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THE FINANCING OF MICRO ENTERPRISES IN GHANA. A CASE STUDY OF SINAPI ABA TRUST (SAT)

Thesis submitted to the School of Business Kwame Nkrumah University of Science and Technology in Partial Fulfilment of the requirements for the Degree of Master of Business Administration

BY

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DECLARATION

This thesis has been the result of my own research work with reference to specific authors duly acknowledged. It has not been submitted towards any other degree award.

I hold responsibility for the views expressed in this report.

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DEDICATION

This Book is dedicated to

Diana,

Stephen,

Joshua.

ACKNOWLEDGEMENT

A large number of individuals have contributed to this thesis. I am thankful to all of them for their help and encouragement. Like most theses, this book has also drawn from the works of a large number of researchers and authors in the field of finance. My writing in this book has also been influenced by a number of standard and popular textbooks in the field. As far as possible, they have been fully acknowledged at the appropriate places. I express my gratitude to all of them.

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And to God to whom all the Glory and Honour and Praise belong, now and for ages unending: Amen!

ABSTRACT

Micro enterprises play very useful roles in the economies of developing countries but they remain largely informal and therefore find it extremely difficult accessing credit from the traditional institutions. Banks and other formal financial institutions have become very elitist in their operations and thus creating a vacuum in the financial sector with regards to financing of micro enterprises. Several micro finance institutions have emerged in an attempt to fill this vacuum. There is therefore, the need to assess the roles that these MFIs have on their intended beneficiaries in order to determine which direction the industry should be headed. The study looked at Sinapi Aba Trust in financing microenterprises in Kumasi and Offinso between 2004 and 2008. The methodology employed involved the administration of questionnaire on selected beneficiaries from two locations, an interview with a key person at the MFI and extensive desk work. The study has established that, SAT's loan interventions have made significant impacts on the businesses of its clients and also on the livelihoods of clients' and their households. Impacts have been made in the following areas: Access to quality healthcare; improved household food security; Enhanced access to education for beneficiaries' children; and Improvements in housing infrastructure. The study also established that SAT demonstrated consistent and remarkable profitability, outreach and portfolio quality.The following are some of the recommendations made from the study. Micro enterprises need to be supported not only in the form of credit provision but also through the provision of training support. The micro finance sector itself also needs be strengthened and supported to effectively play their roles as financial intermediaries. Non Governmental Micro Finance Institutions should also design innovative and attractive products to enable them mobilize deposits from their clients and thereby remain in competition. The Government should also provide the enabling environment for the development and growth of the micro finance sector. Further studies should be conducted into the several areas that this study could not adequately deal with due to time and other resource constraints.

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CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

Financial resources are necessary for mobilization and utilization of other resources including raw materials, technical and managerial skills as well as infrastructural facilities such as transport, water and electricity. Lack of finance in providing these facilities are a major constraint affecting the activities of micro and small scale enterprises. The emergence of NGOs in Ghana in recent times especially in the late 1980s was a response to the call for both local and foreign investors by the government of Ghana. NGOs have come to be recognized as effective partners in development through their financial support, technical advice, increased productivity and provision of infrastructure.

1.1 Background of the Study

Empirical research demonstrates that well conceived Small and Micro Enterprises (SMEs) have a chance of making significant contribution to the development of countries (Vil – Nkomo S., 2005). In Ghana, 29.5% of industries belong to the Small and Micro Enterprises (SME) category (Maafo Y.O. 2004 citing a Ghana Statistical Services Industrial Survey report). This is reflected in governmental policies culminating in the creation of a full ministry for Private Sector Development. For Ghana to attain a middle income status, the economy (GDP) must grow at a sustained annual rate of at least 8%.Such a significant growth level can only be attained through a vibrant and competitive private sector, hence the creation of the Ministry for Private Sector Development to encourage and empower the private sector (Kuffour 2004).

In Ghana as in most developing countries, several problems plague the private sector particularly, the Small and Micro Enterprises (SMEs) which form the bulk of the private sector. Key among such problems is the lack of finance.

Traditionally, the stock exchange and money markets have provided access to funding for both listed and unlisted businesses. Attempts by various governments in Ghana to address the problems of lack of access to capital have resulted in the establishment of various schemes and funds to provide alternative sources of finance particularly to SMEs.

Examples of such funds and schemes include the following;

- The National Board for Small Scale Industries (NBSSI)
- The Poverty Alleviation Fund (PAF) financed from the District Assemblies Common Fund (DACF)
- The Business Assistance Fund (BAF).
- Export Development and Investment Fund (EDIF).
- The Social Security and National Insurance Trust (SSNIT)
- Fund for Small and Medium Enterprise Development (FUSMED)
- Rural Financial Service Project (RFSP)

Other schemes established and operated mainly by foreign governments and or their agencies include;

- The Business Sector Advocacy Challenge Fund (BUSAC) by DANIDA.
- The Millennium Challenge Accounts (MCA) by the US government.

- The Ghana Private Sector Development Fund (GPSDF) jointly set up by the government of Ghana and Italy.

The United Nations General Assembly in 1998 declared the year 2005 as the international year of micro credit in recognition of the immense contribution of micro credit and micro finance to poverty reduction around the world .One of the key measures identified by the UN as an effective way of reducing extreme poverty and hunger is increased access to micro credit and financial services among the poor, particularly women (Dowuona, 2005).

Over the last one decade, the Government of Ghana (GoG) has come to realized that micro finance is the panacea for reaching out to the poorest of the population who are most difficult to reach through conventional banking interventions.

However, it has also been realized that micro finance can only be efficacious if it was properly packaged, targeted and managed in a way that allowed the poor and low income people in general to use recycle resource for poverty reduction and wealth creation. Indeed micro credit can be used to fight poverty because of its effectiveness as a tool for generating employment through the acquisition of appropriate business management skills, which in turn leads to increased income levels and improved standards of living (GIMPA report, 2005).

1.2 Problem Statement

A vibrant Private Sector has long been seen as a key player in the economic growth of developing Countries including Ghana (Ayiglo, 2004). SMEs are important for the survival of the individual and the creation of opportunities for employment and innovation. They must be properly conceived, funded and supported, so that they can make significant contributions in addressing the problems of job creation and business innovation in Africa. Without adequate funding and capacity building, SMEs may not be able to play effectively, their roles in the economic development of the country. However, SMEs are gradually being crowded out of the credit market, which is resulting in a huge financial gap. This is because banks are gradually becoming elitist in their operations, closing down branches in rural areas and thus drastically curtailing the communities' access to banking services in the process. NGOs and smaller credit institutions have thus made the greatest penetration in credit delivery to the poor.

The crucial role being played by MFIs in the provision of Capital to SMEs is seen as addressing the following issues:

- Providing the poor with access,
- expanding the coverage area,
- cutting back in bureaucracies.

The purpose of this study is to assess the role of Sinapi Aba Trust (SAT) in the financing of micro Enterprises in Ghana. How effective has SAT operating micro finance schemes been in addressing the above problem_and what has been the impact of these schemes on their intended beneficiaries.

1.3. Objectives of the Study

The broad objective of this study is to assess the role of microfinance institutions on micro enterprises in Ghana using Sinapi Aba Trust (SAT), as a case study. Specifically, the study aims at assessing the impact of SAT'S micro finance scheme on micro enterprises in the Ashanti region.

.4. Research Questions

The following research questions will guide the study in order to achieve the stated bjectives:

- What types of business are financed by microfinance institutions?
- What percent of funding for small and micro enterprises come from micro finance institutions?
- What is the impact of micro finance schemes on the activities of micro enterprises, the communities which MFIs operate as well as the living conditions of beneficiaries'?
- Besides cash credits, what other forms of interventions are provided by MFIs?
- What challenges face micro finance institutions in Ghana?

1.5 Justification/Rationale for the Study

Non Governmental Organizations have made tremendous contributions to developmental projects in Ghana including the provision of micro finance especially in rural communities. In addition to the provision of micro credits to SMEs, NGOs and other organizations engaged in micro financing provide additional services such as entrepreneurial and skills development and training, coaching and mentoring. Sinapi Aba Trust, since its establishment in 1994 operated a micro credit scheme for micro entrepreneurs. The scheme has been a steady progress in terms of reach, coverage and accessibility. It is also reported that, the scheme has achieved great successes in credit recovery. This study therefore, offers the opportunity to assess the impact of Sinapi Aba Trust and by extension the NGO sub sector of the financial services sector. This study will also lead to the identification and documentation of challenges and bottlenecks that hinder progress in the microfinance sector. The identification of these bottlenecks will create avenues for addressing them.

This study is again important because the findings will influence government policy and make a strong case for the development of SMEs and Micro financing. The outcome of this study will add to knowledge in the sense that, it will lead to the following:

- Findings could be incorporated into literature for academic purposes.
- Best practices documented to guide future operations of MFIs in Ghana
- Challenges and problems would be identified and suggested solutions found.
- Help improve the microfinance sector in Ghana.
- Small and Micro enterprises looking for sources of finance will know which direction to look to
- Serve as a basis for further studies and research

1.6 Scope of the Study

The study was limited to financing of businesses with specific reference to micro-enterprises between 2004 and 2008, a five year time frame. It involves the study of micro financing in general terms. The focus was however on Sinapi Aba Trust branches in Kumasi and Offinso all in the Ashanti Region of Ghana.

1.7 Limitations of the Study

The Thesis was constrained by the following;

1. Documentation of the operations of SAT, as well as the availability of data was in most cases absent, which seriously affected the outcome of the study.

2. It was not possible to interview as many top management members as desired. This was due to the fact that the entire organization involved in feverish preparation into Savings and Loans Company.
3. It was difficult to obtain industry benchmarks for comparisons. The preference was to have industry benchmark for Ghana, but this was unavailable. In the circumstance, averages used were obtained from Micro Rate Africa a global rating agency, which together with other agencies published these averages after a study of selected Micro Finance Institutions in Africa.

4. The study of the impacts on the intended beneficiaries was limited to only two branches (Kumasi and Offinso), due to time and other logistical constraints. Therefore, there are limitations to the degree of generalization of findings based on the limited sample size used in the study.

1.8 Organization of the study

The thesis is organized into five main chapters. The first chapter focuses on the general introduction of the study. It has the following sub-units: Introduction, Background of the study, problem statement, objectives, significance of the study. The rest are scope of the study, limitations and organization of the study.

Chapter two covers Literature Review. Chapter three details the methodology employed in the study and it has the following sub-units; introduction, research design, types of data. The rest are determination of sample size and sampling techniques, data collection instruments, Data Analysis, conceptual framework and the Profile of Sinapi Aba Trust (SAT).

Chapter four shows a presentation of the data collected for the study and analysis of the data.

Chapter five focuses on conclusions drawn from the study and recommendations for further studies.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews literature relating to the finances of SMEs, the operations of micro finance institutions and how they impact on SMEs. Micro enterprises are regarded as the backbone of developing economies and therefore need to be supported in several ways including finance to enable them play their roles effectively. With traditional financial institutions focusing much of their resources on the large clients, it has become necessary for non – bank financial institutions such as MFIs to step in and fill the vacuum thus created.

2.1 Contributions of SMEs to Economic Growth

"There is no wall of separation dividing rich and poor nations. Today we are all linked – not only by investment, travel, and communications, but unfortunately also by disease, financial crises, and even terror."

"One of the root causes of these latter realities is of course poverty. Its solution must include greater job creation and growth in the private sector, especially at the grassroots level. Micro, small and medium enterprises dominate commercial life in low – income countries, and they must be an integral part of the equation in the world's response to poverty." (Wolfensohn, 2002)

The above statement from the former president of the World Bank Group aptly sums up the important role of micro enterprises in the development of national economies and the need to pay attention to this sector.

'Well – developed small and micro enterprises are considered the backbone of the private sector as they help diversify the economy and make major contributions to job creation. Obviously, through employment generation, they have a significant impact on poverty alleviation' (UNIDO, 2001).

Moreover, in most of developing countries, small – scale industries play a crucial role in economic development accounting for a large portion of employment in the formal sector, and reaching significant percentages for a manufacturing output and exports.

Supporting emerging entrepreneurship and start – up enterprises and providing them with an environment conducive for growth has become a concern for many developing countries.

According to UNIDO (2001), small businesses support national economies, particularly those of developing countries in so many ways which include the following:

1. Helping generate employment by using more labour in relation to capital invested. This is especially important in developing countries where labour is abundant and capital relatively scarce;
2. Acting as "seed – beds" for entrepreneurial talent, another element considered in short supply in the third world;
3. Operating in less populated rural areas with limited markets and poor infrastructure – a feature common in developing countries;
4. Being able to start up with limited resource; "ease of entry" as this is called is a significant feature of small businesses especially in the services;

5. Providing "hands on" training facilities for people of varying levels of education in both management and technical skills;
6. Supplying both low cost items for the poor and in certain circumstances high cost quality products for the rich and for export.

The flexibility of small enterprises that enables them to better weather recessions, material shortages and market changes is seen by many as an asset of the sector' (UNIDO, 2001). 'Small businesses support the development of competition and free entrepreneurship in a country'.

They are considered as one of the pathways towards poverty alleviation in a developing country like Ghana' (Ayiglo, 2004). Ayiglo further argues that new jobs created by small enterprises make it less painful to restructure large state – owned enterprises, particularly those slated for divestiture. For example, the small business sector has largely been able to cushion the unemployment problems accompanying privatization by absorbing most employees who had lost their jobs in the course of restructuring state owned enterprises for divestiture.

According to Ayiglo, a stable economy, which is made up of well – functioning SMEs, can significantly contribute to the acceleration of democratic reforms and in establishing political stability in a country.

Vil – Nkomo (2005) holds the view that SMEs are important for the survival of the individual and the creation of opportunities for employment and innovation. According to him, empirical research demonstrated that well conceived SMEs have a chance of making significant contributions to the development of countries. Even though their business operations might be small, they are often the largest employment creators in the economy.

2.2 Classification of Small and Micro Enterprises (SMEs)

There has been no clear – cut definition given to what is termed as a small business. Ayiglo (2004), states that, in Ghana (as in other countries), the terms micro', 'small and medium' have been used interchangeably at one point, while meaning three different things altogether at another instance. Srinivas (2000) put the argument more bluntly; micro enterprises defy a definition'. He reasons that, street vendors, carpenters, machine shop operators, seamstresses and peasant farmers- micro entrepreneurs come in all types and their businesses in many sizes.

In spite of Srinvas' observation however, there has been some agreement on the main criteria for defining small businesses world – wide, namely the number of employees, annual turnover, degree of independence, fixed assets value, etc. however, there is still much controversy over the determination of cut – off points or thresholds for the various criteria. For instance in South Africa, small businesses are classified variously based on the following criteria: number of employees, degree of independence, etc. Examples of small business classification are as follows;

Funding in support of programs involving SMEs, definitions that meet the expectations of funding agencies are used.

Two examples of such definitions are as follows:

1. SMEs are businesses that have the following characteristics:

   Not more than 250 employees

   - Micro enterprise: less than 10 employees
   - Small enterprise: less than 50 (includes micro)
   - Medium enterprise: less than 250
   - Large enterprise: 250 and over
   - A balance sheet of not more than £5.6m
   - A turnover of not more than £11.2m

2. SMEs are businesses that have the following characteristics:

- Less than 250 employees
- Not more than 25% of the business owned by enterprises not meeting the SME criteria

And one of the following:

- Less than 40m euro turnover
- Less than 27m euro balance sheet

In Ghana, both the National Board for Small Scale Industries (NBSSI) and the Ghana Statistical Service give the following Classification which is shown in table 2.1

Table 2.1: Classification of small businesses in Ghana

Class of SME	Number of Employees	Fixed Assets Value (US$)
Micro Enterprises	Up to 5	Up to 10,000.00
Small Enterprises	5 – 29	Up to 100,000.00
Medium – Scale Enterprises	30 – 99	250,000.00
Large Enterprises	100 or more	More than 250, 000.00

Source: National Board for Small Scale Industries, 2002.

Other classifications have been based on the nature of small businesses which has led to the use of the term 'informal' to refer to SMEs. According to Levitsky (2002), the term "informal sector" was first used in 1973 in the report of an International Labour Organization (ILO) employment mission to Kenya. Prior to this, little or no account had been taken by development economists of the very considerable part of the societies – some times over 50% - of most developing countries that operated at the margin of the economy in the form of large numbers of micro enterprises, artisans, cottage industries, household businesses and self – employed persons. Levisky continues that though the "informal sector" is difficult to define, many economists and sociologists have variously commented that there is little difficulty in knowing what it constitutes. It is immediately recognized in all countries.

In the early 1970s, many development economists dismissed this "informal sector" as "largely parasitic" engaged in "unskilled and obsolete activities" which made little contribution to the national economy (Levitsky, 2002).

