

**THE ROLE OF MICROFINANCE INSTITUTIONS IN THE DEVELOPMENT
OF SMALL SCALE BUSINESSES IN THE KUMASI METROPOLIS.**

BY

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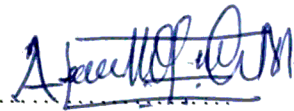
College of Arts and Social Sciences

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DECLARATION

I hereby declare that this submission is my own work towards the MBA and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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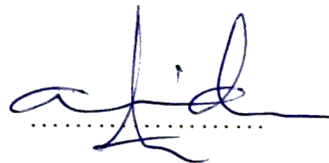
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ABSTRACT

The microfinance movement has gained a lot of impetus during the past few decades as a method to alleviate poverty in developing countries where the poor have been overlooked by the formal financial banking sector. Microfinance Institutions are of greatest benefit to the “poor entrepreneur” who can effectively put the financing to use in their small businesses.

This research reports on the role of Microfinance Institutions in the development of Small Scale Businesses (SSBs) in the Kumasi metropolis. According to the 2003 industrial census, SSBs constitutes about 41.5% percentage of the economy of Ghana. There are, however, several constraints to the development of these SSBs. The most prominent of these constraints is the lack of access to resources and financial markets.

It for this reason that the researcher undertook a cross-sectional survey of 56 Microfinance Institutions and 160 Small Scale Businesses to find out how these MFIs are helping the SSBs to develop. Cluster and stratified random sampling techniques were used to select the sample sizes for the SSBs and the MFIs respectively. It came to light in the course of the research that these MFIs assist only existing SSBs and that they do not play any role during the initial set up of the SSBs. It was also revealed that over 50% of these existing SSBs have not visited the MFIs for any form of assistance. They few who visited the MFI were also complaining of challenges such as high interest rate, defrauding and poor customer service. These notwithstanding, it came to light that those SSBs which went for assistance from the MFIs benefited in the areas of business expansion, micro credit, good record keeping among others. The following are some of

the recommendations: MFIs should take up the challenge of educating the SSBs in the areas of both business and financial management. They should also establish business advisory centres for both prospective and existing SSBs. They should undertake regular advertisements and visits to the SSBs in order to reduce the information gap between themselves and the SSBs. It is also recommended that SSBs keep proper records since record keeping is one of the criteria for accessing any facility from the MFIs.

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LIST OF ABBREVIATIONS

1. ARB	Association of Rural Banks
2. ASCAs	Accumulating Savings and Credit Associations
3. BAC	Business Advisory Centres
4. BAS	Business Advice and Support
5. CBA	Central Business Area
6. CGAP	Consultative Group to Assist the Poor
7. COT	Commission on Turnover
8. CUA	Credit Unions Association
9. GCCUA	Ghana Co-Operative Credit Unions Association
10. GCSCA	Ghana Co-Operative Susu Collectors' Association
11. GHAMFIN	Ghana Microfinance Institution Network
12. GPRS	Ghana's Growth and Poverty Reduction Strategy
13. IDRC	International Development Research Center
14. KMA	Kumasi Metropolitan Assembly
15. MASLOC	Microfinance and Small Loans Center
16. MFI	Microfinance Institutions
17. MSE	Micro and Small Enterprises
18. MDG	Millennium Development Goals
19. NBSSI	National Board for Small Scale Industries
20. NGO	Non Governmental Organisation
21. RFSP	Rural Financial Services Project
22. ROSCAs	Rotating Savings and Credit Associations
23. SBA	Small Business Administration

- 24. SMME Small, Micro, Medium Enterprises
- 25. SPSS Statistical Package for Social Sciences
- 26. SSBs Small Scale Businesses

CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

The last twenty years have seen significant advances in understanding and providing financial services to better advance development and eradicate poverty. This includes providing the financial means to save, access credit, and start small businesses, with the potential to enhance community development, as well as local and national policy making. When properly harnessed and supported, microfinance can scale-up beyond the micro-level as a sustainable part of the process of economic empowerment by which the poor can lift themselves from poverty through the establishment of small scale businesses (SSBs).

1.1 Background of the Study

A **small business** is a business that is independently owned and operated, with a small number of employees and relatively low volume of sales. The legal definition of "small" often varies by country and industry, but is generally under 100 employees in the United States and under 50 employees in the European Union. In comparison, the definition of **mid-sized business** by the number of employees is generally under 500 in the U.S. and 250 for the European Union. Small businesses are normally privately owned corporations, partnerships, or sole proprietorships. In Australia, a small business is defined as 1-19 employees and a medium business as 20-200 employees.

In addition to number of employees, other methods used to classify small companies include annual sales (turnover), value of assets and net profit (balance sheet), alone or in a mixed definition. For instance in Ghana, policy makers have defined SSBs in several ways. The Statistical Service in the 1987 Ghana Industrial Census defined SSB as a sector that employs 6-29 workers or whose fixed assets have a value not exceeding \$100,000. (Aryeetey and Gockel, 1991). The following criteria are also used by the European Union, for instance (headcount, turnover and balance sheet totals). Small businesses are usually not dominant in their field of operation.

Small businesses are common in many countries, depending on the economic system in operation. Typical examples include: convenience stores, other small shops (such as a bakery or delicatessen), hairdressers, tradesmen, lawyers, accountants, restaurants, guest houses, photographers, small-scale manufacturing etc.

(http://en.wikipedia.org/wiki/smaa_business, [12th March, 2009])

Raising of funds has been a major problem for businesses in general. The ability to raise capital for a business is limited by the nature of the business organization. Small Scale Businesses are the most limiting form of business organization in terms of raising capital. The principal source of capital is the proprietor's personal wealth or personal credit-worthiness for borrowing purposes. In most instances the Proprietors borrow from friends, family members, Microfinance Institutions etc.

Microfinance Institution is defined as designated financial institutions dedicated to assisting small enterprises, the poor, and households who have no access to the more institutionalized financial system, in mobilizing savings, and obtaining access to

financial services. In recent times, the provision of Microfinance services has gained global recognition and attention among donor communities, policy makers, financial service providers and target clientele – mainly micro, small and medium entrepreneurs. Microfinance can also refer to small financial transaction with low-income households and microenterprises (both urban and rural) using non-standard methodologies such as character-based lending, group guarantees and short –term repeat loans. The common elements are that the clients being served typically lack the characteristics (eg. Titled properties as collateral) required by commercial banks or are located beyond the reach of commercial bank branches and that innovative methods and specialized products or institutions are needed to reach these markets.

1.2 Statement of the Problem

Research has shown that Microfinance Institutions are to provide financing for small, micro and medium scale businesses. Further readings have revealed that many of the microfinance Institutions are not adhering to the purpose for which they were established and are even operating beyond the rules and regulations governing their operations. Some microfinance Institutions prefer providing funds to large manufacturing companies engaging in direct business transactions such as import and export or have entered into the transport industry and granting loans to workers. This assertion was confirmed by Mr. Ben Ephson, the managing editor of the Daily Dispatch who said; “People riding in thirty six thousand dollar (\$ 36,000.00) cars go for loans from the Microfinance and Small Loans Center (MASLOC)”. (TV3 Hot issue Friday, 30th January, 2009).

Small businesses largely depend on finances from the proprietor(s). The source of finance is sometimes irregular or not reliable. The proprietor is unable to keep proper records as he is unable to distinguish profit from working capital. The same funds sometimes serve as his source of livelihood thus limiting the growth of the enterprise.

It is for these reasons that Microfinance Institutions were established to provide financial assistance to Small Scale Businesses to expand their enterprises and increase their profit margins. Apart from the core business of providing finance, MFIs also provide support services such as records keeping, basic accounting services etc. This research aims at assessing the role of MFIs in the development of Small Scale Businesses in the Kumasi Metropolis.

1.3 Objectives of the Study

The main objective of the research is to assess the role of MFIs in the development of Small Scale Businesses in the Kumasi Metropolis. In achieving this broad objective, the following specific objectives would be considered.

To:

1. identify SSBs in Kumasi that are likely to seek developmental assistance from MFIs.
2. identify MFIs that are interested in assisting SSBs in Kumasi to develop.
3. assess the products that MFIs have for SSBs in Kumasi.
4. analyse the challenges that SSBs in Kumasi face in their dealings with MFIs.
5. determine what MFIs should be doing in helping to develop SSBs in Kumasi.

1.4 Research Questions

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

1. What are the indications that would trigger SSBs in Kumasi to seek developmental assistance from MFIs?
2. Which categories of MFIs are interested in assisting SSBs in Kumasi to develop?
3. Do current developmental packages by MFIs satisfy SSBs in Kumasi? If yes, to what extent? If no, why not?
4. What are the imbedded challenges facing the MFIs and the SSBs in the MFIs attempt to develop SSBs in Kumasi?
5. Are there any roles for MFIs to play before, during and after in developing SSBs in Kumasi?

1.5 Justification of the Study

A study of this nature is worth pursuing because it will help us determine whether microfinance Institutions are adhering to their core functions of providing funds and other support services to the small scale enterprises. It can be used as a basis for advising Microfinance Institutions on how to deal with Small Scale Businesses. Again it will serve as a source of reference for both students and lecturers alike and also as a reference material for Small Scale Businessmen when seeking funds and other support for their businesses.

1.6 Methodology (Summary)

The approach taken was to trace the role of MFIs in the development of Small Scale Businesses in Kumasi, looking specifically at their contributions to the sector.

1.6.1 Source of Data

Data were collected from both primary and secondary sources.

1.6.2 Primary Data

Primary data were obtained through the use of questionnaire given to respondents of both MFIs and SSBs in the Kumasi metropolis.

1.6.3 Secondary Data

Secondary data were obtained from ARP Apex Bank, NBSSI, the Credit Union Association and the Department of Co-operatives.

1.7 Scope of the Study

The study was conducted within six clusters of the Kumasi Metropolis. These are the Central Business Area (Adum and Kejetia), Suame Magazine, Asafo, Atonsu, Krofrom and Bantama. These areas were chosen based on the results of the cluster sampling technique.

1.8 Limitations of the Study

The study was limited by both time and financial constraints. In view of this data was not collected from all areas in Kumasi but clusters that fairly represent the population.

1.9 Organization of the Study

The project work is organized into five chapters.

Chapter one

General introduction gives the overview of the study. It contains the statement of the problem, objectives of the study, the research questions and the justification of the study.

Chapter two

Literature Review contains the definition and explanation of the various terms that have been presented on the above topic.

Chapter three

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

Chapter four

Data Analysis considers the analysis of the data, findings and discussion.

Chapter five

This provides summary and conclusions of the study as well as recommendations on how to solve the identified problems.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Over the past decade micro-finance has become a mainstream development activity. Microfinance is regarded as a central poverty alleviation strategy and a means of deriving economic growth and employment of small, micro, medium enterprises (SMME). A complex set of best practice models, and a network of donor funded research units and consultancies have emerged to support a thriving industry. (Van de Ruit,2001)

2.1 Overview of Microfinance in Ghana

Microfinance refers to the provision of financial services to poor or low-income clients, including consumers and the self-employed (Ledgerwood, 2000). Christen et al (2004), asserted that microfinance refers to a movement that envisions “a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers.” It encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients.

2.2 Evolution of Microfinance in Ghana

The concept of microfinance is not new in Ghana. Traditionally, people have saved with and taken small loans from individuals and groups within the context of self-help to start businesses or farming ventures. Available evidence also suggests that the first Credit Union in Africa was established in Northern Ghana in 1955 by Canadian Catholic

Missionaries. Susu, which is one of the current microfinance methodologies, is thought to have originated in Nigeria and spread to Ghana in the early 1990s. Microfinance has gone through four (4) distinct phases worldwide of which Ghana is no exception. These stages are described below: (www.ghanafin.org, [12th March, 2009])

Phase One: The provision of subsidized credit by Governments starting in the 1950's when it was assumed that the lack of money was the ultimate hindrance to the elimination of poverty.

Phase Two: Involved the provision of micro credit mainly through NGOs to the poor in the 1960's and 1970's. During this period sustainability and financial self-sufficiency were still not considered important.

Phase Three: In the 1990's the formalization of Microfinance Institutions (MFIs) began.

Phase Four: Since the mid 1990's the commercialization of MFIs has gained importance with the mainstreaming of microfinance and its institutions into the financial sector. In Ghana, the term microfinance is understood as a sub-sector of the financial sector, comprising most different financial institutions which use a particular financial method to reach the poor. Microfinance sector in Ghana comprises 4 various types of institutions and these have been grouped into four (4) categories, namely:

- Formal suppliers such as savings and loans companies, rural and community banks, as well as some development and commercial banks;
- Semi-formal suppliers such as credit unions and cooperatives;
- Informal suppliers such as susu collectors and clubs, rotating and accumulating savings and credit associations (ROSCAs and ASCAs), traders, moneylenders and other individuals.

