%) were between the ages of 33 and 37, 11(28.2%) were between the ages of 38 and 42, 9(23.1%) were above 42 years and 1(2.6%) was between 28 and 32 years. Out of the total 39 respondents, 34(87.2%) were married, 4(10.3%) were divorcees while 1(2.6%) was widowed. On respondents' educational levels, 12(30.8%) had no formal education, which confirms management's view that quite a significant number of clients were illiterates and posed as a challenge to introducing some productsand services, 9(23.1%) were senior high or technical school leavers, another 9(23.1%) were primary school leavers. Junior high school leavers comprised 17.9 per cent of the respondents while 5.1 per cent of respondents were tertiary school graduates. Out of the total 39 respondents, 28(71.8%) had been dealing with the bank between 5 and 10 years while 11(28.2%) had dealt with the bank more than 10 years. Out of the total 39 respondents, 33(84.6%) had no other businesses apart from their small scale enterprises while 6(15.4%) had other businesses that supported their small scale enterprises. The above information implies that as a considerable percentage of the clients have no formal education, it will become difficult for management to introduce certain services that may need some level of education to benefit. This also implies that training services have to be intensifies to school such clients on a number of issues pertaining to dealing with the bank.

4.4.2 Types of SMEs

Out of the total 39 respondents, 15(38.5%) per cent were into service provision, 14(35.9%) were into trading, 7(17.9 %) were into manufacturing and 7.7 per cent were into agro processing as shown in Table 4.1:

Table 4.1: Types of SMEs

SME Type	Frequency	Percentage
Trading	14	35.9
Manufacturing	7	18.0
Services	15	38.5
Agro Processing	3	7.7
Total	39	100.0

Source: Field Survey, 2012

4.4.3 Respondents' Business Activity

Out of the total 39 respondents, 14(35.9 %) were into trading. Out of this 35.9 per cent, 20 per cent were dealers in household consumables, 10.3 per cent were dealers in general goods and 5.1 per cent were dealers in building materials. Out of the 18 per cent of respondents who were into manufacturing, 7.7 per cent each were into batik tie and dye making while 2.6 per cent was into local soap making. Out of the 38 5 per cent who were into services, 23.1 per cent were food vendors, hair dressers made up 5.1 per cent, tailoring made up 7.7 per cent while fitting made up 2.6 per cent. Out of the 7.7 per cent who were small scale production, cashew processors made up 5.1 per cent whilegari processing made up 2.6 per cent as shown in Table 4.2:

Table 4.2: SME Activities of Respondents

SME Activity	Frequency	Percentage
TRADING		
Household consumables	8	20.5
Building materials	2	5.1
General goods	4	10.3
Subtotal 1	**14**	**35.9**
MANUFACTURING		
Carpentry	1	2.6
Batik Tie and Dye making	3	7.7
Smithery	3	7.7
Subtotal 2	**7**	**18**
SERVICES		
Food vending	9	23.1
Hair dressing	2	5.1
Tailoring	3	7.7
Fitting	1	2.6
Subtotal 3	**15**	**38.5**
SMALL SCALE INDUSTRIALISTS		
Cashew processing	2	5.1
Gari processing	1	2.6
Subtotal 4	**3**	**7.7**
Grand Total	**39**	**100**

Source: Field Survey, 2012

4.4.4 Respondents' Reasons for Entering into the Business

As to the reasons of being in business, 16(41%) indicated they entered into the business to serve as livelihood sources, 9 respondents each (23.1 %) said they entered into the business because they were unemployed and to become financially independent with 5(12.8 %) indicating they inherited the businesses from their families. The fact that all the respondents had different reasons forentering into small scale enterprising means that there would be different needs of each client for which the bank has to provide appropriate products to satisfy each client's needs as shown in Table 4.3:

Table 4.3: Respondents' Reasons for Entering into Business

Reasons	Frequency	Percentage
Was unemployed	9	23.1
To diversify livelihood sources	16	41.0
To become financially independent	9	23.1
Inherited business from family	5	12.8
Total	39	100.0

Source: Field Survey, 2012

4.4.5 Employment Creation by Respondents' Businesses

As to employment created by respondents' businesses, 21(53.8%) employed between 1 and 5 people, 17(43.6%) had no employees and 1(2.6%) employed between 6 and 10 people. This confirms management of the Nafana Rural Bank's views that as time goes on SMEs are able to employ more hands to work with. On the average, one business employed 2 people, something that was good for employment creation as advanced by authors such as Daniels (2004), QuarteyandAbor (2010) and Lisa (2009).

4.4.6 Financial Products and Services Received by Respondents from MFIs

All the 39 respondents indicated they received loans from the bank for various purposes. These loans were contracted to help expand respondents' businesses or start a new one. All the 39 respondents also indicated they saved with the bank while 11(28.2%) indicated they received remittances through the bank in addition to loans as shown in Table 4.4:

Table 4.4: Types of Financial Products and Services Received by Respondents

Type of product	Frequency	Percentage
Loans only	39	100
Remittances +loans	11	28.2
Savings	39	100
Training	39	100

Source: Field Survey, 2012

From Table 4.4, all the 39 respondents indicated they received training from the bank in the areas of efficient loan utilisation, records keeping and general business management techniques. These training sessions according to the respondents have over time helped them a lot in making profitsfrom their businesses as they are able to well manage their businesses and increasing savings as well.

A respondent said "through the training, I can now prepare my own list of items when I am going to Kumasi to bring goods for sale and I am very happy".

This respondent indicated she has learnt how to prepare her sales records after been taught by the staff of the bank. These ancillary services are very vital in helping SME clients to be able to utilise loans and pay back on time, a condition Helms (2006) states is very key to the financial sustainability of MFIs. This implies that assisting SMEs in a holistic fashion goes beyond giving physical cash to people but giving the people what it takes to better utilise the services given them. This helps the bank to recoup what is invested in the businesses and on the other hand ensuring that the banks can widen their outreach to assist as many clients as practicable.

4.4.7 Amount of Loans Received by Respondents

Out of the total 39 respondents, 16(41%) had received loans below Gh₵1000 while 12(31%) had received between Gh₵1000 and 2000. These loans were used by respondents to start a business or expanded an existing one. Some respondents also indicated part of the loans was used to pay their children's school fees at times but the main purpose of contracting the loans was to invest in their businesses. Considering the loan amounts received by respondents, there is a clear prima facie evidence that Rural SMEs do not require huge sums of loans to operate and so with small some small amounts given to people, they can turn their businesses and the lives around for the better. This also explains partly why some authors such as Yunus (1997) advocate the role microfinance plays in reducing poverty of rural enterprise owners on sustainable basis and so call for providing microfinance services to such people. The rest of loans amounts received by respondents are shown in Table 4.5:

Table 4.5: Amount of Loans Received by Respondents

Amount (Gh₵)	Frequency	Percentage
Below 1000	16	41
1000-2000	12	31
2000-3000	5	13
3000-4000	3	7.5
Above 4000	3	7.5
Total	39	100

Source: Field Survey, 2012

4.4 8 Conditions under Which Respondents Receive Products and Services from MFIs

As to the conditions that qualified respondents to receive products and services from the bank, all respondents said they needed to be account holders, be in the bank's catchment area and be ready to accept loan repayment terms. In addition, all respondents indicated they needed to have clean loan repayment history with the bank. Out of the total of 39 respondents, 18(46.2%) indicated they needed to have saved with the bank for at least six months before they could access loans from the bank. These respondents iterated that this made them wait for longer periods before they could get loans from the bank, a development that did not help them in their quest to accessing loans. This condition was however not mentioned by management of the bank.

4.4.9 Effects of Loan Conditions on Respondents' Ability to Access Products and Services from MFIs

As to the effects of loan conditions on respondents' ability to access loans, the majority(82.1%) indicated the conditions delayed the time to receive loans. Another 5 respondents (12.8%) indicated the conditions affected their businesses negatively as they could not get loans at all at times while 2(5.1%) said they resorted at times to borrowing from friends and family when the bank was delaying them. These are some challenges that affect service quality and the ability to widen the breadth and depth of outreach as indicated by Helms (2006). These effects on the businesses of clients were also shared by management of the bank and promised of putting measures in place to solve such issues.

4.4.10 Respondents' Satisfaction on the Products and Services Received

All the respondents indicated they received all the products and services they needed from the bank. Out of the 39 respondents, the majority (79.5%) indicated they were satisfied with the products and services they received from the bank. According to these respondents, the products and services they received from the bank were able to solve the problems for which they were contracted while 8(20.5%) iterated they were not satisfied with the services of the bank due to delays in service provision. These respondents indicated they had to save with the bank for six months before they could access loans and loan disbursement took the bank about two to three weeks before final delivery to clients. Management of the bank shared similar views and assured clients of working around the clock to reduce the number of days it took to process loans for disbursement.Management of the bank therefore needs to scale up its services to meet the needs of its clients in order to widen the breadth and depth of outreach as posited by Helms (2006) and Morduch (2000).

4.4.11 Prices of Products and Services Received by Respondents

Regarding the prices of financial products of the bank, the majority (71.8%) indicated they paid between 26 and 30 per cent interest on loans they contracted from the bank while 11 (28.2%) said they paid between 20 and 25 per cent interest on loans they have accessed from their bank as shown in Table 4.6. An interview with management of the bank indicated that interest rates differed due to the duration people clients were willing to pay back loans and that other considerations such as the balance in a client's account and other factors determined the interest paid on loans. The researcher's personal investigations indicated clients paid between 25 and 30 per cent of interest for loans payable up to six months and above 30 per cent interest on long term loans. This was similar to banks in the formal sector which upon reduction in the policy rate by the Bank of Ghana have adamantly refused to review interest rates downwards with excuses of volatility in the banking environment in the country. These interest rates are just in line with what pertains in the formal sector banks at the moment and have been identified by various authors such as Morduch (2000) as a major challenge that SMEs face. This could partly explain why some clients of microfinance banks still depend on informal sources for loans.

