

**THE ROLES OF NON GOVERNMENTAL ORGANIZATIONS IN THE FINANCING
OF MICRO ENTERPRISES IN GHANA.
A CASE STUDY OF SINAPI ABA TRUST (SAT).**

**A THESIS SUBMITTED TO THE SCHOOL OF POST GRADUATE STUDIES,
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BY

WILBERFORCE BAFFOUR ANSAH

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FACULTY OF SOCIAL SCIENCES

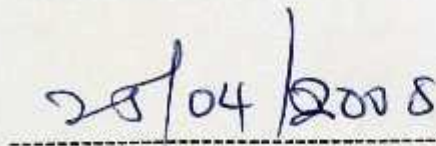
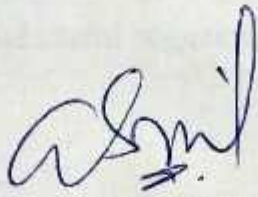
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1.1 DECLARATION

This thesis has been the result of my own research work with references 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.

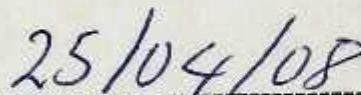
STUDENT



Wilberforce Baffour Ansah

Date

SUPERVISOR



Mr. Kwaku Boateng

Date

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Many people have in diverse ways contributed to the successful completion of this project and therefore, it stands to reason that their contributions are acknowledged.

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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 financial 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 play in the businesses of their intended beneficiaries in order to determine which direction the industry should be headed.

This study has looked at the roles of one such MFI; Sinapi Aba Trust (SAT) in two communities, Kasei (rural) and Kumasi (urban) both in the Ashanti region and the performance of the organization over the five-year period 1998 – 2002.

The methodology employed involved the administration of questionnaire on selected beneficiaries from the 2 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

✚ Improvements in housing infrastructure

The study has also established that SAT has demonstrated consistent and remarkable profitability, efficiency, outreach and portfolio quality. Data available suggests that SAT has been able to consolidate its financial position and has also been able to maintain or improve its performance.

The organization is in the process of transforming into a Savings and Loans Company to enable it better serve the banking needs of its clients who remain largely small businesses. The present financial position of the organization will allow for this transformation and perhaps it is also about time that it considers providing long-term financing to its clients.

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 needs be strengthened and supported to effectively play their roles as financial intermediaries.
- Non Governmental MFIs 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. 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.
- Further studies should be conducted into the several areas that this study could not adequately deal with due to time and other resource constraints.

TABLE OF CONTENTS

Title Page	i
Declaration	ii
Acknowledgment	iii
Abstract	iv
List of Tables	ix
List of Figures	xi
Chapter One: Introduction	1
1.1 Background of the study	1
1.2 Problem Statement	3
1.3 Objectives of the study	5
1.4 Research questions	5
1.5 Justification/Rationale for the study	5
1.6 Conceptual Framework	7
1.7 Organization of the study	9
Chapter Two: Literature Review	11
2.0 Introduction	11
2.1 Contributions of Micro Enterprises to Economic Growth	11
2.2 Classification of Micro Enterprises	14
2.3 Micro Enterprises Financing	22
2.4 The Micro Finance Market in Ghana	32
2.5 Operations of Non Governmental Organizations (NGOs) in Ghana	36
2.6 Non Governmental MFIs in Ghana	40
2.7 Profile of Sinapi Aba Trust (SAT)	42

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Chapter Three: Methodology	47
3.1 Introduction	47
3.2 Survey/Data Collection	47
3.3 Determination of Sample Size and Sampling Techniques	48
3.4 Data Collection Instruments	49
3.5 Data Analysis	49
3.6 Scope of the study/Limitations/Drawbacks	50
Chapter Four : Data Presentation, Analyses and Discussions	52
4.1 Introduction	52
4.2 Data Sources	52
4.3 Background of Respondents	54
4.4 Household Incomes	64
4.5 Business Finance	66
4.6 Impacts	75
4.6.1 Direct Impacts	75
4.6.2 Indirect Impacts	81
4.7 Levels of Clients' Satisfaction	83
4.8 The Institution (SAT)	84
4.8.1 Industry Averages	84
4.8.2 Growth: Outreach and Impacts	85
4.9 Selected Performance Ratios for SAT; 1998 – 2002	89
4.9.1 Portfolio Quality Ratios	89
4.9.2 Financial Management Ratios	92
Chapter Five: Summary of Findings, Recommendations and Conclusion	94
5.0 Introduction	94

5.1	Summary of Findings	94
5.2	Problems and Challenges Facing SAT and the MF Industry	100
5.3	Recommendations	101
5.4	Conclusions	103

	Bibliography	106
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	Appendix 1: Sample of Research Questionnaire for SAT (Key person)	112
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	Appendix 2: Sample of Research Questionnaire for Clients	120
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	Appendix 3: Further Financial Performance Indicators from SAT	128
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LIST OF TABLES

Table 2.1	Classification of small businesses based on employment	17
Table 2.2	Classification of small businesses in Ghana	19
Table 2.3	SME support needs at different stages of development	24
Table 2.4	SME financing needs according to stage of development	25
Table 2.5	Source of finance for SMEs based on stage of development	27
Table 2.6	Micro financing versus Conventional Banking	33
Table 2.7	Projected new branch development for OI-SASL	45
Table 2.8	Projected outreach for OI-SASL	46
Table 4.1	Gender Distribution of Respondents	54
Table 4.2	Types of Business Ownerships	58
Table 4.3	Size of Business using number of employees	59
Table 4.4	Size of Business using value of assets	60
Table 4.5	Nature of Respondents' Business	62
Table 4.6	Importance of household income sources	65
Table 4.7	Contributions of other funding sources to overall business Financing	69
Table 4.8	Problems related to loan access	70
Table 4.9	Difficulties in the payment of loans	84
Table 4.10	Reasons for payment difficulties	72
Table 4.11	Non-cash benefits: Training	76
Table 4.12	Non-cash benefits: Business advice	77
Table 4.13	Impacts on business activities	79
Table 4.14	Impacts on business profits	80

Table 4.15 Growth of SAT in terms of clients and number of branches, 1998 – 2002

	86
Figure 4.1	88
Figure 4.2	94
Figure 4.3	97
Figure 4.4	104
Figure 4.5	102
Figure 4.6	103

LIST OF FIGURES

Figure 1.1	The conceptual model of the impact chain.	8
Figure 4.1	Distribution of SAT's clients by gender	55
Figure 4.2	Age distribution of respondents	56
Figure 4.3	Number of years in business	57
Figure 4.4	Registration status of respondents' businesses	58
Figure 4.5	Nature of respondents' businesses	62
Figure 4.6	Number of household dependants of respondents	63
Figure 4.7	Sources of household incomes	65
Figure 4.8	Sources of business finance	67
Figure 4.9	Sources of Equity funds	68
Figure 4.10	Interventions by SAT	74
Figure 4.11	Impacts on profitability	81
Figure 4.12	Impacts on households	82
Figure 4.13	Impacts on household infrastructure	83
Figure 4.14	Clients levels of satisfaction	84
Figure 4.15	Branches of SAT, 1998 – 2002	87
Figure 4.16	SAT's growing staff strength, 1998 – 2002	87
Figure 4.17	SAT's growing outreach	88
Figure 4.18	SAT's growing loan portfolio, 1998 – 2002	88
Figure 4.19	Provision expense vs. Risk coverage for SAT, 1998 – 2002	90
Figure 4.20	PAR vs. Write-off for SAT, 1998 – 2002	92
Figure 4.21	Portfolio Yield for SAT, 1998 – 2002	93

CHAPTER ONE

INTRODUCTION

1.1 Background Of The Study

Empirical research demonstrates that well conceived Small, Micro and Medium Enterprises (SMMEs) have a chance of making significant contributions to the development of countries (Vil-Nkomo S., 2005). In Ghana, 92.5% of industries belong to the Small and Medium 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 (H.E. Kufuor J. A., 2004).