- Public sector programmes that have developed financial and non-financial services for their clients. (www.ghanafin.org, [12th March, 2009])

2.3 The need for Microfinance in Ghana

The main goal of Ghana's Growth and Poverty Reduction Strategy (GPRS II, 2006 - 2009) released in the year 2005 is to ensure "sustainable equitable growth, accelerated poverty reduction and the protection of the vulnerable and excluded within a decentralized, democratic environment". The intention is to eliminate widespread poverty and growing income inequality, especially among the productive poor who constitute the majority of the working population. According to the 2000 Population and Housing Census, 80% of the working population is found in the private informal sector. This group is characterized by lack of access to credit, which constrains the development and growth of that sector of the economy. The observation was stressed in the International Monetary Fund Country report on Ghana of May 2003 that "weaknesses in the financial sector that restrict financing opportunities for productive private investment are a particular impediment to business expansion in Ghana." Microfinance perceived as a financially sustainable instrument meant to reach significant number of poor people of which most are not able to access financial services because of the lack of strong retailing financial intermediaries. Access to financial services is imperative for the development of the informal sector and also helps to mop up excess liquidity through savings that can be made available as investment capital for national development (World Bank- Africa Region, 1999). Microfinance as a sector has the potential to reduce poverty by bringing a significant improvement in the lives of the active poor who are largely women.

2.4 Boundaries and Principles of Microfinance

According to Helms (2006), there are some principles that summarize a century and a half of development practice which were encapsulated in 2004 by Consultative Group to Assist the Poor (CGAP) and endorsed by the Group of Eight leaders at the G8 Summit on June 10, 2004: Listed below are some of the principles.

- 1. Poor people need not just loans but also savings, insurance and money transfer services.
- 2. Microfinance must be useful to poor households: helping them raise income, build up assets and/or cushion themselves against external shocks.
- 3. "Microfinance can pay for itself". Subsidies from donors and government are scarce and uncertain, and so to reach large numbers of poor people, microfinance must pay for itself.
- 4. Microfinance means building permanent local institutions.
- 5. Microfinance also means integrating the financial needs of poor people into a country's mainstream financial system.
- 6. "The job of government is to enable financial services, not to provide them.
- 7. "Donor funds should complement private capital, not compete with it."
- 8. "The key bottleneck is the shortage of strong institutions and managers" .Donors should focus on capacity building.
- 9. Interest rate ceilings hurt poor people by preventing microfinance institutions from covering their costs, which chokes off the supply of credit.
- 10. Microfinance institutions should measure and disclose their performance – both financially and socially. (Helms, 2006)

2.5 Microfinance Institutions

The last twenty-five years have witnessed a rapid expansion in the number and size of Microfinance Institutions in many parts of the world. In some countries, MFIs are already numerous and in aggregate serve a large number of clients, manage a significant loan portfolio and hold an important share of the financial asset of poor people. (www.cgap.org [12th March. 2009])

What distinguishes MFIs is their orientation to fill a gap left by (larger) conventional, commercial or government-sponsored institutions in provision of financial services to poorer households and smaller enterprises. MFIs may thus play a significant role in the financial sector development and therefore in overall development. Robinson (2002).

Robinson (2002), further stated that “the 1980s demonstrated that microfinance could provide large-scale outreach profitably, and in the 1990s, microfinance began to develop as an industry. In the 2000s, the microfinance industry’s objective is to satisfy the unmet demand on a much larger scale, and to play a role in reducing poverty”.

Microfinance Institution can be defined as “an organisation or association of individuals established for the purpose of carrying on the business of extending microfinance services.

2.6 The need for Microfinance Institutions

Traditionally, banks have usually not provided financial services to clients with little or no cash income. Banks must incur substantial costs to manage a client account, regardless of how small the sums of money involved. For example, the total revenue from delivering one hundred loans worth GH¢1,000 cedis each will not differ greatly

from the revenue that results from delivering one loan of GH¢100,000 cedis. But it takes nearly a hundred times as much work and cost to manage a hundred loans as it does to manage one. A similar equation exists when delivering other financial services. There is a break-even point when providing loans or deposits below which banks lose money on each transaction they make. Poor people usually fall below it.

In addition, most poor people have few assets that can be secured by a bank as collateral. As documented extensively by Hernando de Soto and others (1989), even if they happen to own land in the developing world, they may not have effective title to it. This means that the bank will have little recourse against defaulting borrowers. Seen from a broader perspective, it has long been accepted that the development of a healthy national financial system is an important goal and catalyst for the broader goal of national economic development. However, national planners and experts focus their attention mainly on developing a commercial banking sector dealing in high-value transactions, and often neglect the delivery of services to households of limited means, even when these households comprise the large majority of their populations.

Because of these difficulties, when poor people borrow they often rely on relatives or a local moneylender, whose interest rates can be very high. An analysis of 28 studies of informal money lending rates in 14 countries in Asia, Latin America and Africa concluded that 76% of moneylender rates exceed 10% a month, including 22% that exceed 100% a month. Robinson (2001) observed that moneylenders usually charge higher rates to poorer borrowers than to less poor ones. While moneylenders are often demonized and accused of usury, their services are convenient and fast, and they can be very flexible when borrowers run into problems.

According to Helms (2006), over the past centuries practical visionaries from the Franciscan monks who founded the community-oriented pawnshops of the fifteenth century, to the founders of the European credit union movement in the nineteenth century (such as Friedrich Wilhelm Raiffeisen) and the founders of the microcredit movement in the 1970s (such as Muhammad Yunus) have tested practices and built institutions designed to bring the kinds of livelihood opportunities and risk management tools that financial services provide to the doorsteps of poor people. The success of Grameen Bank has inspired the world.

2.7 Categories of Microfinance Institutions

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

The new financial systems approach pragmatically acknowledges the richness of centuries of microfinance history and the immense diversity of institutions serving poor people in developing world today. (Helms, 2006).

Helms (2006), distinguishes between the following general categories of microfinance providers, and argues for a pro-active strategy of engagement with all of them to help them achieve the goals of the microfinance movement.

2.7.1 Informal financial service providers

These include moneylenders, pawnbrokers, savings collectors, money-guards, ROSCAs, ASCAs and input supply shops. Because they know each other well and live in the same community, they understand each other's financial circumstances and can offer very flexible, convenient and fast services. These services can also be costly and the choice of financial products limited and very short-term. Informal services that involve savings are also risky; many people lose their money.

2.7.2 Member-owned organizations

These include self-help groups, credit unions, and a variety of hybrid organizations like 'financial service associations'. Like their informal cousins, they are generally small and local, which means they have access to good knowledge about each others' financial circumstances and can offer convenience and flexibility. Since they are managed by poor people, their costs of operation are low. However, these providers may have little financial skill and can run into trouble when the economy turns down or their operations become too complex. Unless they are effectively regulated and supervised, they can be 'captured' by one or two influential leaders, and the members can lose their money.

2.7.3 Formal financial institutions

In addition to commercial banks, these include state banks, agricultural development banks, savings banks, rural banks and non-bank financial institutions. They are regulated and supervised, offer a wider range of financial services, and control a branch network that can extend across the country and internationally. However, they have proved

reluctant to adopt social missions, and due to their high costs of operation, often can't deliver services to poor or remote populations.

With appropriate regulation and supervision, each of these institutional types can bring leverage to solving the microfinance problem. For example, efforts are being made to link self-help groups to commercial banks, to network member-owned organizations together to achieve economies of scale and scope, and to support efforts by commercial banks to 'down-scale' by integrating mobile banking and e-payment technologies into their extensive branch networks.

2.8 Profiles of Microfinance Apex Bodies in Ghana

2.8.1 Ghana Co-Operative Credit Unions Association (GCCUA)

The Ghana Co-operative Credit Unions Association (GCCUA) Ltd was established in 1968 as the apex body of the credit union movement in Ghana. It does not represent the interest of only the movement at the local level but International levels too. The aim of its establishment was to develop itself into a sustainable financial institution and to create an enabling environment for credit unions operations. As a credit union leader, CUA has a responsibility of promoting, educating and training at all levels of the movement. In order to ensure the viability and sustainability of Credit Unions, CUA offers both technical and financial services to its members including education and training, auditing, bookkeeping, computer services, general supervision and Risk Management Insurance Service. CUA has over the last five years received support from the Rural Financial Services Project. These include assistance in building the capacity of its affiliates through numerous training programs, provision of means of transport like motorbikes, a Pickup and a cross country vehicle and Computers, printers and

accessories to help in the Data Management of CUA both at the head office and regional levels. Currently, there are two hundred and sixty two (262) active credit unions in Ghana, with a total membership of over one hundred and sixty thousand (160,000) even though it is believed that its total membership is about two hundred and seven thousand, four hundred and two (207,402). CUA has taken some initiatives such as training center for Credit Unions, Home Banking Scheme (New Product) and Micro Finance for the active poor

2.8.2 Ghana Co-Operative Susu Collectors' Association (GCSCA)

The Ghana Co-operative Susu Collectors' Association, (GCSCA) was established in 1994 as an umbrella organization for all Regional Susu collectors Societies in Ghana. The association was formed to (self)-regulate the activities of Susu Collectors and instill practices, which would build clients confidence in their deposits mobilization. The GCSCA is one of the indigenous Microfinance institutions with a broad clientele base and a wider environment for funds mobilization. The few years of Microfinance transformation has also led to a massive evolution in the operations of Susu Collection in the microfinance sector. The main services provided by Susu Collectors are savings mobilization and sometimes the provision of mobile services for individuals and groups in rural and urban areas. Currently, GCSCA has regional offices in all the regions and some districts in the country with a total membership of one thousand three hundred and thirty-five (1,335).

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2.8.3 Ghana Microfinance Institution Network (GHAMFIN)

Ghana Microfinance Institution Network (GHAMFIN) is a network with a diverse range of Microfinance practitioners comprising: Savings & Loans Companies, Rural and Community Banks, Credit Unions, Susu (savings) Collectors, and Business Development Service Providers as well as Apex bodies such as the ARB Apex Bank Ltd, Ghana Credit Union Association. The GHAMFIN seeks to promote the growth and development of the microfinance industry in Ghana. The focus has been on building the capacity of microfinance institutions to improve upon their performances, thus, enabling them to provide long-term sustainable and affordable access to financial services to meet the needs of their clients, majority of whom are women living in rural communities. (www.ghamfin.org [12th March, 2009])

2.8.4 ARB Apex Bank

The ARB Apex Bank Ltd. is a mini “Central Bank” for the Rural/ Community Banks (RCBs). The idea of rural banking date back to about three (3) decades in the form of a dialogue between Bank of Ghana and Ministry of Finance about what was called “junior league” of banking institutions to serve the special needs of the rural population. The traditional licensed banking institutions were concentrated at the urban centers hence it became necessary to bring the rural population into the banking system under rules designed to suit their socioeconomic circumstances and the peculiarities of their occupation in farming and craft making. The ARB Apex Bank Ltd. is mainly financed through the Rural Financial Services Project (RFSP). The RFSP is a Government of Ghana project designed to holistically address the operational bottlenecks of the rural financial sector with the aim of broadening and deepening financial intermediation in the

rural areas. To date, there are one hundred and twenty five (125) Rural/Community banks with over five hundred (500) branches/agencies in the country. The Rural/Community Banks under Apex Bank undertake a mix of microfinance and commercial banking activities structured to satisfy the needs of the rural areas. Some of the activities are:

- Provision of banking services by way of funds mobilization and credit to cottage industry operators, farmers, fishermen and regular salary employees.
- Grant credits to customers for the payment of school fees, acquisition/rehabilitation of houses and to meet medical expenses.
- Devote part of their profits to meet social responsibilities such as donations to support education, health, traditional administration and the needy in their respective communities.
- Specific gender programmes focusing on women-in-development and credit-with education activities for rural women.

(www.microfinancegateway.org [12th March, 2009])

2.9 Microfinance Supporting Institutions

- Microfinance and Small Loans Center (MASLOC)
- The Ghana Microfinance Institutions Network (GHAMFIN)
- Development partners and international non-governmental organizations
- Universities, training and research institutions.

2.10 Small Scale Business

The small-scale business sector is currently one of the fastest growing and important sectors in Sub-Saharan Africa as far as labor absorption and poverty reduction are concerned (IDRC, 1996; Parker et al, 1995). This is so especially when the state sector is downsizing. Small businesses also serve as seedbeds for entrepreneurs, contribute to more balanced development and facilitate the process of adjustment in large enterprises, by emerging as competent suppliers of products and services previously not available in the market place (Kapoor et al, 1997; Parker et al 1995; Fairbairn, 1988).