Since the 1973 ILO Kenya Report, most development economists have taken a more beginning and positive view of this "informal sector". Some begin to see it as a "political" source of strength, in whose workshops and tiny units "practical skills and entrepreneurs' talents were being developed at low cost" (ILO report, 1973). Legality claims Harnando de Sote is at the heart of the concept of "informal and formal" sectors. The "informal sector", says De Soto and those who follow his views, is simply a euphemism for the: illegal sector" – basically illegal enterprises which have legal objectives. They are forced into illegality by a complex web of laws or regulations with which they are totally unable to comply. Compliance, or each attempt to comply, would, it is claimed, cripple any likelihood of their operating at all. According to this argument, the legal system with its imposed restrictions has caused the informality or the illegality of these businesses.

There is, however, another explanation of the "informal sector" by other analysts. It represents the failure, they argue, of the "modern market economy" as it develops to provide jobs and livelihoods for large sections of the population.

These individuals and groups left out of the development of the market economy must, in an effort to survive, develop entrepreneurial initiatives in traditional forms but on a tiny, very small scale (Levitsky, 2002). This latter view assumes a dual economy – a formal and informal economy – developing side by side until the formal economy gradually absorbs the informal as it develops.

The concept of the dual economy undoubtedly has some validity, but in most parts of the developing world the "informal sector, far from disappearing, has expanded and the formal sector is relatively stagnant, if not actually contracting. Growth of the formal sector where it has taken place is on a relatively small scale (Levitsky, 2002).

The contributions of small, Micro and Medium Enterprises in generating employment and income have become increasingly recognized around the world. Some observers see this as an encouraging sign: markets are working and people are finding opportunities to participate in ways that empower and nourish many particularly including those who are otherwise most disadvantaged. Others however, view this increase in the number of people engaged in small and micro enterprises as a sign of failure; i.e. people are forced to take refuge in activities that provide only minimal subsistence support (Liedholm,; Chuta, 1976).

For example, the so called "informal sector" composed almost entirely of micro enterprises (the sub sector of the smallest units within the SME sector) have grown in most developing countries. Again according to Levitsky (2002) it is reported that in 1950 informal activities in Latin America occupied 30% of the economically active population and by 1980 this had grown to at least 50%. At the beginning of the 1990 over 50% of the population lived off these "informal sector" activities in countries such as Bolivia, Colombia, Ecuador and Peru.

In Ghana, the 'informal sector' encompasses the sole proprietorships and micro enterprises with very little capital or fixed assets if any at all. This sub sector of the SME sector which is variously called 'trading'.

Petty trading', self – employed', etc. stands clearly as the largest source of employment in the sector providing a means of livelihood to nearly two – thirds of woman in cities and other urban communities (Ayiglo, 2004). About 70% of Ghana's populations operate in the informal sector (Ghartey, 2006).

Whereas the large and medium enterprises are within the formal sector many of the small enterprises, which constitute by far the majority of the private sector, operate outside the purview of the state. They are unregulated and have come to be described as informal (Kufuor, 2005). For the purposes of this study, the classification given by the NBSSI and the GSS will be adopted.

2.3 SME Financing

Given the extremely vital role that the SME sector plays in economic development, particularly in developing countries, the need to allocate resources for the development of the sector is never in any doubt. Of the myriad of problems that plague the private sector, access to fiancé particularly external financing stands out as one of the most critical which hinders the growth of the sector (Ayiglo, 2004). It is therefore, not surprising that government of most developing countries have encouraged and supported programs designed to develop the sector.In most cases such governments have tried to develop SMEs financial assistance programs. 'The small enterprise development projects supported by the World Bank channeled during the 15 years 1973 – 88 more than US$3 billion in 70 projects to help small and medium enterprises in 36 developing countries (Levitsky , 2002).

It is reported that probably less than 10% of this sum reached the very smallest of SMEs, that is those with less than 10 workers and assts of less than US$10,000 and whose lending needs are in the order of US$3,000 or at least less than US$5,000 (Levitsky, 2002).The average loan size was US$24,287in Latin America, US$31,811 in Asia and a staggering US$83, 408 in Africa, which indicates that these projects reached mainly, firms that are high up on the SME classification ladder whilst only few of the very smallest firms or micro enterprises were reached (Levitsky, 2002).

2.3.1 Financial needs of SMEs

According to the 'Guide to Venture Financing in Regional Policy' (2002) published by the Center for Strategy and Evaluation Services (CSES) of the European Commission (EC) the support needs of SMEs vary not only according to the stage of development VIZ; the start – up phase, growth phase, and maturity phase but also according to the type of firm (CSES, 2002).The Guide goes on further to state that high growth technology – based firms will have very different support needs across the full range of business support services than other types of SMEs.

Tables 2.2 and 2.3 depict the support needs of SME at different stages of development and stages in a company's development vis a vis the financing needs at each stage respectively.

Table 2.2 SME Support Needs at Different Stages of Development

Growth Stage →			
Business Support ↓	**Maturity**		
	Growth		
	Start Up		
Financial Assistance	▪ Start up grants and loans ▪ Seed capital.	▪ Working capital Finance ▪ Investment Incentives ▪ Venture capital	▪ Bank finance of all types. ▪ Access to stock markets.
Business Advice	▪ Sign – posting. ▪ Business planning advice	▪ Marketing strategy. ▪ Organizational change.	▪ Business strategy. ▪ Supply chain development. ▪ Knowledge networks.
Human Resources	▪ Entrepreneurial training.	▪ Management skills ▪ Personnel recruitment and training	▪ Personnel management. ▪ Special skills training
Innovation & Technology	▪ R & D advice ▪ Product development.	▪ Quality standards ▪ Technology transfer. ▪ Use of LCT	
Physical infrastructure	▪ Business Incubator units		

Source: Center for Strategy & Evaluation Services, 2002.

Table 2.3: SMEs Financial Needs according to stages of development.

Stage of development	Financing needs of SMEs
Seed stage	Financing provided to research, assess and develop an initial concept before a business has reached the start – up phase.
Start – up stage	Financing for product development and initial marketing. Companies may be in the process of being set up or may have been in business for a short time, but have not sold their products commercially and will not yet be generating a profit.
Expansion stage	Financing for growth and expansion of a company which is breaking even or trading profitably. Capital may be used to finance increased production capacity, market or product development, and / or to provide addition working capital. This stage includes bridge financing and rescue or turnaround investments.
Replacement capital	Purchase of shares from another investor or to reduce gearing via the refinancing of debt.

Source: Centre for Strategy & Evolution Services, 2002. .

Table 2.3: SMEs Financial Needs according to stages of development.

Stage of development	Financing needs of SMEs
Seed stage	Financing provided to research, assess and develop an initial concept before a business has reached the start – up phase.
Start – up stage	Financing for product development and initial marketing. Companies may be in the process of being set up or may have been in business for a short time, but have not sold their products commercially and will not yet be generating a profit.
Expansion stage	Financing for growth and expansion of a company which is breaking even or trading profitably. Capital may be used to finance increased production capacity, market or product development, and / or to provide addition working capital. This stage includes bridge financing and rescue or turnaround investments.
Replacement capital	Purchase of shares from another investor or to reduce gearing via the refinancing of debt.

Source: Centre for Strategy & Evolution Services, 2002. .

2.4 Problems in SMEs Financing

'Of today's population of approximately 6 billion, 3 billion live on 2 dollars a day or less. The billion or so that is fortunate enough to live in the wealthy industrialized nations account for 80% of the $35 trillion global economy. The other 5 billion living in developing and transition economies compete for the remaining 20 %.In an era of constrained public budgets, their best hope for income lies with locally owned small businesses' (Wolfensohn, 2002).

Most SMEs particularly in developing economies face several difficulties in accessing credit facilities for their activities. Daniel Boamah of the Central Bank of Barbados opines that, 'finance is a major constraint in Africa partly because of the lack of financial depth, the monopolistic and / or oligopolistic nature of the banking sector that encourages rent seeking activities, an inadequate regulatory framework to guide the operations of the sector and the virtual non – existence of information sharing institutions such as rating agencies and credit bureaus' (Commonwealth Business Council (CBS) and the World Bank (WB), Report of the Workshop on Investment Climate in Africa, 2004).

At a workshop in Dar – es – Salaam, Tanzania organized by the Commonwealth Business Council to present and discuss the results of diagnostic studies of the investment climate conditions of five African countries namely; Kenya, Mozambique, Tanzania, Uganda and Zambia, Gilbert De Barros of the World Bank identified four key aspects of the financing of firms in the five countries under review. These were access to credit, high interest rates, high collateral requirements and lack of long – term financing.

2.4.1 Access to Credit

According to findings from the above study in the five selected African countries, firms are overwhelmingly self – financed which indicates a dearth of viable outside financing options. For instance, the study showed that, internal funds finance 87% of all new investments in Mozambique, 71% in Uganda and 67.5% in Tanzania [Commonwealth Business Council (CBS) and World Bank (WB).The Reports of the Workshop on investment climate in Africa, 2004].

2.4.2 High Interest Rates

Most SMEs are unable to access bank credits due to the high real interest rates charged by these banks. Findings from the study referred to above show that, real interest rates range from about 16% in Kenya to as high as 23% in Mozambique. The situation is no different from what pertain in Ghana now. Average base rate charged by commercial banks is about 25.40% ('The Daily Graphic', Tuesday November 2, 2004, P. 27).

2.4.3 High Collateral Requirements

"The high collateral requirements are a reflection of the banks' perception of the risk involved in SME financing which is often characterized by relatively high default rates and difficulty in enforcing contract obligations due to the virtual lack of strong property rights protection. In addition, assets are not properly registered and are easily transferable, making it difficult to enforce foreclosure clauses in contracts" (CBC & WB, 2004).

2.4.4 Lack of Long – Term Financing

SMEs generally tend to lack the finance long – term projects. According the survey on the five African countries, the average loan maturity ranged from 2.75 years in Zambia to 3.75 years in Uganda (CBS & WB, 2004).

Ayiglo (2004) also identifies five (5) reasons as contributing to the lack of interest by banks and other non – bank financial institutions in providing financial services to small businesses in Ghana. These are high delivery costs, asymmetric information (non availability of information about micro enterprises), constricted rationality (restricting benchmarks of success to only financial analysis), high default risk and extreme opportunism. Levitsky (2002) identifies the following reasons as contributing to difficulties faced by small – scale enterprise in accessing credit facilities:

1. Lending to small enterprises is perceived as being risky. The uncertainties that face a small industry; the high insolvency rate, the susceptibility to market changes, and to economic fluctuations, make banks reluctant to deal with these clients. Non – payment, or even delayed payment, by a few major clients can cause the collapse of a small business.

   The insolvency rate of small businesses is indeed high. In the developed countries the figures are even higher: somewhere between 20% and 50% of new small enterprises in the United States fail within the first one or two years of operation.

   Various studies have shown that small businesses are less creditworthy than the larger enterprises, but even though small – scale businessman may take great pains to repay their loans in order to maintain their credit worthiness, in expectation of increased borrowing, because these enterprises usually depend on a single – owner manager, they are more vulnerable to what might happen to the manager, which would obviously not be the case in a large industry (Levitsky, 2002).

2. Paralleled to the reluctance of banks to lend to small enterprises is the reluctance of these enterprises to borrow from banks. The administrative and costly formalities of obtaining bank finance, particularly the time and paper work involved, are a formidable deterrent to smaller businesses. Some of them lack the formal education to cope with the bureaucracy and others, compounded by problems of location and time pressures have difficulty in complying with what the institutions require before they grant a credit.

3. There is a distinct institutional bias on the part of banks towards lending to the larger corporate sector. In many cases there are links in directorship, joint ownership and various other common financial dealings between banks and the large enterprises and automatically this induces preference for directing finance to these borrowers.

4. The administrative costs of lending to small enterprises are high, which cuts deep into the profitability of such transactions for lending institutions. A World Bank study in the Philippines in 1978 showed that whereas the administration costs of handling large loans was in the order of 0.3% to 0.5% of the cost of the loan, such costs rose to a range of 2.6% to 2.7% when lending to small enterprises.

5. Small enterprises are unable, or unwilling, to present full accounting records and other documentation called for by banks. In most cases such records just do not exist, making appraisal of loan applications difficult.

6. Usually such small borrowers are unable to provide the collateral and security demanded by lending institutions before approving loans.

2.5 The Microfinance Market in Ghana

The field of Microfinance is both old and new – people have always been borrowing, lending and saving for as long as there has been money (and in kind before). They have done this within their own communities, using their own systems and methods, without any external 'assistance' or resources. The sector is new in that is has primarily developed as a response to the inability or apathy of commercial banks and the formal financial system to serve the needs of low–income households and micro enterprises (The Virtual Library on Micro Credit, 1996).

2.5.1 What is Microfinance?

The Asian Development Bank (ADB) defines Microfinance as the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor and low – income households and their micro enterprises (ADB, 2000).Other authors in defining Microfinance have placed emphasis on the gender perspective and a typical example is given by Ghartey 'the packaging of financial services to meet the financial; needs of the poor and vulnerable in society especially, woman with the view to achieving wealth creation and eventual poverty reduction' (Ghartey, 2006).

Perhaps, the most interesting definition of Micro financing is given by Appiah who looks the concept of Microfinance not only from the gender perspective but links it as well to education and health. 'The provision of micro credit with education plus additional services such as access to insurance, functional literacy, health, educational facilities and economic activities to a large number of micro and small entrepreneurs termed economically active poor including woman in a cost effective and sustainable manner' (Appiah, 2006).

The ADB further explains that, Microfinance services are provided by three types of sources namely.

- Formal institutions, such as rural banks and cooperatives;
- Semiformal institutions, such as Non Governmental Organizations and
- Informal sources such as money lenders and shopkeepers.

Institution Microfinance is defined to include Microfinance services provided by both formal and semiformal institutions. Microfinance institutions are defined as institutions whose major business is the provision of microfinance services (ADB, 2000).

Table 2.4 Micro Financing versus Conventional Banking

Conventional Banking	Micro Financing
1. Physical collateral required	Social, Non conventional collateral.
2. Large loan size	Small loan size
3. Concentrates on a few well known clients	Large number of clients
4. Emphasis on institutional sustainability	Both institutional and client sustainability
5. Clients approach institutions for services	Services taken to the door step of clients
6. Thrives on individual / institutional credit-worthiness and loyalty	Thrives on group cohesion and solidarity

Source: Ghartey, 2006

In view of the numerous challenges micro enterprises face in their attempts to access credit from formal commercial institutions, they are forced to look mostly at other sources for finance. Micro enterprises tend to access credit from informal financial intermediaries, government credit – line programs and micro finance institutions.

The government of Ghana has as a matter of policy included micro finance and micro credit in the Ghana Poverty Reduction Strategy (Dowuona, 2004). According to the Ministry of Finance and Economic Planning (MoFEP), the government of Ghana (GoG) through experience of its micro finance initiatives over the past decade or so, has fully recognized that Micro Finance (MF) can be an effective tool to reach out and to positively impact the lives of the poor in the country, especially woman in rural areas. These past lessons have further demonstrated that MF, if appropriately packaged, delivered and managed can be a powerful tool force in the fight against poverty because it has the potential to create employment through which low – income people could acquire appropriate business skills, which in turn can lead to increases in incomes and improved standards of living (Rural Financial Services Project, 2002).

2.5.2 Development of Micro Finance Institutions

The Community Micro Finance Network (CMN) explains that the developmental micro finance 'sector' includes organizations that provide micro financial services to augment the livelihood strategies of poor households, particularly the very poor, in order to reduce poverty and vulnerability, almost always using social intermediation (e.g. group credit, cooperative savings and credit). They aim to reach households not served by mainstream institutions, to build up and build on community institutions and assets, and are willing to invest in learning and capacity building to achieve these goals. In addition, developmental MFIs usually share the following core values:

1. Not – for – profit orientation
2. A focus on poverty eradication and livelihood strategies rather than micro enterprises for its own sake;
3. Practical commitment to working with the poorest of the poor, particularly woman as the overriding priority.
4. Development of social assets including community – based financial management systems;
5. Incorporation of social opportunity costs as well as financial costs it program design;
6. Non – existent or inadequate representation through existing bodies. (CMN, 2004).

Development MFIs include government credit line programs for the poor and micro enterprises as well as Non Governmental Organizations (NGOs) operating microfinance schemes.

In most developing countries, governments inappropriately and extremely intervene in microfinance to address the perceived market failure through channeling micro credit to target groups that are considered to have been underserved or not served by existing financial institutions (ADB, 2000).

Several of such schemes abound in Ghana and example include

- The Village infrastructure project (VIP) Now Community Based Rural Development Project (CBRDP)
- The Food Crops Development Project (FCDP)/ Inland Valley Rice Development Project (IVRDP)
- The Poverty Alleviation Fund (PAF)
- The Rural Enterprises Project (REP)
- The Rural Financial Services Project (RFSP) and
- Many other

With subsidized interest rates and poor loan recovery rate these interventions undermine sustainable development of microfinance. Most NGO which attempt to address the problems attributed to governmental interventions also do have problems of their own.

According to the ADB (2000), most NGOs are characterized by the high level of operational inefficiencies, and have a very limited capacity to serve an increasing segment of the market on a continuing and sustainable basis. They suffer form governance problems mainly because they lack 'owners' in the true sense of the term, and their management assume a great deal of power. Heavy reliance on relatively easy access to donor funds has aggravated the governance problems of some NGOs (ADB, 2000).