In Ghana as in most developing countries, several problems plague the private sector particularly, Micro Enterprises 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 micro enterprises.

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 Enterprises Development (FUSMED)
- Rural Financial Services 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 Account (MCA) by the US government
- The Ghana Private Sector Development Fund (GPSDF) jointly set up by the governments 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 S., 2005).

Over the last one decade, the Government of Ghana (GoG) has come to realize 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 and 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 G. K., 2004).

According to Vil-Nkomo S. (2005), Small, Micro and Medium Enterprises (SMMEs) are important for the survival of the individual and the creation of opportunities for employment and innovation. He argues that SMMEs 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, micro enterprises may not be able to play effectively, their roles in the economic development of the country.

However, micro enterprises are gradually being crowded out of the credit market, which is resulting in a huge financing gap.

This is because banks in Ghana 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. Industrial settlements, top-class and fast moving business districts of the major cities in Ghana have become the main targets for new branch locations, such that banking has gradually become overly concentrated in the urban centers (Ayiglo G. K., 2004).

In the light of formal sector banks pulling back from rural areas, Micro Finance Institutions (MFIs) have taken over the mantle of providing finance to micro enterprises. These financial intermediaries include Non Governmental Organizations (NGOs), Savings and Loans companies (S&Ls), Rural and Community Banks (RCBs), Credit Unions (CUs), 'Susu' Clubs (SCs), etc.

Micro financing in the urban communities is dominated by semi-formal institutions like NGOs, Credit Unions, registered micro finance institutions, and informal institutions like the 'susu' collectors and 'susu' clubs (Ayiglo G. K., 2004).

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 micro enterprises is seen as in addressing the following issues

- providing the poor with access
- expanding the coverage area
- cutting back on bureaucracies.

How effective has NGOs operating micro finance schemes been in addressing the above and what has been the impact if any of these schemes on their intended beneficiaries? Knowledge about the achievements of micro finance programs remains only partial and highly contested. At one extreme are studies arguing that microfinance has very beneficial economic and social impacts (Holcombe, 1995; Hossain, 1988; Otero and Rhyne, 1994; Remenyi, 1991; Schuler, Hashemi and Riley, 1997). At the other are writers who caution against such optimism and point to the negative impacts that microfinance can have (Adams and von Pischke, 1992; Buckley, 1997; Montgomery, 1996; Rogaly, 1996; Wood and Shariff, 1997). In the 'middle' is work that identifies beneficial impacts but argues that microfinance does not assist the poorest, as is so often claimed (Hulme and Mosley, 1996; Mosley and Hulme, 1998).

1.3 Objectives Of The Study

The broad objective of this study therefore, is to assess the roles played by Microfinance institutions in the financing of micro enterprises in Ghana using Sinapi Aba Trust (SAT) a Non Governmental Organization as case study. Specifically, the study is aimed at

- Assessing the impacts of SAT's micro finance scheme on micro enterprises in the Ashanti region.
- Identifying the problems and challenges facing the Microfinance industry and make suggestions for improvement.
- Assessing the performance of Sinapi Aba Trust (SAT) as a microfinance institution.

1.4 Research Questions

The following research questions will guide the study to achieve the stated objectives:

- 1) What types of businesses are financed by MFIs?
- 2) What percentage of funding for micro enterprises comes from micro finance institutions?
- 3) What is the impact of micro finance on the socioeconomic activities of micro enterprises, the communities in which MFIs operate as well as the living conditions of beneficiaries' households?
- 4) Besides cash credits, what other forms of interventions are provided by MFIs?
- 5) What challenges/bottlenecks face micro finance institutions in Ghana?
- 6) What interventions (governmental and/or otherwise) will enhance the performances of micro finance institutions in Ghana?

1.5 Justification/Rationale For The Study

'The International Year of Micro Credit 2005 underscores the importance of micro finance as an integral part of our collective effort to meet the Millennium Development Goals (MDGs)'.

'The year will offer a pivotal opportunity for the international community to engage in a shared commitment to meet this challenge'. 'Together we can and we must build inclusive financial sectors that will help people improve their lives' (Anann, K. 1998). The above statement by the UN Secretary General, established a clear link between increased access to micro credit and the achievement of the MDGs (Dowuona S., 2005).

'In Ghana, beyond what the banks, credit unions, NGOs, cooperatives and others are doing in terms of providing micro finance, the government has, as a matter of policy included micro finance and micro credit in the GPRS. The scheme is operated mainly through the District Assemblies (DAs) and also through Ministries, Departments and Agencies (MDAs)'. (Dowuona S., 2005).

'In the GPRS, MFIs have been clearly identified as having a central role to play in delivering financial services to large numbers of micro and small enterprise clients both in the rural and urban centers' (GIMPA, 2005).

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 micro enterprises, 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 has since 1994 established and operated a micro credit scheme for micro entrepreneurs. The scheme has seen 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 impacts 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 help influence government policy and make a strong case for the development of micro enterprises 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.
- ✚ Micro entrepreneurs looking for sources of finance will know which direction to look to.
- ✚ Serve as a basis for further studies and research.

1.6 Conceptual Framework

There are three main elements to a conceptual framework:

- (i) A model of the impact chain that the study is to examine
- (ii) The specification of the unit(s), or levels, at which impacts are assessed, and
- (iii) The specification of the types of impact that are to be assessed.

(Hulme D., 1999).