Small Scale Businesses can be defined differently, depending on country's stage of development, policy objectives, and administration (World Bank Report, 1978, p.18). Varying definitions among countries may arise from differences industrial organisations at different levels of economic development in parts of the same country (Anamekwe, 2001). For instance Sule (1986) suggested that a firm that can be regarded a micro or small in an economically advanced country like USA, Great Britain or Japan, given their level of capital intensity and advanced technology may be classified as medium or even large in a developing country like Ghana. Definitions also change over time, owing to changes in price levels, advances in technology or other considerations.

In the USA, the Small Business Administration (SBA 2003) has various definitions for small businesses depending on the type of industry. Manufacturing and mining businesses with fewer than 500 employees are considered small businesses while businesses in wholesales trade industries must have fewer than 100 employees. For other

industries such as retail and construction, businesses are classified based on annual revenue. Also in Ghana, the Ministry of Trade and Industries uses a definition involving multiple criteria of turnover, fixed assets and number of employees. However, the criteria such as turnover and volume of output are strongly influenced by management effectiveness and efficiency, which vary from one industry to another (Ajayi, 2002).

Ghana's classification for MSMEs (Micro, Small and Medium Enterprises) according to Mensa (2004) is as follows:

Micro Enterprises: Those business units employing up to 5 employees and with fixed assets not exceeding \$10,000.00

Small Enterprises: These are business units employing between 6 and 29 employees and with fixed assets of \$100,000.00.

Medium Enterprises: Business units employing between 30 and 99 employees with fixed assets of up to \$1million.

Large Enterprises: Business units with at least 100 employees.

Three broad categories of economic activities can be identified with Small Scale Businesses, namely, production, trading, and providing transport services. In production, the poor may be involved in agricultural or non-agricultural activities. Agricultural activities include farming, cattle rearing, poultry rearing and fisheries. Non-agricultural production can cover a wide variety of activities ranging from food processing to producing different handicrafts and household items like pots, mats, cloth, etc. Trading includes shop-keeping, small business, and selling specific items like vegetables, fish, etc.

2.11 National Board for Small Scale Industries (NBSSI)

The National board for Small Scale Industries is the apex governmental body for the promotion and development of the Micro and Small Enterprises (MSE) sector in Ghana. It was established in 1985 by an Act of the Parliament of the Third Republic of Ghana because the government viewed the sector as having the potential to contribute substantially to reducing the high unemployment rate and to the growth of the economy of Ghana.

MSEs account for a significant share of economic activity in Ghana and can play an important role in achieving the Millennium Development Goals (MDGs). The activities of NBSSI fall into two broad categories: financial and non-financial services. Financial services aim to improve NBSSI clients' banking culture and accounting practices. They also include extending credit through its loan schemes to entrepreneurs for both working capital and the acquisition of fixed assets. Non -financial services are advanced by Business Advisory Centres (BACs), which are the extension wings of the NBSSI operation across the country. BACs provide "relevant information, training and guidance to individuals that will make the entrepreneur a well-rounded, competent and confident businessperson and to enterprise associations, to increase the general business culture and business knowledge sharing." (Report for NBSSI, August, 2008)

2.12 The Role of Microfinance Institutions in the Development of Small Scale Businesses.

About 90 percent of the people in developing countries lack access to financial services from institutions, either for credit or savings (Robinson, 2002) which further fuel the "Vicious Cycle of Poverty" (refer to Fig. 2.1 below). If the people of Kumasi have a

limited capacity to invest in capital, productivity is restricted, incomes are inhibited, domestic savings remain low, and again, any increases in productivity are prevented. A lack of access to financial institutions also hinders the ability for entrepreneurs in Kumasi to engage in new business ventures thus inhibiting economic growth. Microfinance serves as a means to empower the poor, and provides a valuable tool to assist the economic development process.

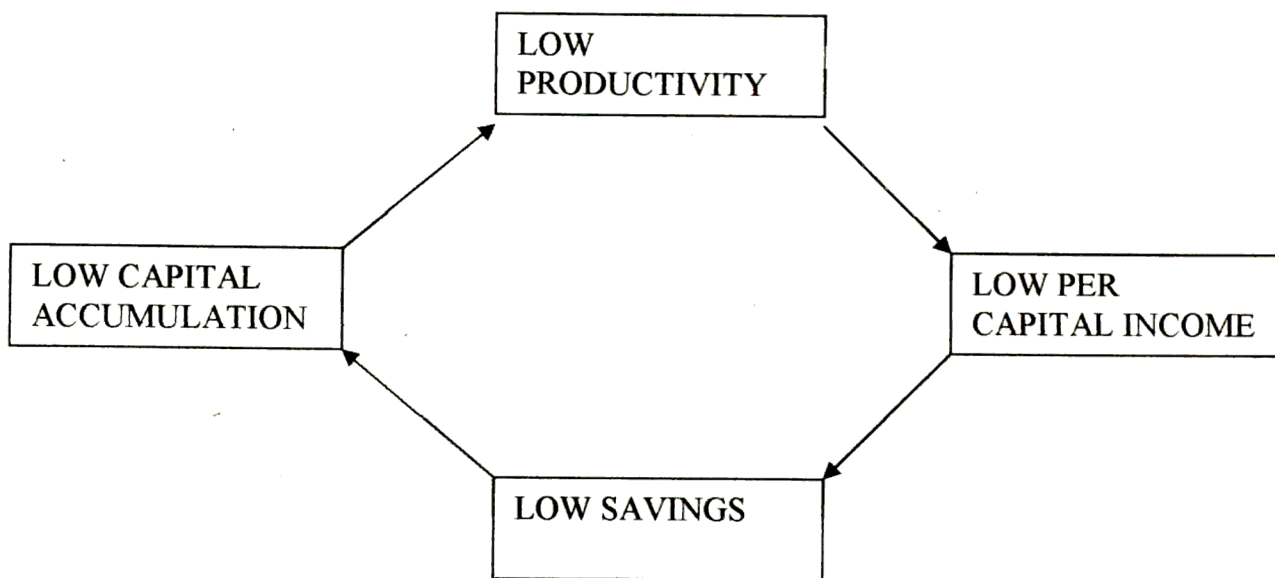


Fig 2.1. Vicious Cycle

2.12.2 Financing Small Scale Businesses:

2.12.2.1 An Analytical Study of Microfinance Institutions

According to Hulme and Mosley (1996a&b), with the failure of experimenting in top-down (trickle down) development policies for a few decades to alleviate poverty in most developing countries, financing micro enterprises is considered a “new paradigm” for bringing about development and eradicating absolute poverty. Though the importance of developing small-scale enterprises has been discussed for a long time, the innovative

poverty focused group-based financing of micro entrepreneurs is a relatively new concept. Pioneered by Professor Muhammed Yunus of Grameen Bank in Bangladesh, microfinance institutions (MFIs) providing credit to the poor has burgeoned in both developing and industrialized countries (Hulme and Mosley, 1996a & b; Kimenyi, 1998; Schneider, 1997). A total of USD 7 billion was disbursed to over 13 million people worldwide by microfinance institutions (Parker, 1998). "Microcredit Summit 1997" envisaged that 100 million poor would have access to microfinance by 2005.

2.12.2.2 Theory and Institutions

Growth in Small Scale Businesses (SSBs) can be important means for employment generation and development of poor countries. High population growth rate and limited employment opportunities leave a vast majority of the labour force without productive employment. SSBs can play a significant role in employing the surplus labor force productively. Other than generating employment, a World Bank study (1978) points out the advantages of SSBs as increasing the aggregate output, enabling the efficient use of capital and labour, initiating indigenous enterprise and management skills, bringing a regional balance, and improving the distribution of income. The problems associated with SSBs are identified as low wages, high price of finance, and use of primitive technology. Furthermore, limited input and output markets and inadequate infrastructure facilities can hinder the growth of small enterprises.

Berger and Udell (1998) confirmed that smaller firms usually do not have any access to funds from traditional financial institutions. The underlying theoretical explanation for this phenomenon lies in the traditional problems of asymmetric information in financial

intermediation. The problems of adverse selection and moral hazard worsen in case of smaller enterprises in developing countries due to some added constraints and problems. Bennett (1998) points out some barriers that can arise between the financial institutions and the clients in a developing economy perspective. These barriers can accentuate the asymmetric information problems. Physical barriers of poor infrastructure like lack of markets, roads, power, communications, can worsen both the adverse selection and moral hazard problems. Physical constraints inhibit the financial institutions to gather information on their prospective clients and once credit is advanced; it is difficult to monitor the use of the funds. Socioeconomic factors of clients like low numerical skills due to illiteracy, caste/ethnicity/gender aspects preventing interaction also add to the adverse selection problem.

Micro entrepreneur's lack of collateral due to poverty can increase the moral hazard problem. These barriers would make assessment of projects and monitoring the use of loans (to minimize adverse selection and moral hazard problems) very costly. Furthermore, as the size of the loan for micro enterprise is small, the administering cost of loans increases. These economic factors make it impossible for traditional financial institutions to offer credit to micro enterprises.

The problems of financing pointed out above become more acute in case of micro enterprises run by impoverished. As these enterprises are important means to increase employment and reduce poverty, there is a need for a social financial intermediation of funds for the micro entrepreneurs. Bennett (1998) points out two approaches of financing micro enterprises. First, the linking approach under which conventional financial institutions are linked to the target group (i.e., the poor) through some

intermediary like a government agency, a non-government organization (NGO) or a local group. The other approach is to provide micro credit through specialized organizations, like NGOs, government agencies, cooperatives, and development finance institutions. Almost all of the financing for micro enterprises in recent times has come from the latter kind of institutions. We discuss the nature of these institutions next.

Specialized Financial Institutions for micro enterprises traditionally, sources of credit in developing countries can be broadly classified as institutional and non-institutional. While institutional sources include financial institutions and cooperatives, non-institutional supply of credit comes from friends, relatives, and money-lenders. Even though the importance of developing small-businesses has been recognized, the poor microentrepreneurs do not have access to the institutional sources, as some physical collateral, which they often lack, is a prerequisite for getting loans from these sources. Moreover, as pointed out above, the banks are not interested in financing microenterprises since the transaction cost per unit of credit is high. Thus, the non-institutional loans form the bulk of the credit for the poor (Ahmed, 1983). With the exception of credit from friends and relatives, the interest rate on these loans is exorbitant. In some cases, the poor loose their land or other assets against which credit is provided.

Pioneered by the Grameen Bank in Bangladesh, MFIs have developed as specialized financial institutions that cater for the needs of the poor. (Morduch, 1999). In the views of Morduch (1999), different approaches to microfinance have evolved, but the dominant among these is the Grameen Bank model. MFIs provide small amount of credit on interest to the poor without any physical collateral. Instead, social collateral is

introduced by forming groups. Loan repayment by an individual member of a group is the collective responsibility of all the members in the group and default by a member disqualifies all members to get new loans. Members in the group monitor the activities of each other and peer pressure induces the repayment of the loan. This format of peer monitoring mitigates the problem of asymmetric information and reduces transaction costs (Huppi and Feder, 1990; Morduch, 1999; Stiglitz, 1990).

Borrowers are involved in multiple activities, which mostly do not require special skills (Dichter T. W., 1996). Loans are given for three months to a year at market rate of interest and repaid with interest in weekly/monthly installments. Borrowers meet weekly/monthly at centers where an official from the MFI collects the installments. By providing much needed financial capital to the poor, these institutions enable them to be self-employed in productive activities thereby increasing their income levels. Islamic Economic Studies, Vol. 9.

Sometimes, MFIs also extend credit to individuals for building houses and to a group or center for collective enterprise. Most MFIs have a social development program along with their credit programs. The objective of this program is to generate personal and social consciousness among the members. These programs include aspects that affect behavioral changes (such as personal hygiene, sanitation, and drinking clean water), moral teachings (like teaching to be honest, disciplined and cooperate among themselves) and social customs (like accepting family planning). Knowing these principles and norms are in some cases a prerequisite to obtain loans from the MFI and are continuously inculcated in the members during the weekly meetings. Sometimes,

workshops and exchange visits are also organized to complement the teachings inculcated in weekly meetings.

2.13 Difference between MFIs and the Conventional Banks

As can be observed, MFIs being banks for the poor operate quite differently from the conventional commercial banks (see Table 2.1). Whereas commercial banks are profit-maximizing firms, MFIs are either government or non-government organizations (NGOs) formed to provide the poor with much-needed finance. Given this nature, most MFIs have a social development program along with its credit facilities. Furthermore, the structure of liabilities is different in case of two institutions. A conventional bank is a financial intermediary linking the savers and investors in the economy, with deposits forming the bulk of a bank's liabilities. For MFIs, funds from external sources form the bulk of the liabilities. The savings of their clients (beneficiaries) are the only deposits. Moreover, unlike conventional banks where clients come to the bank, MFIs go to the people to extend financial services.