Table 4.6: Interests Paid by Respondents on Loans Accessed

Interest Rate (%)	Frequency	Percentage
21-25	11	28.2
26-30	28	71.8
Total	39	100

Source: Field Survey, 2012

4.4.12 Respondents' Perception on the Prices of Products and Services Received

On respondents' perception on the prices they paid on loans, the majority (64.1%) indicated the interests on loans were high, 8(20.5%) iterated the interests on loans were moderate while 6(15.4%) said interests on loans were very high, which made it difficult to contract bigger loans and to repay. The responses indicated that prices of loans were generally high which put much pressure on respondents on their ability to repay loans. This is a threat to increasing the breadth and depth of outreach since the majority of the bank's clients may find it difficult if not impossible to repay loans and would not go in for them at all. Helms (2006) indicates that prices of microfinance products are to be priced at levels where the financial institutions and the clients can each stay in business as a means of ensuring sustainable microfinance.

4.4.13 Duration to Pay Back Products and Services Received

On the duration for respondents to repay the loans they have contracted, the majority (74.4%) indicated the repayment period was between 3 and 6 months while 10 (25.6%) said they had between 6 and 12 months to repay the loans they contracted from their bank. Loan repayment schedules were however not flexible according to 80 per cent of respondents because they paid the loan on weekly basis (market days). The remaining clients (20%) indicated they paid loans monthly and indicated it was normal for them since they received salaries at the end of the month.

4.4.14 Respondents' Satisfaction with the Duration to Pay Back Products and Services Received

As to respondents' perception on the repayment period, all the respondents said they were not satisfied with the duration to repay loans with the reason that the period was too short to meet repayment schedules and therefore put much pressure on respondents. On this issue, 3 respondents (7.7%) indicated they have on two occasions borrowed moneys from friends to write off the loans they contracted from the bank, something that respondents indicated had increased their debt profiles and affecting their businesses and households negatively.

4.4.15 Respondents' Assessment of the Effects of Microfinance Services on their Businesses

On respondents' opinion as to whether microfinance services have helped their businesses to withstand shocks such as theft and indebtedness, the majority (98%) agreed. These respondents indicated that the services they received have enabled them to stay in business in the face of challenges such as deaths, paying children's school fees and other family problems. These, respondents indicated could have collapsed their business but the loans received from the bank have kept them in business.

As to whether microfinance services have helped respondents' businesses to increase productivity or output, the majority (98%) agreed. Reasons for agreeing were that the loans received have over time enabled them to increase the goods they vend. Some respondents who were into manufacturing indicated that the loans they have acquired have enabled them to purchase more raw materials for production. This, according to respondents has enabled them to increase their production capacity to serve customers. However, 1 respondent (2%) disagreed because the high interest on loans contracted did not help to be able to increase productivity.

Regarding whether microfinance services helped respondents' businesses to increase savings, the majority (98%) agreed that they have been able to increase their savings compared to the period they had not joined the bank. However, 2 per cent disagreed and stated that the prices of loans made it difficult for them to increase savings and that, the services received had not helped in increasing savings because a huge sum of earnings went into loan payments.

On microfinance services helping respondents' businesses to increase incomes, all the 39 respondents agreed. Respondents indicated the loans they contracted enabled them to increase their stock over time and this they said increased their incomes significantly than before they received the services from the bank. Some respondents shared their views by indicating they were able to open new shops over time as their incomes increased, something they attributed to the microfinance services they received from their bank. When respondents were asked as to the incomes they earned from their businesses on weekly basis before and after their enterprises were set up, it was realised that all respondents earned more than what they were earningbefore the enterprise as shown in Table 4.7:

Table 4.7: Incomes from Respondents' Businesses on Weekly Basis

Income range (Ghana Cedis)						
Before	Frequency	Percentage	After	Frequency	percentage	Percentage change
Below 100	21	53.8	Below 100	11	28.2	↓ 25.6
100-500	11	28.2	100-500	13	33.3	↑ 5.1
600-1000	5	12.8	600-1000	7	18	↑ 5.2
1001-1500	2	5.1	1001-1500	6	15	↑ 9.9
1500+	0	0	1500+	2	5	↑ 5
Total	39	100		39	100	

Source: Field Survey, 2012

Although respondents complained incomes were not up to their expectations, they could take respondents out of the poverty class who earn below 90 Ghana Cedisper annum as stated in the Ghana Poverty Reduction Strategy document in 2003. This is one of the reasons that informed respondents in undertaking these ventures as a means of reducing poverty levels and household vulnerability as stated by Yunus (1997) and Todaroand Smith (2009). These increases in incomes from Table 4.5 confirm the views of management of the bank that their clients' savings increased as a result of increasing incomes from their businesses.

As to whether microfinance services have helped respondents to adopt appropriate technology and inputs, 14(35.9%) agreed. These respondents were mostly into service provision and manufacturing that employed various technologies in their businesses. Respondents indicated that they were able to afford technologies such as hair dryers and sewing machines that have enabled them to increase their production something they could not have done on their own. However, 25 respondents (64.1%) disagreed and indicated they have not been assisted in the areas of adopting the appropriate technology mainly because they did not need such technologies.

Regarding whether microfinance services have helped respondents to acquire the needed skills and techniques in doing business, the majority (98%) agreed. These respondents indicated they were able to better manage their businesses now than before due to the training sessions that were organised for them by the bank in areas such as proper loan utilisation, savings techniques and book keeping which according to respondents enabled them in understanding the needed traits that could make them successful in their businesses.

On whether microfinance services have enabled respondents' businesses to employ more hands, the majority (82.1%) agreed. Respondents indicated that the improvement in their businesses and productivity over time has helped them to employ more people. This is evident as on the average every business employed 2 people, something that was good for employment creation as advanced by authors such as Daniels (2004), Quartey and Abor (2010), Yunus (1997) and Lisa (2009). However, 7(17.9%) disagreed and indicated they had not been able to employ people to assist them despite the services they received from the bank. On whether microfinance services helped respondents to register their businesses, all disagreed and indicated their bank did not help them in that direction. Respondents'perception on the effects of microfinance services on their businesses are shown in Table 4.8:

Table 4.8: Respondents' Perception on the Effects of Microfinance Services on their Businesses

Statement	Strongly Agree		Agree		Uncertain		Disagree		Strongly Disagree		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Microfinance services have helped your business to withstand shocks	10	26	28	72	0	0	1	3	0	0	39	100
Microfinance services have helped your business to increase productivity or output	7	17.5	31	79.5	1	3	0	0	0	0	39	100
Microfinance services have helped your business to increase savings	3	7.7	35	89.7	0	0	1	3	0	0	39	100
Microfinance services have helped your business to increase incomes from the business	19	49	20	51.3	0	0	0	0	0	0	39	100
Microfinance services have helped your business to adopt appropriate technology and inputs	2	5.1	12	30.8	0	0	25	64	0	0	39	100
Microfinance services have given you new skills and techniques to manage your business	5	13	33	84.6	0	0	1	3	0	0	39	100
Microfinance services have helped you to employ more hands in your business	12	13	27	69	0	0	7	18	0	0	39	100
Microfinance services have helped you to register your business	0	0	0	0	0	0	38	97	1	3	39	100

Source: Field Survey, 2012

4.4.16 Respondents' Perception on the Socio Economic Effects of their Businesses on their Households

On respondents' perception on the effects of their businesses on their households, all the 39 respondents agreed that their businesses increased their household incomes and savings. Respondents indicated the increases in the incomes from their businesses have over time increased their household incomes and savings as well as indicated in Table 4.7.

All the 39 respondents agreed and indicated that their businesses have enabled them to diversify household income sources over time, something that enabled their households to insulate their income sources in cases where on farm incomes for instance failed. Respondents indicated that their businesses have come to complement other sources of incomes for the household to withstand any unforeseen occurrences.

All the 39 respondents again agreed that their businesses have helped them to better provide their households with basic needs such as education, health care and shelter. Respondents recounted that their households were able to enjoy better education with the assistance from their businesses. This, respondents indicated would have been difficult especially when their children progressed on the academic ladder to the tertiary level. On the role of respondents' businesses in sponsoring their children's education, 17 respondents (44%) indicated their businesses have enabled them to see their children to the tertiary level. This confirms the views of Yunus (1997), who posits that sustainable microfinance helps enterprises to grow to provide enterprise owners the strength to provide their households with basic services that reduces the vulnerability of households. Respondents when asked on the effects of their businesses on accessing health care, the majority (84.6%) indicated their businesses have assisted their households to register on the health insurance scheme to give them easy access to health care services, something they could not have done without the businesses they ran. This shows that the businesses of respondents over time enabled them to access basic needs that have reduced their vulnerabilities and poverty situations they faced without their businesses. One respondent recounted

"With my seven children, how could I have registered them on the health insurance if not my shop and pay their school fees when their father is out of the country to Spain to look for job but has still not gotten one"-Sister Agie, Sampa

All the 39 respondents agreed that their businesses have enabled them have control over household decision. Respondents indicated they were able to have control over decisions about their households, something they could not have done without their businesses. The majority of these respondents were females who indicated they could now take control over their households in the absence of their husbands, something they could not have done without their businesses. The majority of female respondents indicated they were partly financially independent from their husbands, something they could not have done without their enterprises. These were stories similar to Sister Agie's situation, where respondents had taken control of their households with the help of their businesses.