2.6 Operations of Non Governmental Organization (NGOs) in Ghana.

2.6.1 Definition

Many people have come up with definitions for what is termed as Non Governmental Organizations (NGOs). However, the various definitions have common ingredients running through all of them as seen in the two examples given below:

- 'A non Governmental Organization (NGO) is an organization which is voluntary, independent, not self – servicing, not-for-profit and aims at improving the quality of life of people' (Katsriku B., Oquaye M., 1996).
- Meanwhile, the National Consultative Group (NCG) on NGOs Also defines Non Governmental Organizations as 'Civil society organizations that are formed independently of the State but register voluntarily under specified laws in order to gain official recognition to pursue purposes that are not for profit but oriented towards public benefit' (NCG, 2004). The key ingredients in the definition for NGOs as depicted in the two examples above include;
- Not – for – profit motive i.e. voluntary organization working towards the development of their intended beneficiaries.
- Independence forms of government; though their activities are supervised and monitored by government.

NGOs also need to register with government agencies. The NCG on NGOs explained further that such registration qualifies NGOs to access public development funds, be it from external Development Partners or Government Ministries, Departments and Agencies (MDAs), and / or benefit from tax exemptions and account for their usage in their operations in the non – profit sector.

2.6.2. Activities of NGOs

Activities of NGOs in Ghana as in most other countries are wide and varied. They include;

- Employment creation,
- Micro-credit / financings,
- Economic development,
- Skills training
- Gender awareness and action,
- Pease and human rights,
- Informal economic activity,
- Anti – corruption,
- Poverty reduction and
- Advocacy on policy reforms.

(NCG, 2004)

They may operate across sectors, regions and at the centre in their service to the community, the deprived and underprivileged as well as the general public. NGOs are not homogeneous actors. They differ in activities, structure, organization, recourse, leadership, membership, ideology and aspirations (NCG, 2004). NGOs in Ghana may be national as well as international; secular as well as faith – based; and membership based. They operate in fields such as health, education, rural and urban development, environment, population and social welfare. Across the broad spectrum of life, NGOs have initiated projects in aid of marginal and deprived groups in rural and urban communities and participated in other programmes aimed at promoting social change and development at community, districts, regional, national and international levels (Katsriku B., Oquaye M., 1996).

CHAPTER THREE

METHODOLOGY

3.0 Introduction

In this chapter, the researcher identifies the methodology used in order to reach the objectives and also to answer the research questions. The steps have been arranged logically to give an overview of how data has been obtained and treated. The steps involve: Research design; Determination of Sample size and Sampling Technique; Data collection instruments; Data analysis; Conceptual framework; and Profile of Sinapi Aba Trust.

3.1 Research Design

The study is a descriptive survey employing both quantitative and qualitative methods in assessing the role of Microfinance Institutions on micro enterprises in Ghana using Sinapi Aba Trust (SAT) as case study. The methodology employed is of two parts: the theoretical part, which is mainly deskwork (literature review), and the empirical part, which involves the gathering and analysis of data.

The theoretical part of the study was used to:

- Study the works of other authors.
- Gain greater understanding of the topic being researched.
- Develop concepts and guidelines for data collection

The empirical part involved the gathering and analysis of data from which findings were made and conclusions drawn.

3.1.1 Types of Data

The study made use of Primary data. This includes questionnaire administration in the field and also through personal interviews with the officials of SAT.

3.2 Determination of Sample Size and Sampling Techniques

SAT has 40 branches throughout Ghana with 9 of them located in Ashanti region. The study focused on 2 of the 9 branches in Ashanti region; Kumasi representing the urban environment and Offinso representing rural communities.

The total population of active borrowers in all 40 branches of SAT is 76,005. The two selected branches have a total of 8,335 active borrowers with the following break down:

Kumasi	7.846
Offinso	489
Total	8,335

Since all 8,335 clients of the two branches could not be surveyed, a sample size of 167 which is approximately 2% of 8,335 was used. The sample size was determined using the EPI Statcalc (Epi Info Statistical package version 3.5.1, August, 2008) at an expected frequency of 1.5% worst acceptable error of 0.01% and a confidence level of 95% which yielded a sample size of 248. However, due to financial and time constraints, a sample size of 167 was used.

The sample size for each branch was determined as follows:

Kumasi $\frac{7,846 \times 2}{100} = 156.92 = 157$

Offinso $\frac{489 \times 2}{100} = 9.78 = 10$

Total $\frac{8{,}335 \times 2}{100} = 166.70 = 167$

Respondents were selected randomly for interview. As a way of ensuring the randomness of the selection, the researcher selected Friday, which is the day on which training programs are organized for clients at the organization's premises. In order that the interview sessions do not interfere with the training programs, the researcher interviewed 20 respondents per day at each branch selecting the first 10 more after the training session.

3.3 Data collection instruments.

The data collection involved the use of structured and unstructured interviews and questionnaires administration. It also included a review of documents available from the case study institution (Sinapi Aba Trust).A key-person interview with the Head of Credits was carried out to obtain additional information.

3.4 Data Analysis

The data gathered was analysed both qualitatively and quantitatively. The quantitative aspects were analyzed using Microsoft Excel. The results have been thoroughly discussed which formed the basis on which conclusions were drawn. The following tools were employed in the quantitative analysis:

-Percentages/Ratios

-Graphical Analysis (frequency distribution) including;

- Histograms

-Pie charts

-trend curves

The results also formed the basis on which suggestions and recommendations were made at the end of the study.

3.5 Conceptual Framework

There are three main elements to a conceptual framework:

i. A model of the impact chain that the study in to examine

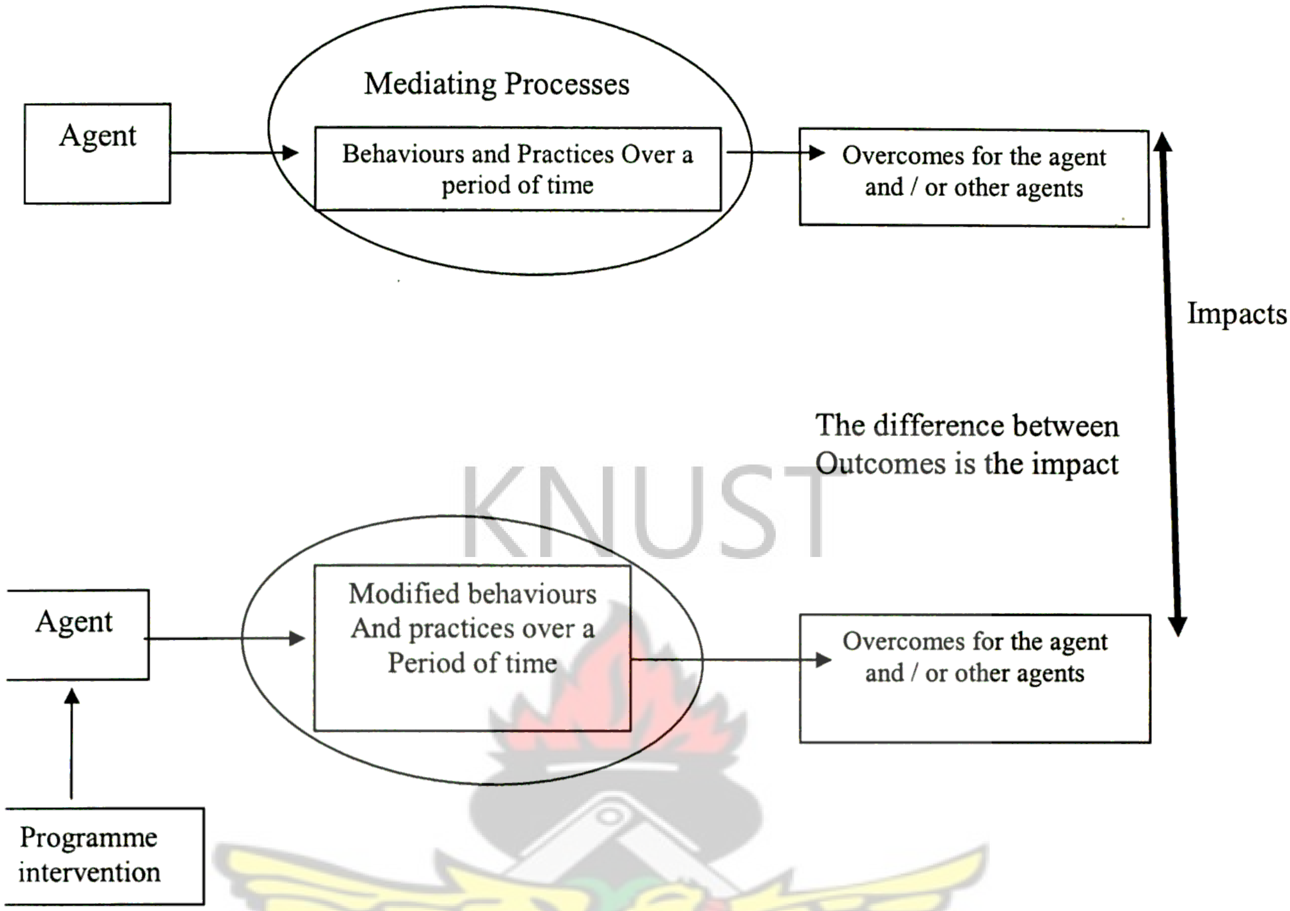
ii. The specification of the unit (s), or levels, at which impacts are assessed, and

iii. The specification of the types of the impact that are to be assessed (Hulme, 1999).

3.5.1 Assumptions behind Models of Conceptual Framework

Behind all micro finance programs is the assumption that intervention will change human behaviors and practices in ways that lead to the achievement (or raise the probability of achievement) of desired outcomes. Impact Assessments assess the difference in the values of key variables between the outcomes on 'agents' (individuals, enterprises, households, populations, policymakers, etc), which have experienced an intervention against the values of those variables that would have occurred had there been no intervention. The fact that no agent can both experience an intervention and at the same time not experience an intervention generates many methodological problems. All changes are influenced by mediating process (specific characteristics of the agent and of the economic, physical, social and political environment) that influences both behavior changes and the outcomes in ways that are difficult to predict (Sebstad et al, 1995).

Fig 3.1: The Conventional Model of the Impact Chain



Source: (Hulme, 1999).

In a conventional micro finance project a package of technical assistance and capital changes the behavior (and products) of a microfinance institutions (MFI). The MFI subsequently provides different services to a client, most commonly in the form of a loan. These services lead to the client modifying her / his micro enterprise activities, which in turn lead to increased or decreased micro enterprise income. The change in micro enterprise income causes changes in household's income, which in turn leads to greater or lesser household's economic security. The modified level of household economic security leads to changes in future economic and social opportunities.

Ultimately, perhaps, these changes lead to modifications in Social and political relations and structures. It is useful to distinguish between two main schools of thought with regard to which link(s) in the chain to focus on. For convenience, these are termed the 'intended beneficiary' school and the 'intermediary 'school (Hulme, 1999).

The intermediary school focuses purely on the beginning of the chain and in particular on changes in the MFI and its operations.

Generally, two key variables are focused on: institutional outreach and institutional sustainability (Yaron, Benjamin and Piprek, 1997). If both outreach and sustainability have been enhanced then the intervention is judged to have a beneficial impact as it has widened the financial market in a sustainable fashion. This is based on the assumption that such institutional impacts extends the choices of people looking for credit and savings services and that this extension of choice ultimately leads to improved micro enterprise performance and households economic security.

3.5.2 Profile of Sinapi Aba Trust (SAT)

Background

SAT is an autonomous Private and Not – For – Profit Organization established and duly registered in May, 30th 1994 under the Company Code 1963 (Act 179) as Company limited by guarantee to support the economically active poor to enhance their lives through Micro Finance and basic business training.

SAT is a member of the Opportunity International Network (OIN), an International Christian NGO involved in micro enterprise development in over 28 Countries whose headquarters is in Chicago, U.S.A. SAT is also a Gremeen Foundation; an international organization that combines the power of micro finance, technology and innovative solutions to defeat global poverty. Since its establishment, SAT has accumulated tremendous experience and has distinguished itself as one of the best institution in the micro finance industry.

After ten (10) years of micro finance services to the nation, the Trust in partnership with other international stakeholders, Opportunity International and OIKO Credit, converted three (3) of SAT branches (Accra, Kumasi and Techiman) into savings and loans company; Opportunity international – Sinapi Aba Savings and Loans Limited (OI-SL) now Opportunity international Savings and Loans Limited (OISL). Furthermore, SAT is the majority shareholder in Amantin and Kasei Community Bank, one of the best Community Banks in the Ashanti Region. The operations of the Trust now cover 40 Branches in ten (10) Regions of Ghana with over 76000 clients being served.

Vision

The vision of Sinapi Aba Trust (SAT) is to become an institution dedicated to the building of a nation under the almighty God where the strong helps the weak and all people have the dignity of providing for themselves, their families, their churches and the community.

Mission

The mission of SAT is to serve as the mustard seed (small seed) through which opportunities for enterprise development and income generation are provided to the economically disadvantaged but active poor to transform their lives.

Objectives

-To provide financial services or credit needs to small and micro business ventures.

-To contribute positively to poverty reduction through micro – enterprise stimulation and job creation for increased incomes among the entrepreneurial poor.

-To fill the vacuum created by the formal sector commercial banks and finance companies in ministering credit and financial services to small and micro enterprises.

-To provide the requisite business management training for micro – entrepreneurs to enhance their gradual growth from the micro, small and medium level.

CHAPTER FOUR

DATA PRESENTATION, ANALYSES AND DISCUSSIONS

4.0 Introduction

This chapter presents findings/ results from the survey of the case study area (Sinapi Aba Trust). The chapter also includes analyses and discussions of the result/findings. The findings are based on extensive study of documents available at the organization, the conduct of key person interviewed and questionnaire administered. The discussions centre on how loans obtained by Micro enterprises from Sinapi Aba Trust have impacted on these business entities and ultimately on the quality of life of the people and their households. The findings have been presented in tabular and diagrammatic formats.

4.1 Data Sources

The data for this study was gathered from two broad perspectives; first, from the intermediary institution (SAT) and that of the intended beneficiaries (clients).

4.1.1 Data From SAT

Two main instruments were used to gather data from the financial intermediary; SAT. Firstly, documents and other publications available were studied and secondly, a key person interview was conducted

Documents

Available documents consulted for this study are the following:

- **Poverty Reduction Through Micro Finance: SAT's Remarkable Experience and Impacts for the past ten years in Ghana May, 2005.**
- Opportunity International-Sinapi Aba Savings and Loans (**OI-SASL**) Savings and Loans Business Plan, December, 2005.
- Opportunity International-Sinapi Aba Savings and Loans (**OI-SASL**) Savings and Loans Business Plan, Revised Version, July, 2006.
- Additional information was gathered from Sinapi Aba Trust website: http:// www.sinapiaba.com
- SAT Organizational profile, 2006.
- SAT Organizational Profile, 2008.

Key Person Interview

In addition to the above, a key person interview was conducted. This interview involved the head of credits at SAT, Offinso branch.

4.1.2 Data From Clients

A questionnaire (see appendix B for sample) was administered in two selected geographical locations in Ghana where SAT has opened and operates branches. These are Kumasi (urban) and Offinso (rural) all in the Ashanti region.

4.2 Background of Respondents

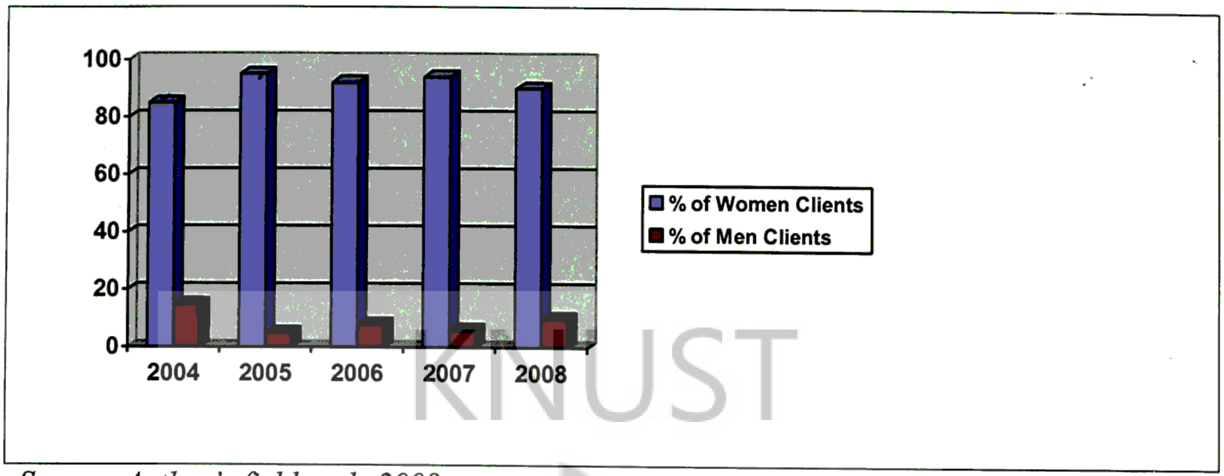
4.2.1 Gender Analysis

Table 4.1 Gender Distribution of Respondents

Location	Male		Female	
	Number	%	Number	%
Kumasi	6	4	151	96
Offinso	3	30	7	70
Total	9	5	158	95

Source: Author's Compilation, 2008.