Table 2.1 Difference between Conventional Banks and MFIs

CONVENTIONAL BANKS	MICROFINANCE INSTITUTIONS MFIs
A profit maximising firm	Non profit Government/ Non government Organisations
Financial intermediary between savers and investors in the economy	Funds from external sources provided to the poor
Deposit forms the bulk of the liability	Savings of the clients only deposits
Does not include social/educational programmes	Includes social/educational programmes
Physical collateral required to get funds	Social collateral through groups.
Clients are relatively well-off	Clients are poor
Clients come to the bank	MFI goes to the people
Amount of loan is large	Amount of loan is small
Capital and Interest usually paid at maturity of the contract	Capital and Interest usually paid in weekly/monthly installments over a year
Most clients are men	Most clients are women

Source: Islamic Economic Studies (2002) volume 9, No. 2.

CHAPTER THREE

METHODOLOGY AND PROFILE OF THE STUDY AREA

3.0 Introduction

According to Momoh (2005), the successful outcome of the report of any study largely depends on, and is a direct function of, the quality and accuracy of data collected and used during the research. This chapter is concerned with the development of a logical framework of the research methods. The development of the framework of the research methodology is based on the problem statement, objective of the research, and the research questions. Also the various procedures that were used to obtain the research data had been covered. These included the research design, data collection instruments and procedures, population, sample and sampling techniques and data analysis tools among others.

3.1. Scope of the Study

The study was carried out in Kumasi, the capital of the Ashanti region, which is one of the prolific Small Scale Business centres in Ghana. The data used in this study were gathered from selected Small Scale Businesses and Microfinance Institutions in the Metropolis. Kumasi was chosen because of its geographical proximity and owing to the fact that is an important and a developing industrial location in the country as well as the relative concentration of Small Scale Businesses in the area compared with other areas in the country. One hundred and sixty SSBs distributed among three categories (namely Commerce, Services and Manufacturing) were randomly selected. These categories were selected because the KMA development plan (2007) states that "The major sectors of the

economy of Kumasi fall under Trade/ Commerce/Services which accounts for about 71%, Manufacturing/Industry which takes up of 24% and the Primary Production sector which takes only 5%”.

3.2 Research Strategy / Design

The purpose of this research was to undertake an explanatory study of the Role of MFIs in the development of SSBs in the Kumasi metropolis. An explanatory studies is the one that establishes causal relationship between variables (Saunders et al, 2007). The emphasis here was to explain the relationship between the variables involved in this broad topic. In achieving this objective, the researcher used the inductive approach to research. In this approach, data were collected and analysed to come out with results. According to Easterby-Smith et al (2002), researchers in this tradition are more likely to work with qualitative data and to use a variety of methods to collect these data in order to establish different views of phenomena. A cross-sectional research survey strategy was then used to collect the data with the aid of questionnaire. According to Saunders, 2007, survey is a research strategy that involves the structured collection of data from a sizable population and a cross-section research is the study of a particular phenomenon (phenomena) at a particular time.

Six clusters within the Kumasi metropolis were randomly selected for the collection of data on the SSBs. These were the Central Business area (Adum and Kejetia), Suame Magazine, Atonsu, Asafo, Bantama and Krofrom. The first phase was designed to collect information on SSBs and how they see MFIs activities in the Kumasi Metropolis through the use of appropriate questionnaire and interview to obtain detailed information

from the proprietors and/ managers of these SSBs. Randomly selected MFIs within the Kumasi metropolis were also allowed to fill some questionnaire on their contributions to the development of SSBs in the Kumasi metropolis.

3.3 Population

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

$$54.5\% + 41.5\% = 96\% = \text{Percentage of Micro and Small Enterprises (MSEs)}$$

It implies that 96% is equivalent to 600 MSEs

$$\begin{aligned}\text{Therefore what 41.5\%?} &= \frac{41.5\%}{96\%} * 600 \\ &= 260 \text{ SSBs.}\end{aligned}$$

It had therefore been estimated that the total population of registered SSBs in the Kumasi metropolis is about 260. The population of MFIs operating in the Kumasi Metropolis was estimated to be around 274 as shown in the table below.

Table 3.1 Population of MFIs in Kumasi

MFI Type	Branches in Kumasi	Source
Rural & Community Banks	36	ARB Apex Bank handbook
Credit Unions	50	Department of Co-operative
Savings and Loans	9	Department of Co-operative
Susu Companies and Collectors	179	Co-operative Susu Collectors Society Ltd
Total	274	

3.4 Sample and Sampling Technique

A sample is a subset of the population and consists of representative group of objects (eg. individuals) that form the population of the study. The sample units for this research were the entrepreneurs and/ managers of SSBs and MFIs operators in the Kumasi metropolis. Since it was highly impossible to deal with the whole of the target population due to time and financial constraints, efforts were made to sample a reasonable number of small scale business operators from six clusters within the Kumasi metropolis that were noted for high business activities. From a population of about 260

SSBs, and assuming about 95% level of certainty and 5% margin of error, a sample size of 160 respondents were selected.

Cluster sampling technique was used to select the sample for the SSBs. Cluster sampling is a probability sampling procedure in which the population is divided into discrete groups or clusters prior to sampling and a random sample (systematic or simple) of these clusters is then drawn. (Saunders et al, 2007). Cluster sampling was used here because the SSBs are spread out over a large area. SSBs within the selected cluster were then chosen and given questionnaire to fill. A sample size of 160 in the distribution below was obtained for this project.

Table 3.2 List of clusters and their samples

CLUSTER	SAMPLE
The Central Business Area	40
Suame Magazine	40
Atonsua	30
Bantama	15
Krofrom	20
Asafo	15
TOTAL	160

These figures were arrived at based on the concentration of SSBs in the selected clusters.

In selecting the SSBs the following operational definition and principle were used.

SSBs that have 6 – 29 employees, with fixed assets valued not less than GH100,000.00 and operating in a permanent structure.

Again, 56 Microfinance Institutions were selected using stratified random sampling technique and given questionnaire to find out their contributions to the development of small scale businesses in the Kumasi metropolis. According to Saunders et al, 2007, stratified random sampling is a probability sampling procedure in which the population is divided into two or more relevant strata and a random sample (systematic or simple) is drawn from each of the strata. The sample distribution used in this case is shown in the table below.

Table 3.3 Population and sample of MFIs

MFI Type	Branches in Kumasi	20% Sample
Rural Banks	36	8
Credit Unions	50	10
Savings and Loans	9	2
Susu Companies and Collectors	179	36
Total	274	56

3.5 Sources of Data

Both primary and secondary data were used in this research

3.5.1 Primary Data

Primary data were obtained after structured questionnaires have been administered to the sample population and the corresponding response analysed.

3.5.2 Secondary Data

Secondary data were obtained from ARP Apex Bank, NBSSI, Credit Union Association and Department of Co-operatives

3.6. Data Collection Instruments

3.6.1 Questionnaire

Two set of questionnaires were administered, one to collect data from owners and / managers of Small Scale Businesses from the selected sample space and the other was used to collect data from some operators of Microfinance Institutions in the Kumasi metropolis. Questionnaire for the SSBs were designed to capture information on business operations (assets, number of employees, etc.) and access to support from MFIs. The questionnaire to the MFIs covered their services in general and support to SSBs in particular. Questionnaire was used because it was easier to administer and does not require face to face interaction with the respondents.

3.6.2 Interview

This is a face to face questions and answers between the interviewer and the interviewee. The personal interview enabled the researcher to clarify a number of conflicting issues and also help to prevent misunderstanding and contradictions since it requires the presence of the researcher. The interview was administered concurrently with the questionnaire.

3.7 Validity and Reliability

Validity is concerned with whether the findings are really about what they appear to be about. (Saunders et al, 2007). To increase the validity of the research, the researcher keyed in all the data obtained from the SSBs and MFIs and statistically analysed using SPSS.

According to Easterby-Smith et al (2002); reliability refers to the extent to which data collection techniques or analysis procedures will yield consistent findings. Reliability can be assessed by posing these three questions:

- Will the measures yield the same results on other occasions?
- Will similar observations be reached by other observers?
- Is there transparency in how sense was made from the raw data?

The first two questions were answered by making sure that greater number of respondents was interviewed and that the respondents cut across almost all facets of the economy involved in Small Scale Businesses in the Kumasi metropolis.

The third question was answered by making use of well proven computer software (SPSS) to analyse the questionnaire.

The various threats to reliability were taken care of through the following means:

1. A more neutral time when interviewees were expected to be neither on a 'high' looking forward to the weekend, nor on a 'low' with the working week in front of them were chosen to reduce the incidence of subject or participation error.
2. Again the threat of subject or participant bias was solved by taking elaborate steps to ensure the anonymity of respondents to the questionnaire.
3. There was a high degree of structure to the interview schedule. Most of the questions in the questionnaire were based on predetermined and standardised or identical set of questions with pre-coded answers usually referred to as an interviewer-administered questionnaire. This helped to lessen the degree of observer error.

3.8 Data Analysis

Data from the completed questionnaire and interview were edited for consistency. The data were then analysed statistically using the Statistical Package for Social Sciences (SPSS). This program helped the researcher to come out with the various frequency tables of the responses and the charts.

3.9 Profile of the Study Area

3.9.1 Introduction

Kumasi is a city in southern central Ghana. It is located near the Lake Bosomtwe, in the Rain Forest Region about 250 km (by road) northwest of Accra. Kumasi is approximately 300 miles north of the Equator and 100 miles north of the Gulf of Guinea. It is popularly known as "The Garden City" or "heart beat" of Ghana because of its many beautiful species of flowers and plants. It is the second largest city in the country. The largest ethnic group is the Ashanti, but other ethnic groups are growing in size. (www.kumasimetro.org [30th March, 2009])

3.9.2 Population and Growth Rate

The Kumasi metropolis is the most populous district in the Ashanti Region. During the 2000 Population Census it recorded a figure of 1,170,270. It has been projected to have a population of 1,915,176 in 2009 based on a growth rate of 5.4% per annum and this accounts for just under a third (32.4%) of the region's population. Kumasi has attracted such a large population partly because it is the regional capital, and also the most commercialised centre in the region. Other reasons include the centrality of Kumasi as a nodal city with major arterial routes linking it to other parts of the country and also the fact that it is an educational centre with two State Universities, a Private University, a Polytechnic, two Teacher Training Colleges, Secondary Schools and a host of Basic Schools. Kumasi is located in the transitional forest zone and is about 270km north of the national capital, Accra.

3.9.3 Kumasi District Economy

The economic activities of the city of Kumasi can be grouped into three main categories. These are namely: Agriculture, Industry and Commerce and the Service Sector.

3.9.4 The Sectors of the Metropolitan Economy

The Kumasi district is made up of the formal and the informal sectors. The Formal sector is characterized by businesses with corporate ownership, large-scale operation, capital-intensive and the use of sophisticated technology and the good access to infrastructure and land. The informal sector structure of Kumasi is “a confusing maze of thousands of tiny workshops and enterprises producing everything under the sun, with a complicated distribution and communication network at their disposal”. Kumasi’s informal sector contributes so much to the total city economy. The major sectors of the economy fall under Trade/ Commerce/Services which accounts for about 71%, Manufacturing/Industry which takes up of 24% and the Primary Production sector which takes only 5%.

3.9.4.1 Primary Production

The primary production sector of the metropolis is made up of urban agriculture and quarrying/sand winning. The agricultural sector, which is made up of farming, aquaculture, horticulture etc is limited to production of staple crops including maize, plantain, cocoyam, cassava, vegetables and nursery of industrial crops mainly oil palm, citrus fruits. There is also specialization in the distribution of food crops which are brought in from other parts of the country.

3.9.4.2 Manufacturing/ Industry

The Industrial Sector is made up of manufacturing (breweries, beverages) and wood processing (plywood, boards). Most of the industries are located in the Asokwa-Ahinsan-Kaase industrial area, the hub of large-scale formal industries. There is Vehicular parts production and service industry located at Suame Magazine which is the second largest industrial area in the metropolis.

The Informal production sector consists of Woodworking industries which are into the production of furniture located mainly at Anloga and Sokoban. There are pockets of wood workers who are also scattered metro-wide. Petty commodity production (carving, weaving and pottery) are also located at Ahwia.

3.9.4.3 Service (Trade/Commerce) Sector

Consists of an integrated system of markets at Adum, Kumasi Central Market (single largest market in West Africa) with linkages to the satellite markets at Asafo, Bantama, Asawase, Ayigya, Ahinsan, Oforikrom, Tafo, Atonsu-Agogo, Santasi, Suame, Amakom, Bomso and Tarkwa, etc. In addition to these, Banking, Insurance, Transportation, Hotels, Restaurants and Traditional caterers (chop bars) and other Tourist sites are found in the city.