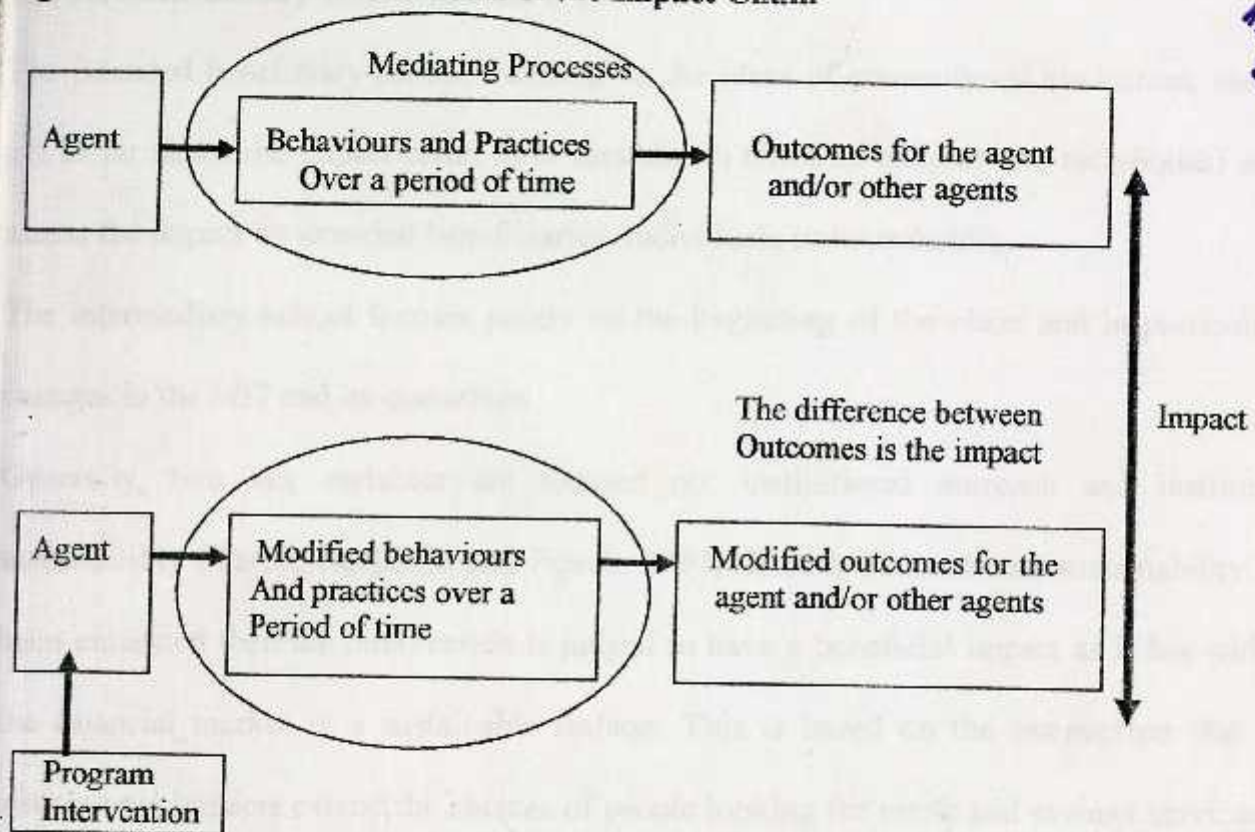
1.6.1 Assumptions Behind Models of Conceptual Framework

Behind all microfinance programs is the assumption that intervention will change human behaviours 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 processes (specific characteristics of the agent and of the economic, physical, social and political environment) that influence both behavioural changes and the outcomes in ways that are difficult to predict (Sebstad et al, 1995).

Fig. 1.1: The Conventional Model of the Impact Chain



Source: (Hulme D., 1999).

In a conventional microfinance project a package of technical assistance and capital changes the behaviour (and products) of a microfinance institution (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 income which in turn leads to greater or lesser household economic security.

The modified level of household economic security leads to changes in the morbidity and mortality of household members, in educational and skill levels and 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 D., 1999).

The intended beneficiary school, building on the ideas of conventional evaluation, seeks to get as far down the impact chain as is feasible (in terms of budgets and techniques) and to assess the impact on intended beneficiaries (individuals or households).

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 extend the choices of people looking for credit and savings services and that this extension of choice ultimately leads to improved micro enterprise performance and household economic security.

1.7 Organization of the Study

After this introductory chapter, the rest of the study has been organized as follows:

Chapter two covers Literature Review, which studies works relating to small, micro and medium enterprises as well as micro financing. The chapter also gives a brief profile of the case study organization, in this case Sinapi Aba Trust (SAT).

Chapter three deals with the methodology employed in the study. The chapter also deals with the scope of the study as well as the limitations and drawbacks.

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

Chapter five is the last of the chapters and it focuses on conclusions drawn from the study and recommendations as well as suggestions for the improvement of the micro finance sector in Ghana.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter reviews literature relating to the finances of micro enterprises, the operations of micro finance institutions and how they impact on micro enterprises. 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 tradition 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 Micro Enterprises 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.'*¹ (Wolfensohn J. D., 2002).

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

¹ Emphases are the author's.

Well-developed small and medium-size enterprises (SMEs) 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 of manufacturing output and exports. Supporting emerging entrepreneurship and start-up enterprises and providing them with an environment conducive to 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 specially 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 very limited resources; "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 G. K., 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 S. (2005) holds the view that SMMEs 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 SMMEs 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. This view is supported by Kyeremanten A. (2004) who estimates that SMEs constituted 70% of all industrial establishments in Ghana and that 85% of manufacturing employment and to a large extent overall employment growth come from the SME sector.

Kyeremanten (2004) again argues that, the SME sector creates jobs at relatively low capital cost and it is more resilient to external shocks such as foreign exchange fluctuations and inflation among other things.

Vil-Nkomo opines that if SMMEs are properly conceived, funded and supported, they can make significant contributions to addressing two key challenges facing the African continent namely; job creation and business innovation.

Small businesses have played a considerable role in expanding the export volumes of most countries. Even in economies where, this role has not been very significant, small businesses have helped to economize on foreign currency reserves by acting as producers of some goods and services that may otherwise have had to be imported. As a result they help to restrict imports and correspondingly the outflow of foreign currency.

Small businesses also help to curb the scourge of some social vices like armed robbery, drug abuse and prostitution by providing jobs for 'idle hands', especially in the densely populated and poor urban communities (Ayiglo G.K., 2004).

The SME sector contributes the highest percentage of industrial output and it also contributes significantly to overall export from the Non Traditional Exports sector in Ghana (Kyeremanten A., 2004).

Micro enterprises contribute significantly to economic growth, social stability and equity.

The sector is one of the most important vehicles through which low-income people can escape poverty (Srinivas H., 2000).

2.2 Classification of Micro Enterprises

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.

Iari Srinivas (2000) puts 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 Srinivas' 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:

i) Bulgaria (Eastern Europe)

According to Tonova Sylvia (2000), small businesses in Bulgaria are classified using the number of employees. The categorizations are as follows:

- Micro enterprises: entities with up to 10 employees.
- Small enterprises: entities with between 10 and 50 employees.
- Medium sized enterprises: entities with between 51 and 100 employees as well as companies with 101 to 250 employees.
- Large enterprises: companies with over 250 employees.

Thus SMMEs are defined in Bulgaria as enterprises with up to 250 employees.

It is interesting to note however, that, the absence of a global definition for SMEs provide opportunities for organizations/institutions to use different definitions that suit particular purposes. In some instances SMEs may be defined in such a way as to guide organizations when drawing up their programs/targets such that they will be able to deal with only firms that are truly SMEs. In other instances, for example when making proposals to receive

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
- ☞ No 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

Source: (Department of Trade and Industries (DTI) in DeMontfort University/ NTI4EM Draft Scoping Report, Appendix F, February 2003).

ii) South Africa

The classification of small businesses in South Africa is shown in table 2.1 below.

Table 2.1: Classification of small businesses based on employment.