Figure 4.1 Gender Distributions of Respondents



Source: Author's fieldwork, 2008.

From table 4.1, 95% (158/167) of respondents are females with only 5% (9/167) males. At the Kumasi branch, the ratio of females to males is 25:1 (96% females vs. 4% males). The ratio is also skewed in favour of females in the Offinso (rural) branch as pertain in the urban locality. There is a heavy tilt towards females whereas farming is the predominant form of employment in the rural area, commercial activities such as trading dominate in the urban environment.

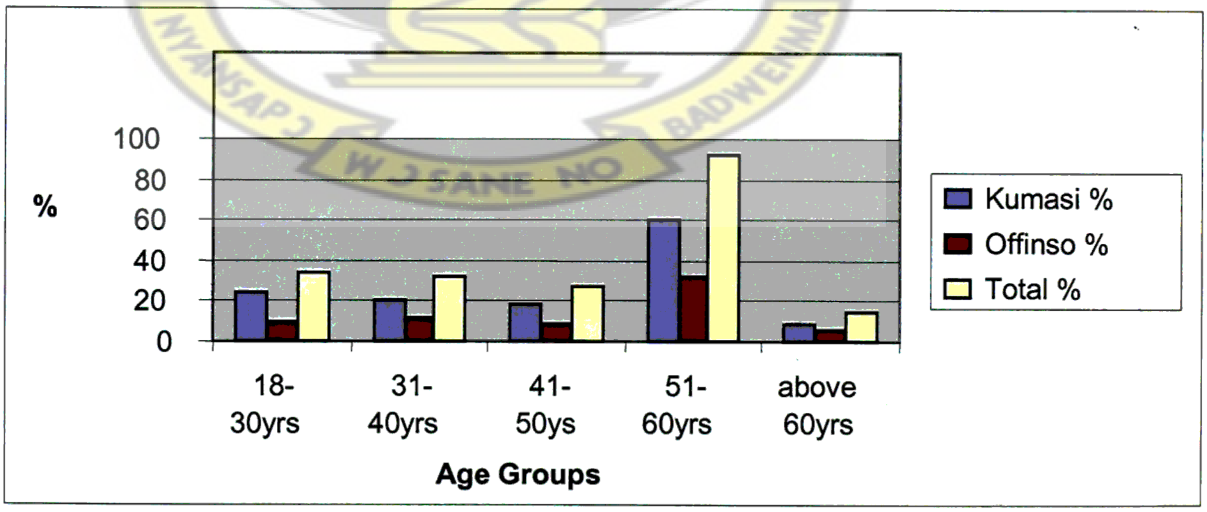
The trend also supports the fact that, females dominate in the small and micro enterprise sector. The distribution of SAT's clients in terms of gender shows a tremendous bias towards women, 0n average, 91% of the client base of SAT has been women. The high percentage of females receiving loans from SAT as against their male counterparts is the major reason why the trade sector receives the highest percentage of loans. Generally, women form the bulk majority of entrepreneurs engaged in petty trading which involves retailing of goods and services.

4.2.2 Age Distribution of Respondents

From fig 4.2, 34% (56/167) of respondents are between the ages of 18 and 30 years. This category of respondents is made up mostly of young people who may have just completed Junior High School and/or Senior High School education and are waiting to continue their education or are unable to climb further on the educational ladder or might have dropped out of school entirely.

Close to the same percentage of respondents (32%) are in the age group of 31-40 years with (27%) belonging to the 41 – 50 years bracket, these two age brackets are also made up of very economically active persons with the former comprising of young adults who are beginning to take full control of their responsibilities and the latter made of full adults. Overall 92% (154/ 167) of respondents are in the economically active age group (18-50 years). The trend in the various localities is as follows: Kumasi 92% (145/157) and Offinso: 90% (9/10).

Figure 4.2 Age distribution of Respondents

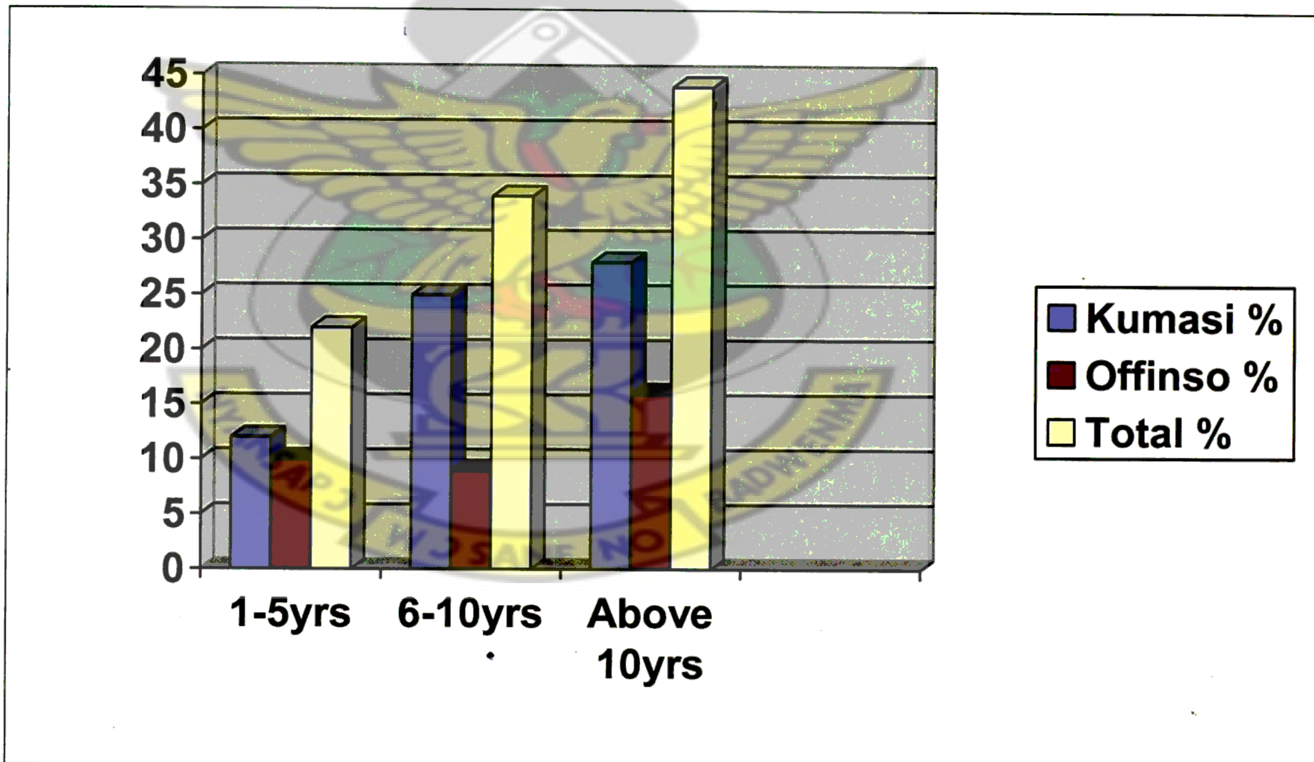


Source: Author's fieldwork, 2008.

4.2.3 Number of years in Business

The respondents have varying degrees of work experience in their respective areas of activity. On the average, 22% (36/167) have between 1-5years experience; 35% (58/167) have between 6- 10 years experience and 44% (73/167) have more than ten (10) years of working experience. In the study areas the trend follows a similar pattern. In Kumasi 22% have experience between 1-5 years; 35% have between 6- 10 years work experience and 43% have over 10 years experience. The rates in Offinso are 20%, 30% and 50% respectively. (See fig 4.3).

Fig 4.3 Number of Years in Business



Source: Author's Field work, 2008.

SAT requires that, potential clients should at least be engaged in some commercial activity before obtaining credit. Perhaps given the high risks that micro enterprises operating in the informal sector carry and the fact that SAT requires no physical collateral, this requirement is one of the checks put in place to ensure that clients would be able to pay back the loans.

4.2.4 Business Characteristics

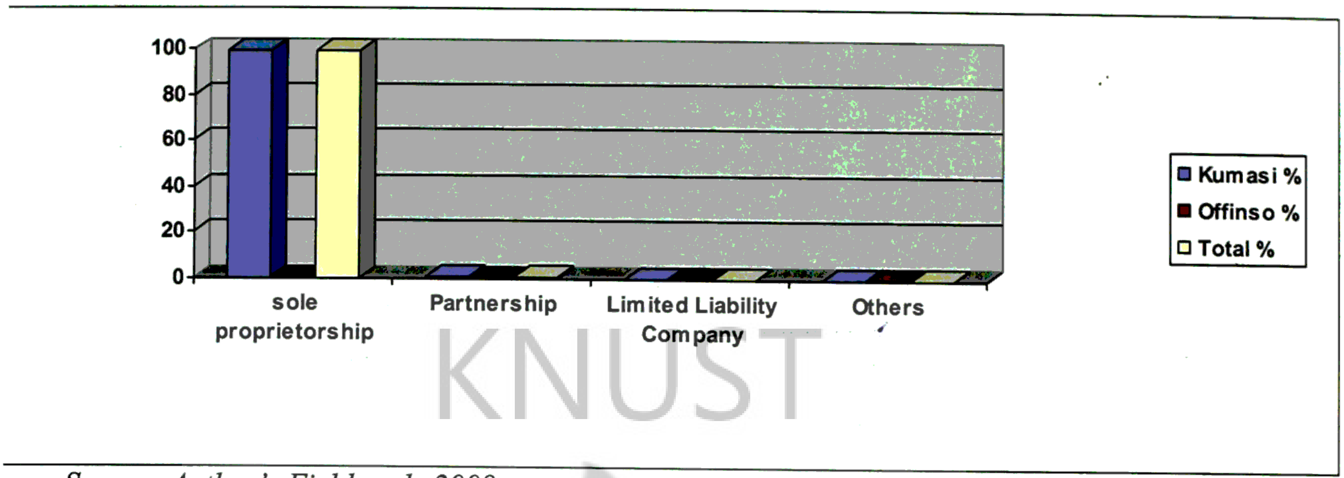
Over 99% (166/167) of respondents are sole proprietors in both Kumasi and Offinso. Only 0.64% (1/167) of respondents are partnerships, (0.64% Kumasi and 0% in Offinso).None (0%) of the respondents company is Limited Liability nor others. Refer to table 4.2

Table 4.2 Types of Business Ownership

Location	Sole Proprietorship		Partnership		Limited Liability Company		Others	
	Number	%	Number	%	Number	%	Number	%
Kumasi	156	93.36	1	0.64	0	0.00	0	0.00
Offinso	10	100	0	0.00	0	0.00	0	0.00
Total	**166**	**99.40**	**1**	**0.64**	**0**	**0.00**	**0**	**0.00**

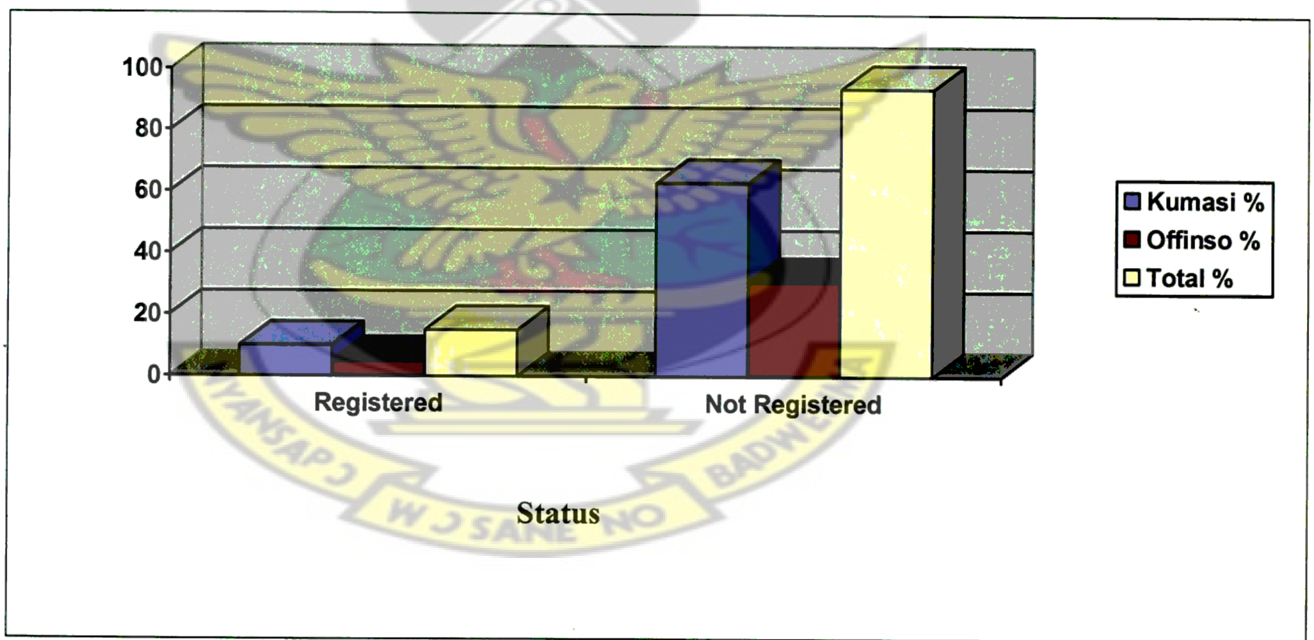
Source: Author's Compilation, 2008.

Figure 4.4 Business Ownership



Source; Author's Fieldwork, 2008.

Figure.4.5 Registration Status of Respondent's Businesses



Source; Author's fieldwork, 2008.

From fig. 4.5 over 94% (157/167) of respondents are not registered businesses and therefore operate as informal entities.93.63% urban respondents are not registered businesses compared to 100% of rural respondents. The study also revealed that, the 6% of respondents who had in one way or the other registered their business concerns had only done so through their professional associations like Beauticians Associations, Dressmakers Association, etc, in the rural communities, none of the respondents is a registered business.

4.2.5 Size of Business

By number of employees

Table 4.3 Size of Business using Number of Employees

Location	No. Employees										Total
	Micro Enterprise				Small Enterprise		Medium Enterprise		Large Enterprise		
	0		1 – 5		6 – 29		30 – 99		100 Or More		
	No.	%	No.	%	No.	%	No.	%	No.	%	No.
Kumasi	130	82.80	20	12.74	7	4.46	0	0.00	0	0.00	157
Offinso	6	60.00	4	40.00	0	0.00	0	0.00	0	0.00	10
Total	**136**	**81.44**	**24**	**14.37**	**7**	**4.19**	**0**	**0.00**	**0**	**0.00**	**167**

Source: Author's Compilation, 2008.

Table 4.4 size of Business using value of Assets

Location	Total Assets (Excluding land and building)								
	Micro Enterprise		Small Enterprise		Medium Enterprise		Large Enterprise		Total
	Up to ¢91M (US$10,000)		Up to ¢910M (US$100,000)		Up to ¢2,275M (US$250,000)		Over ¢2,275M (US$250,000)		
	No.	%	No.	%	No.	%	No.	%	No.
Kumasi	152	96.82	5	3.18	0	0.00	0	0.00	157
Offinso	10	100.00	0	0.00	0	0.00	0	0.00	10
Total	**162**	**97.01**	**5**	**3.18**	**0**	**0.00**	0	**0.00**	**167**

Source: Author's Compilation, 2008.

From the table 4.4, 81.44% (136/167) of respondents are Micro-enterprises i.e. they have up to 5 employees. There is a slight variation between what pertains in the urban areas (82.80% micro enterprises) and what pertains in the rural communities (100% micro enterprises). The table also shows that 4.19% (7/167) of respondents, (all of them located in the urban areas) can be classified as small enterprises.

Using the total asset base of respondents as the criteria for classification, a similar trend is observed here too.

97. 01% (162/167) of respondents are classified as Micro Enterprises i.e. their capital assets (excluding land and buildings) do not exceed ¢91, 000,000 (the equivalent of US$10,000). In this instance too the urban versus rural comparison is 96.82% urban and 100% rural. Of the respondents in the urban areas, 3% (5/167) have total assets (excluding Land and Buildings) of up to ¢910,000,000.00 equivalent of US$100,000) this category of respondents is made up of those who trade in spare parts and hair dressers with very expensive equipment, etc. Again by this classification, we have no Medium or Large scale enterprises.

4.3 Nature of Businesses

11% respondents are engaged in agriculture (farming), 6% in the urban centre and 5% in the rural areas. Farming is the predominant mode of employment in the rural communities.

Whereas the bulk of respondents in the rural areas are involved in agriculture and Agro – processing, it should however, be noted that trading activities dominates in both urban (29%) and rural (32%) areas. The reason for this trend is that most respondents are females and they generally engaged in trading and services. It is interesting also to note that, 2% (3/187) of respondents all located in the urban areas are manufacturers. These are enterprises that produce commodities such as soap (using palm oil and other agricultural by-products).