3.9.5 Major Economic Activities

Kumasi is predominantly a trade/commerce (service economy inclusive) with an employment level of 71 per cent. This is followed by industry and agriculture with employment levels of 24 per cent and 5 per cent respectively. Kumasi has therefore

established itself as a major commercial centre. Commercial activity is centred on wholesaling and retailing. Both banking and non-banking financial institutions also offer ancillary services. Other areas worth mentioning are the professionals in planning, medicine, engineering, teaching and law practice. Another group of service providers are hairdressers and dressmaker/tailors. The formal estate of large industries located along the Asokwa-Ahinsan-Kaase stretch is engaged in timber milling and plywood manufacturing for the local market and export.

The famous Suame Magazine where small engineering based industries are sited contributes immensely to the economy of the metropolis. The woodworking business at Anloga produces to meet the needs of residents as well as clients from Accra and other parts of the country. Another area of interest is the handicraft-industry. This includes basket weavers, potters, wood carvers and cane weavers.

Agriculture is practised on a limited scale. Crop farming is along valleys of rivers and streams that traverse the metropolis. It is also carried out in open backyards and in the peri-urban areas as well as animal production in sheep/goats, cattle, poultry and fish farming. (KMA Development plan. 2007)

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.0 Introduction

In this chapter, the findings of the study are presented and discussed. Tables and charts were used to explain the data. All the tables and charts referred to in this chapter were computed from data gathered from the field.

The study was conducted in three phases. The first phase, pilot testing interviews and questionnaire with some key informants, this was intended to clarify important dimensions of the topic "The role of Microfinance Institutions in the development of Small Scale Businesses in the Kumasi metropolis" and to inform the design of the questionnaire. The second phase was the administration of questionnaire that targeted the owners/managers and operators of Small Scale Businesses and Microfinance Institutions respectively. The third phase, follow-up interviews with the questionnaire to respondents to sought and elaborates on the role of MFIs in the development of SSBs. There were 160 respondents for the SSBs and 56 for the MFIs.

According to the 2003 national industrial census reports, SSBs form about 41.5% of the businesses in Ghana and employ a sizeable number of the labour force because of its labour intensive nature. However, they are often neglected by the Commercial banks in their quest for loan facilities because of their inability to raise adequate and marketable collateral. Microfinance institutions which were supposed to provide micro credit to the poor, micro and small scale businesses have been seen diverting their core functions to areas way off their primary responsibilities. Viewed from this perspective, the basic aim

of this study is to investigate the role of MFIs in the development of SSBs in the Kumasi metropolis. The key objectives of the thesis were to identify SSBs in Kumasi that are likely to seek developmental assistance from MFIs. Secondly to identify MFIs that are interested in assisting SSBs in Kumasi to develop. Also to assess the products that MFIs have for SSBs in Kumasi. Again to analyse the challenges that SSBs in Kumasi face in their dealings with MFIs. The last but not the least is to determine what MFIs should be doing in helping to develop SSBs in Kumasi.

4.1 Identifying SSBs in Kumasi that are Likely to Seek Developmental Assistance from MFIs

4.1.1 Number of Employees

In categorizing businesses the number of employees was used. Small Scale Businesses are business organizations that have between six and twenty nine employees inclusive. Out of the 160 randomly selected businesses, the following distributions with respect to number of employees were obtained.

Table 4.1 Number of Employees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	6	40	25.0	25.0	25.0
	7	12	7.5	7.5	32.5
	8	4	2.5	2.5	35.0
	9	48	30.0	30.0	65.0
	10	16	10.0	10.0	75.0
	12	20	12.5	12.5	87.5
	13	4	2.5	2.5	90.0
	18	4	2.5	2.5	92.5
	19	4	2.5	2.5	95.0
	20	4	2.5	2.5	97.5
	21	4	2.5	2.5	100.0
	Total	160	100.0	100.0	

Source: Researcher's own field work

It should be noted here that with all the 160 randomly selected SSBs the highest SSB in terms of number of employees was those with 21 employees. This means that no single SSB has reached the maximum 29 employees. It therefore means that all the SSBs in Kumasi can employ more people and still be within the definition of SSBs if they choose to. However, employing more people also depends on the resources available to these SSBs. It was against this background that the researcher decided to find out the nature of their premises and how they intend to grow.

It should also be noted that the sample used showed a fair representation of the population as they were chosen from randomly selected similar clusters within the Kumasi Metropolis.

4.1.2 Nature of SSBs Premises

Table 4.2 Nature of Premises

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Rented premises	128	80.0	80.0	80.0
	Self-owned	32	20.0	20.0	100.0
	Total	160	100.0	100.0	

Source: Researcher's own field work

From the table above, it could be observed that, 128 (80%) of the SSB's operate in rented premises and only 32 (20%) operate in premises belonging to the company. What is clear is that a lot of the SSBs would need assistance in the areas of helping them to acquire their own premises. It was against this background that the researcher decided to find out the extent that SSB owners and/managers would like their businesses to grow.

4.1.3 Extent of Business Growth

Table 4.3 Extent of Business Growth

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Just enlarge my present premises	36	22.5	22.5	22.5
	Open up some braches in some part of Kumasi	64	40.0	40.0	62.5
	Set up branches in regional capitals of Ghana	36	22.5	22.5	85.0
	Set up many branches in Ashanti region	24	15.0	15.0	100.0
	Total	160	100.0	100.0	

Source: Researcher's own field work

From the table 4.3 above, it is clear that all the 160 SSB respondents want to enlarge their businesses one way or another with 64(40%) willing to open up some branches in some part of Kumasi, 36(22.5%) want to set up branches in the regional capitals of

Ghana, 24(15%) wants to set up many branches in Ashanti region whilst 36(22.5%) just want to enlarge their present premises.

As it became apparent that all the SSBs wanted to expand their businesses one way or another, they were then asked whether they had thought of MFIs as an institution capable of assisting them to grow their businesses. Here 148(92.5%) answered in affirmative whilst the remaining 12(7.5%) said they haven't. It can therefore be seen here that all other things being equal 92.5% of SSBs in Kumasi are likely to seek developmental assistance from MFIs.

Table 4.4 Have you ever thought of MFIs as an institution capable of helping your business to grow?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No	12	7.5	7.5	7.5
Yes	148	92.5	92.5	100.0
Total	160	100.0	100.0	

Source: Researcher's own field work

4.2 Identify MFIs that are Interested in Assisting SSBs in Kumasi to Develop

All the 56 randomly selected MFIs indicated that they have products for SSBs. This means that all other things being equal, all the MFIs in Kumasi are interested in assisting SSBs to develop. This is well demonstrated in the table below

Table 4.5 Do MFIs have products for SSBs

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	56	100.0	100.0	100.0

Source: Researcher's own field work

The various MFIs were then asked to list the various products and their responses are well demonstrated in the table 4.6 below. Here 11(19.6%) mentioned a product called Business accounts, 10(17.9%) mentioned Business advice and support (BAS), 22(39.3%) gave the product name as micro credit whilst 13(23.2%) stated temporarily overdraft as the product name.

Table 4.6 Product Name

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Business accounts	11	19.6	19.6	19.6
	Business advice and support	10	17.9	17.9	37.5
	Micro credit	22	39.3	39.3	76.8
	Temporary overdraft	13	23.2	23.2	100.0
	Total	56	100.0	100.0	

Source: Researcher's own field work

It then became necessary to find out the rational for the above named products and to determine whether these products were intended to help SSBs to develop.

Table 4.7 Rational Behind the Product

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	As collateral for accessing loan facilities	13	23.2	23.2	23.2
	Encourage savings culture	13	23.2	23.2	46.4
	For Business expansion	19	33.9	33.9	80.4
	To enable SSBs mobilize funds	11	19.6	19.6	100.0
	Total	56	100.0	100.0	

Source: Researcher's own field work

The table above shows that 13(23.2%) of the respondents stated that their products were to be used as collateral by SSBs to access loan facilities. Since access to credit has been

identified as a major problem facing SSBs then this product would surely benefit SSBs. Another 13(23.2%) respondents also said their products were to encourage savings culture in SSBs, 19(33.9%) also said their products were for expansion purposes and 11(19.6%) stated that their products were intended to help SSBs mobilized funds. Looking at the peculiar problems facing SSBs it can therefore be said here that all the above mentioned products have the development of SSBs at heart.

To find out whether the 56 MFIs respondents have not developed the above products for SSBs because of their own selfish interest, the researcher queried them to find out whether they would like to encourage more MFIs to design products for the SSBs and they all answered in affirmative as shown below.

Table 4.8 Would you encourage more MFIs to design products for SSBs?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	56	100.0	100.0	100.0

Source: Researcher's own field work

Finally, when the SSBs were asked to mention the MFIs helping them to develop, 44.6% mentioned Savings and Loans, 16.1% mentioned Credit unions, 14.3% said Rural Banks, and another 14.3% mentioned MASLOC and the remaining 10.7% said they receive their help from some Susu schemes as shown in the chart below.

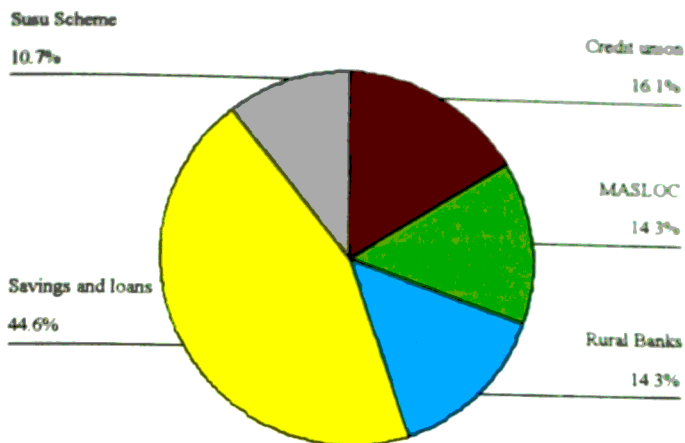


Figure 4.1 MFIs helping SSBs to grow
Source: Researcher's own field work

4.3 Assess the Products that MFIs have for SSBs in Kumasi.

This assessment is based on the products provided by the MFIs and their proposed benefits to the SSBs visa vie the products solicited from the MFIs by the SSBs and their derived benefits

4.3.1 Products Provided by the MFIs

The survey conducted on the MFIs revealed that they have a variety of products designed to help SSBs to develop. These products are Business accounts, Business advice and support, Micro credit and Temporary overdraft. These products are shown in table 4.6 on page 48 above.

4.3.2 Proposed Products Benefits

According to the MFIs, their products give the SSBs a number of benefits. These benefits range from building up collateral base, business expansion, C.O.T. free and ease of accessing loans among others.

Table 4.9 Proposed Benefits of MFIs' Products to SSBs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Building up collateral base	16	28.6	28.6	28.6
	Business expansion	18	32.1	32.1	60.7
	C.O.T free	10	17.9	17.9	78.6
	Ease of accessing loans	12	21.4	21.4	100.0
	Total	56	100.0	100.0	

Source: Researcher's own field work

4.3.3 Products SSBs Solicited from the MFIs

Out of the 160 SSBs respondents, 148(92.5%) had ever thought of MFIs as and institution capable of helping them to grow their businesses. This is shown in table 4.4 on page 48 above.

Out of these 148 SSBs, only 64(43.2%) had visited the MFIs for support. This is shown in the figure 4.2 below. The remaining 84(56.8%) had one time or another thought of MFIs as an institution capable of assisting their business but had not visited them for any form of assistance.