Sector	Description	Employment
Survivalist	<ul style="list-style-type: none"> Income generated is below poverty line. 	<ul style="list-style-type: none"> 3 % of total employment.
Micro (0*)	<ul style="list-style-type: none"> Owner manager (no employees). Turnover is less than VAT registration limit. Not usually formally registered for tax or accounting purposes. 	<ul style="list-style-type: none"> 6 % of all employment.
Micro (1-4)	<ul style="list-style-type: none"> Same descriptors as Micro (0) except the number of employees are more than one. 	<ul style="list-style-type: none"> 5% of all employment. Less than 5 employees.
Very Small	<ul style="list-style-type: none"> Operate in formal market. 	<ul style="list-style-type: none"> Less than ten employees. 13% of total employment.
Small Enterprises	<ul style="list-style-type: none"> Distinguished by some form of managerial coordination. 	<ul style="list-style-type: none"> Less than 50 employees. 20% of total employment
Medium Enterprises	<ul style="list-style-type: none"> Further decentralization of decision-making. More complex decision-making. Increased division of labour. 	<ul style="list-style-type: none"> Less than 100 employees (200 in mining). 14% of total employment.

Source: Ntsika [(The state of small business in South Africa, 2001: 40) cited in Hanning J. and Joubert M., (2003) The State of SME Equity Finance in South Africa: A Review of the Industry and the Techniques used for successful investment].

* Figure in bracket indicates the number of employees.

iii) Zambia

In Zambia small businesses are classified based on the Small Enterprises Development (SED)

Board Act of 1996. The classification is reproduced here:

Micro Enterprise

A Micro Enterprise is defined as "any business enterprise:

- a. whose amount of total investment excluding land and buildings does not exceed ten million Kwacha (about US \$7,700).
- b. whose annual turnover does not exceed twenty million Kwacha (about US \$15,400).
- c. employing up to ten persons".

Small Enterprise

A small enterprise is defined as "any business enterprise:

- a. whose amount of total investment, excluding land and building does not exceed:
 - i. in terms of manufacturing and processing enterprises fifty million Kwacha in plant and machinery (about US \$38,500).
 - ii. in the case of trading and service providing enterprises, ten million Kwacha (about US \$7,700).
- b. whose annual turnover does not exceed eight million Kwacha (about US \$62,00).
- c. employing up to thirty people".

Source: (Mauzu D. M., SMME Policy in Zambia, 2000).

iv. Ghana

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 2.2:

Table 2.2: Classification of small businesses in Ghana.

Class of Enterprise	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.

* These values exclude land and buildings.

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.

Levitsky 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 benign 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 Hernando de Soto² 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 J., 2002).

This latter view assumes a dual economy - a formal and an informal economy - developing side by side until the formal economy gradually absorbs the informal as it develops.

² The Peruvian analyst of his country's large "informal sector", author of "The other path".

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 J., 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, C.; Chuta, E., 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 1990s 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 women in cities and other urban communities (Ayiglo, 2004). About 70% of Ghana's population operates in the informal sector (Ghartey G., 2006).

Where as 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 (HE Kufuor J. A., 2005).

For the purposes of this study, the classification given the NBSSI and the GSS will be adopted.

2.3 Micro Enterprises Financing

Given the extremely vital role that the micro enterprise 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 finance 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 governments of most developing countries have encouraged and supported programs designed to develop the sector.

In most cases such governments have tried to develop micro enterprises through 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 J., 2002).

It is reported that probably less than 10% of this sum reached the very smallest of SMMEs, that is those with less than 10 workers and assets of less than US\$10,000 and whose lending needs are in the order of US\$1,000-US\$2,000 or at least less than US\$5,000 (Levitsky J., 2002). The average loan size was US\$24,287 in 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 J., 2002).

2.3.1 Financing Needs Of Micro Enterprises

According to the 'Guide to Venture Financing in Regional Policy' (2002) published by the Centre 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.

The CSES asserts that financing methods vary according to the stage of development of an SME (CSES, 2002).

Tables 2.3 and 2.4 depict the support needs of SMEs at different stages of development and stages in a company's development vis a vis the financing needs at each stage respectively.

Table 2.3: SME Support Needs at Different Stages of Development

<i>Growth Stage</i> →			
↓ <i>Business Support</i>	Maturity		
	Growth		
	Start Up		
Financial Assistance	<ul style="list-style-type: none"> ▪ Start up grants and loans. ▪ Seed capital. 	<ul style="list-style-type: none"> ▪ Working capital Finance. ▪ Investment Incentives. ▪ Venture capital. 	<ul style="list-style-type: none"> ▪ Bank finance of all types. ▪ Access to stock markets.
Business Advice	<ul style="list-style-type: none"> ▪ Sign-posting. ▪ Business planning advice. 	<ul style="list-style-type: none"> ▪ Marketing strategy. ▪ Organizational change. 	<ul style="list-style-type: none"> ▪ Business strategy. ▪ Supply chain development. ▪ Knowledge networks.
Human Resources	<ul style="list-style-type: none"> ▪ Entrepreneurial training. 	<ul style="list-style-type: none"> ▪ Management skills. ▪ Personnel recruitment and training. 	<ul style="list-style-type: none"> ▪ Personnel management. ▪ Special skills training.
Innovation & Technology	<ul style="list-style-type: none"> ▪ R&D advice. ▪ Product development. 	<ul style="list-style-type: none"> ▪ Quality standards. ▪ Technology transfer. ▪ Use of ICT. 	
Physical Infrastructure	<ul style="list-style-type: none"> ▪ Business incubator units. 		

Source: Centre for Strategy & Evaluation Services, 2002.

Table 2.4: SME Financing Needs according to stage 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 additional 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 & Evaluation Services, 2002.

In South Africa, the financing needs of small, micro and medium enterprises have also been determined by looking at the equity investments made by financiers. A 15% - 40% range is applied to the average asset values of small businesses in line with the average investment range of equity investors to determine the financing needs of these businesses (Ebony Consulting in Hanning J. and Joubert M., 2003).

Hanning and Joubert conclude however, that this method of assessing the financing needs of SMMEs is limited by the fact that asset value of SMMEs is not a good basis for evaluation

and that a valuation based on discounted future cash flows expected is more accurate. They argue that high-growth SMMEs could have significantly larger values.

SMME financing needs include the availability of stable credit facilities (medium and long term), in order to carry out investment projects (UNIDO, 2001).

2.3.2 Sources Of Micro Enterprises Financing

Sources of SME financing may be classified in several ways including the following:

- Equity financiers
- Angel financiers³
- Government programmes;
- Financial institutions;
- Family and friends; and
- Own funds.

[Global Entrepreneurship Monitor (GEM) Report, 2003]

Other sources of Micro Enterprise financing as indicated by Sylvia Tonova, (2000) include the following:

- Commercial Banks,
- Micro Enterprise credit line programs, including micro credit programs,
- Guarantee Funds and
- Investment Funds.

In Bulgaria for example, 53% of SMMEs have their start up capital being personal savings of the entrepreneurs and their families (Tonova S., 2000). For all developing countries, savings and personal income were the most expected sources of funds (Tonova S., 2000).