On whether respondents' businesses earned them respect and recognition among their peers, all the 39 respondents agreed indicating they have earned a lot of respect and recognition all in the name of their enterprises. A respondent said

"Because of my store, I get a lot of invitations to funerals, fund raising during church harvests, weddings and other ceremonies in this community but formally nobody did"- Sofomaame, SumahAhenkro

These stories were many and respondents were very satisfied with what their businesses have earned them apart from money. It is very important to note from the above that the effects of businesses on respondents' households went beyond monetary gains but self satisfaction in terms of self esteem as posited by Maslow's on his ladder of needs. Respondents' perceptions on the effects of their businesses on their households are shown in Table 4.9:

Table 4.9: Respondents' Perception on the socio Economic Effects of Businesses on their Households

Statement	Strongly Agree		Agree		Uncertain		Disagree		Strongly Disagree		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Your business has increased household savings and income	32	82	7	18	0	0	0	0	0	0	39	100
Your business has helped you to diversify household income sources	15	38	24	62	0	0	0	0	0	0	39	100
Your business has helped you provide your household with better education, health care and decent shelter	32	82	7	18	0	0	0	0	0	0	39	100
Your business has reduced household poverty and vulnerability	2	5	37	95	0	0	0	0	0	0	39	100
Your business has helped you in having greater control over household decision making	10	26	29	74	0	0	0	0	0	0	39	100
Your business has earned you respect and recognition among your peers	27	69	12	31	0	0	0	0	0	0	39	100

Source: Field Survey, 2012

4.4.17 General Challenges Faced by Respondents in Doing Business in the District

When respondents were asked on the general challenges they faced in doing business in the district, several responses were given and dominant among them were difficulty in accessing capital for business start up (54%), high prices of financial facilities (36%)and lack of government support (10%). These challenges are presented in Table 4.10:

Table 4.10: General Challenges faced by Respondents in Doing Business in the District

Challenge	Frequency	Percentage
Difficulty in accessing capital	21	54
High prices of financial facilities	14	36
Lack of government support	5	10
Total	39	100

Source: Field Survey, 2012

On access to capital, respondents indicated they found it very difficult to access loans especially from the formal sector banks partly due to the fact that they did not satisfy the eligibility criteria of these banks. This, according to respondents made it difficult to embark on major investments since they depended on their own meagre savings and little support from informal sources. Some respondents also indicated that the prices charged on loans made it almost impossible to be able to borrow to support their enterprises; a development respondents said did not help them to get the required funds to do their businesses. Another challengeaccording to respondents was lack of government support which according to respondents left them to their fate. In instances where government supported them, respondents iterated this was not adequate.

4.4.18 Challenges Faced by Respondents in Dealing with the Bank

Regarding the challenges respondents faced in dealing with microfinance institutions, the majority (72%)indicated the high interests on loans was their major challenge. Respondents indicated they ended up with little incomes after paying the loans they contracted. SMEs have been tagged as a high risk group and this has led to charging high interests on the loans they contracted from their bank. Some respondents 8(20%) indicated their major challenge was the conditions that were attached to loans they contracted. Respondents indicated that they paid loans with stringent repayment terms that made it very difficult for them to save something. Some indicated they paid loans on every market day, a situation that called for worry since they sometimes had to borrow from informal sources to pay the loans. About 3(8%) of respondents iterated that they were challenged by the delays in receiving loans from the bank. Respondents said it took them mostly three weeks before loans were disbursed to them to do their businesses. These challenges confirm what management of the bank indicated and directed they were on course putting measures in place to solving them.

4.4.19 Effects of the Challenges Faced by Respondents on their Businesses

The effects of these challenges on respondents' businesses were that although the loans received from the MFIs helped them to stay in business, delays in services delivery and the small amounts of loans offered made it difficult to embark on major investments in their businesses. Loans, according to respondents are disbursed at the wrong times and that this does not help respondents in meeting the purposes for which loans were contracted. Respondents indicated that the stringent loan conditions MFIs attached to loans made it difficult for them to access bigger loans to undertake major investments in their businesses.

4.4.20 Recommendations on Improving and Sustaining the Relationship between SMEs and MFIs

As to the way forward to improve the relationship with MFIs, 34 per centof respondents recommended that loans be increased by the MFIs so that major investments can be undertaken in their enterprises. This according to respondents could help them to expand their enterprises and employ others to get jobs to do and also increase turnover from their enterprises. Another 32 per cent recommended that they needed the MFIs to reduce the time it took to disbursing loans so that the purposes for which loans were sought could be met while 7 per centalso recommended that the MFIs relax their repayment terms for SMEs so that they can go in for loans from them instead of from informal sources. Another 7 per cent of respondents also recommended that government put in place some funds to support rural SMEs so that their unmet needs by the MFIs could be solved by the governments' intervention and 20 per cent also recommended that long term loans be given to SMEs so that they could get enough time to pay back without the usual pressure that accompanies short term loans where respondents pay loans on weekly basis.

4.5 Sampled SME clients of the Suma Rural Bank

All the 54 SME client respondents of the Suma Rural Bank participated. Because Rural SMEs cannot be separated from their operators or owners, the researcher found it easy to locate the respondents at their business places, something that made data collection easy. The challenge was that because the majority of the owners were briskly attending to their customers, it took a long time to administer the questionnaires.

4.5.1 Socio demographics of Respondents

Out of the total 54 respondents, 29(54%) were females while 25(46%) were males. This confirms management of the Suma Rural Bank's views that females dominated the bank's clientele. On age, 28 out of the total of 54 respondents were between the ages of 38 and 42, 13 respondents (24.1%) were between the ages of 33 and 37. Out of the total of 54 respondents, the majority (92.6%) were married while the rest were widowed, single or divorced. Out of the total of 54 respondents, 19(35.2%) were senior high or technical school graduates, 14(25.9%) had no formal education and 12(22.2%) were junior high school leavers while a minority of 4(7.4%) had some tertiary education. Out of the total of 54 respondents, 41(75.9%) had dealt with the bank for between 5 and 10 years while 13(24.1%) had being dealing with the bank for more than eleven years. Out of the total of 54 respondents, 37(68.5%) did not have other businesses while 17(31.5%) had other business in addition to their small and medium scale enterprises. Out of these 17 respondents who had other businesses, 11 were into farming while 6 respondents were civil servants. Out of the total of 54 respondents, the majority (87%) were sole owners of their businesses while 7(13%) were into partnerships with either the nuclear family or some members of the extended family. This is in line with the views of Osei et al, (1993) that most rural SMEs are family owned and managed and very difficult to disassociate the businesses from the owners. The above information implies that training services would be needed to assist clients to be abreast with the financial and business management skills. This is because quite a significant percentage (30%) had no formal education. As the majority of respondents (76%) had dealt with the bank for between 5 and 10 years, there was a clear basis for assessing the impacts the financial products and services they received on the businesses and the effects of their businesses on their households. Another important issue of self sustenance of SME clients after dealing with MFIs for some time was critical. Thus, are SME owners able to become self sustaining without the assistance of MFIs after some period of operation? The fact that 87 per cent of the respondents were sole owners of their businesses confirms the premise by Osei et al, (1993) that the majority of SMEs in Ghana and most especially those in rural areas are sole owners of their businesses and in many cases managed by the nuclear family.

4.5.2 Types of SMEs

Out of the total of 54 respondents, 21(38.9%) were classified as services, while 19(35.2%) were into trading. Trading and services formed the majority because according to the Project Officer of the bank, these categories did not need much capital to start with compared to those into manufacturing and agro processing. Another 10(18.5%) were into manufacturing and 4(7.4%) were small scale industrialists as shown in Table 4.11:

Table 4.11: Types of SMEs

SME Type	Frequency	Percentage
Trading	19	35.2
Manufacturing	10	18.5
Services	21	38.9
Small Scale Industry	4	7.4
Total	54	100.0

Source: Field Survey, 2012

The respondents who were into businesses classified as services and trading formed the majority of business because by their nature, they do not require huge sums of capital for start up compared to manufacturing and small scale industry. The easy start up of such businesses makes starting them easy and quick to develop as any sophisticated technology is not required. In assisting SME clients however, there is the need for MFIs to give preference to those in manufacturing and small scale industry because they are believed by entrepreneurs to create more employment avenues than those into services and trading.

4.5.3 Respondents' Business Activity

Out of the 19 respondents who were into trading, 13(24.1%) were dealers in household consumables, 4(7.4%) were dealers in general goods and 2(3.4%) were dealers in building materials. Out of the 10 respondents who were into manufacturing, 4 each (7.4%) were into metal smithing and carpentry while 2(3.7%) were into pot making. Out of the 21 respondents who were into services, 8(14.8%) were food vendors, 7(13%) were hair dressers, 4(7.4%) were into dress making while 2(3.7%) were into fitting. Out of the 4 respondents who were small scale industrialists, 3(5.6%) were cashew processors while 1(1.9%) was into edible oil processing. These SME activities confirm the classification by Liedholmand Mead, (1987), Osei et al, (1993) and The World Bank (1992) who say SME activities include the making of soap and detergent, fabrics, clothing, tailoring, textile and leather, blacksmithing, ceramics, beverages, food processing, bakeries, furniture, electronic repairs, mechanics among others. These SME activities are shown in Table 4.12:

Table 4.12: SME Activities by Respondents

SME Activity	Frequency	Percentage
TRADING		
Household consumables	13	24.1
Building materials	2	3.7
General goods	4	7.4
Subtotal 1	**19**	**34.9**
MANUFACTURING		
Pot making	2	3.7
Carpentry	4	7.4
Smithery	4	7.4
Subtotal 2	**10**	**18.5**
SERVICES		
Food vending	8	14.8
Hair dressing	7	13
Tailoring	4	7.4
Fitting	2	3.7
Subtotal 3	**21**	**38.9**
SMALL SCALE INDUSTRIALISTS		
Cashew processing	3	5.6
Edible oil extraction	1	1.9
Subtotal 4	**4**	**7.5**
Grand Total	**54**	**100**

Source: Field Survey, 2012

4.5.4 Respondents' Reasons for Entering Into the Businesses

Out of the total of 54 respondents, 22(40.7%) entered into the business in order to serve as livelihood sources. This was a way of insulating their households against any livelihood shocks that may befall them. Another 15 respondents (27.8%) said they entered into the business because they had the skills and talents in doing that because they had learnt it as a trade while 11 respondents (20.4%) said they entered into the business because they were unemployed and so took the business as an employment avenue and a source of earning income and 6 respondents (11.1%) indicated they inherited them from family members.