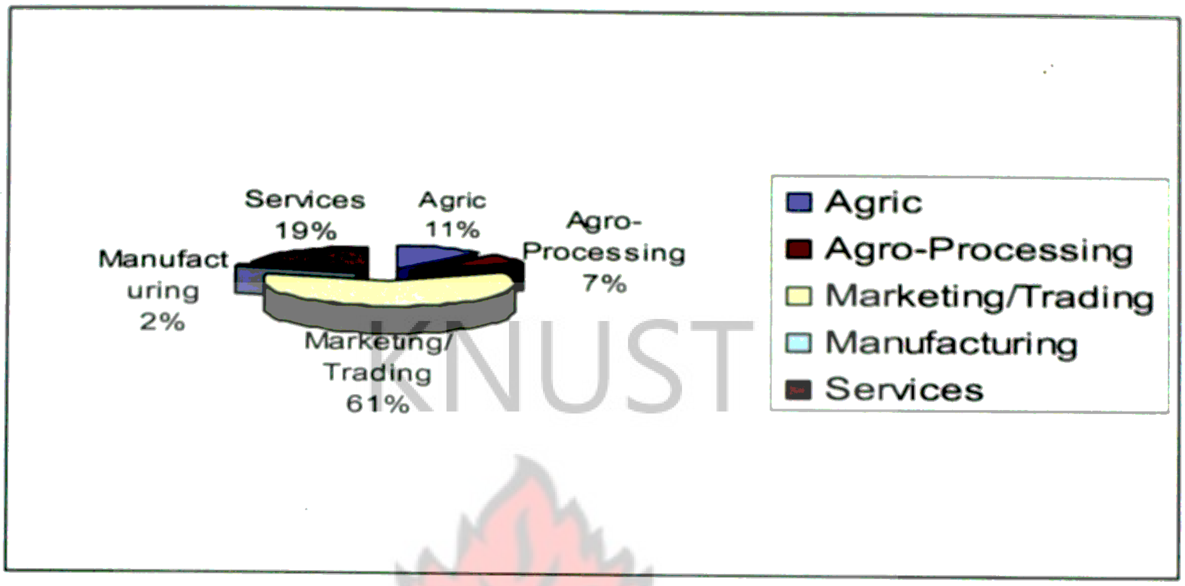
These results obtained from the study compared favorably with those from SAT records which covers the entire country. Refer to table 4.5 and figures 4.6A and B

Table 4.5 Natures of Respondents" Business

Location	Agric		Agro –processing		Marketing /Trading		Manufacturing		Services		Total
	No.	%	No.	%	No.	%	No.	%	No.	%	No.
Kumasi	10	6	8	3	114	29	3	2	30	12	165
Offinso	6	5	6	4	7	32	0	0	3	7	22
Total	**16**	**11**	**14**	**7**	**121**	**61**	**3**	**2**	**30**	**19**	**187**

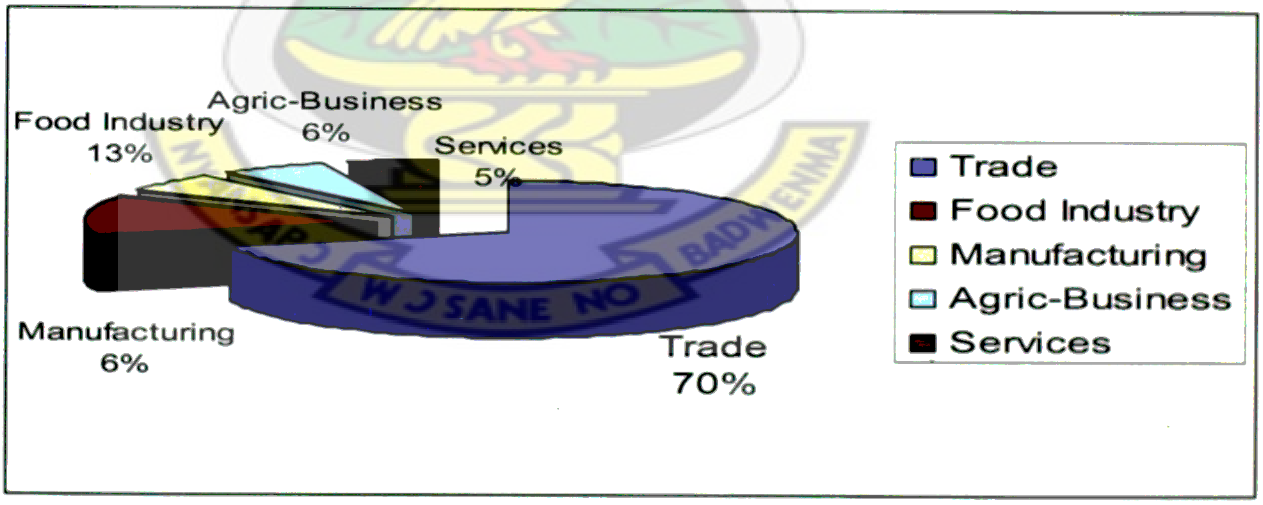
Source: Author's Compilation, 2008.

Fig. 4 .6A Nature of Respondents Business from fieldwork



Source; Author's Compilation, 2008.

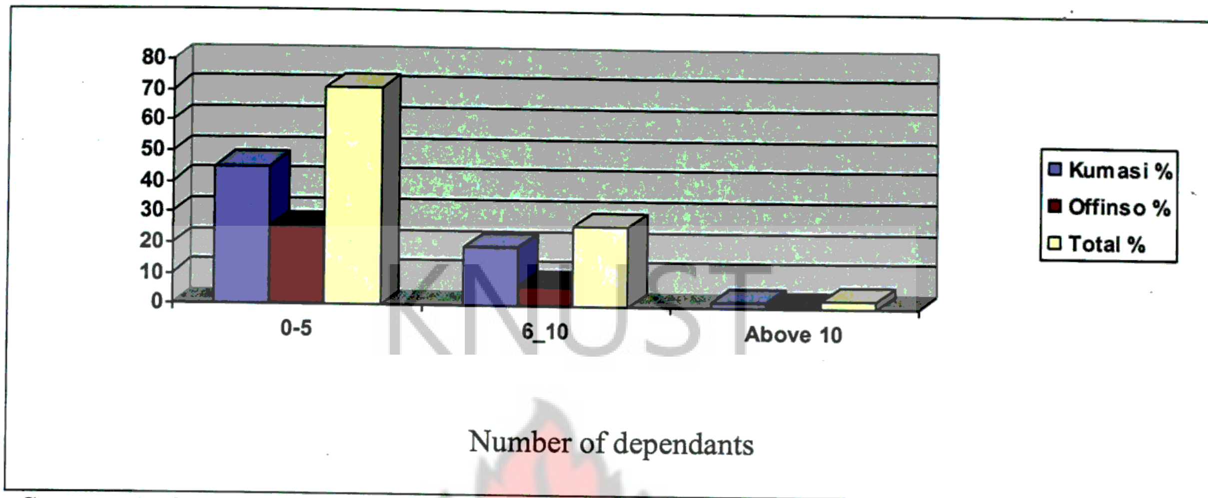
Fig 4.6B Nature of Respondents Business From documents available at SAT



Source; Poverty Reduction through Micro Finance; SAT's Remarkable Experience and Impacts For the past ten years in Ghana. May 2008.

4.3.1 Household Dependants

Fig. 4.7 Number of Household Dependants of Respondents



Source: Author's Field work, 2008.

70.66% (118/167) of respondents have between 0-5 dependants per household; 26.35% (44/167) have between 6-10 dependants per household and only 2.99% (5/167) have more than 10 dependants per household.

These figures correspond well with the age distribution of the respondents. A sizeable number (56) which is 43% are in the age bracket of 18-30 years with many of them having no dependants.

It must also be noted that, the fact that a greater percentage of respondents (71%) have between 0-5 dependants is a reflection of the regional average household size of 5.3 for Ashanti (Strategic Framework for Ghana Food Security Action Plan Paper, MOFA 2006).

4.4 Household Incomes

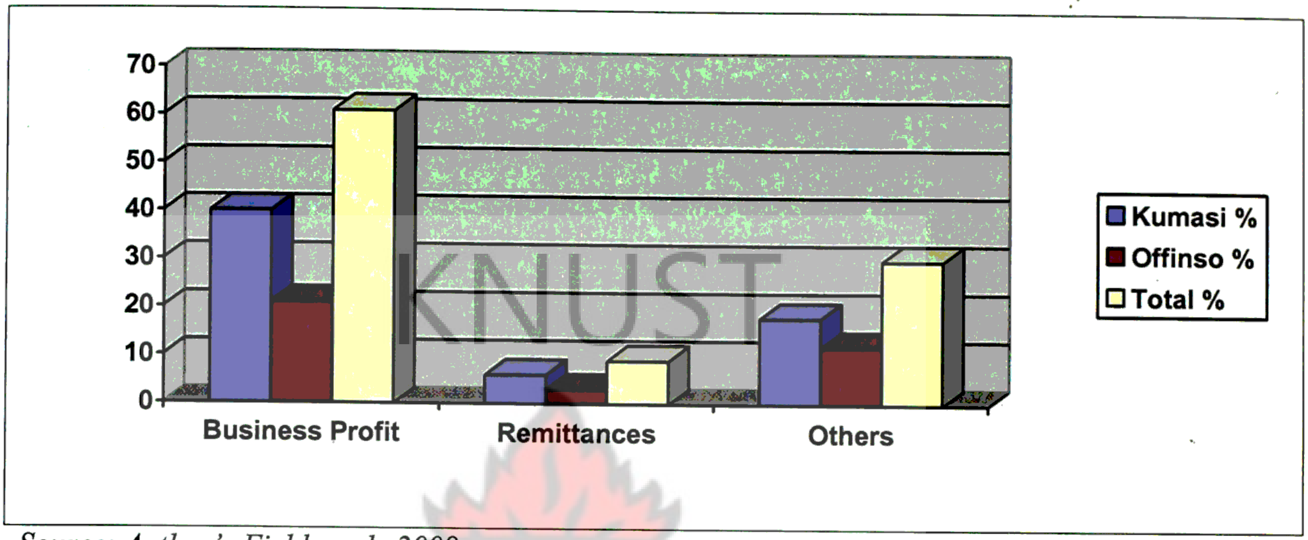
Sources of Household Incomes

The survey results show that sources of household incomes for respondents can be grouped into 3 broad categories;

1. Profits from Business activities.
2. Remittances from elderly children and siblings overseas and
3. Others, which in most cases are supports obtained from spouses (husbands).

As shown in fig. 4.5, 61 % (136/167) mentioned pro fit from business activities as their main source of household income, 9% (19/167) mentioned remittances as their main source of household income and 30% (67/167) mentioned others (spousal support) as their main source of household income. The trends in the two branches surveyed were similar; Kumasi (61%Business Profits; 8% Remittances and 31%, others) Offinso (61%, 15% and 24% respectively).

Fig.4.8 Main Sources of Household Incomes



Source: Author's Field work, 2008.

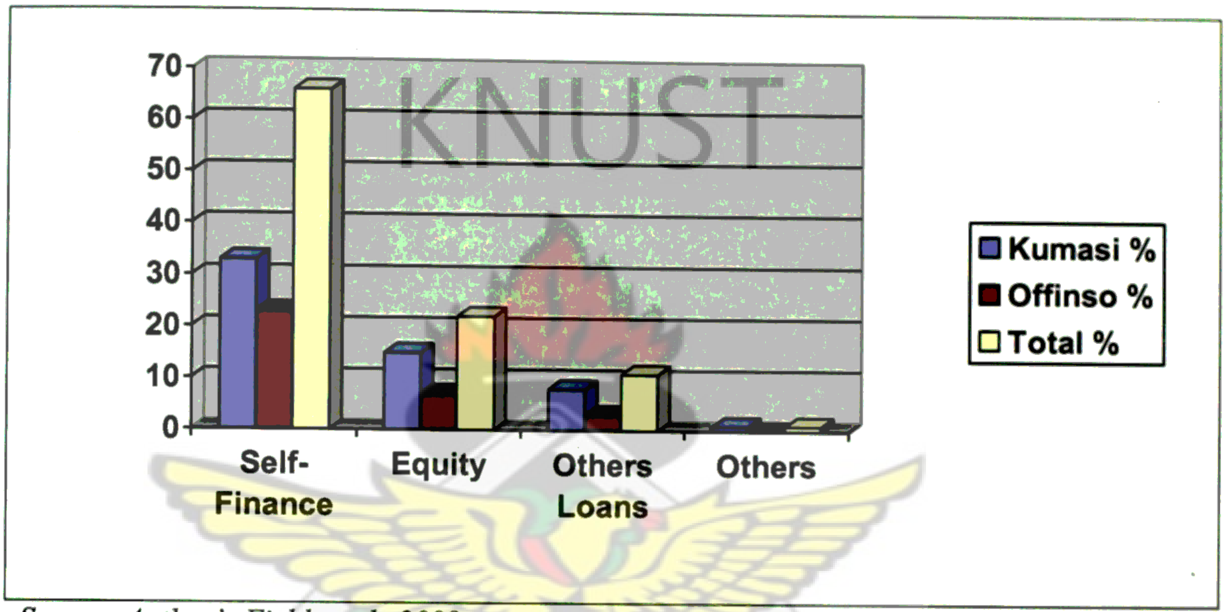
A trend shown above is an indication of the relative importance with which the respondents view the various sources of household income.

4.5 Business Finances

4.5.1 Sources

The study also tried to find out what other sources of business finance exist for respondents apart from SAT's Microfinance scheme. 66% (110/167) of respondents said they use their own resources to partly finance their businesses; 22% (37/167) rely on equity funds. 11% (20/167) use loans from other sources and (1% (1/167) mentioned others (sale of personal effects). In the rural branch (Offinso) a similar trend is observed; majority of respondents make significant contribution to the financing of their business. Whilst 80% financed their business from their own resource, 10% do so from equity funds and another 10% from other loan sources.

Fig 4.9 Sources of Business Finance



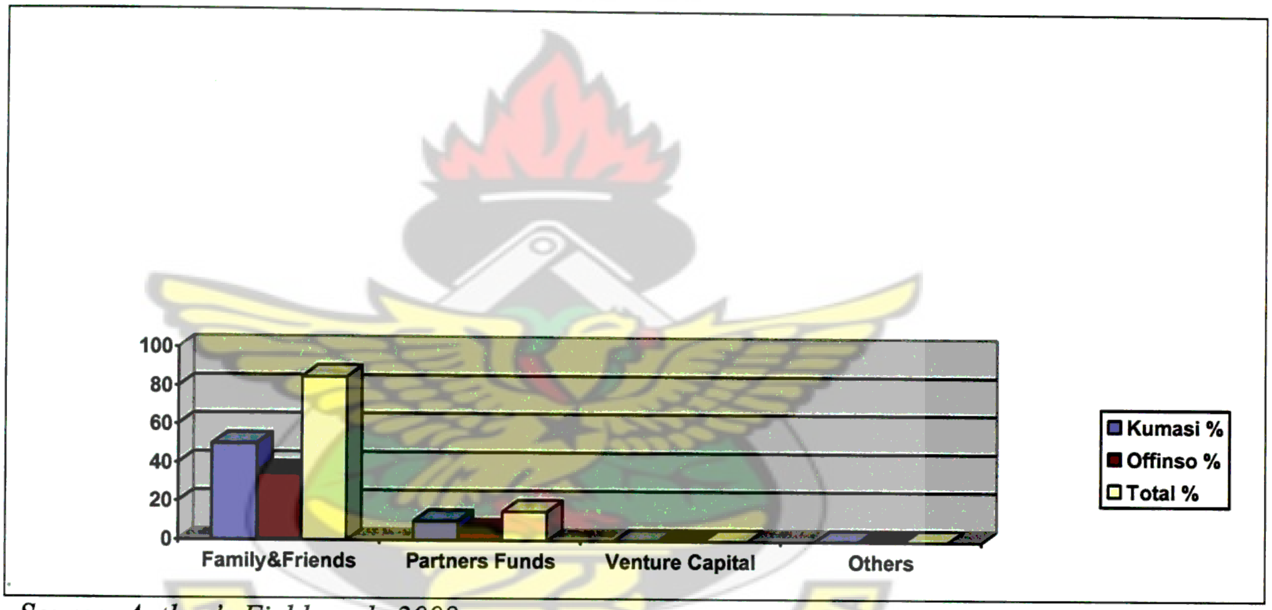
Source: Author's Field work, 2008.

In the Kumasi (urban) area, 57% partly finance their business activities from their own resources. 31% from equity funds, 11% from other loan sources and 1% from other sources. In all situations, Personal contribution to business financing is quite significant because Sinapi Aba Trust requires that, Clients should be in some business before they can access credit facilities. Another explanation is that, most clients tend to reinvest part of their profits in their businesses.

4.5.1.2 Sources of Equity Funds

For those that rely on equity funds. 98% of them obtained their funds from family and friends with 2% coming from partners' funds. The important role played by SAT in the businesses of its clients is evidenced by the fact that only 11% of respondents have access to other loans sources. See Fig.4.10

Fig 4.10 Sources of Equity Funds.