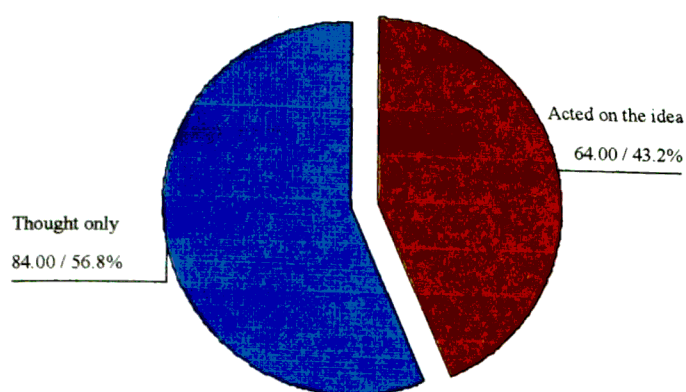


Fig. 4.2 Remains thought or Acted on the idea

Source: Researcher's own field work

Out of the 64(43.2%) respondents who said they actually acted on the idea of seeking assistance from MFIs 48(75%) said they solicited for micro credit, 12(18.8%) said they went in for business advice and support (BAS) and only 4(6.3%) said they went in for suppliers guarantee as demonstrated below:

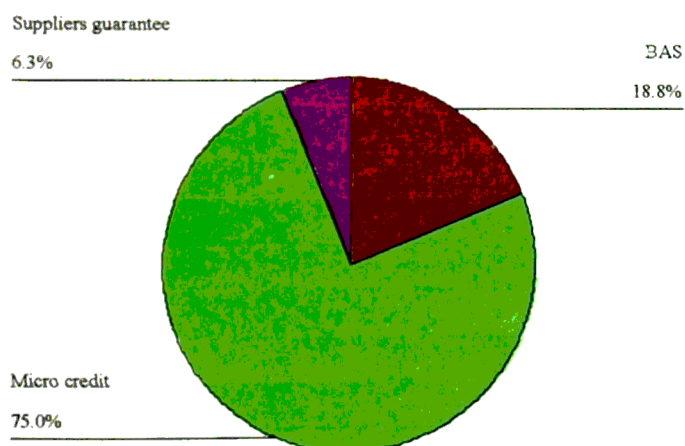


Figure 4.3 Products Solicited from MFIs

Source: Researcher's own field work

4.3.4 Benefits SSBs Obtained from the MFIs Products

From the figure 4.4 below, 12(18.8%) of the 64 SSBs who went to the MFIs for assistance claimed they had no benefit from the products obtained whereas 52(81.3%) said they benefited from the products.

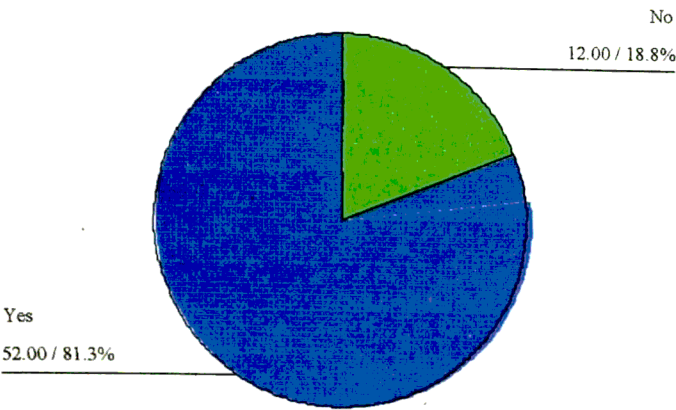


Fig. 4.4 Does the product have any benefits
Source: Researcher's own field work

When the 52 out of the 64 respondents who said they benefited from the products obtained from MFIs were then asked to mention those benefits, 36(69.2%) mentioned business expansion, 8(15.4%) said entrepreneurial skills, 4(7.7%) mentioned ease of accessing loans and another 4(7.7%) also mentioned good record keeping as the benefit obtained from the MFIs

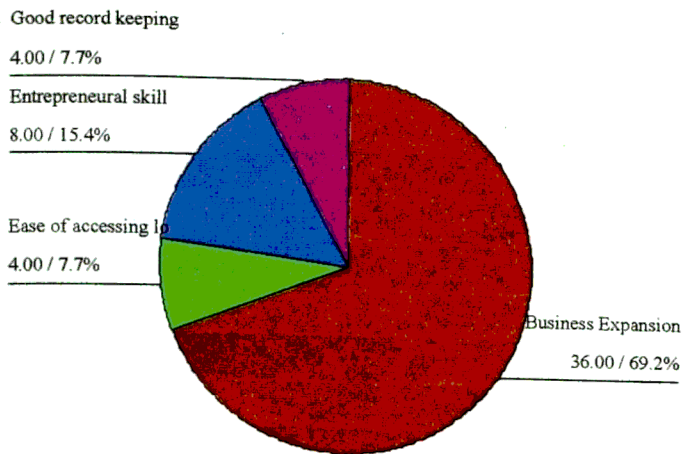


Figure 4.5 Actual Product Benefits to SSBs

Source: Researcher's own field work

It can therefore be confirmed here that MFIs are actually helping SSBs to grow as can be seen from both the proposed benefits from the MFIs and the actual benefits received by the SSBs.

4.4 Analyse the Challenges that SSBs in Kumasi face in their Dealings with MFIs

The 64 SSBs respondents who said they acted on the idea of seeking assistance from MFIs, 36(56.3%) of them said, they faced or envisaged to face one problem or another in their dealings with the MFIs whereas 28(43.8%) of the respondents are of the view that they have neither faced nor envisaged any problem or challenges in their dealings with the MFIs.

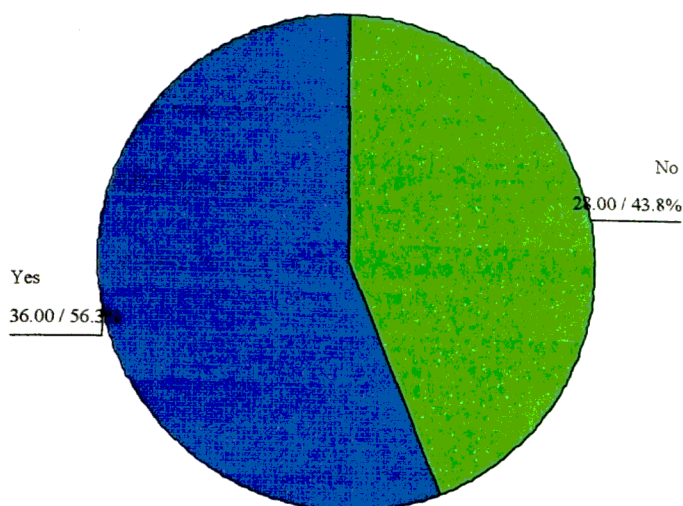


Figure 4.6 Are there any problem with MFIs?

Source: Researcher's own field work

The 36 respondents who said they had faced or envisaged one problem or another in their dealings with MFIs were then asked to mention the type of problem. The following were their responses; 28(77.8%) mentioned high interest rate, 4(11.1%) cited defrauding and another 4(11.1%) also mentioned disappointment as the problem faced.

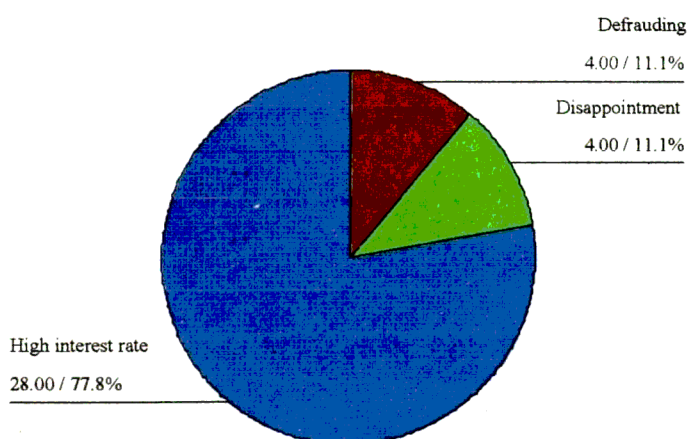


Figure 4.7 Problems faced with MFIs

Source: Researcher's own field work

Looking at the above challenges/problems faced by the 36 SSBs operators who sought assistance from the MFIs, the researcher then decided to find out whether they would advise other SSBs who have not sought help from MFIs in their pursuit for growth to do so. Here, 60% said yes, they would advise other SSBs to seek help from MFIs in their pursuit for growth and 40% said they would never advise any SSBs to do that.

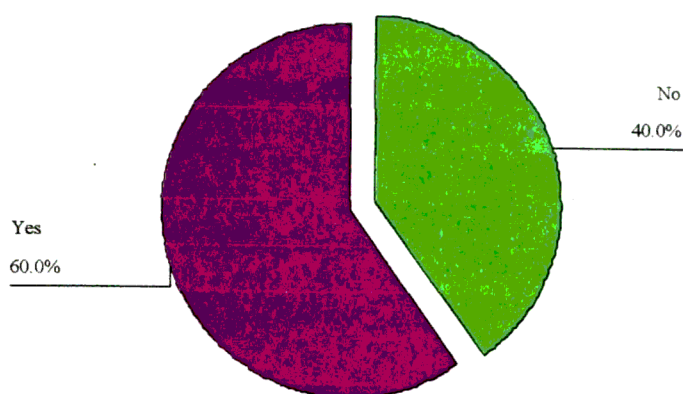


Figure 4.8 Would you advise other SSBs to seek support from MFIs?
Source: Researcher’s own field work

It can therefore be concluded here that even though SSBs face challenges in their dealings with MFIs, these challenges are not very serious as it appears from the figure above that only 40% of these SSBs are very embittered to the extent that they would not even want to advise other SSBs to seek help from MFIs

4.5 Determine what MFIs should be doing in helping to Develop SSBs in Kumasi.

Even though 148(92.5%) of the 160 SSB respondents said they have thought of MFIs as an institution capable of assisting them to grow (table 4.4 p.47), only 64(43.2%) said they actually acted on that idea and visited some MFIs whilst 84(56.8%) said it remained

only as thought and that they have never visited any MFI (Fig. 4.2, p. 52). This means that there is a lot to be done by the MFIs to attract the remaining 56.8% of the SSBs to seek assistance from them.

The 84(56.8%) who said they had never visited any MFIs and that their idea was only thought were further asked if they knew of any product that MFIs have that do support SSBs to grow. Here, 4(4.8%) answered in the negative and 80(95.2%) answered in the positive. This shows that after all the SSBs are not naïve so far as products of MFIs are concern.

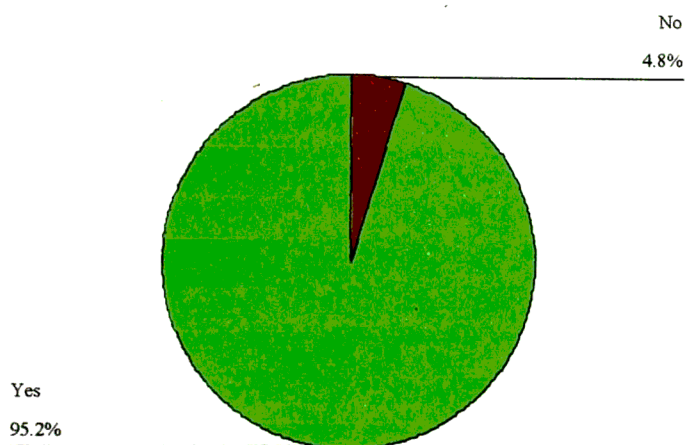


Figure 4.9 Do you know of any product from MFIs

Source: Researcher's own field work

When the 80(95.2%, Fig 4.9) who said they knew of products from MFIs that do support SSBs to grow but had not acted on the idea to visit them were asked to mention some of the products, 16(20%) mentioned Business advice and support whilst 64(80%) mentioned microcredit as shown below.

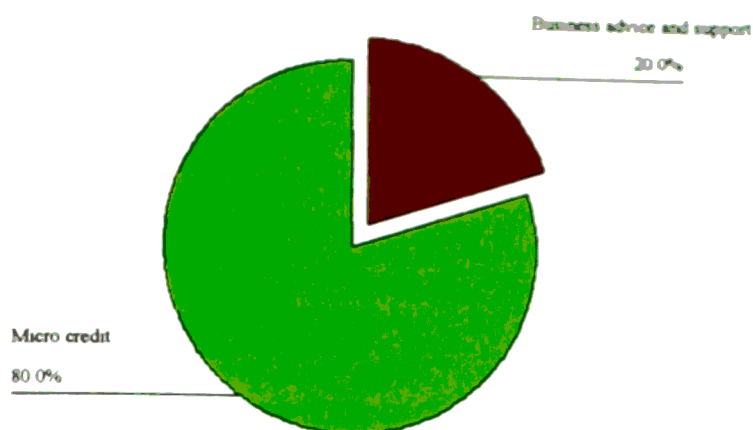


Figure 4.10 Known Product name

Source: Researcher's own field work

Out of the 84(56.8%) respondent who said they only thought of MFIs as an institution capable of assisting SSBs to grow (Fig. 4.2, p.52), 32(38.1%) of them said they would have solicited for business advice and support whilst 52(61.9%) would like to go in for microcredit as shown below.

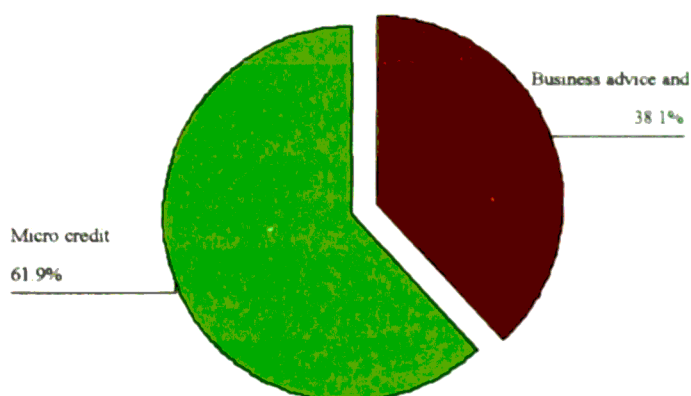


Figure 4.11 Product to be Solicited

Source: Researcher's own field work

When the 84(56.8%, Fig.4.2, p.52) respondent who said they had only thought of MFIs as an institution capable of assisting SSBs to grow but have not gone to them, were asked why they have not visited MFIs, 48(57.1%) of them said they did not need their support, 24(28.6%) said because of their high interest rates, 4(4.8%) said they did not have much information on MFIs and 8(9.5%) cited rigid repayment schedule as reason.