4.4.5 Employment Created by Respondents' Businesses

As to the number of people respondents' businesses had employed, 35 respondents (64.8%) indicated they had between 1 and 5 employees, 13 respondents (24.1%) said they had no employees, 5 respondents (9.3%) said they had between 6 and 10 employees. Majority of these businesses were into manufacturing and small scale industrialists that employed more hands due to its many production stages and methods. On the average the businesses employed 2 people, something that was good for employment creation for others as posited by Daniels (2004), Quartey and Abor (2010) and Lisa (2009). The number of employees by respondents' businesses is shown in Table 4.13:

Table 4.13: Number of People Employed by Respondents' Businesses

Number of Employees	Frequency	Percentage
None	13	24.1
1-5	35	64.8
6-10	5	9.3
10+	1	1.9
Total	54	100.0

Source: Field Survey, 2012

4.5.6 Financial Products and Services Received by Respondents from MFIs

All the 54 respondents received loans from the bank ranging from *susu*loans, business loans and school fees loans. These loans were contracted by respondents to start a new business, expand an existing one or pay for their wards' school fees in order not to collapse their businesses as a result of paying their wards' school fees. Out of the 54 respondents, 17(31.5%) received remittances in addition to loans. These remittances were received from family members who were either in or outside the country. Training was another service that was provided to all the respondents as an intervention to complement the loans that are offered. Training sessions for the respondents were in the areas of proper loan utilisation, records keeping, cash management techniques and general business management techniques. Respondents indicated they were put in groups and given training on monthly basis to instil in respondents the qualities to be successful in their businesses. This confirms the views of Helms (2006) that sustainable microfinance goes beyond giving loans but complementing loans with training services to give beneficiaries an edge to better manage the loans they receive.

4.5.7 Amounts of Loans Received by Respondents

Out of the total 54 respondents, 21(39%) had received loans below GhȻ1000 while 15(28%) had received between GhȻ1000 and 2000. These loans were used by respondents to start a business or expand an existing one. Some respondents also indicated that at certain times, portions of the loans were used to pay their children's school fees and to pay for other things but were quick to add that the main purpose of receiving the loans was to invest in their small scale enterprises. The remaining loan amounts received by respondents are indicated in Table 4.14:

Table 4.14: Amounts of Loans received by Respondents

Amount (Gh₵)	Frequency	Percentage
Below 1000	21	39
1000-2000	15	28
2000-3000	9	17
3000-4000	7	13
Above 4000	2	3
Total	54	100

Source: Field Survey, 2012

4.5.8 Conditions under Which Respondents Received Products and Services from MFIs

As the conditions under which respondents received products and services from the bank, all the respondents gave same conditions. These conditions were that one had to be in the bank's catchment area, be an account holder of the bank, ready to accept the repayment terms and must have saved with the bank for six months. In addition to these conditions, 5 respondents (9.3%) indicated they provided collaterals before they could receive loans from the bank. These respondents upon interviews indicated they provided collaterals because they contracted loans that demanded collaterals according to officials of the bank. All the respondents however, upon interviews indicated the six months savings period to qualify for loans was a major challenge and wanted it changed.

4.5.9 Effects of the Conditions on Respondents' Ability to Access Products and Services from MFIs

As to the effects of these conditions on loans, respondents indicated that delays in loan delivery whereby loans were finally contracted at the times when the purposes for which they applied for the loans were out of their plans was the major issue. These conditions were described as impediments to easy loan acquisition from the bank, a development that was affecting respondents' businesses.

4.5.10Respondents' Satisfaction with the Products and Services Received

Out of the total 54 respondents, the majority (96.3%) indicated all their financial needs were provided by the bank. These respondents indicated they only needed loans and were able to access these loans from their bank while 3(3.7%) indicated all their financial needs were not provided. These respondents iterated they needed insurance but could not get such services. These respondents were into cashew processing and depending on the financial standing of their investment; they needed a micro insurance package to cushion their investment. The fact that 96 per cent of the respondents received all their financial needs from the bank indicates that the bank was assured of retaining these customers all other things being equal.

As to whether respondents were satisfied with the services they received from their bank, the majority (66.7%) indicated they were satisfied with the services they received while 18(33.3%) said they were not satisfied with the services they received from the bank. These respondents indicated that they were not satisfied with the services because the bank delayed in giving them loans and also deducted a commitment fee from the loan. This according to the respondents reduced the loan amounts they finally received but on the bank's records, they did not record the commitment fee, a development the respondents perceived as cheating and unfair practice on the part of the bank. Management of the bank explained that such commitment fees were charged so that in instances where clients could not pay loans on the scheduled periods, such fees were used to defray the loans and that when loans are fully paid; the commitment fee was returned to clients.

4.5.11 Prices of Products and Services Received by Respondents

Out of the total 54 respondents, 24(44.4%) paid between 26 and 30 per cent interest, 10(18.5%) contracted loans with between 20 and 25 per cent interests, 10(14.8%) received loans with between 10 and 14 per cent interest while 5(9.3%) said they paid interest rates of more than 30 per cent. Another 2(3.7%) however indicated they did not know the interest they paid on the loans they received from the bank. An interview with the management of the Suma Rural Bank indicated that interest rates varied across different SME clients due to the time differences that clients were prepared to pay back loans contracted. Comparing the interest rates with the general trend in the financial market in the country, the interest rates were between the 25 and 30 per cent range currently prevailing despite the consistent reduction in the policy rate by the Bank of Ghana. Reasons often given in the face of these high interest rates are that the business environment is volatile and for that matter lending is still risky. These interest rates are indicated in Table 4.15:

Table 4.15: Interest Rates on Loans Received by Respondents from the Bank

Interest Rate (%)	Frequency	Percentage
10-14	8	14.8
15-19	5	9.3
20-25	10	18.5
26-30	24	44.4
30+	5	9.3
Don't Know	2	3.7
Total	54	100

Source: Field Survey, 2012

4.5.12 Respondents' Perception on the Prices of Products and Services Received

Regarding respondents' perception on the prices of loans received from the bank,the majority of respondents (91%) perceived the interest rates as high. Some of these respondents indicated that comparing the interest rates they paid to the formal sector banks, they were paying higher with stringent conditions while 5(9%) indicated the interest rates were moderate because to them, they were able to pay loans without problems. These are presented in Table 4.16:

Table 4.16: Respondents Perception on the Interest Rates on Loans Received

Opinion	Frequency	Percentage
Moderate	5	9
High	41	75.9
Very high	8	14.8
Total	54	100.0

Source: Field Survey, 2012

4.5.13 Duration to Pay Back Products and Services Received

Out of the total 54 respondents, 30(55.6%) indicated they received loans with between 1 and 6 months repayment period, 23(42.6%) received loans with a payback period of between 7 and 12 months while 1(1.9%) paid back loans in 1.5 years. Some respondents (60%) indicated they paid loans weekly (market days), something they said was not easy for them but they did not have any option. Another (22%) indicated they paid loans on monthly basis while 18 per cent said they paid the loan at the end of an agreed date with the bank.

4.5.14 Respondents' Satisfaction with the Duration to Pay Back Products and Services Received

Out of the total of 54 respondents, the majority (83.3%) said they were not satisfied with the loan repayment period because it was very short to be able to pay back and so put pressure on them whiles 9(16.7%) indicated they were satisfied with the loan repayment period of the bank. Their reasons given were that since short term loans went with small interest rates, they were comfortable with the repayment period because they paid small interest rates.

4.5.15 Respondents' Assessment of the Effects of Microfinance Services on their Businesses

As to whether microfinance services helped respondents' businesses to withstand shocks that could collapse their businesses, the majority (94.4%) said they agreed and indicated that had it not been the assistance they received from their bank, their businesses would have been closed down. This, respondents said in times when their children went up the academic ladder, paying their school fees could have taken all the money from their businesses but loans from their bank have helped them to keep them in business. On the same statement, 2(3.7%) indicated they disagreed because the services they received from their bank did not help them to withstand shocks that could collapse their businesses. This is in line with the views of McGuire et al (1998), who indicate that microfinance may not be appropriate for every individual and situation.

Regarding whether microfinance services have enabled respondents' businesses to increase productivity or output, the majority (96.1%) said they agreed because with the assistance from their bank, they were able to increase their stock and the output from their production.

Whether microfinance services have helped respondents' businesses to increase savings, the majority (72%) said they agreed in that increase in output enabled them to earn more and then were able to increase savings. However, 15(28%) said they disagreed to the statement because the huge interest rates they paid on loans reduced their savings.

On whether microfinance services enabled respondents' businesses to increase incomes, the majority (98.2%) agreed and indicated that the increase in their productivity or output over time enabled them to increase the incomes they received compared to the time when they had not joined the bank. The respondents indicated that their problem was on high interest rates that almost took back all their incomes but even in the face of that they were able to increase their incomes and save a little.It was realised upon interviewing respondents that all respondents were now earning more than they did before their enterprises were started. The incomes of respondents before and after the enterpriseswere started are shown in Table 4.17:

Table 4.17: Income from Respondents' Businesses on Weekly Basis

Income range (Ghana Cedis)						
Before	Frequency	Percentage	After	Frequency	Percentage	Percentage change
Below 100	29	53.7	Below 100	17	31.5	↓ 22.2
100-500	18	33.3	100-500	19	35.2	↑ 1.9
600-1000	4	7.4	600-1000	9	16.7	↑ 9.3
1001-1500	2	3.7	1001-1500	6	11	↑ 7.3
1500+	1	1.6	1500+	3	5.6	↑ 4
Total	54	100		54	100	

Source: Field Survey, 2012

It could be deduced from the above incomes that respondents earned amounts above the standard average income of 90 or more Ghana Cedis per annum to move out of the poverty bracket as indicated in the Ghana Poverty Reduction Strategy document in 2003.