³ Informal Venture Capital; high worth individuals who wish to invest their funds in new ventures. Often these are highly motivated entrepreneurs who have considerable experience of running growing companies.

The CSES also indicates that, most researches suggest that financing sources vary according the stage of development of the enterprise.

Typical sources of finance will include the following, which in practice will vary greatly from enterprise to enterprise.

Table 2.5: Source of Finance for SMEs based on stage of development.

Development stage	Financing sources
Seed stage	Informal equity from founder and associates. Bank loan if available and needed.
Start up stage	Informal equity from founder and associates. Bank loan if available and needed. Leasing for equipment.
Expansion stage	Equity from original sources, plus trade investments or venture capital. Loans from bank. Other sources of finance including leasing and factoring.
Replacement capital	Trade investment, venture capital or IPO

Source: Centre for Strategy & Evaluation Services, 2002.

2.3.3 Problems In Micro Enterprise Financing

'Of today's population of approximately 6 billion, 3 billion live on \$2 a day or less. The billion or so that are fortunate enough to live in the wealthy industrialized nations account for 80 percent of the \$35 trillion global economy. The other 5 billion living in developing and transition economies must compete for the remaining 20 percent'.

'In an era of constrained public budgets, their best hope for income lies with locally owned small businesses' (Wolfensohn J. D., 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.

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 the World Bank (WB), Report of the Workshop on investment climate in Africa, 2004].

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%⁴ ('The Daily Graphic', Tuesday November 2, 2004, P. 27).

'The banks could afford to demand such high interest rates partly because they have access to alternative investment avenues in government securities which tend to bear high interest rates. So in effect, firms are being crowded out of the credit market partly by inappropriate monetary policies' (CBC & WB, 2004).

Until quite recently, the situation described above pertained in Ghana, where government of Ghana treasury bill rates rose to as high as 34.19% ('The Daily Graphic' Tuesday February 22, 2000 P. 23). However, prudent fiscal policies embarked upon by government has caused a steady decline in inflation rates dropping from around 40% in 2001 to an average of 12.6% in September, 2004 which has pushed down the government of Ghana treasury bill rates to 17.07% making them not so attractive as they used to be ('The Daily Graphic' Tuesday November 2, 2004 P. 27).

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).

Lack of Long-Term Financing

SMEs generally tend to lack the funds to 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).

G. K. 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.

J. 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 no less creditworthy than the larger enterprises, but even though small-scale businessmen 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 larger industry (Levitsky J., 2002).

⁴ Average base rate calculated from the base rates of 18 commercial banks as reported by the 'Daily

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 directorships, joint ownerships 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 administrative 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.

2.4 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 it 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).

2.4.1 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 G. 'The packaging of financial services to meet the financial needs of the poor and vulnerable in society especially, women with the view to achieving wealth creation and eventual poverty reduction' (Ghartey, G., 2006).

Perhaps, the most interesting definition of Micro financing is given by Appiah J. who looks at 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 women in a cost effective and sustainable manner' (Appiah, J., 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.

Institutional 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 2.6 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: Gharthey, G. 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, S. 2004). According to the Ministry of

Finance and Economic Planning (MoFEP), the government of Ghana (GoG) through its experiences 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 women in rural areas. These past lessons have further demonstrated that MF, if appropriately packaged, delivered and managed can be a powerful tool or 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).

The description of the microfinance sector by the Virtual Library on Micro credit (VLM), fits the Ghanaian situation very well. Micro financing is both an old and a new development in Ghana.

Informal financial institutions and schemes have been longstanding traditions in Ghana. Individual money lenders and rotating savings and credit schemes like 'susu' and 'susu' clubs are well known in Ghana.

2.4.2 Developmental 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 enterprise for its own sake;
3. Practical commitment to working with the poorest of the poor, particularly women 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 in program design;
6. Non-existent or inadequate representation through existing bodies. (CMN, 2004).

Developmental 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 examples include

- The Village Infrastructure Project (VIP) Now Community Based Rural Development Project (CBRDP)
- The Food Crops Development Project (FCDP)/Inland Valleys Rice Development Project (IVRDP)
- The Poverty Alleviation Fund (PAF)
- The Rural Enterprises Project (REP)
- The Rural Financial Services Project (RFSP) and
- Many others.

With subsidized interest rates and poor loan recovery rates, these interventions undermine sustainable development of microfinance.

Most NGOs 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 a 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 from 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 and relatively easy access to donor funds have aggravated the governance problems of some NGOs (ADB, 2000).

2.5 Operations of Non Governmental Organizations (NGOs) in Ghana.

2.5.1 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 which 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 organisations 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 from government; though their activities are supervised and monitored by government. NGOs also need to register with government agencies.

The NCG on NGOs explains 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.

2.5.2 Activities of NGOs

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

- Employment creation,
- Micro-credit/financing,
- Economic development,
- Skills training,
- Gender awareness and action,
- Peace 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, organisation, resources, 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 or non-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).

2.5.3 Legal Framework

Prior to the drafting of the National Policy on NGOs in Ghana in 2004, the fourth republican constitution which provided for the freedom of association {section 21 (i) (e)} and the companies code of 1963 (Act 179) which required NGOs to register as companies limited by guarantee regulated the formation of NGOs in Ghana (Katsriku B., Oquaye M., 1996).

The requirement then was for the NGO in question (applicable to local NGOs) to first register with the Registrar General's Department in accordance with Act 179 and then apply to the Department of Social Welfare.

The Draft National Policy on NGOs in Ghana (2004) gives the legal framework which defines NGOs (as given above) and their range of activities and also stipulates the conditions for their registration as legal entities and attendant privileges under the law. The legal framework as given by the Draft National Policy is hereby summarised in subsections 2.5.3.1 to 2.5.3.3.

2.5.3.1 Registration and Accreditation

- a) Civil society organizations seeking to be recognized as NGO's and operate as such shall first register with the Registrar Generals Department (RGD). The NGO may then apply for accreditation from the Ministry Manpower Development and Employment (MMDE) through the National Commission on Non Governmental Organizations (NCNGO). This is expected to place the ministry in a better position to recommend an NGO for the enjoyment of any of the benefits that the government may confer on NGO's.
- b) To qualify for accreditation with the MMDE the NGO is expected to meet certain requirements including a certificate of registration from the RGD, a written constitution and contact person(s).
- c) In the districts, district assemblies may be authorized to give accreditation to NGOs on behalf of the NCNGO.

2.5.3.2 Taxation and Exemption

Registered and accredited NGOs may qualify for privileges such as tax relief and customs duties exemption. Such privileges may be granted by the State as indirect funding aimed at lowering the transaction costs of NGOs.

Taxes shall be paid on:

- Incomes of NGO employees
- Substantial profits generated from commercial activities undertaken by NGOs

2.5.3.3 Funding and Accountability

Government is expected to support philanthropy, fund-raising and grants by International Development Partners to sustain effective and efficient operations of NGOs in the long term.

It is therefore, expected that individuals, groups, and corporate firms that contribute to this cause shall be granted tax relief. According to the NCG, these privileges would be granted under conditions of strict accountability. NGOs shall be transparent and accountable in their utilisation of public funds deriving under the privileges granted them as non-profit sharing organisations (NCG, 2004).