Source: Author's Field work, 2008.

4.5.2 Loan Duration

SAT's loans have durations of up to one year implying that only short term loans are being administered. There is the need to consider medium to long – term loans to enable business growth and expansion.

4.5.3 Loan Access

Procedure for loan access at SAT is as follows:

- completion of a standardized application form,
- Assessment and evaluation of business potential,
- Training.

SAT's loan access requirements are not very stringent as pertain at commercial banks. For example SAT does not require physical collateral before giving out loans. Clients are however required to make a down payment of 10% of the applied amount as an initial deposit. Clients find this as normal practice and do not seem to be bothered. In spite of this however, clients still have concerns with some issues relating to loan access. Respondents identified application procedures, delays, high interest rates as some of the key issues associated with loan access from SAT.

Table 4.6 problems Related to Loan Access

Location	Frequency					
	Application Procedures	Delays	Interest Rates	Collateral	Others	Total
Kumasi	42	30	48	0	31	141
Offinso	8	8	6	0	4	26
Total	**50**	**38**	**44**	**0**	**35**	**167**

30% (50/167) of respondents think SAT's loan application procedures should be reviewed. Specifically, they want the evaluation process to be simplified and shortened. Currently, the procedure is for a specialist to visit the project site at least on two occasions before a final interview with the applicant. For 23 % (38/ 167) of respondents, the problem with loan access at SAT is the long delays experienced while processing the loans. An application for a loan from SAT takes between 4 and 6 weeks before disbursement. High interest rate is the problem for 26% (44/167) of respondents. Interest rate on loans from SAT ranges from 3% per month to 10% month. This translates to between 36% and 120% p.a.

It is significant to note that 0% attribute loan access problems to collateral requirements. This is because as mentioned earlier, SAT does not require physical collateral before disbursing loans to its clients. It can be said that security for SAT's loan could be obtained from the following:

* Group collateral in the form of peer pressure from group members,
* Clients are required to have at least 6 months working experience,
* Guarantors are required,
* 10% of applied loan paid as initial deposit,
* Close and regular monitoring of clients' activities,
* Clients agree to be trained in business and financial management,
* All loans are short-term; up to one year,
* Short periods of installment payment (daily, weekly and monthly),
* Advice letters are issued explaining the terms of the credit to clients before disbursement.

These measures help to ensure that though SAT requires no physical collateral, its loans are secured and recovery is very high.

Other problems indicated by respondents include long training sessions, 21% (35/167) of respondents hold this view. The entire training program lasts for about 16 weeks whilst each training session lasts for about 3 hours,

Perhaps, SAT should repackage both its pre-and post- disbursement training program. The training programs though very important and useful in ensuring effective and efficient credit utilization, should depart from the classroom situation type of training. Adult learning methods, including one-on-one coaching and mentoring may be the appropriate method.

4.5.3.1 Difficulties in Loans repayment

Table 4.10 Difficulties in Loans repayment

Location	Frequency		
	Difficulties	No Difficulties	Total
Kumasi	24	133	157
Offinso	2	8	10
Total	**26**	**141**	**167**

Source: Author's Compilation 2008.

Only 16% (26/167) of respondents have ever had difficulties in paying their loans from SAT. 84% (141/167) expressed no difficulty in loan repayment. This is very strong indicator of why SAT has a nearly 100% recovery rate of its loans.

Table 4.8 Reasons for payment difficulties

Location	Frequency			
	Poor Farm Yields	Poor Trading Returns	Long Travel Times	Procedures& Processes At SAT
Kumasi	3	9	3	3
Offinso	2	3	1	2
Total	5	12	4	5

Source: Author's Compilation, 2008.

Respondents attribute reasons for the difficulties experienced in the payment of their loans as follows:

- Poor Farm Yields-19%(5/26)
- Poor Trading Returns- 46%(12/26)
- Long Traveling Times to SAT's Offices to make payment- 16% (4/26)
- Procedure and Processes at SAT offices-19%(5/26)

  It is quite surprising that this was more of a problem in Kumasi an urban center where traveling times should not be longer than in rural Offinso. One would normally have expected this be the case in the rural branches such Offinso. This revelation therefore appears to suggest that SAT needs to consider opening a few more branches in Kumasi to better serve its clients base in the metropolis.

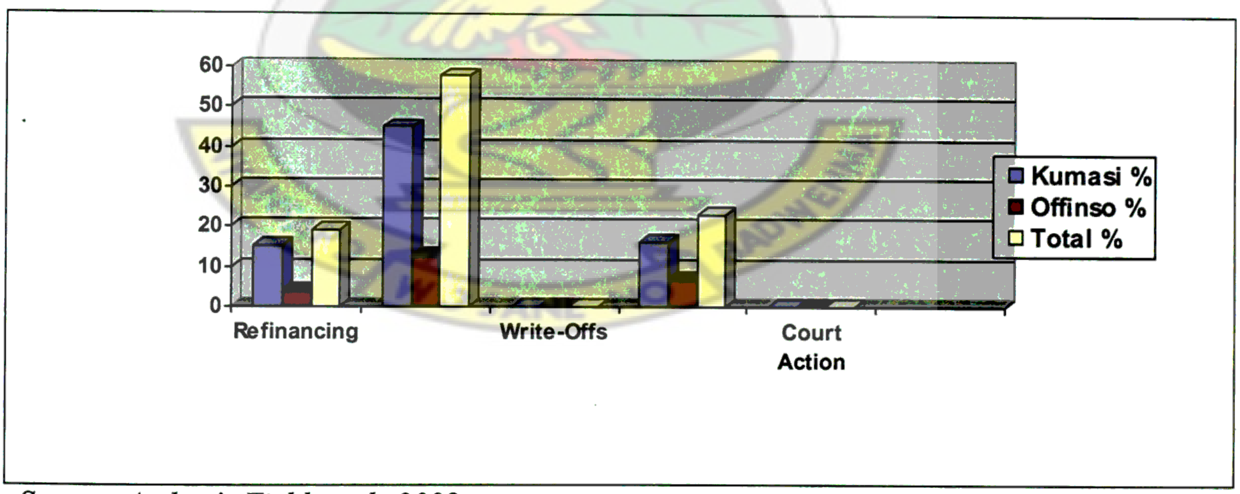
- Process and procedures at offices of SAT – 16% (5/26)

Though SAT has identified some reasons attributed by clients for their inability to pay loans on some occasions, the organization has not compiled and analyzed such data. According to the head of credits at SAT, the following are some of the reasons given by clients who default in paying loans.

1 Slow down in business activities
2 Extraneous factors such as sickness, etc
3 payment of wards' school fees
4 Failure by clients' debtors to honor obligation
5 Eviction by government agents such as district, municipal and metropolitan assemblies from the paces of business which negatively affects their businesses.

4.5.3.2. Actions taken by SAT

Figure 4.11 Interventions by SAT



Source: Author's Field work, 2008

Fig 4.11 shows some of the action taken by the MFI when clients default in loan payment

Action(s) taken by SAT in cases where beneficiaries encounter difficulties in loan payment include the following

Refinancing	- 19 %(5/26)
Time Extension	- 58 %(15/26)
Write-Offs	- 0%
No Action	- 24 %(6/26)
Court Action	-0%

These actions by SAT in instance of clients having difficulties in loan repayment are good measures which do not only and encourage these micro enterprises; they undoubtedly contribute a great deal to the impressive performance of SAT in loan recovery. SAT conducts very close monitoring of clients businesses and this affords it the opportunity to identify and understand the challenges faced by these clients which also informs the organization of the appropriate action(s) to take.

The survey of beneficiary clients indicates that no court action has been taken against clients, however, it must be said that this remains one of the measures which the organization sometimes employ to recover from defaulting clients. Normally, the organization will issue demand notices to defaulting customers on three occasions after which guarantors of the loan will be called in to pay up. In the event where the guarantors are unable to pay the outstanding amount and no alternative arrangements agreed on the organization will take a court action to retrieve the amount. This has been done on several occasions. Where SAT has taken on actions, clients themselves have been able to overcome the challenges, for instance, cases such as problems with traveling time, processes and procedures at the offices of SAT, etc require no specific action (s) by the organization.

4.6 IMPACTS

The impacts of SAT's microfinance scheme have been measured at two different levels; at the business/enterprise (direct impacts) and the household (indirect impacts) levels.

4.6.1 DIRECT IMPACTS

4.6.1.2 Non-Cash Benefits

Apart from the financial (cash) benefits that clients obtain from SAT, they also obtain non-cash benefits in the form of training and business advice.

Training to the clients covers the following areas:

1. Financial management
2. Costumer Care
3. Marketing Strategies
4. Inventory Management
5. Credit Management.

Table 4.9 gives examples of training services provided by SAT and how clients perceive these services.

TABLE 4.9 Non-Cash Benefits: Training

Location	Frequency						
	Financial Management	Customer care	Marketing	Inventory Management	Credit Management	Others	Total
Kumasi	157	130	135	5	150	0	577
Offinso	10	8	10	0	9	0	37
Total	**167**	**138**	**145**	**5**	**159**	**0**	**614**

Source: Author's Compilation, 2008.

The study tried to find out how the beneficiaries perceive these training programs and the relative importance that they attach to them. 27.2% (167/614) of respondents regard Financial Management training as very important and relevant to their businesses. 22.5% (138/614) of respondents regard training in customer care as important and relevant to them. Another

23.6% (145/614) view training in Marketing as important. 25.9% (159/614) and 0.8% (5/614) respectively regard Credit Management training and Inventory Management training as very relevant and important.

Respondents are very satisfied with training programs and think that these have made significant impacts on their businesses even though some of them find the timing and mode for delivery very inconvenient.

It is not surprising that less than 1% of respondents rank Inventory Management training as important to their businesses because, these are micro enterprises and they do not tend to hold large stocks of raw materials or finished products. It must be emphasized here that, it's a good development on the part of SAT to take its clients through these very important training topics. These topics are relevant and key to business success and growth. Most importantly, the strong regard that clients have for these training topics is a strong contributor to the high recovery rate chalked by SAT. In the area of business advice; clients receive information and guidelines on credit Management, Investment Opportunities and Savings Mobilization. Again the research tried to find out how the respondents regard these services from the MFI.

Table 4.10 gives examples of business advisory services provided by SAT and how clients perceive these services.

Table 4.10 Non-cash benefits: business advice

Location	Frequency				
	Credit Management	Investment Opportunities	Savings Mobilization	Others	Total
Kumasi	114	2	101	0	217
Offinso	10	0	9	0	19
Total	**124**	**2**	**110**	**0**	**236**

Source: Author's Compilation, 2008.

Credit Management appeals to 52.5% (124/236) of respondents whilst for 46.6% (110/236) of respondents, advice on Savings Mobilization is very important to them. Only 0.9% (2/236) appreciate and utilize the organization's advice on investment opportunities. Among reasons which can be attributed to the low percentage of respondents who take advantage of advice on investment opportunities are these;

1. Most of these clients have very small capitals and therefore, cannot invest or tie down as it was part of their capitals in such investments which may not bring them immediate returns.

2. The level of financial sophistications of the respondents is not very high and therefore they do not appreciate such investments.

4.6.1.3 Impacts on Micro Enterprises

The direct impacts of SAT's financial interventions on the businesses of its clients are very remarkable. The impacts are assessed in several areas including

- Retooling /Acquisition of New Equipment
- Increased production Levels
- Improved Production Methods
- Opening of new Branches and
- Diversification of operations

The greatest impact is observed in the area of increased sales/ turnover. This is not quite surprising as majority of respondents (64%) engage in petty trading/marketing activities. To these clients, loans taken from SAT are used to increase their stock, particularly during periods of expected high sales such as Christmas and Easter festivities, festivals, etc. 28.3% of the respondents have diversified their operations as a result of the loans taken. For the traders, the diversification comes in the form of varying the commodities traded and also taking advantage of the seasons to do different things at different times. According to respondents engaged in agricultural and agricultural-related activities, the loans help them to cultivate different crops and also to crop in all seasons.

Another area of significant impact is effective marketing. 14.8% of respondents have been able to adopt very effective marketing strategies to improve their sales.

4.6.1.4 IMPACTS ON PROFITABILITY

Given the impacts on the business activities of clients as explained above, it is important to find out how the impacts affect the profit levels of the clients. Respondents were asked to indicate how the impacts have affected their business profits. Results are shown in table 4.11.

Table 4.11 Impacts on Business Profits

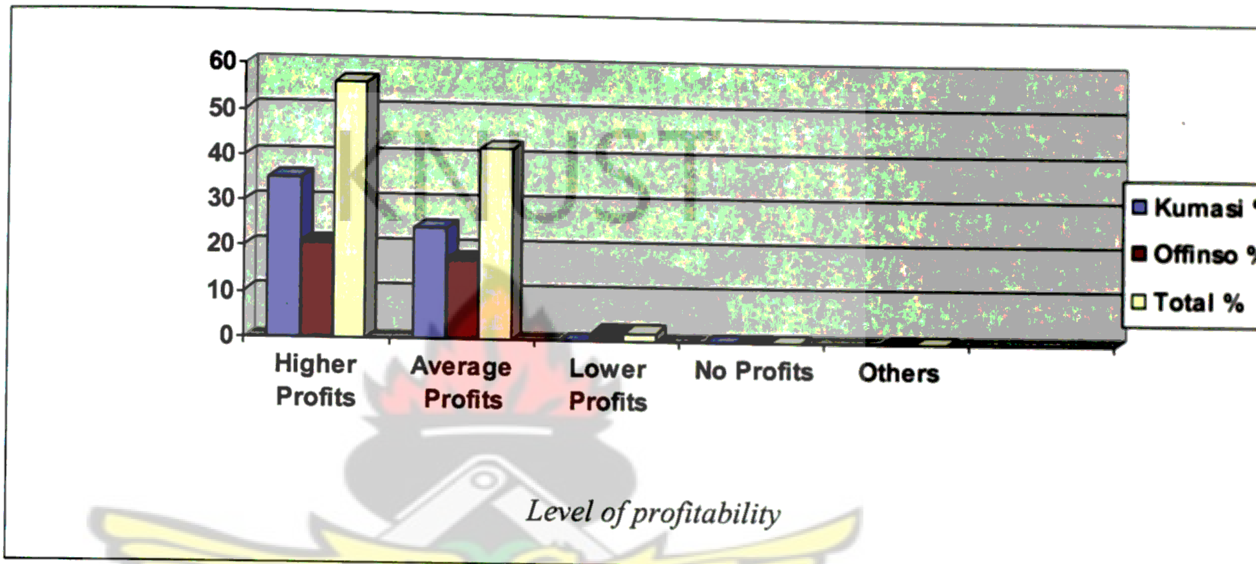
Location	Frequency					
	Higher Profits	Average Profits	Lower Profits	No Profits	Others	Total
Kumasi	85	69	3	0	0	157
Offinso	9	1	0	0	0	10
Total	94	70	3	0	0	167
Percentages	**56.0**	**42.0**	**2.0**	**0.0**	**0.0**	**100.00**

Source: Author's Fieldwork, 2008.

Results from this suggest a strong impact on the profit levels of the respondents. Refer fig. 4.12.

This tallies very well with the broad range of areas in which impacts have been recorded on clients' businesses.

Figure 4.12 Impacts on Profitability



Source: Author's Field work, 2008.