Although respondents complained incomes were low, there were some improvements that did not make them poor.

As to whether microfinance services have helped respondents' business to adopt appropriate technology, the majority (63%) agreed that microfinance services enabled them to adopt the appropriate technology and inputs. Another 37 per cent disagreed to the statement because their businesses did not require such technologies. These respondents were mainly into trading which did not require the tools and technologies that were employed in areas such as services, manufacturing and small scale industry.

Regarding whether microfinance services have given respondents new skills and techniques to manage their businesses, the majority (90.7%) agreed and indicated that the monthly training sessions from the bank gave them the skills in areas of keeping records, loan utilisation and general business management techniques. Some respondents upon personal interviews indicated that over time, they have been able to prepare their own accounts and can count their own monies, something they could not do before joining the bank. Regarding the same statement, 4 respondents (7.4%) said they disagreed and that the training services did not equip them with any new skills to do their business.

On whether microfinance services have helped respondents to employ more hands in their businesses, the majority (70.4%) agreed and indicated that the increases in productivity or outputs over time have called for employing more hands to do business. A respondent iterated that

"When the bank bought a sachet water production machine for ourcompany, we employed 10 people for a start and hope to increase the number in the years to come".-Manager, Boothmafiltered water, Sampa.

Another 16 respondents (29.6%) disagreed and said they have not employed any workers despite the assistance they received from the bank.

Regarding whether microfinance services have helped respondents over time to register their businesses, respondents disagreed and indicated they were not assisted in any way by their bank to register their businesses and interviews with respondents pointed to the fact that they were not ready to get their businesses registered because according to them they were going to pay more taxes if they registered their businesses. On a whole, the perception of respondents pointed to the positive that microfinance services have positive effects on their businesses except business registration that respondents disagreed. Majority of the responses confirm the views of most proponents of microfinance such as Yunus and Morduch who see microfinance as a panacea to SMEs growth and poverty reduction especially in rural areas. The perceptions of the respondents on the effects of microfinance services on their businesses are shown in Table 4.18:

Table 4.18:Perception of the Respondents on the Effects of Microfinance Services on their Businesses

Statement	Strongly Agree		Agree		Uncertain		Disagree		Strongly Disagree		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Microfinance services have helped your business to withstand shocks	2	3.7	49	90.7	1	1.9	2	3.7	0	0	54	100
Microfinance services have helped your business to increase productivity or output	4	7.4	49	90.7	0	0	1	1.9	0	0	54	100
Microfinance services have helped your business to increase savings	0	0	39	72	0	0	15	28	0	0	54	100
Microfinance services have helped your business to increase incomes from the business	1	1.9	52	96.3	0	0	1	1.9	0	0	54	100
Microfinance services have helped your business to adopt appropriate technology and inputs	14	26	20	37	0	0	20	37	0	0	54	100
Microfinance services have given you new skills and techniques to manage your business	1	1.9	49	90.7	0	0	4	7.4	0	0	54	100
Microfinance services have helped you to employ more hands in your business	4	7.4	34	63	0	0	16	29.6	0	0	54	100
Microfinance services have helped you to register your business	0	0	0	0	0	0	46	85	8	15	54	100

Source: Field Survey, 2012

4.5.16: Perception of the Respondents on the Socio Economic Effects of their Businesses on their Households

The study sought to explore the socio economic effects of respondents' businesses on their households, varied responses were gathered from respondents. Regarding whether respondents' businesses increased their household savings and incomes,the majority (94%) agreed that the increases in the incomes from their businesses have also increased their household incomes and savings, something that has enabled them to become financially independent while respondents (4%) said they disagreed and that their businesses have not increased their household incomes and savings.

As to whether the businesses of respondents have helped diversify household income sources, all respondents agreed that they have been able to diversify their income sources over time because when on farm incomes dwindled, their businesses were in place to restore their livelihood sources. This, respondents said was the best thing their businesses did for them in times of hardships.

On whether the businesses of respondents have enabled their households to access basic needs such as education, health care and decent shelter, all respondents agreed and indicated their businesses have seen their children to school to all levels of the academic ladder.

One respondent said "when my husband died, I had it tough to look after my children and now all my three sons have completed university with the help of this small shop". She continued to say that "my shop is now my husband that takes care of the family"-Madam Hanna, Duadaso

On health, the majority (92%) indicated they had registered all their household members on the National Health Insurance Scheme by the help of their businesses. On shelter, the majority (67%) agreed that their businesses have enabled them put up houses or rent decent accommodation for their households. These respondents indicated that although their efforts in providing basic needs did not come from their businesses alone, the businesses contributed immensely to their success stories at their household level.

Regarding respondents' businesses' contribution to reducing household poverty and vulnerability, the majority (98%) agreed that their businesses have helped them in reducing household poverty and vulnerabilities. This, respondents argued that their ability to afford their children's education, register on the health insurance scheme and been able to afford decent housing made them better off as posited by Yunus (1997) and Kofi Annan (2005).

As to whether respondents' businesses helped them to have control over household decision making, all respondents agreed they have gained control over their households in terms of taking decisions and how they were able to look after their households. Majority of these respondents were women who strongly believed that their businesses have given them some respect in the face of their husbands and said the situation was different when they were not into such businesses. They indicated their businesses have gained them some independence from their husbands. This confirms the views of Yunus (1997), who indicates that when microfinance services are introduced, their impacts at the household level through the businesses they ran help to empower women especially.

As to whether respondents' earned respect and recognition among their peers as a result of their businesses, all respondents agreed. Respondents indicated that the successes in their businesses over time have earned them respect and recognition in the community, something respondents said served as a morale boost for them to stay in business.

One respondent iterated "everyone knows me in this town because of my shop (Awuradena aye store)"-Auntie Dorcas, Sampa

The perceptions of the respondents on the socioeconomic effects of their businesses on their households are illustrated in Table 4.19:

Table 4.19: Perception of the Respondents on the Effects of their Businesses on their Households

Statement	Strongly Agree		Agree		Uncertain		Disagree		Strongly Disagree		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Your business has increased household savings and income	11	20	40	74	2	4	1	2	0	0	54	100
Your business has helped you to diversify household income sources	11	20	43	80	0	0	0	0	0	0	54	100
Your business has helped you provide your household with better education, health care and decent shelter	38	70	16	30	0	0	0	0	0	0	54	100
Your business has reduced household poverty and vulnerability	18	33	35	65	0	0	1	2	0	0	54	100
Your business has helped you in having greater control over household decision making	19	35	35	65	0	0	0	0	0	0	54	100
Your business has earned you respect among your peers	35	65	19	35	0	0	0	0	0	0	54	100

Source: Field Survey, 2012

4.5.17 General Challenges Faced by the Respondents in Doing Business in the District

As to the general challenges that the respondents faced in doing business, various responses were given with some issues cutting across all respondents. The major general challenges faced by the respondents are shown in Table 4.20:

Table 4.20: General Challenges Faced by Respondents

Challenge	Frequency	Percentage
Inaccessibility to start up capital	25	46
High taxes	7	13
High interest rates	22	41
Total	54	100

Source: Field Survey, 2012

On the general challenges faced by the respondents,25(46%) were of the view that getting start up capital to start business in the district was difficult and so getting a business started was very difficult for respondents in the district. This according to respondents made it difficult to start a business even if one had the ideas and so many people up to date had their dreams of starting businesses unrealised. Another general challenge respondents,22(41%) mentioned was the high interest rates they were made to pay on loans from the bank. This, according to respondents was too much for them to pay in addition to fulfilling their tax obligations to the District Assembly. Another7(13%) also indicated that the major challenge they were facing was that of high taxes they paid to the District Assembly. In a rural area where sources of income for the Assembly are few, these few sources are overburdened with taxes. Profits were therefore small due to huge taxes they paid to authorities of the district assembly.

4.5.18:Major Challenges Faced by the Respondents in Dealing with the Bank

When respondents were asked on the challenges they faced in dealing with their bank, the majority 30(56%) mentioned short term loan repayment terms and not been able to contract big loans. The time and loan payment schedules were very stringent (sometimes loans were paid every market day) and made it difficult to pay loans and save something. One major challenge in dealing with their bank according some respondents13(24%) was delays in services delivery. It took a minimum of two weeks to receive loans, a development that affected their businesses negatively. Another11(20%) indicated that interest rates of the bank were very high and made it difficult if not impossible for them to access loans from the bank. The high interest on loans made it difficult for respondents to increase their savings as almost all earnings went into paying loans.

4.5.19: Effects of the Challenges Faced by Respondents on their Businesses

Regarding the effects of these challenges on respondents' businesses, all respondents indicated that these challenges made it difficult for them to contract bigger loans that they believed could help them expand their businesses as expected but could not do that because of high interests on loans and the stringent conditions that were attached to loans. These, according to respondents took a toll on their profits and savings. The short periods for paying loans according to respondents made it impossible to meet loan repayment deadlines, a development that attracted penalties. These challenges according to respondents made it difficult to expanding their businesses as they would have wished.

4.5.20: Recommendations on Improving and Sustaining the Relationship between SMEs and MFIs

When respondents were asked on the way forward to improve and sustain their engagement with microfinance institutions they dealt with,the majority (65%)indicated that the MFIs should provide loans with flexible repayment terms. Respondents believed this was going to enable them comfortably go in for loans to do business without fears and was also going to help them to be able to repay loans without any defaults. Another17 per cent also recommended that the bank needed to reduce the cost of borrowing since the current interests on loans were very high. Respondents believed reduction in interest rates of the bank was going to enable them access bigger loans that could enable them expand their businesses as they would have wished. On the same issue,8 per cent a recommended that their bank provide long term loans that could reduce the pressure short loan repayment periods put on them while 10 per cent recommended that the bank needed to improve its services by reducing the time it took one to receive loans since the two weeks or more it currently took to disburse loans was not acceptable to them. In sum, the respondents agreed that the services they received from the bank helped their businesses to grow over time and these businesses also had positive effects on their households but wanted the bank to improve its services to meet their needs in order to stay in business.