2.6 Non Governmental MFIs in Ghana.

Several Non Governmental MFIs operate in Ghana several various categories of clients with different services. This section profiles some of the Non Governmental MFIs operating in Ghana.

2.6.1 Self – Help International

Self – Help International (SHI) is a Kumasi based NGO established in 1991 with the following Mission:

'To help alleviate hunger by assisting smallholder groups in the areas of farming, agro-processing and petty trading through training and micro financing to become more productive and profitable, thereby improving the economic status of their families and the quality of life of their communities'.

- As at 2001 SHI had a total client population of over five thousand (5,000), all of whom were in rural and peri-urban communities.
- Self – Help's gross loan portfolio as at 2001 stood at ₵3.5 Billion.
- All of SHI's clients are females.
- Credits are disbursed in the following sectors: Agro processing, Trading/Commerce, Agriculture and Art & Craft.
- Self – Help International had three (3) branches all located in the Ashanti region.

- Services offered include: Credit provision, Training and Business Advisory Services.
- SHI employs the Group approach in credit disbursement.

Source: Self – Help International; Capacity Statement and Organizational Profile, October 2005.

2.6.2 Opportunities Industrialization Centers (OIC), Ghana

Established in 1971, OIC Ghana provides training in vocational skills, creates employment opportunities, and offers counseling, job-placement, and follow-up services to disadvantaged, unskilled, and unemployed Ghanaian youth. Over the past 35 years, OIC Ghana has grown into an impressive national organization with a strong and dedicated Board of Directors, a capable staff, and well-institutionalized structures. Now operating at three program sites in Ghana, OIC Ghana has actively demonstrated its commitment to sustainability by seeking greater involvement from individuals and communities in decisions that affect their well-being.

Mission

- OIC Ghana's mission is to contribute to the human resource development of Ghana through the provision of marketable vocational/technical and entrepreneurship skills, counseling and follow-up services to disadvantaged, unskilled and unemployed youth to earn a decent living.
- As at 2004 OIC Ghana had a total client population of over five thousand (50,000), with 94% females and 6% males.
- 40% of OIC Ghana's clients are based in rural areas with 60% in urban communities.
- Credits are disbursed in the following sectors: Manufacturing, Trading/Commerce and Agriculture.

- OIC Ghana had branches in all ten regions of Ghana.
- Services offered include: Credit provision, Training and Business Advisory Services.
- OIC Ghana employs both the Group and Mixed approaches in credit disbursement.

Source:<http://www.Ghamfin.org/pages/members2.php?id=12&orgtype=1>

<http://www.oicinternational.org/index.php?page=109>

2.7 Profile of Sinapi Aba Trust (SAT)

Introduction/Background

Sinapi Aba Trust (SAT) was established through the instrumentality of Rev Davis Freeman in the early 1990s out his desire to look for avenues that could provide financial support to his church members to carry out income generating ventures.

2.7.1 Incorporation and Authorized Business

SAT was formed and incorporated under the company's code of Ghana as a company limited by guarantee, having been fully recognized by the department of social welfare as a Non-Governmental Organization (NGO) for charitable purposes.

2.7.1.1 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.

2.7.1.2 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.

2.7.1.3 Objectives

The objectives of SAT are

- 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 administering 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 level to small and medium level.

2.7.2 Branches

SAT currently has sixteen (16) branches nationwide with its headquarters located in Kumasi in the Ashanti region. The organization has branches located in the following towns:

Kumasi	Tamale	Bolga	Cape Coast
Kasei	Techiman	Wa	Takoradi
Koforidua	Sunyani	Ho	Obuasi
Akomadan	Accra	Offinso	Mampong

2.7.3 Areas of Expertise

The major areas of service provided by SAT are Micro-Credit Management and Training.

2.7.3.1 Micro-Credit Management

SAT provides services in the following:

- Rural and urban credit management.
- Alternative ways of rural finance.
- Writing of company profile.
- Business plan preparation.

2.7.3.2 Training

SAT gives training to its clients in the following areas:

- Entrepreneurial skills.
- Credit acquisition and wise use of credit.
- Basic accounting principles and savings.
- Business records keeping.

2.7.4 Personnel/Labor Force

The total number of staff of SAT as at the end of the study period (2002) is 170. However, current staff population (as at December 2004) is 225.

2.7.5 Future Outlook

The long-term plans of SAT include converting the organization into a commercial bank. The organization has already established a Savings and Loans company; the Opportunity International Sinapi Aba Savings and Loans Limited (OI-SASL) to that effect.

In June 2004, the Bank of Ghana (BoG) granted licenses for the commencement of business in savings and loans by three branches namely; Kumasi, Accra and Techiman. This followed

the meeting of the minimum capital requirement of US\$1.65 million (€15 billion) set by the BoG.

Under its current plan, OI-SASL will expand to twelve (12) fully operational branches by the end of 2007. Five satellite branches are planned for Accra and four in Kumasi. These new branches are planned to be within three to ten kilometers of main Accra and Kumasi branches to take advantage of the high concentrations of micro entrepreneurs and to reduce costs associated with supervision, IT, communication and transport.

The opening of new branches is planned to stagger over the period as follows:

Table 2.7: Projected New Branch Development for OI-SASL

Name of Branch	Q3 '04	Year 1		Year 2			Year 3	
		Q3	Q4	Q1	Q2	Q3	Q1	Q2
Kumasi	■							
Accra		■						
Techiman			■					
Ashaiman (Accra)				■				
Kaneshie (Accra)					■			
Suame (Kumasi)						■		
Odorkor (Accra)						■		
Tafo (Kumasi)						■		
Asafo (Kumasi)							■	
Atonsu (Kumasi)							■	
Kasoa (Accra)								■
Madina (Accra)								■

Source: Opportunities International-Sinapi Aba Savings and Loans (OI-SASL) Savings and Loans Business Plan, Revised Version, July, 2003.

The projections OI-SASL in terms of outreach is as follows:

Table 2.8: Projected Outreach for OI-SASL

	Mar '05	Year 1	Year 2	Year 3	Year 4	Year 5
Number of branches	1	3	7	12	12	12
Number of active borrowers	21,950	31,704	55,559	105,701	145,670	176,653
Number of voluntary depositors	2,367	6,250	23,078	57,144	105,365	151,241
Gross Loan portfolio (US\$) '000	2,407	4,346	9,428	23,285	42,233	61,385
Deposit portfolio (US\$) '000	310	1,103	4,033	10,444	21,852	35,872
Total Assets (US\$) '000	4,118	8,830	17,876	31,972	55,535	80,783
Net Income (US\$) '000	(38)	31	556	1,622	3,617	6,354

Source: Opportunities International-Sinapi Aba Savings and Loans (OI-SASL) Savings and Loans Business Plan, Revised Version, July, 2003.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

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) a Non Governmental Organization 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 and analysis.
- Come up with definitions for key terms and concepts.

This involved the review of textbooks, journals and other publications including newspapers, radio and television as well as the Internet.