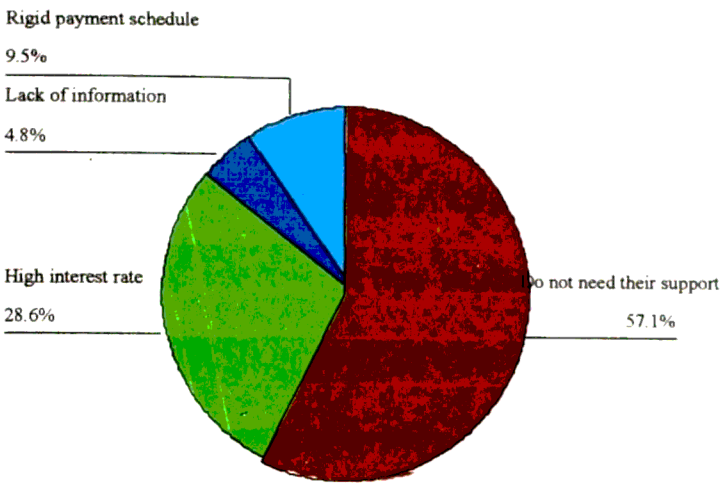


Fig. 4.12 Reasons why MFIs are not approached
Source: Researcher’s own field work

The general perceptions of the MFIs by the SSBs were also sought and the following responses were obtained. 31.4% of the SSBs complained that the MFIs were not trustworthy, 22.9% complained of high interest rates charged by these MFIs, 8.6% cited inadequate information on the operations of these MFI and 5.7% mentioned poor customer service among others. These notwithstanding 25.7% of the SSBs respondents were of the view that the MFIs contribute immensely to the development of SSBs. The above information is shown in figure 4.13 below.

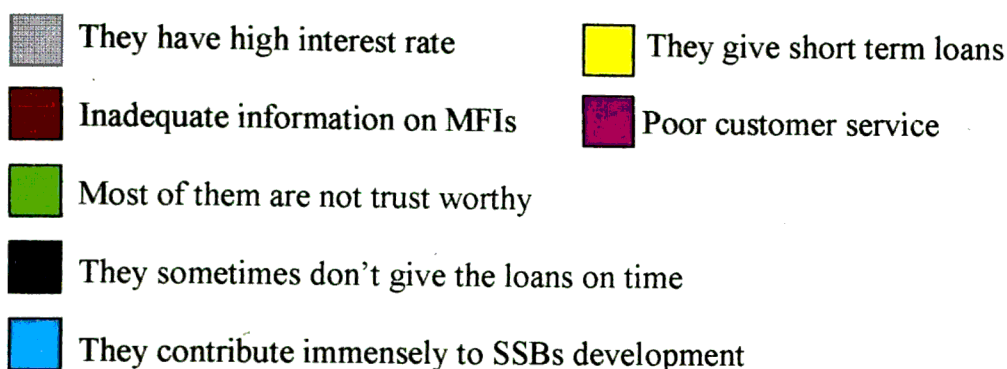
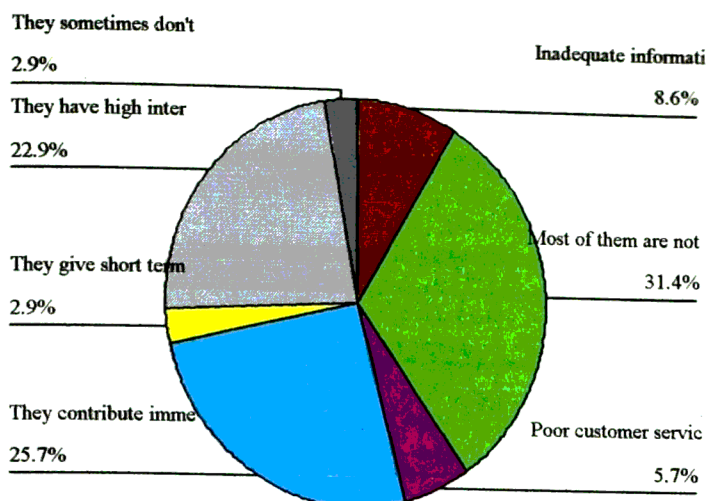


Fig. 4.13 Perceptions about MFIs

Source: Researcher's own field work

It had been revealed that there are huge numbers of SSBs out there (about 56.8% as in figure 4.2 p. 52) that are not seeking assistance from MFIs because of the concerns raised above in figures 4.12 and 4.13. It can therefore be concluded here that the MFIs can attract these SSBs and develop them by addressing the above concerns raised by the SSBs through some of the following means.

- i. Erase the erroneous impressions on the minds of these SSBs that they do not need any support from the MFIs. This can be done through constant education.
- ii. Address the problem of high interest rate and make payment system flexible.

- iii. Improve their trustworthiness and customer service.

Finally, the MFIs were asked whether they provide any form of support for these SSBs before and during their formation.

Table 4.10 Do MFIs play any role in SSBs before set up

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	50	89.3	89.3	89.3
	Yes	6	10.7	10.7	100.0
	Total	56	100.0	100.0	

Source: Researcher's own field work

From the above table, it can be seen that only 6(10.7%) of the MFIs play any role before the initial formation of the SSBs. The remaining 50(89.3%) of MFIs do not play any role during the initial formation of the SSBs.

When the 89.3% of the MFIs operators were questioned why they do not support SSBs during the initial formation, these were the responses they gave. 44% of them said the SSBs do not consult them, 24% said it is not their policy to go into business formation, 22% said they do not have the human resource desk for such a task and the remaining 10% stated that they only help existing businesses. The above information is shown in figure 4.14 below.

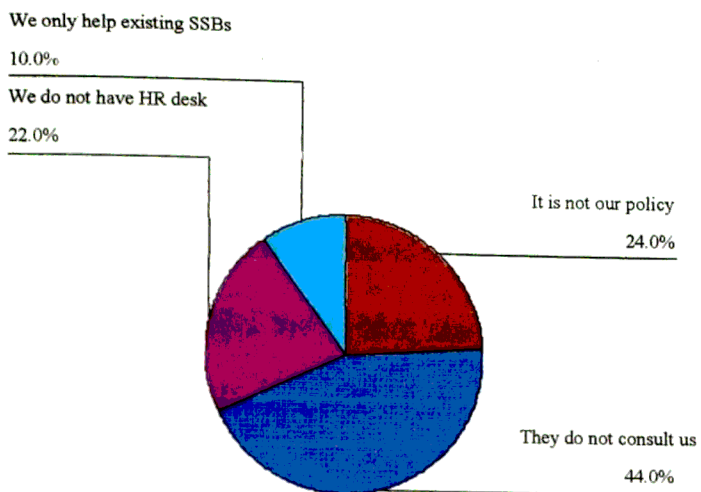


Figure 4.14 Why no role for MFIs before SSBs set up

Source: Researcher's own field work

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.0 Introduction

The purpose of this chapter is to provide a summary of the study and to present conclusions from the data provided by respondents. This chapter in addition addresses the recommendations for further study and to improve upon the role of MFIs in the development of SSBs in the Kumasi metropolis.

5.1 Summary of Findings

The following findings were made from the research work:

5.1.1 SSBs in Kumasi that are likely to seek Developmental Assistance from MFIs.

It was found out from the study that all the SSBs in Kumasi have the desire to expand. Some of these desire included enlarging their present premises, opening up some branches in some part of Kumasi, set up many branches in Ashanti region and others willing to set up branches in the regional capitals of Ghana. Again it was found out that 80% of these SSBs operate in rented premises. It was also revealed that 92.5% of these SSBs had ever thought of MFIs as an institution capable of assisting them to achieve the desire of expanding and therefore likely to seek assistance from these MFIs. However, less than 50% (that is 43.2%) of these SSBs had visited MFIs for some form of assistance. Reasons why majority of these SSBs had not visited the MFIs included lack of trust, high interest rates and the wrong perception that these SSBs have for themselves that they do not need any support from the MFIs.

5.1.2 MFIs that are Interested in Assisting SSBs in Kumasi to Develop.

It was revealed that all the MFIs have products for the SSBs in the Kumasi metropolis. The rationale for these products included business expansion, encouraging savings culture, as collateral for accessing loan, to enable SSBs mobilize funds and others. Some of these products are micro credit, Business advice and support, Business accounts and temporary overdraft. Again it was found out that all the MFIs are ready to create new products for the SSBs in the areas of management training and hire purchase. It was also noted that most of the SSBs which were yet to solicit for support from the MFIs had preference for Credit unions, followed by Rural and Community Banks and Savings and Loans in that order. However, the situation was different for SSBs already attached to MFIs. Here the greater numbers of them are seeking assistance from Savings and Loans, followed by Credit unions and Rural and Community banks in that order.

5.1.3 Assessing the Products that MFIs have for SSBs in Kumasi.

About 89.3% of the MFIs graded their performance in their dealings with the SSBs as "good" and very few, 10.7% said their performance was "very good". This means that from the standpoint of the MFIs, they have not done badly at all. However, the fact that only very few MFIs graded themselves as "very good" and no "excellent mark" was recorded shows that these MFIs agree that there is still much to be done in helping the SSBs to develop. On the part of the SSBs, 81.3% of the companies who had visited these MFIs said they benefited a lot from the products they received from the MFIs. Most of them cited business expansion as the benefit they had received. They revealed that the most widely known product from the MFIs was micro credit followed by business advice and support. Their proportions in the survey were 80% and 20% respectively.

5.1.4 Challenges Facing MFIs and SSBs in their Dealings with each other.

The study unearthed a number of challenges facing these two institutions in their dealing with each other. Some of the challenges facing the MFIs in their dealing with the SSBs included illiteracy, poor record keeping and management practices, bad attitude towards loan repayment/loan default and multi-banking (dealing with more than one bank). The SSBs on the other hand complained of some challenges such as high interest rate, defrauding, rigid payment schedule and poor customer service.

5.1.5 What MFIs should be doing in helping to develop SSBs in Kumasi.

It was discovered that almost all the MFIs in Kumasi (89.3%) do not play any role before and during the setting up of the SSBs. This they believe is due to the fact that the SSBs do not consult them during the business formation processes; some MFIs also think that it is not their policy to go into business formation and that they only help existing businesses. However, only 43.2% of these existing SSBs had ever visited the MFIs for any form of assistance. The remaining 56.8% mentioned high interest rate, lack of information on MFIs, rigid payment schedule among others as some of the reasons why they have not visited the MFIs for any form of support. It is therefore necessary to point out here that for the MFIs to adequately help these SSBs do develop, they should address the concerns raised by these SSBs as enumerated on pages 60-61.

5.2 Conclusion

The main aim of the study was to investigate the role of Microfinance Institutions in the development of Small Scale Businesses in the Kumasi metropolis. The study identified SSBs in Kumasi that are likely to seek developmental assistance from MFIs, identified MFIs that are interested in assisting SSBs in Kumasi to develop, assessed the products that MFIs have for SSBs in Kumasi, analysed the challenges that SSBs in Kumasi face in their dealings with MFIs and determined what MFIs should be doing in helping to develop SSBs in Kumasi. Five research questions guided the study. These are:

1. What are the indications that would trigger SSBs in Kumasi to seek developmental assistance from MFIs?
2. Which categories of MFIs are interested in assisting SSBs in Kumasi to develop?
3. Do current developmental packages by MFIs satisfy SSBs in Kumasi? If yes, to what extent? If no, why not?
4. What are the imbedded challenges facing the MFIs and the SSBs in the MFIs attempt to develop SSBs in Kumasi?
5. Are there any roles for MFIs to play before, during and after in developing SSBs in Kumasi?

The Statistical Package for Social Sciences (SPSS) was used to input and analysed data from the survey. Descriptive statistics were used to address the five questions outlined in the study. The study covered 160 SSBs and 56 MFIs in the Kumasi metropolis.