4.5.21 Comparisons of the two Cases

Comparing the responses from the two cases, there were some similarities as well as differences. These comparisons are presented in Table 4.21:

Table 4.21:Cross Case Comparisons

Nafana Rural Bank	Suma Rural Bank	Remarks
SME Types		
The respondents were dominated those classified under Services (38.5%) followed by those under Trading (35.9%).	The respondents were dominated by those classified under Services (38.9%) followed by those under Trading (35.2%).	Services dominated because activities under services and trading such as food vending, tailoring and hair dressing are easy to start since simple technologies are needed and do not require huge capital compared to manufacturing where sophisticated technologies are required which are mostly capital intensive
Financial Products Accessed by Respondents		
All the 39 respondents received loans and training sessions on how to properly utilise loans and general business advice from the bank	All the 54 respondents received loans and training sessions on how to properly utilise loans and general business advice from the bank	These services were what all the respondents needed to start and remain in business. Training sessions helped respondents to better manage their businesses and the returns from these businesses.
Qualities that Qualified Respondents to Access Loans		
All the 39 respondents indicated they needed to have an account with the bank and also needed to be living in the bank's catchment area. Some of the respondents indicated they needed to have saved with the bank for at least six months.	All the 54 respondents indicated they needed to have an account with the bank and also needed to be living in the bank's catchment area. Some of the respondents indicated they needed to have saved with the bank for at least six months.	These conditions are to make sure loans are given to reliable clients and also make loan monitoring easy for the banks Saving with the bank for six month is a harsh condition since clients could not benefit from their savings for the first five months but the banks. Some of these conditions need to be revised in order not to make clients worse off in the bid to helping them.
Respondents' Satisfaction with the Products and Services Received		
The majority of the respondents (79.5%) were satisfied with the products and services they received from the bank.	The majority of the respondents (66.7%) were satisfied with the products and services they received from the bank.	Although the majority of the respondents were satisfied with the products and services they received from the banks, there was still much to be done by the banks since close to 20% and 33% of the respondents of both banks were not satisfied.
Interest Rates Paid byRespondents on Loans		
The majority of the respondents (71.8%) paid between 26 and 30 per cent interest on loans. The majority of the respondents (64.1%)	About(44.4%) of the respondents paid between 26 and 30 per cent interest on loans. The majority of the respondents (75.9%)	The interest rates for both banks are on the high side compared to interest rates in the financial market in general and considering the prime rate of 15 per cent by the Bank of Ghana. Interest rates charged on financial

perceived the interest rates as high.	perceived the interest rates as high.	products in general have being a major challenge for both SMEs in the formal and informal sectors. Interventions to alleviate the challenges faced by SMEs need to critically address not only challenges of access to finance but also getting access to financial products with affordable interest rates.
Duration Respondents to Pay Loans		
The majority of the respondents (74.4%) paid loans within 3 and 6 months All the 39 respondents were not satisfied with the repayment period because it was too short for them.	The majority of the respondents (55.6%) paid loans within 1 and 6 months The majority of the respondents (83.3%) were not satisfied with the repayment period because it was too short for them.	The short term loans dominated because the banks think that the group they deal with are a 'risky' group and that the longer time you give them to repay loans, the higher the risk. Measures need to be taken by the banks to look into the duration to pay loans in order not to put too much pressure on the clients.
Effects of Microfinance Services on Respondents'Businesses		
The majority of the respondents (80%) indicated the services from the bank helped them to withstand shocks, increase productivity, increase incomes and savings, acquired new skills and also employed more hands to work with.	The majority of the respondents (85%) indicated the services from the bank helped them to withstand shocks, increase productivity, increase incomes and savings, acquired new skills and also employed more hands to work with.	The results confirms the views of authors such as Yunus, Todaro,Morduch, Kayanula, Quartey and Lisa that microfinance services are able to grow small and medium scale enterprises and therefore efforts should be put in place to encourage the microfinance revolution.
Effects of SMEs on Respondents' Households		
The majority of the respondents (80%) indicated their businesses have over time increased their household income and savings, have enabled them to access basic needs, have reduced their poverty, have increased their power to control their households and have earned them recognition in their communities.	The majority of the respondents (85%) indicated their businesses have over time increased their household income and savings, have enabled them to access basic needs, have reduced their poverty, have increased their power to control their households and have earned them recognition in their communities.	The households of respondents were now better off compared to the time they had not started their businesses. This confirms the efforts of various governments to use SMEs as poverty reduction tools. The respondents of both banks have indeed seen positive changes in their households with the coming in of their businesses.

Challenges of Respondents in Doing Business		
Difficulty in accessing capital High prices of loans Stringent loan conditionalities Inadequate government support	Difficulty in accessing capital High prices of loans Stringent loan conditionalities Inadequate of government support	These challenges are identified by Lee (2006) and state that rural SMEs are still faced with access to financial services despite several efforts. These challenges need to be tackled by microfinance institutions in the bid to striving to become financially sustainable. Government's interventions in rural areas also need to consider SMEs to back up the services they receive from MFIs.
Conclusion It is of interest to note that all the issues under discussion cut across all respondents although they dealt with different banks. The direction of issues among all respondents pointed to the same direction. The activities undertaken by respondents, the types of products and services they received from the banks, the conditions under which they received the products, the effects of microfinance services on their businesses and the outcomes of their businesses on their households pointed to the same direction although they dealt with different MFIs. This is partly because microfinance institutions have almost the same or similar products and also conditions under which products and services are given do not vary much. It could also be of the fact that rural SMEs have similar characteristics and that issues that benefit one benefits almost all and they also face same or similar challenges in doing business in a rural environment.		

Source: Field Survey, 2012

CHAPTER FIVE

SUMMARY OF KEY FINDINGS, RECOMMENDATIONS AND CONCLUSIONS

5.0 Introduction

The previous chapters have identified the effects of microfinance institutions on small and medium scale enterprises in the Jaman North District of the BrongAhafo Region of Ghana. This chapter however outlines the summary of major findings from the data analysed and makes policy recommendations on the way forward to ameliorating the challenges that microfinance institutions and SMEs face in dealing with each other as identified by the study.

5.1 Summary of Major Findings

The study sought to explore the effects of microfinance institutions on small and medium scale enterprises in rural Ghana. The following issues came to light at the end of the study:

1. Regarding the types of SME that are supported by MFIs in the district, the following were found:
    a. **SME Types**: The Nafana and Suma Rural Banks supported SMEs who were into manufacturing, small scale industry, trading and services. The respondents who engaged in Services such as dress making, hair dressing and food vending dominated (38.5% and 38.9%) for the Nafana and Suma Rural Banks respectively. Trading had the next highest number of respondents forming 35.9% and 35.2% for the Nafana and Suma Rural Banks respectively. Small scale industry had the least number of respondents supported by both banks and formed 7.7% and 7.4% for the Nafana and Suma Rural Banks respectively mainly because it is both capital and labour intensive thereby making it expensive to start compared to the other SME activities. This is in confirmation with what Helms (2006) states that, in the bid to widening the breadth and depth of outreach, microfinance institutions deal with all types of clients.
2. Regarding the financial products and services received by SMEs in the district and under what conditions the study found the following:
    a. **Financial Products Received from the Bank:** All the 93 respondents who dealt with the Nafana and Suma Rural Banks received loans for the purposes of starting a business, expanding an existing one, paying children's school fees or starting a housing project. Loans were contracted from the bank to pay

children's school fees or to start a building project by respondents so that taking moneys for such projects do not collapse their businesses. On contracting loans to start a building project, 35% of the respondents who dealt with the Nafana Rural Bank indicated they have taken loans to put up their own houses while 31% of the respondents who dealt with the Suma Rural Bank contracted loans for the same reasons. This indicates that SME owners through their businesses could procure loans to satisfy other needs apart from investing in their businesses. Out of the total 39 respondents who dealt with the Nafana Rural Bank, 28.2% indicated they received remittances from their relatives from outside the country through the bank while 31.5% of respondents who dealt with the Suma Rural Bank received remittances through the bank in addition to loans. This confirms the views of Hagan (2006), MIX (2011) and Todaro and Smith (2009) that the microfinance movement goes beyond giving loans but includes the provision savings remittances and insurance.

b. **Services Received from the Bank:** The respondents who dealt with the Nafana and Suma Rural Banks indicated they received training from the bank in the areas of proper loan utilization, book keeping and general business management techniques. These training sessions were received by respondents to complement the loans they have contracted and to be able to loans pay back. This confirms Helms (2006) views that giving training to SMEs is an essential principle of microfinance institutions.

c. **Conditions on Loans:** All the 93 respondents ofthe Nafana and Suma Rural Banks indicated they received loans on conditions that they had bank accounts with the bank. However, 46.2% of the respondents of the Nafana Rural Bank indicated they needed to save with the bank for a minimum of six months before they could access loans while all the respondents of the Suma Rural Bank indicated they needed to save with the bank for six months before they could get loans. On loan conditions, 9.3% of the respondents who dealt with the Suma Rural Bank indicated they provided collaterals before they could access loans. Other conditions that cut across the Nafana and Suma Rural Banks were that one had to be ready to accept loan repayment terms, not a loan defaulter in the past and must be in the banks' catchment area for the purposes of easy monitoring of clients. These findings are in contradiction with the views of Yunus (1997) and Todaro and Smith, (2009) who state that microfinance does not use physical collaterals to enforce loan repayments but rather social collateral in the form of group lending. In this study, respondents were receiving loans with collaterals.