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

3.2 Survey/Data Collection

3.2.1 Types of Data

The study made use of both primary and secondary data.

3.2.2 Data Sources

Data for the study was gathered from the following sources:

- Sinapi Aba Trust (NGO, MFI)
- Selected Micro Enterprises specifically, beneficiaries of the SAT credit scheme.

- Extensive use was also made of the Internet to gather data. Particularly websites of performance rating agencies were visited to obtain industry averages and trends for comparisons.

3.3 Determination of Sample Size and Sampling Techniques

SAT has 16 branches throughout Ghana with 6 of them located in Ashanti region. The study focused on 2 of the 6 branches in Ashanti region; Kumasi representing the urban environment and Kasei representing rural communities.

The total population of active borrowers in all 16 branches of SAT is 26,615. The two selected branches in Ashanti region have a total of 8,335 active borrowers with the following break down:

Kumasi	7,846
Kasei	<u>489</u>
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 3.3, October 2004) 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:

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

100

$$\text{Kasei} \quad \frac{489 \times 2}{100} = 9.78 \approx 10$$

100

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

100

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 clients to arrive and 10 more after the training session.

3.4 Data Collection Instruments

The survey/data collection involved the use of structured and semi-structured interviews and questionnaires administration. It also included a review of documents available from the case study institution (Sinapi Aba Trust).

Documentation available at SAT was studied extensively to extract information/data.

A key-person interview with the Head of Credits was carried out to obtain additional data/information.

3.5 Data Analysis

The data gathered was analyzed both qualitatively and quantitatively 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.

3.6 Scope of the Study/Limitations/Drawbacks

3.6.1 Subject Matter

The study was limited to financing for businesses with specific reference to Micro Enterprises. It involved the study of micro financing in general terms. The focus was however, on NGOs as microfinance institutions in Ghana.

3.6.2 Limitations and draw backs

Formal financial institutions commit only a small percentage of credit lines to Small Micro and Medium Enterprises. Studies have revealed that even a greater chunk of the credit that goes to the SMME sector only reach the top category of the sector. The Small and Micro Enterprises therefore, are invariably left out with very little external financial support.

In most cases, semi-formal and informal micro finance institutions have provided financial support to these enterprises. Such institutions include 'susu' collectors, 'susu' clubs, credit unions, Non Governmental Organizations, etc.

Documentation of the operations of these institutions as well as the availability of data are in many cases absent, which seriously affected the outcome of this study.

Similarly, record keeping by most small and micro enterprises is very limited and this also affected the quality of the conclusions drawn.

Other major difficulties encountered in the conduct of this study include the following.

1. It was not possible to interview as many top management members as desired basically due to the fact that the entire organization was grossly involved in feverish preparations towards the conversion to a Loans and Savings company.
2. It was a great challenge obtaining industry benchmarks for comparisons. The preference was to have industry benchmarks for Ghana, but this was unavailable. In the circumstance, averages used were obtained from MicroRate Africa a global rating agency, which together with other agencies published these averages after a study of selected MFIs in Africa.
3. The study of the impacts on the intended beneficiaries was limited to only two branches; Kumasi and Kasei due to time, financial 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.

CHAPTER FOUR

DATA PRESENTATION, ANALYSES AND DISCUSSIONS

4.1 Introduction

This chapter presents findings/results from the survey of the case study area in this case Sinapi Aba Trust. The chapter also includes analyses and discussions on the results/findings. The findings are based on the extensive study of documents available at the organization, the conduct of a key person interview and questionnaire administered.

The discussions have been centered 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 these people and their households.

The findings have been presented in tabular and diagrammatic formats.

4.2 Data Sources

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

4.2.1 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:

1. SAT Annual financial statements for 1998, 1999, 2000, 2001 and 2002.

2. Poverty Reduction Through Micro Finance: SAT's Remarkable Experience and Impacts for the past ten years in Ghana. May, 2005.
3. Opportunities International-Sinapi Aba Savings and Loans (OI-SASL) Savings and Loans Business Plan, December, 2002.
4. Opportunities International-Sinapi Aba Savings and Loans (OI-SASL) Savings and Loans Business Plan, Revised Version, July, 2003.
5. Additional information was gathered from the web site of Sinapi Aba Trust: <http://www.sinapiaba.com>
6. SAT Organizational Profile, 2002.
7. SAT Organizational Profile, 2003.

Key Person Interview

In addition to the above, a key person interview was conducted. This interview involved the Head of credits at SAT, who also happens to be the Kumasi branch manager of the OI-SASL Company Ltd. that opened for business in April 2005.

He joined SAT in 1995 as the Finance Manager. He remained in this position till 1998 when he was appointed as the Head of Credits, a position he has held till his new role as the branch manager of OI – SASL, Kumasi.

4.2.2 Data From Clients

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

4.3 Background of Respondents

4.3.1 Gender Analysis

Table 4.1 Gender Distribution of Respondents

Location	Male		Female	
	Number	%	Number	%
Kumasi	6	3.82	151	96.18
Kasei	3	30.00	7	70.00
Total	9	5.39	158	94.61

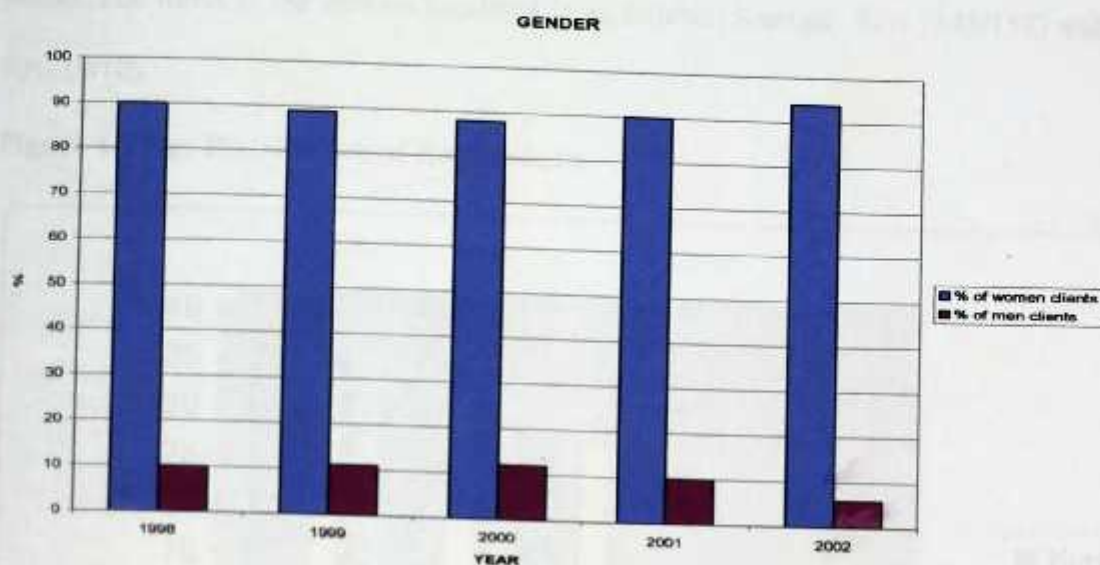
Source: Author's Compilation, 2005

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). Though the ratio is not so skewed in favour of females in the Kasei (rural) branch as pertain in the urban locality, there is still a heavy tilt towards females (70% females vs. 30% males). Where as farming is the predominant form of employment in the rural areas, commercial activities such as trading dominate in the urban environment and this also accounts for the fact that there are relatively more male clients in Kasei than in Kumasi.