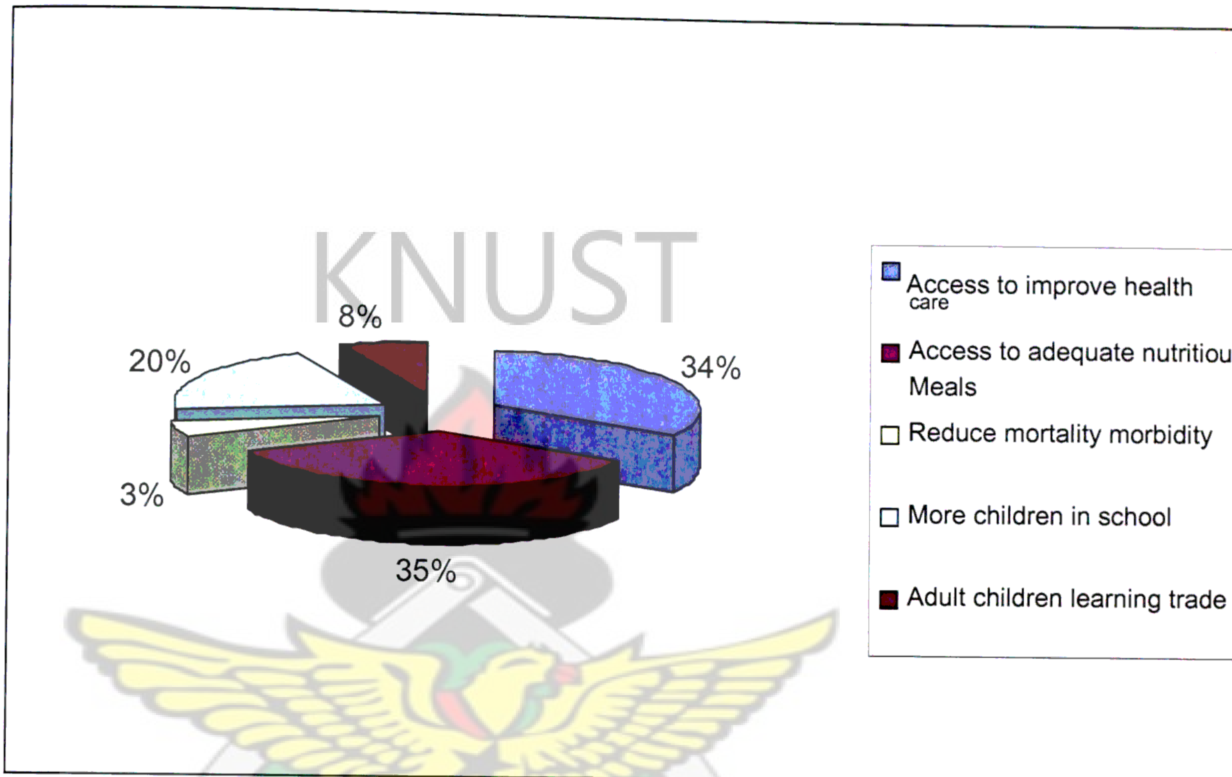
4.6.2 Indirect Impacts

The study also assessed how the improvements in profits of clients have translated into improved living conditions in their households. Specifically, respondents were asked to indicate the effects of the increase in their household incomes (note that, respondents view profits from their business activities as the most important source of household income) on the following:

1. Access to improved Healthcare.
2. Access to adequate and nutritious meals (household food security)
3. Reductions in mortality and morbidity rates in their households
4. Putting more of their children of schools-going age in schools

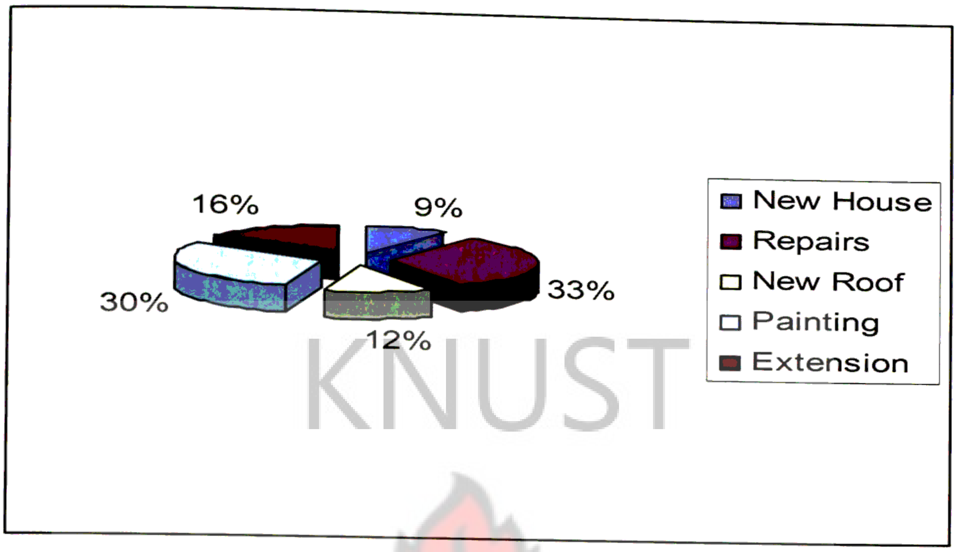
5. Getting more of adult children who are out of school to learn some trade/skills

Figure 4.13 Impacts on Households



Source: Author's Field Work 2008.

Figure 4.14 Impacts on Household Infrastructure



Source: Author's Field Work, 2008.

Another area where impacts on households were measure is housing infrastructure. Due to the huge capital outlay required for housing, not much has been achieved in this area.

It must be said though that impact on household infrastructure has been moderate. 9% (15/167) of respondents have built new houses and they attribute the ability to profits from their businesses. 39% (55/167) have undertaken some levels of repair and rehabilitation of their houses and 13% (20/167) have put up new roofs. Again, 35%(50/167) have been able to paint their houses whilst another 4% (27/167) have made extensions such as adding more rooms, new facilities like toilets, kitchen, etc.

4.7 Level of Clients' Satisfaction

The levels of satisfaction of beneficiaries with the services of SAT were also evaluated. Beneficiaries rate the services of SAT highly. Whilst 40 % (67/167) of respondents rate the services of SAT as Very Good, 57% (95/167) of them rate the services of SAT as Good. For

2% (4/167) of respondents, the services of SAT are satisfactory, whilst ratings such as Bad and Very Bad received no votes from the respondents, Only 1% (1/134) could not decide.

Figure 4.15 Clients Level of Satisfaction

Source: Author's Field work, 2008.

4.8 The Institution (SAT)

This section of the study now assesses the performance of the intermediary institution; Sinapi Aba Trrust (SAT) over the study period 2004 -2008 with the view to demonstrating that microfinance institutions can finance Micro enterprises and still remain profitable.(see appendix c).

4.8.1 Industry Averages

The Micro finance industry is an emerging one and therefore, issues like the use of universally understood indicators for the assessment performances of individual microfinance institutions as well as for comparing different MFIs have sources of disagreement. Most countries lack umbrella organizations and or credible rating institutions/agencies to monitor the industry, streamline methods of performance assessment and publish industry indicators and data. In some countries where these bodies exist, they may lack capacity and or credibility to conduct these tasks. Industry benchmarks referenced in this study therefore, have been quoted from 'The Technical Guide: Performance Indicators for Micro Finance Institutions' published jointly by Micro Rate Africa, The Inter- American Development Bank **(IASB),** The Consultative Group to Assist the Poorest **(CGAP)**, The United States Agency for International Development **(USAID)** and **MICRL** Rating in 2005. Consequently, industry benchmarks where provided are only for the period 2006-2007.

4.8.2 Growth: Outreach and Impact

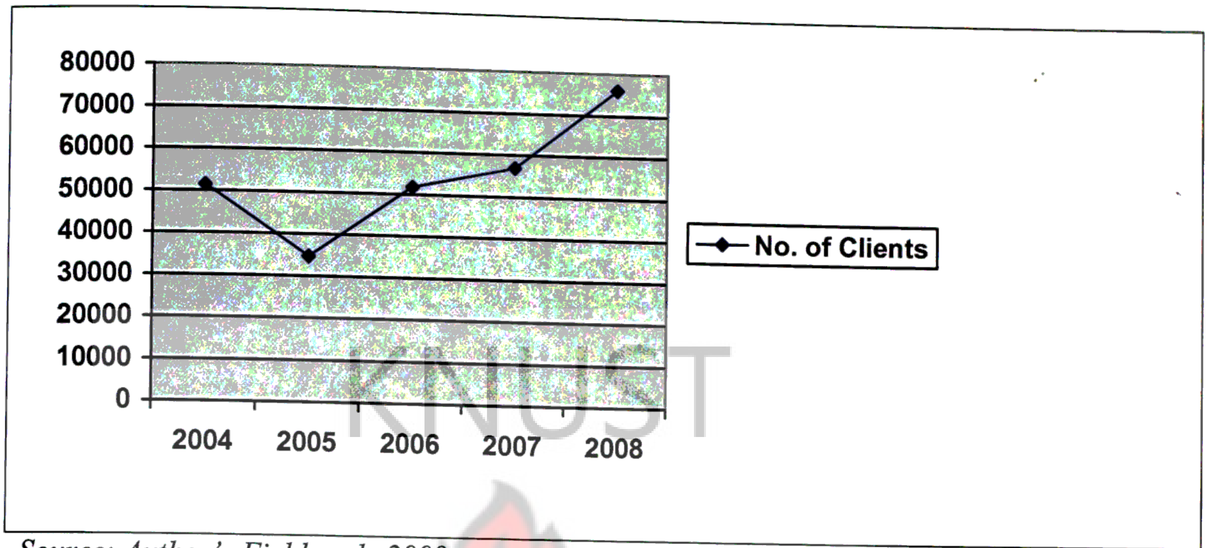
SAT, since its inception in 1994 has grown phenomenally in terms of outreach and impacts. The growth of SAT over the period under consideration is depicted in table 4.13 and figs. , 4.16, 4.17.SAT within 14 years of its establishment has been able to expand to all 10 regions of Ghana and serves over 110 communities. Growth rate has been very steady and consistent between 2004 and 2008 when it established its last branch as a non-profit micro finance institution. The growth in terms of number of branches over the period has been facilitated mainly by the good financial performance over those years and the general lack of access to credit by micro enterprises from the traditional formal financial institutions. This situation provides the platform for non-formal rural financial intermediaries like SAT to fill the vacuum. Consequently, when the right environment is provided such MFIs can grow very rapidly and make substantial impacts. SAT has over the years increased its staff strength in a direct response to the growing expansion of the organization in terms of the number of branches and clients.

Table: 4.13 Growth of SAT in terms of clients and value of Loans disbursed, 2004-2008

Indicator	**2004**	**2005**	**2006**	**2007**	**2008**
No. of Clients	51393	34632	51686	56879	76005
% of Women	85	95	92	94	90
Value of Loans Disbursed(M)	9.27	11.12	16.95	32.91	48.28

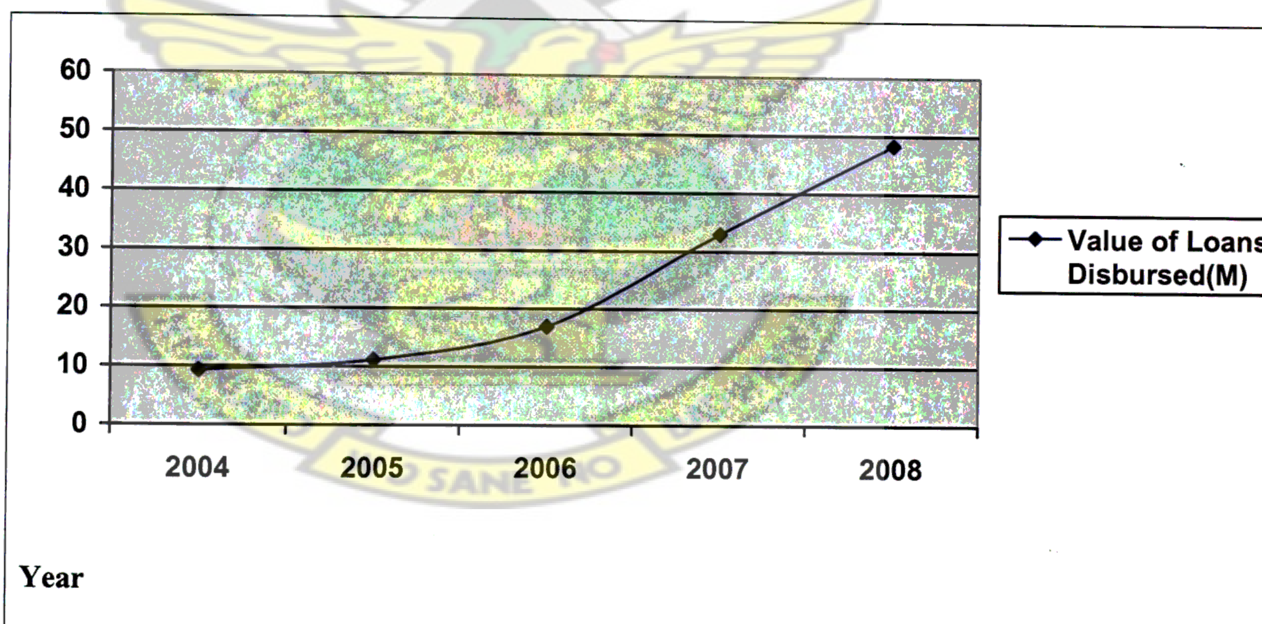
Source: SAT Annual activity and financial reports for 2004-2008.

Figure 4.16 SAT's Growing Outreach, 2004-2008



Source; Author's Fieldwork, 2008.

Fig 4.17 SAT's Growing Loan Portfolio (Million GH¢)



Source; SAT annual activity and financial reports for 2004-2008.

SAT grew significantly over the period under study to become one of the major MFIs in Ghana Whilst SAT reached and serviced 51,393 clients in 2004, it serviced 76,005 clients in

2008. This rapid increase in outreach has been the result of SAT,s aggressive branch expansion program geared to service as of the 10 regions of Ghana. In four years, SAT increased its number of branches to 40 becoming the only MFI with nation-wide coverage. Loans portfolio showed similar rapid increase, growing from 9.27million cedis in 2004 to 48.28 million cedis in 2008.

CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSIONS

5.0 Introduction

Micro and Small enterprises occupy a very important and useful position in the economy of developing countries like Ghana. They represent the hope for future economic growth and stability in all developing economies and must therefore be well supported and nurtured to grow. Microfinance is also the main thrust that underpins the growth and development of micro and small enterprises. The objectives were to assess the role of micro-finance institutions in the financing of micro-enterprises in Ghana. It was also to assess the impacts of SAT schemes on Micro-enterprises in the Ashanti Region. This chapter therefore, presents a summary of the major findings as discussed in the previous chapter, recommendations and conclusions.

5.1 Summary of Findings

5.1.1 Clients' Profile

- Majority (95%) of SAT's clients are females with 92% of them in the economically active age group of 18-50 years.
- At least each beneficiary has one year working experience.
- 71% of the clients have at least one (1) dependant per household.
- 94% operates in the informal sector (not registered) and 96% are micro enterprises (up to US$10,000 assets excluding land and buildings and up to 5 workers), 64% are in the trading sub- sector with only 2% in manufacturing.

- The potential to develop cottage industries exists as 2% SAT's clients manufacture soap using palm oil and other agricultural byproducts.

5.1.2 Household Incomes

The major sources of household incomes are as follows:

- Business profits 61%
- Remittances from adult children and siblings abroad 9%
- Others (Spousal support) 30%

5.1.3 Business Financing

The major sources of business finance apart from loans from SAT are as follows:

- Self financing 66%
- Equity funds 22%
- Other Loan sources 11%
- Other sources (sale of personal belongings and effects) 1%

Clients made a lot of savings and using their savings to finance their business. Family and friends form the major source of equity funds (98%) partners' funds form only 2% of equity funds like Venture Capital Funds, etc. For 70% of clients, SAT's loan constitute fewer than 50% of funding requirements. A substantial funding gap therefore, exists for micro enterprises. Only short –term loans (up to 1 year) are administered by SAT. There is the need to seriously consider medium and long-term loans to enable business growth. Training is a key part of SAT's micro finance program. Clients are trained before and after loans are disbursed.

5.1.4 Loan Access

- 30% of clients want SAT to review its application process.
- 23% want SAT to streamline its procedures and cut out delays at their offices.
- 26% think those interest rates charged by SAT on its loans are high. 3-10% per month works out to 36-120% p.a.

SAT's group collateral policy works very well. It removes the need for bankable collateral and makes SAT more involved in clients' activities by way of monitoring, supervision and training. However, it also restricts loans to only short- term loans which is not good for growth and expansion,

21% of clients want SAT to repackage its training program. Only 16% have ever encountered difficulties in paying loans. Reasons advanced for difficulties are;

* Poor farm yield	19%
* Poor returns on trading	46%
* Long travel times	16%
* Procedures at offices of SAT	19%

- SAT has not written off any loan.
- 23% of cases where clients had difficulty in paying loans required no action (s) from SAT.
- SAT has not used any Court actions to retrieve loans.
- 19% of the cases were refinanced and
- 58% had their times extended,

5.1.5 Direct Impacts

Non-cash benefits form an important component of SAT's interventions. These come mainly in the form of training and business advisory services. Clients regard these services as very important and useful. The impacts of SAT's interventions on clients businesses can be assessed as follows:

- Retooling/acquisitions of new equipment	7%
- Increased number of employees	4%
- Higher Production levels	8.0%
- Improved production methods	5%
- Effective marketing strategies	15 %
-Open of new branches	1%
- Diversification of clients' operations	28%
- Increased sales / turnover	32%

5.1.5.1 Profitability

The above impacts have also had the following effects on the profitability of these enterprises:

- Higher profits	56%
- Average profits	42%
- Lower profits	2%
- No profits	0%

5.1.6 Indirect Impacts

The high profits realized by clients have in turn increased household incomes for these clients. Consequently, the effects on the quality of living conditions in clients' households have been very positive.

1. Access to improved Healthcare (34%)

This is a very important indicator of improvements in the quality of life of household members. Here access includes the ability to pay for quality health services particularly, by the vulnerable members including women and children.

2. Access to Adequate and Nutritious Meals (35%)

This is also an indicator of improved household food security. Food is available in adequate quantities, at the right times and of the right nutritive quality.

3. Reduced Mortality and Morbidity (3 %)

These result directly from the first two indicators above (health care and food security).

4. More Children in School (20%)

Clients are empowered financially to pay fees, buy school uniforms and books and also provide children with food.

5. Adult Children enrolled to learn trade/Skills (8%)

Adult children, who are unable to continue their education academically, are enrolled to learn a trade or skill. Clients have the ability to pay apprenticeship fee, provide money for food and transport and also tools for learning.