d. **Effects of Loan Conditions on SMEs:** Regarding the effects of loan conditions on respondents, the majority of the respondents (82.1%) who dealt with the Nafana Rural Bank indicated conditions delayed the period for them to access loans, a situation that made them to borrow from friends and family at times whiles all respondents who dealt with the Suma Rural Bank indicated they waited for long periods before they could get loans which affected their businesses.

e. **Satisfaction of the Respondents on the Products and Services they Received from MFIs:**The majority of the respondents (79.5% and 66.7%) who dealt with the Nafana and Suma Rural Banks respectively were satisfied with the products and services they received from the banks. However, the percentage of respondents who were not satisfied with the services they received stood high as 20.5% and 33.3% of respondents who dealt with the Nafana and Suma Rural Banks respectively were not satisfied with the services of the banks and this could in many ways undermine the customer base and financial sustainability of both banks.

f. **Prices Paid on Loans:**The majority of the respondents (71.8%) who dealt with the Nafana Rural Bank indicated they paid between 26 and 30 per cent per annum on loans they contracted. Interest rates went up as the repayment period increased. On the prices of loans, about 44.4% of the respondents who dealt with the Suma Rural Bank paid between 26 and 30 per cent interest per annum.On respondents' perception on the prices of loans, the majority of respondents (64.1% and 75.9%) who dealt with the Nafana and Suma Rural Banks respectively indicated the interests on loans they received were high. Considering the Policy rate of the Bank of Ghana that stands at 15 per cent currently, interest rates of between 26 and 30 are considered high for these rural SMEs to sustain their businesses. These rates are a little bit higher than those of regular commercial lending rates that stand at between 18 and 24 percent per annum.

g. **Duration to pay back Loans:**The majority of the respondents (74.4% and 55.6%) who dealt with the Nafana and Suma Rural Banks respectively indicated they had to pay back loans between 3 and 6 months and were not comfortable with the repayment period because it was too short and therefore put much pressure on them in paying loans they have contracted.

3. On the Effects of microfinance services on rural SMEs, the study found out that MFIs helped the majority of the respondents to:
    a. Withstand shocks such as paying of school fees, theft and in the face of other catastrophes. It is perceived by microfinance proponents that to be able to grow on sustainable basis over time, SMEs should be able to stand shocks and remain in business in cases of fires, theft and natural disasters. The study found that the respondents had reached a point where they were able to withstand occurrences that coup disrupt their businesses and their livelihoods;
    b. Increase productivity or output. The study revealed that respondents were able to increase their productivity or output and were able to plough back the profits they made to increase the cash they pumped into their businesses as a means of expanding their businesses;
    c. Increase incomes and savings. From the study, it came to light that respondents were able to increase their savings that also helped the banks to assist other clients who were in need of similar services. This means that financial sustainability was building up as the banks could now widen both the breadth and depth of outreach, a precondition for sustainable microfinance;
    d. Adopt appropriate technology to increase production. Through the services of microfinance institutions, it came to light that some respondents were able to afford technologies that assisted them to produce more compared to manual processes. Employing these technologies also called for employing some people to operate an service such machines, thereby creating additional employment for others; and
    e. Acquire the necessary skills and ideas to run a business. The study revealed that the respondents, through the training and advisory services they received from the banks enabled them to upgrade their management skills. This helped the respondents to be able to manage their businesses to the level that ensured increased profits.

4. Regarding the effects of SMEs on owners' households, the study found out that the households of the majority of the respondents were able to:
    a. Increase household incomes and savings;
    b. Diversify household income sources;
    c. Meet basic household needs such as education, health care and decent shelter;
    d. Reduce household poverty and vulnerability;
    e. Have control over household decision making; and
    f. Earn respect and recognition among peers.
5. On the way forward to improve and sustain the relationship between MFIs and SMEs, the respondents of the Nafana and Suma Rural Banks suggested the following:
    a. MFIs should increase the sizes of loans so that SMEs can undertake major investments in their businesses;
    b. MFIs should provide loans with flexible loan repayment terms;
    c. MFIs should reduce interest rates on loans;
    d. Reduction in the time taken to disburse loans;
    e. Provision of long term loans to reduce pressure on SMEs in loan repayment;
    f. Improving services to meet the different needs of SMEs; and
    g. Revising the conditions under which loans are given to SMEs.

5.2 Recommendations

The findings from the study indicate that rural SMEs play a key role in a number of ways both at the enterprise level and more importantly at the household level. There are however, challenges that need conscious planning interventions to be able to mitigate the challenges faced by these enterprises to increase the positive impacts they have on development. For the purposes of policy making to give rural SMEs a facelift, the researcher recommends the following:

1. **Timely Disbursement of Loans by MFIs**

Timely access to capital is very crucial to the growth of rural SMEs because the challenge of capital underlies most of the challenges rural SMEs face. Capital is needed at the right times so that SMEs can acquire the appropriate tools, machines and inputs to be able to undertake production. The delay in getting access to capital continues to threaten these rural SMEs that need capital on regular basis to be able to start, expand and or sustain their businesses. There is therefore the need for MFIs to provide capital to SMEs not only at the right quantities but at the right time. There is the need for MFIs to reduce the time it takes to disburse loans for instancefrom the current two week period to a minimum of three days so that SMEs can access such facilities that require capital to accomplish. This can be done by adopting simple but effective loan application and processing procedures and also vetting loan application on daily basis so that at any point one applies for a loan, the application can be vetted and given approval or otherwise.

2. **Increasing the Sizes of Loans given to SMEs**

The size of a loan all other things being equal will correlate with the size of investment that can be undertaken. Increasing the amounts of loans given to SMEs will go a long way to ensuring that major investments in businesses can be embarked upon by SMEs. Although SMEs and especially those in rural areas may not be all that credit worthy and may be difficult in processing loans for them, MFIs need to adopt new and innovative credit schemes that enable SMEs to access bigger loans to be able to increase their investment portfolios. Pre financing SMEs that are into manufacturing and small scale industry for instance could be piloted by MFIs and if viable adopt it so that huge physical cash is not given to SMEs to undertake such investments all by themselves. This will ensure that SMEs can make profits over time to pay off loans and fully take over businesses as and when they pay off the MFIs.

3. **Provision of Loans with Flexible Repayment Terms**

By their nature, rural SMEs are not financially sustainable for many years especially during the formative years and so giving loans to them with stringent loan terms goes a long way to thwart their efforts. Rural SMEs are not financially strong and that makes them over dependent on MFIs and for that matter loan repayment terms should be a little bit flexible in order not to put unnecessary pressure on them. This will make it possible for SMEs to stay in business and keep the MFIs in business.

4. **Revision of Interest Rates on Loans**

The huge interests on loans from MFIs have remains a topical issue but less seems to be done to reduce interest rates on loans even though the prime rate has come down consistently lately. This has made it difficult for rural SMEs for instance to borrow to be able to invest in their businesses. Although MFIs base their high interest rates on the fact that their clients are financially risky, it is high time they reconsidered this by introducing innovative ways to recover loans instead of using high interest rates. Strengthening the group lending scheme as outlined by Yunus (1997) in the GrameenBank example where group members serve as “social collateral” instead of material collateral can go a long way to reduce bad debts. This can go a long way to increase the capital portfolio of MFIs to ensure that there is an increase in the depth and breadth of outreach and the financial sustainability of MFIs.

5. Revision of Conditions on Loans

Conditions on loans go a long way to affect SMEs negatively and very crucial for those in rural Ghana. In a situation where SME owners are asked to save with the MFI for a minimum of six months before they can access loans one may argue that if the borrower had six months savings, would he or she have come for assistance? As Yunus (1997) puts it, everyone is born an entrepreneur but whiles some realise theirs through the availability of capital, others do not because they lack the finances to do that. A small amount of money can be the beginning of a big dream and for that matter MFIs need to help as many as SMEs as practicable to realise their dreams by revising conditions that accompany loans to suit the needs of the various types of SMEs.

6. Upgrading the Managerial Skills of SME owners

It was realised from the study that the majority of SMEs are owned and managed by people with no formal education or have basic managerial skills to manage loans efficiently. It becomes pertinent therefore for MFIs to help SME owners to upgrade the skills that are needed to efficiently manage their businesses and loans that may be given them. Although MFIs embark on training for their clients, there is the need to conduct needs assessment to identify the appropriate training that every SME client would need to be able to become successful. Training programmes for SME owners should be tailored to suit the different needs of all SME owners in the bid to giving them complementary services that make them better utilise financial services that are given them.

5.3 Conclusion

Microfinance institutions are very important in the development of SMEs and especially those in rural areas. These microfinance institutions provide services to SMEs in areas of manufacturing, trading, service provision and small scale industry. Service provision dominates SME activities partly because it is easy to start such businesses and does not require much capital and sophisticated technology. Microfinance services goes beyond providing capital by giving the platform to SME operators to receive remittances through MFIs and the provision of ancillary services such as training of SME operators in the areas of book keeping, proper loan utilisation and general business management techniques. To access capital from MFIs, small and medium scale enterprises needed to satisfy one or some of the following conditions; be account holders of the bank, must be in the bank’s catchment area, must have saved with the bank for a minimum of six months and must not be a loan defaulter in the past.

These conditions however, affect SMEs negatively by delaying loan disbursement to beneficiaries to carry out their business activities. Interests charged on loans given by MFIs are high when compared to the prime rate set by the BoG. These high interest rates have several negative effects on SMEs and especially those in rural Ghana. MFIs help SMEs and especially those in rural Ghana to withstand shocks that could collapse their businesses, increase incomes and savings over time, increase SMEs productivity over time, helps SMEs to adopt the appropriate technology needed to increase productivity and also help SME operators to acquire the necessary skills needed to manage their businesses. SMEs on the other hand help operators' households to increase household income and savings over time, to diversify household income sources, to meet household needs such as education, health care and decent shelter. SMEs also help to reduce the vulnerability and poverty levels of operators' households over time. SMEs also help operators to have control over household decision making and also operators earn respect and recognition among their peers as a result of their businesses.