The findings of the study may prove to be an eye-opener to top managements of both the MFIs and the SSBs as it has brought to the fore that both MFIs and SSBs need each other as partners in development. The following conclusions can therefore be made; All

the SSBs in Kumasi have not developed to the level they would like to be. None of them has reached the maximum number of employees mandated in the operational definition of SSBs (29 employees). Quite a greater number of SSBs are working in rented premises. However, they all have the ambition to expand their operations and therefore likely to seek developmental assistance from the MFIs. It should be noted that all the MFIs have criteria that prospective SSBs must follow in order to attract their support. These criteria included business certificate, business plan, good record keeping and management practices as well as some form of collateral. The reasons for these are to know the SSBs credit worthiness and ensure loan repayment, to fulfill Bank of Ghana's policy as well as to facilitate the growth of the SSBs. Savings and Loans, Credit Unions and Rural and Community banks in that order are the categories of MFIs most interested in helping SSBs in Kumasi to develop. It should be noted that majority of the SSBs in Kumasi have never visited these MFIs for any form of support. However, those who have had the opportunity to deal with the MFIs are very much satisfied with the current developmental packages by the MFIs to the extent that they are willing to advise other SSBs who have not sought assistance from these MFIs to do so. On the contrary, some of these SSBs complained that they face some challenges such as high interest rate, defrauding, poor customer service among others in their dealings with the MFIs. The MFIs on their part also complained of some challenges in dealing with the SSBs. These included illiteracy, poor management practices, bad attitude towards loan repayment, poor record keeping and multi-banking. Only few MFIs play any form of roles before and during the formation of the SSBs. However, all the MFIs play active roles after the formation of the SSBs. These roles are in the areas of microcredit, business advice and support, business accounts and temporarily overdraft. MFIs should address the problem

of high interest rates, includes more advertisement in order to reduce the information gap between themselves and the SSBs, review their customer service and repayment schedules and also make their operations more trustworthy if they want to help SSBs in Kumasi to develop

In conclusion, it must be stated that the importance of MFIs to the development of SSBs cannot be over emphasized. The provision of business advice and support, micro credit, business accounts and temporary overdraft go a long way to help these SSBs to expand their businesses, build up collateral base and also ease the process of accessing loans. The C.O.T free services enjoy by these SSBs also help them reduce their bank charges and overall expenditure on their operation. It can therefore be concluded that the MFIs are really helping in the development of SSBs in the Kumasi metropolis.

5.3 Recommendations

The recommendations provided below are the results of the findings made from interviews and responses to questionnaire that were administered to the stakeholders in the MFIs and the SSBs. It has been established from this research that the MFIs play very important role in the development of SSBs in Kumasi; however, the following recommendations must be proposed for consideration by the MFIs and the SSBs.

5.3.1 It came to light from the study that the MFIs were not happy with the management structure of the SSBs, their record keeping and attitude towards loan repayment. It is therefore recommended that the MFIs should take up the challenges of setting up a unit responsible for educating SSBs in the areas of business and financial management. This

some MFIs alluded to and agreed to establish business advisory and management training centre.

5.3.2 It was realized that all the MFIs are interested in assisting SSBs to develop; however, the SSBs do not have enough information about the operations of these MFIs. It is therefore recommended that the MFIs should undertake vigorous advertisement and regular visit to SSBs to enable them attract the over 50% of SSBs who have never visited them for any form of support.

5.3.3 It was revealed that almost all the MFIs do not play any role before and during the setting up of the SSBs. We wish to recommend to the MFIs that they have a duty to play before and during the setting up of the SSBs. They can develop a package like entrepreneurship and business formation for prospective SSB operators.

5.3.4 SSBs should develop the habit of keeping proper records and preparing good business plans since they are some of the important considerations for accessing any facility from the MFIs.

5.3.5 MFIs should review their interest rates in order to make them attractive to the SSBs. They should also work on improving their customer service and instill trustworthiness in their operations in order to expel the notion that they are only there to “milk” and defraud the SSBs.

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APPENDICES

APPENDIX ONE

KWAME NKRUMAH UNIVERSITY OF SCIENCE & TECHNOLOGY

SCHOOL OF BUSINESS-MASTER OF BUSINESS ADMINISTRATION

QUESTIONNAIRE FOR MICROFINANCE INSTITUTIONS ON THE TOPIC

“THE ROLE OF MICROFINANCE INSTITUTIONS IN THE DEVELOPMENT

OF SMALL SCALE BUSINESSES IN THE KUMASI METROPOLIS”

I am a final year student of the Business School of the Kwame Nkrumah University of Science and Technology Kumasi undertaking a course leading to the award of Master of Business Administration (MBA).

As part of the course, I have chosen to research into the above topic. I would be very grateful if you fill out the following questionnaire for me. Your responses will be held in confidence and your anonymity strictly protected.

1. Name of Organisation.....Branch.....
2. When was your institution set up?
3. Do you have any product for Small-Scale Businesses (SSBs)? Yes ☐ No ☐
4. If Yes, List them.
 - a. Micro credit ☐
 - b. Business accounts ☐
 - c. Temporary overdraft ☐
 - d. Business advice and support ☐
 - e. Suppliers guarantee ☐
 - f. Others (Specify)

5. What is the rationale behind such products designed for Small-Scale Businesses?

- a. For business expansion ☐ b. Encourage savings culture ☐
c. As collateral for accessing loan facilities ☐ d. To enable SSBs mobilize funds ☐
e. Others (specify)

6. Would you encourage more Microfinance Institutions (MFIs) to design products for SSBs. Yes ☐ No ☐

7. If yes, why?

- a. Traditional banks do not want to advance credit to SSBs ☐
b. SSBs are big enough for only few institutions to support. ☐
c. Private sector is the engine of economic growth ☐
d. SSBs need our support ☐
e. Others
(specify).....

8. If No, why?

- a. There isn't enough market ☐ b. Fear of competition ☐
c. Is a high risk business ☐
d. Others (specify)

9. Mention some of the benefits your products are giving to SSBs.

- a. Business expansion ☐ b. Ease of accessing loans ☐
c. Building up collateral base ☐ d. C.O.T free ☐
e. Others (specify)

10. From banking policies, are there any challenges you face in dealing with SSBs?

Yes ☐ No ☐

11. If Yes. State them.

- a. Poor record keeping ☐ b. Poor management structure ☐
c. Lack of adequate and marketable collateral ☐ d. Loan default ☐
e. Others (specify)

12. What new product, if given the chance would you create for SSBs apart from what you have now?

- a. Business advisory services ☐ b. Staff loans ☐ c. Hire purchase ☐
d. Management training ☐ e. Micro credit ☐ f. Susu collection ☐
g. Others (specify)

13. Why this/these product(s)?

14. Do you play any role before the setting up of SSBs? Yes ☐ No ☐

15. If Yes, Why?

- a. Most SSBs die in the early stages of formation ☐
b. Business formation needs technocrats ☐
c. Others (specify)

15 (b) Name that role?

- a. Consultancy services ☐ b. Startup capital ☐ c. Business registration ☐
d. Others (specify)

16. If No, Why?

- a. It is not our policy ☐ b. We only help existing businesses ☐
c. They do not consult us ☐ d. We have not thought of it ☐
e. Others (specify)

17. Do you still support SSBs to grow after their initial set up? Yes ☐ No ☐

18. If yes, why?

a. To maintain them as customers ☐ b. To help them expand ☐

c. They have huge potential within them ☐ d. To help them survive ☐

e. SSBs form the bulk of businesses in Ghana ☐

f. Others (specify)

.....

19. What role do you play this time?

a. Credit facilities ☐ b. Business advice and support ☐ c. Business accounts ☐

d. Others (specify)

.....

20. Do you have criteria that prospective SSBs must have in order to attract your support? Yes ☐ No ☐

21. If Yes, why?

a. To ensure loan repayment ☐ b. To facilitates the growth of the SSBs ☐

c. To know their credit worthiness ☐ d. To fulfill Bank of Ghana's policies ☐

d. Others (specify)

.....

21(b) Name some of the criteria

a. Management practices ☐ b. Business Certificate ☐ c. Collateral ☐

d. Market size and target market ☐ e. Record keeping ☐ f. Business plan ☐

g. Others (specify)

22. If No, why?

- a. Want to be liberal to cope with competition ☐ b. Is not our policy ☐
c. Others (specify)

23. If 1 means Excellent 2 means Very Good 3 means Good
4 means Fair 5 means Not at all

Grade the extent to which your products that help SSBs to grow perform on a grade of 1 to 5. 1 2 3 4 5.

Circle the most appropriate.

24. Why this grade?

25. What challenges do you face in dealing with SSBs?

- a. Competition ☐ b. Loan default ☐ c. Change of business location ☐
d. Poor record keeping ☐ e. Illiteracy ☐ f. Poor management practices ☐
g. Lack of collateral ☐
h. Others (specify)

26. What perception(s) do you have about SSBs in the Kumasi Metropolis?

- a. Perceived high risk ☐ b. High cost involved in small transactions ☐
c. Inability to provide marketable collateral ☐
d. Others (specify)

27. Any additional comment/information on your dealings with SSBs in the Kumasi Metropolis.....

APPENDIX TWO

KWAME NKRUMAH UNIVERSITY OF SCIENCE & TECHNOLOGY

SCHOOL OF BUSINESS-MASTER OF BUSINESS ADMINISTRATION

QUESTIONNAIRE FOR SMALL SCALE BUSINESSES ON THE TOPIC

**“THE ROLE OF MICROFINANCE INSTITUTION IN THE DEVELOPMENT
OF SMALL SCALE BUSINESSES IN THE KUMASI METROPOLIS”**

I am a final year student of the Business School of the Kwame Nkrumah University of Science and Technology Kumasi undertaking a course leading to the award of Master of Business Administration (MBA).

As part of the course, I have chosen to research into the above topic. I would be very grateful if you fill out the following questionnaire for me. Your responses will be held in confidence and your anonymity strictly protected.

Note: Only organisations with number of employees between 6 and 29 inclusive are qualified to fill this questionnaire.

1. Name of Organisation.....Location.....
2. In what year did you establish your business?
3. How many employees do you have?
4. Are you in a rented or self-owned premises?
5. What is the value of your movable assets?.....

6. Granting that all other things are equal, to what extent would you want your business to grow? Select one or more

- a. Set up branches in regional capitals of Ghana. ☐
- b. Set up many branches in Ashanti region. ☐
- c. Open up some branches in some part of Kumasi ☐
- d. Just enlarge my present premises. ☐
- e. Stay contented with this present size. ☐

7. Have you ever thought of Microfinance Institutions (MFIs) as institutions capable of assisting your Small Scale business (SSB) to grow? Yes ☐ No ☐

8. If Yes; did this idea remain only in thought or you acted on the idea?

- a. Thought only ☐ "Go to Questions 9 to 13 and 22"
- b. Acted on the idea ☐ "Go to Questions 14 to 22"

9. Do you know of any product that MFIs have that do support SSBs to grow?

Yes ☐ No ☐

10. If Yes, name that product.

- a. Micro credit ☐
- b. Business accounts ☐
- c. Temporary overdraft ☐
- d. Business advice and support ☐
- e. Suppliers guarantee ☐
- f. Others (Specify)

11. What product(s) would you have solicited from the MFIs to help your SSB?

- a. Micro credit ☐
- b. Business accounts ☐
- c. Temporary overdraft ☐
- d. Business advice and support ☐
- e. Suppliers guarantee ☐
- f. Others (Specify)

12. Are there any special reasons why you have not approached any MFIs for support?

- a. Lack of trust ☐ b. High interest rate ☐ c. Do not need their support ☐
d. Others (specify)

13. Which MFIs would you like to help you to grow?

- a. Susu Scheme ☐ b. Credit unions ☐
c. Savings and Loans ☐ d. Rural Banks ☐

Others (specify)

14. What product did you solicit from the MFIs?

- a. Micro credit ☐ b. Business accounts ☐ c. Temporary overdraft ☐
d. Business advice and support ☐ e. Suppliers guarantee ☐
f. Others (Specify)

15. Does the above product(s) have any benefit to you? Yes ☐ No ☐

16. If Yes, Name some of the benefits?

- a. Business expansion ☐ b. Ease of accessing loans ☐
c. Building up collateral base ☐ d. C.O.T free ☐
e. Good record keeping ☐
f. Others (specify)

17. If No, why are you still using the package?

- a. No alternative ☐ b. Still indebted to them ☐ c. Have planned to stop ☐
Others (specify)

18. Have you ever faced or do you envisage any problems or challenges likely to be encountered in your dealings with these MFIs? Yes ☐ No ☐

19. If Yes, List the problems.

a. High interest rate

☐

b. Defrauding

☐

c. Others (specify)

.....

20. What is/are the name(s) of MFIs that is/are helping you?

.....

21. Would you advise other SSBs who have not sought the help of MFIs in their

pursuit for growth to do so?

Yes

☐

No

☐

22. Any other information about your perception of MFIs.

.....

.....

Map of the Metropolis Form and Structure.