Improvements in Household Infrastructure

9% of clients have built new houses;

33% have undertaken repair and rehabilitation works on their houses;

12% of clients have replaced their roofs;

30% have painted their houses;

16% have made extensions (more rooms, toilet facilities, etc) to their existing houses.

5.1.7 Growth and outreach

SAT has expanded within 14 years to cover the entire country. By 2008, SAT operates in 40 branches in the 10 regions serving clients in over 110 communities. Loan Portfolio increased from 9.27 million in 2004 to 48.28million in 2008 representing an average yearly increment of 75%.

5.2 Problems and Challenges facing SAT and the Micro Finance Industry

The major challenges and problems that SAT and the industry as a whole face include the following:

Funding

Like all Non Governmental MFIs that depend heavily on donor funds, SAT has faced periods of funding constraints. This situation was heightened particularly, by the events of the September 11 attacks on the United States of America which seriously affected donor inflows.

For the specific case of SAT, obtaining funding from local sources has not been favorable at all. High domestic borrowing by government prior to the year 2008 effectively edged out a not- for-profit MFI like SAT from borrowing commercially on the domestic market.

Macro Economic Factors

The operations of SAT and indeed most MFIs have been affected adversely by the unfavorable economic environment. High inflationary rates, relative instability of the local currency and high interest rates all combined to affect operational and financial sustainability.

Competition

Though the micro finance industry is relatively young, there has been a tremendous upsurge in the number of MFIs including Savings and Loans Companies, NGOs that offer micro finance services and 'susu' clubs and associations.

There has been, quite a number of fraud cases in the industry and this adds to the challenges of an MFI to be able to position it well so as to win the trust and confidence of clients. For instance, SAT has experienced some cases of fraud and corruption involving both its staff and clients in the following branches,Offinso, Akomadan, Asante Mampong and Kumasi.

Technology

MFIs face serious technological constraints in their operations. Most depend on manual data processing and need to computerize. However, the cost of computerization is huge and this invariable affects the operational cost of the institutions.

5.3 Recommendations

Capacity Development for SMEs

Most micro enterprises, in spite of their enormous contributions to the growth of the economies of developing nations have very little or no access at all to credit as a result of their highly informal nature. They are also not attractive to the traditional financial market because of their inability to provide the required collateral. This situation has given rise to the increasing number of MFIs especially Non Governmental Organizations seeking to offer micro finance services to the public. The sector needs to be supported not only in the form of credit provision but also through the provision of training support. MFIs should set up units that ensure that micro enterprises develop their capacities through mentoring and training in the following areas:

* Proper records keeping
* Basic accounting
* Costing
* Market research

Capacity Development for the Micro finance sector

The Micro Finance sector itself needs to be strengthened and supported to effectively play their roles as financial intermediaries. Players in the sector must engage qualified, experienced, honest and morally upright board members and employees to serve them. These steps must also be augmented through the implementation of good management information systems and staff development programs. Non Governmental MFIs should also design innovative and attractive products to enable them mobilize deposits from their clients and thereby remain in competition.

Government Interventions

The government should also provide the enabling environment for the development and growth of the micro finance sector. This may be done in two key areas:

1. Ensuring the right economic environment that will ensure that MFIs operate sustainably,

2. A strict regulatory, monitoring and supervisory role of the Bank of Ghana (BoG) to bring sanity to the sector and ensure that it develops.

Training programs

SAT should repackage its training program to make it more acceptable to clients. 'They should make the training sessions shorter and if possible increase the one-on-one sessions: This view was repeated by many of the respondents

Loan size

The size of loans should also be increased to maximize the impacts on clients' businesses

Long-term loans

SAT and other MFIs should introduce medium and long-term loan facilities to enable clients expand and grow their businesses. "We want Sinapi Aba to stop collecting the money on weekly and monthly bases. It does not allow us enough time to use the money to make profits," This is how one respondent expressed her frustration at having to make frequent payments. Clients will want to take advantage of seasons such as Christmas to turn the loans several times over and maximize their profits before paying back. They are unable to do this when they have to make payment within short periods.

Interest rates

Interest rates 5% -10% per month are too high for SAT's poor clients. SAT should consider reducing the rates to allow clients retain part of their profits. SAT should remember that it's a not-for-profit entity and therefore has the responsibility to ensure the growth of its clients. This is especially so now that the Bank of Ghana prime rate has come down to around 18. 5%

Further studies

Further studies should be conducted into areas such as the impact of micro finance on the socioeconomic development of communities in which they operate that this study could not adequately deal with due to time and other resource constraints.

5.4 Conclusions

SAT has demonstrated consistent and remarkable profitability, outreach and portfolio quality. The organization has by 1999 stabilized its financial position and though it continued to be funded through grants and subsidized loans, it operated profitable. The loans portfolio grew rapidly from 9.27 million Cedis in 2004 to 48.28 million Cedis in 2008, representing an average yearly increase of 75%. SAT expanded rapidly between 2004 and 2008 through an aggressive branch expansion program to cover all the ten (10) administrative regions of Ghana. It served as many as 110 communities and reached out to over 76,000 clients by 2008. The impacts of SAT on micro enterprises are tremendous. All of SAT's clients (100%) are micro enterprises (total fixed assets value of less $10,000) operating in the following sectors; the chunk of SAT's loans goes to the trade sector (70%) and the least (2%) goes to the manufacturing sector .SAT's clientele include food sellers, restaurants, vegetable growers, livestock owners, tailors, designers, shoe makers, furniture makers, plastic and leather bag makers, and retailers of agricultural and industrial products. Over 90% of the clients are females. The interventions of SAT have had great impacts on the livelihoods of its clients.

At the micro enterprise level, the interventions have improved 'behaviors' such as retooling, expansions, higher production, improved methods of production' diversification, increased turnover, etc. These have resulted in high profits for the enterprises which in turn have impacted positively on the livelihoods of households. The study revealed that SAT's micro finance interventions have made significant impacts in the following areas:

* Access to improved Healthcare
* Household food security

* Better education for children
* Improvements in housing infrastructure

In spite of the very significant role played by SMEs in national economic development, they are not well financed. The study has shown when adequately financed, micro enterprises will be able to plays a very useful role in the empowerment of the poor and vulnerable. In the light of conventional banking institutions shying away from extending credit support to micro enterprises, non bank financial institutions like NGOs should be strengthened to fill this vacuum. SAT has adequately demonstrated that, given the right economic environment, strong funding support, and astute management, NGOs can impact tremendously on the growth of the SME sector and by extension of the national economy.

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APPENDIX A.

KNUST

SCHOOL OF BUSINESS

DEPARTMENT OFACCOUNTING AND FINANCE

MBA

RESEARCH QUESTIONNAIRE

FOR

KEY PERSON – SINAPI ABA TRUST

NAME: CHRISTIAN OPPONG FRIMPONG

INDEX NO. PG1644107

Dear Sir/Madam,

I am conducting a research on The Financing of Micro Enterprises in Ghana. A case study of Sinapi Aba Trust (SAT).The information obtained will be purely for academic purposes and treated with confidentiality it deserves.

I would be most grateful if you could spare some bit of your precious time to answer the following questions.

KEY PERSON QUESTIONNAIRE – SINAPI ABA TRUST (SAT)

A. RESPONDENT's PROFILE

1. Position…………………………………………………………………………………

2. Number of year with firm……………………………………………………………

3. Number of years in current Position…………………………………………………

B. LENDING AND SAVINGS INFORMATION

4. What type of loans does your organization offer?

☐ Short-term. Up to 3 years (1-36 months)

☐ Medium-term. Up to 7 years (37-84 months)

☐ Long-term. More than 7 years (more than 84 months)

☐ Others. Please specify.

5. Please give a brief profile of your clients

☐ Micro enterprise

☐ Small enterprise

☐ Medium enterprise

☐ Others. Please specify

6. Please briefly describe the requirements and procedure for credit access

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

7. Please provide the following information

Statistics	2004	2005	2006	2007	2008
Gross outstanding portfolio (Total loans disbursed)					
Average Gross loan Portfolio					
Total number of borrowers					
Number of female borrowers					
Total amount borrowed by females					
Number of male borrowers					
Total amount borrowed by males					

C. PORTFOLIO QUALITY INFORMATION

8. Please provide the following information

Statistics	2004	2005	2006	2007	2008
Total amount of loans paid on or before time.					
Outstanding balance of loans arrears (Total amount of loans past due)					
Amount of male loans >30 days late					
Total amount of loans written off					
Amount of female loans >30 days late					

9. What in your estimation accounts for defaults in loan repayment?

……………………………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

D. SOCIO – ECONOMIC IMPACT

D1. COMMUNITIES

10. Please indicate the impact of your microfinance scheme on the communities in which you operate

(Please tick as many as applicable)

☐ New buildings

☐ Rehabilitation of old buildings

☐ More children in school

☐ Others please specify

D2. BORROWERS (ENTERPRISES)

11. Please indicate the impact of your micro finance scheme on your borrowers

(Please tick as many as applicable)

☐ Establishment of new business

☐ Expansion of enterprise

☐ Diversification of activities

☐ Increase employment generation

☐ Adoption of better technologies / equipment

☐ Accumulate savings

☐ Diversified sources of income

☐ Higher income levels

☐ Enhanced access to credit

☐ Acquisition of new assets

☐ Better education for children

☐ Improved household nutrition status

☐ Women empowerment

☐ Reduced social exclusion

☐ Others. Please specify --

E. CHALLENGES/BOTTLENECKS

12. Please enumerate challenges /bottlenecks in your operations

    ☐ Governmental policies

    ☐ Macroeconomic environment

☐ Financial Infrastructure

☐ (Legal framework, regulation and supervision of financial institutions, disclosure of Financial information, etc)

☐ Physical Infrastructure (Roads, bridges, markets, etc.)

☐ Level of social development and demographic characteristics (Population density, adult literacy rates etc.)

☐ Others. Please specify ....

F. SUGGESTION FOR IMPROVEMENT

13. What suggestions will you make towards the improvement of microfinance operations in Ghana?

....

....

15. What government actions/policies/interventions will enhance microfinance operations in Ghana?

....

....

THANK YOU.

APPENDIX B

KNUST SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

MBA

RESEARCH QUESTIONNAIRE

FOR

BENEFICIARY CLIENTS

NAME: CHRISTIAN OPPONG FRIMPONG

INDEX NO. PG1644107

Dear Sir/Madam,

I am conducting a research on the Financing of Micro Enterprises in Ghana. A case study of Sinapi Aba Trust (SAT). The information obtained will be purely for academic purposes and treated with confidentiality it deserves

I would be most grateful if you could spare some bit of your precious time to answer the following questions.

Beneficiary Questionnaire

A PROFILE

INDIVIDUALS

1. A. Age: (Please tick as appropriate)

18 – 30 years

31 – 40 years

41- 50years

51 – 60 years

Above 60years

B. Sex……………………………………

2. Number of Employees…………………………………………………………………..

3. How long have you being in this business?...

ENTERPRISE

4. Name of Enterprise…………………………………………………………………...

5. Type of business (Please tick as appropriate)

☐ Sole Proprietorship ☐ Partnership

☐ Company ☐ Others. Please specify………..

6. Legal Status…………………………………………………………………………..

7. How long has this business been in existence?...

8. Please give an estimate of the total assets of your enterprise (excluding land and buildings)

☐ Up to ¢ 91M

☐ Over ¢ 910M

☐ Up to ¢2275M

☐ Over ¢2275M

HOUSEHOLD INFORMATION

9. Please supply the following information on you dependants

Indicator	Response	Comments
Number of male dependants who are in school		
Number of male dependants who are not in school		
Number of female dependants who are in school		
Number of female dependants who are not in school		
Number of aged male dependants		
Number of aged female dependants		

10. What are the main sources of income for your household?

Profit form your business (es) [ ]

Remittances from adult children [ ]

Others. Please specify [ ]

B. NATURE OF BUSINESS

11. Please give a brief description of the nature of your business

☐ Agricultural

☐ Agro processing/Agric-business

☐ Marketing/Petty trading

☐ Manufacturing

☐ Services

☐ Others. Please describe...

C. **FINANCING**

12. Have you ever taken a loan from SAT? Yes / No

If Yes,

13. Have you ever faced any difficulty in repaying your loan? Yes [ ] No [ ]

14. If yes, what were the cause(s) for such difficulty?

[ ] Poor farm yield resulting from bad weather.

[ ] Poor returns on trading activities

[ ] Poor cash flow

[ ] Inadequate time to travel to SAT offices to make payments

[ ] Delays at the offices of SAT.

[ ] Others. Please specify…………………………………………………………………

………………………………………………………………………………………………

15. What help (if any) did you receive from SINAPI ABA when you were in such difficulty?

[ ] Refinancing

[ ] Extension in repayment time.

[ ] Write-off

[ ] None

[ ] Others. Please specify…………………………………………………………………

16. Apart from SINAPI ABA Trust loans , what other sources of finance do you have for your business?

(Tick as many applicable)?

☐ Self

☐ Equity

☐ Loan

☐ Other. Please specify...

17. Please specify what percentage of finance comes from the sources listed above (15)

Source of finance	Percentage (%)
Self	
Equity	
Loans	
Others	

18. If your answer to 17 includes Equity please give the source. (Tick as many as applicable)

☐ Friends and family members

☐ Partner's investment

☐ Venture capital

☐ Others. Please specify...

19. What is the normal duration for loans you obtain from SAT?

Between one (1) day and one (1) year [ ]

Between one (1) year and five (5) years [ ]

Above five (5) years [ ]

20. Is there any ceiling to the number of times that you can obtain loans from SAT?

[ ] Yes [ ] No

21. If yes, how many times?...

22. Apart from financial assistance, what other forms of assistance do you obtain from SAT?

Choose from the option provided in the table.

Training	Tick (√)	Business Advice	Tick (√)
Financial management		Credit management	
Customer care		Investment opportunities	
Marketing strategies		Savings mobilization	
Inventory management		Others. Please specify	
Credit management			
Others. Please specify			

23. What problem did you encounter while accessing credit? (Tick as many as applicable)

i. Cumbersome application procedure

ii. Long delays [ ]

iii. High interest rates [ ]

iv. High collateral requirements [ ]

v. Others. Please specify…………………………………………………………………………..

D. BENEFITS/IMPACTS

MICRO ENTERPRISE LEVEL

24. In what ways have the loans you obtained from SAT affected your business?

[ ] Retooling/New equipment

[ ] Increased number of employees

[ ] Increased production level

[ ] Improved and Efficient production methods/processes

[ ] Effective marketing

[ ] New branches opened

[ ] Diversified operations

[ ] Others

25. In what ways have the changes indicated above affected your profit/income from your business?

[ ] High profits

[ ] Average profits

[ ] Low profits

[ ] No change

[ ] Others

26. How do you rate SINAPI ABA'S performance?

[ ] Very good [ ] Good [ ] Fair

[ ] Satisfactory [ ] Very Bad [ ] Can't Rate

27. Would you have started your business without SINAPI ABA'S support?

[ ] Yes [ ] No

HOUSEHOLD LEVEL

28. In what ways have the additional income obtained in (20) above if any, affected you household?

[ ] Members can easily access/obtain improved healthcare when needed.

[ ] Members get adequate and nutritious meals when needed.

[ ] Morbidity rates among household members have reduced.

[ ] More dependants of school-going age are enrolled in schools

[ ] More dependants under 21 years but who are not in school are learning new skills/trade.

[ ] Household has made improvements to housing like

[ ] New house

[ ] Repair/rehabilitation

[ ] New roof

[ ] Painting

[ ] More rooms added

Others. Please indicate……………………………………………………………..

29. What are your general impression about Micro financing in your community?

……………………………………………………………………………………………

30. What improvement could SINAPI ABA introduce in its operation to enhance its service delivery?

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………

31. Are thee any hindrances in obtaining loans from commercial banks? Please state them.

……………………………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

32. Indicate benefits of dealing with SINAPI ABA as against commercial banks and other micro finance institutions.

……………………………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

33. In what ways could the micro finance schemes in Ghana be improved?

……………………………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

THANK YOU.

APPENDIX C:

PERFORMANCE (GROWTH) OF SAT, 2004 – 2008

(Extract of Findings from documents available at SAT)

Value of Loans	**2004**	**2005**	**2006**	**2007**	**2008**
Disbursed (GH¢)	9. 27M	11.12M	16.95M	32.91	48.28M
Outstanding Portfolio (GH¢)	3.70M	2.83M	6.73M	13.58M	16.73M
Operational Sustainability	93.68%	144.51%	117.13%	118.44%	118.73%
Number of loans	66,125	62,565	69,266	71,767	72,829
Financial sustainability	81.97%	127.13%	102.94%	112.72%	104.60%
Arrears rate > 30days	0.93%	1.22%	0.97%	1.31%	1.73%
Portfolio at risk > 30days	1.31%	1.80%	1.49%	1.72%	1.73%
Cost per cedi lent	0.30	0.13	0.15	0.11	0.12
Number of clients	51,393	34,632	51,686	56,879	76,005
Percentage of women	85%	95%	92%	94%	90%

SOURCE: SAT MIS Department, 2008.