In all, MFIs need to better assist SMEs by disbursing loans on time, increasing loan sizes, making loan conditions flexible and reducing interest rates charged on loans. Microfinance institutions also need to intensify training programmes to upgrade the managerial skills of SME operators to be able to become successful in their various business activities. Microfinance institutions play a critical role in the provision of capital to those described as the 'unbankables' by the formal sector banks but the contribution of these SMEs to national development is enormous and should be given the needed attention by both government and civil society.

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APPENDIX A

INTERVIEW SCHEDULE FOR MICROFINANCE INSTITUTIONS

Good morning/afternoon/evening Sir/Madam

My name is..This interview seeks to solicit answers on **the effects of microfinance institutions on small and medium scale enterprises in rural Ghana**. The interview seeks to gather data for a research work in partial fulfilment for an award of a Master of Science Degree in Development Policy and Planning. I would be grateful if you could help answer the questions below to facilitate the achievement of the study's objectives. The study is purely for academic purposes and responses will be treated with outmost confidentiality.

Name of Institution...

Name of Interviewee...

Date..

Time..

SECTION A: TYPES OF SMEs ASSISTED

1. What categories of SMEs do you lend your services?

i. ....

ii. ....

iii. ....

iv. ....

v. ....

2. Do you have preference for a particular category of SMEs? a. Yes b. No

b. If 'Yes' give reasons?...

....

....

3. What have you put in place to provide assistance to as many SME clients as possible in the district?

....

....

....

SECTION B: PRODUCTS AND SERVICES OFFERED TO SMEs

4. What products and services does your bank lend to your SMEs clients in the district?

a) Loans b) remittances c) insurance d) Training

e) Others (specify)..

5. What type of training do you give to your SME clients in the district?

....

....

6. What qualifies an SME to receive your services?

i. ………………………………………….

ii. ....

iii. ....

iv. ....

7. What processes do SMEs pass through before services are finally offered?

....

....

.

8. In your opinion, how do these processes and conditions affect your relationship with your SME clients in the district?
....
....

9. What has been the primary use of the products and services accessed by your SME clients?
   i. ....
   ii. ....
   iii. ....
   iv. ....

10. How have you improved your services to meet your SME clients' needs over time?
....
....

11. What mechanisms have you put in place to ensure service quality?
....
....

12. How are you doing compared to your competitor banks?
....
....

13. What has been the trend in loan recovery over the past years?......................
....
....

14. How do you plan to grow the bank sustainably in the future to give assistance to your SME clients in the district?

15.

SECTION C: EFFECTS OF MICROFINANCE SERVICES ON SMEs

In your opinion, how do microfinance products and services given to your SME clients contribute to the growth and sustenance of their businesses over time? Respond to the following items based on your perception by ticking strongly agree (SA), agree (A), uncertain (U), disagree (D) and strongly disagree (SD)

tatement	SA	A	U	D	SD	Reasons for perception
14. Microfinance has helped your SME clients to withstand shocks						
15. Microfinance has helped your SME clients to increase business earnings and productivity						
16. Microfinance has helped your SME clients to increase savings for further investment in their businesses						
17. Microfinance has helped your SME clients to increase incomes from their business						
18. Microfinance has helped your SME clients to adopt appropriate technology and inputs.						
19. Microfinance has given your SME clients new skills and techniques to manage their businesses						
20. Microfinance has helped your SME clients to employ more hands in their businesses						
21. Microfinance has helped your SME clients to register their businesses						

22. What other effects do your products and services have on your SME clients' businesses?

....

....

SECTION D: SOCIO ECONOMIC EFFECTS OF BUSINESSES ON OPERATORS' HOUSEHOLDS

In your opinion, how do your SME clients' businesses impact on their households over time? Respond to the following items based on your perception by ticking strongly agree (SA), agree (A), uncertain (U), disagree (D) and strongly disagree (SD)

Statement	SA	A	U	D	SD	Reasons for perception
23. SME clients have increased household savings and income						
24. SMEs clients have diversified household income sources						
25. SMEs clients' households have better access to basic services (education, health care and shelter)						
26.SMEs clients have reduced household poverty and vulnerability levels						
27. SME clients have greater control over household decision making						
28. SME clients have earned respect and recognition among their peers in their communities.						

29. What other effects do your SME clients' businesses have on their households?

....

....

30. What are the challenges you face in lending to your SME clients in the district?

i. ....

ii. ....

iii. ....

iv. ....

31. What general challenges do you face as a rural bank?

....

....

32. How do these challenges affect your operations?

i. ....

ii. ....

iii. ....

33. How can the relationship with your SME clients be improved and sustained?

i. ....

ii. ....

iii. ....

iv. ....

APPENDIX B

INTERVIEW SCHEDULE FOR SAMPLED SME CLIENTS

Good morning/afternoon/evening Sir/Madam

My name is.. This study seeks to examine "**The effects of microfinance institutions on SMEs in rural Ghana.** The questionnaire seeks to gather data for a research work in partial fulfilment for an award of a Master of Science Degree in Development Policy and Planning at the Kwame Nkrumah University of Science and Technology, Kumasi. I would be grateful if you could help complete the questionnaire below to facilitate the achievement of the study's objectives. The study is purely for academic purposes and responses will be treated with the outmost confidentiality.

INSTRUCTION

Tick (√) the appropriate option where responses are given and provide your answer in the spaces provided where responses are not given.

Name of enterprise.................................

Location...

Tel. No. ....

SECTION A: SOCIO DEMOGRAPHICS OF RESPONDENTS

1. Gender of respondent. (a) Male (b) Female
2. Age of respondent (a) 18-22 (b) 23-27 (c) 28-32
   (c) 33-37 (d) 38-42 (e) Above 42
3. Marital status of respondent (a) single (b) married (c) divorced (d) widowed
   (e) Separated (f) Others (specify)
4. What is your educational qualification? (a) No formal education (b) primary
   (c) Junior High school (d) Senior High/Vocational/Technical school (e) Tertiary
   (f) Others
5. How long have you been in this business? (a) 5-10 years
   (b) More than 10 years
6. Do you do any other work apart from this business? (a) Yes (b) No
   b. If 'Yes', mention the other work...

SECTION B: TYPE OF SME

7. Type of SME
   a. Trading b). Manufacturing c) Service provision d) Agro processing

8. SME activity
   i. ....
   ii. ....
   iii. ....
   iv. ....
   v. ....
9. Is the business for you alone or it is a partnership? (a) sole owner (b) partnership
   a. If partnership, with who?...
10. Why did you enter into this business? (a) Was unemployed (b) to diversify livelihood sources (c) Have the talent and skills to do that d) Inherited it from family e) Others (specify).........................
11. How many employees do you have?..

SECTION C: FINANCIAL SERVICES RECEIVED BY SMEs

a. What products and services do you receive from your bank? (a) loans (b) remittances (c) insurance (d) Training (e) Training f) Others (specify)...

12. In what areas in your business do you receive training?...
....
13. Under what conditions are you given assistance by your bank?

i. ....
ii. ....
iii. ....
iv. ....
v. ....

14. What processes do you go through before services are finally provided?
....
15. In your opinion, what are the effects of these conditions and processes on your ability to access assistance from your bank?...
....
16. Are all your financial needs provided by your bank? a. Yes b. No
b. If 'No', which ones are not provided...
17. Are you satisfied with the services you receive from your bank? a. Yes b. No
b. If 'No' give reasons...
18. Do you deal with another bank? a. Yes b. No
b. If 'Yes', why?...
19. How much do you pay for services you receive from your bank?.................................
....
20. In your opinion, how do you rate the prices of the products you receive from your bank? a. Low .b. moderate. c high d. very high
21. What is the duration to pay back a product received from your bank?.......................
22. Are you satisfied with the repayment period? a. Yes....b. No
a. If 'Y', why?..
b. If 'No', why?..

SECTION D: EFFECTS OF MICROFINANCE SERVICES ON RESPONDENTS' BUSINESSES

In your opinion, how do microfinance services you receive from your bank contribute to the growth and sustenance of your business over time? Respond to the following items based on your perception by ticking strongly agree (SA), agree (A), uncertain (U), disagree (D) and strongly disagree (SD)

Statement	SA	A	U	D	SD	Reasons for Perception
24. Microfinance services have helped your business to withstand shocks						
25. Microfinance services have helped your business to increase productivity or output						
26. Microfinance services have helped your business to increase savings and have reinvested in your business						
27. Microfinance services have helped your business to increase incomes from the business						
28. Microfinance services have helped you to adopt appropriate technology and inputs.						
29. Microfinance services have given you new skills and techniques to manage your business						

30. Microfinance has helped you to employ more hands in your business						
31. Microfinance has helped you register your business						

32. What other effects do MFIs have on your business?

....

....

SECTION E: SOCIO ECONOMIC EFFECTS OF BUSINESS ON RESPONDENTS' HOUSEHOLDS

In your opinion, how has your business impacted on your household over time? Respond to the following items based on your perception by ticking strongly agree (SA), agree (A), uncertain (U), disagree (D) and strongly disagree (SD)

Statement	SA	A	U	D	SD	Reasons for Perception
33. Your business has increased household savings and income						
34. Your business has helped you diversify household income sources						
35. Your business has helped you provide your children with better education, health care and shelter						
36. Your business has reduced household poverty and vulnerability level						
37. Your business has helped in having greater control over household decision making						
38. Your business has earned you respect and recognition among your peers.						

39. What other effects does your business have on your household?

....

40. What general challenges do you face in doing business?

....

41. What are the challenges you face in dealing with your bank?

....

42. How have these challenges affected your business operations?

....

43. In your opinion how can the relationship with your bank be improved and sustained?

....