This trend is explained by the fact that 92% of the total population of SAT's active borrowers are females. The trend also supports the fact that, females dominate in the informal and micro, small and medium enterprise sectors.

The distribution of SAT's clients in terms of gender shows a tremendous bias towards women. On average, 90% of the client base of SAT have been women.

Fig: 4.1 Distribution of SAT's Clients by Gender, 1998 - 2002



Source: SAT Annual activity and financial reports for 1998, 1999, 2000, 2001 and 2002.

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.

4.3.2 Age Distribution of Respondents

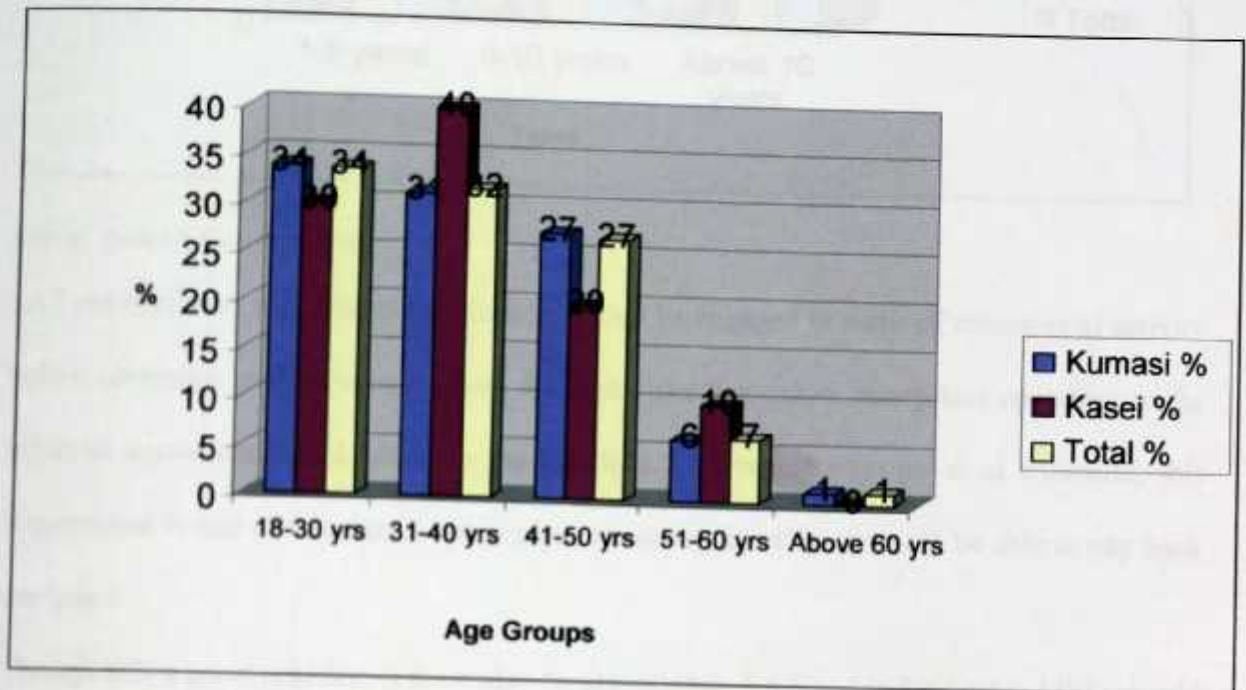
From the data (figure 4.2), 34% (56/167) of respondents are between the ages of 18 and 30 years. This category of respondents is made up mostly of young people who may have just completed Basic (JSS) and/or Secondary (SSS) education and are waiting to continue their education or are unable to climb further 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 Kasei: 90% (9/10).

Figure 4.2 Age Distribution of Respondents

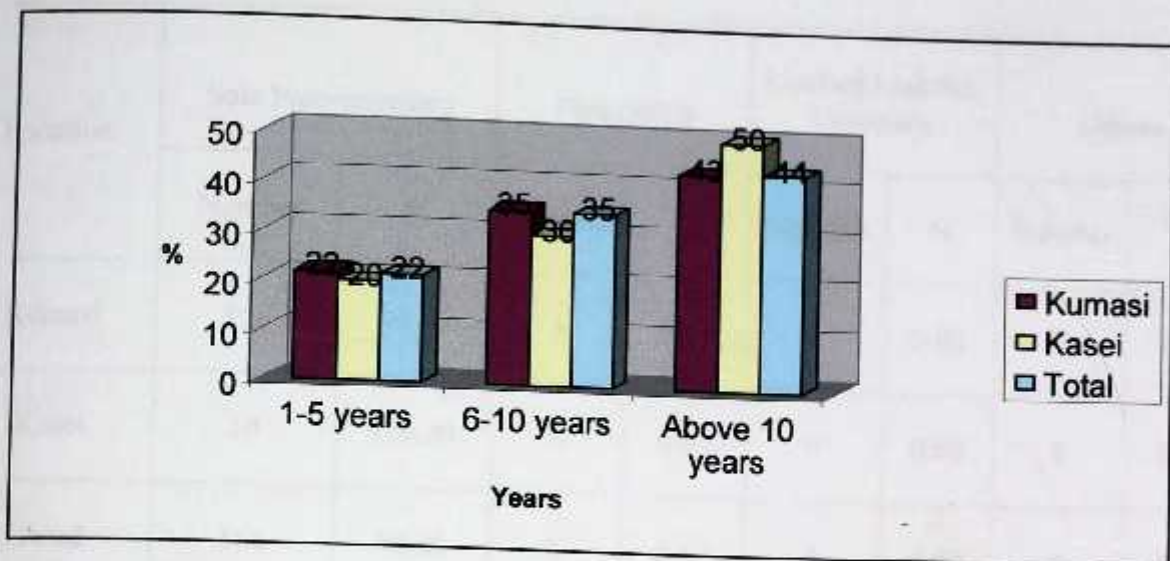


Source: Authors Fieldwork, 2005

4.3.3 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 – 5 years 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 Kasei are 20%, 30% and 50% respectively. See fig. 4.3.

Fig. 4.3 Number of Years in Business



Source: Author's Fieldwork, 2005

SAT requires that, potential clients should at least be engaged in some of commercial activity before obtaining credit. Perhaps given the high risks that micro enterprises operating in the informal sector carry and added to 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.

Though this a good practice, it must also be argued that, SAT and indeed other MFIs should develop products and programs that will assist new clients to develop their business ideas or proposals.

4.3.4 Business Characteristics

Over 99% (166/167) of respondents are Sole Proprietors (99.36% in Kumasi and 100% in Kasei). Only 0.60% (1/167) of respondents are Partnerships, (0.64% in Kumasi and 0% in Kasei). None (0%) of the respondents are Limited Liability Companies. Refer table 4.2.

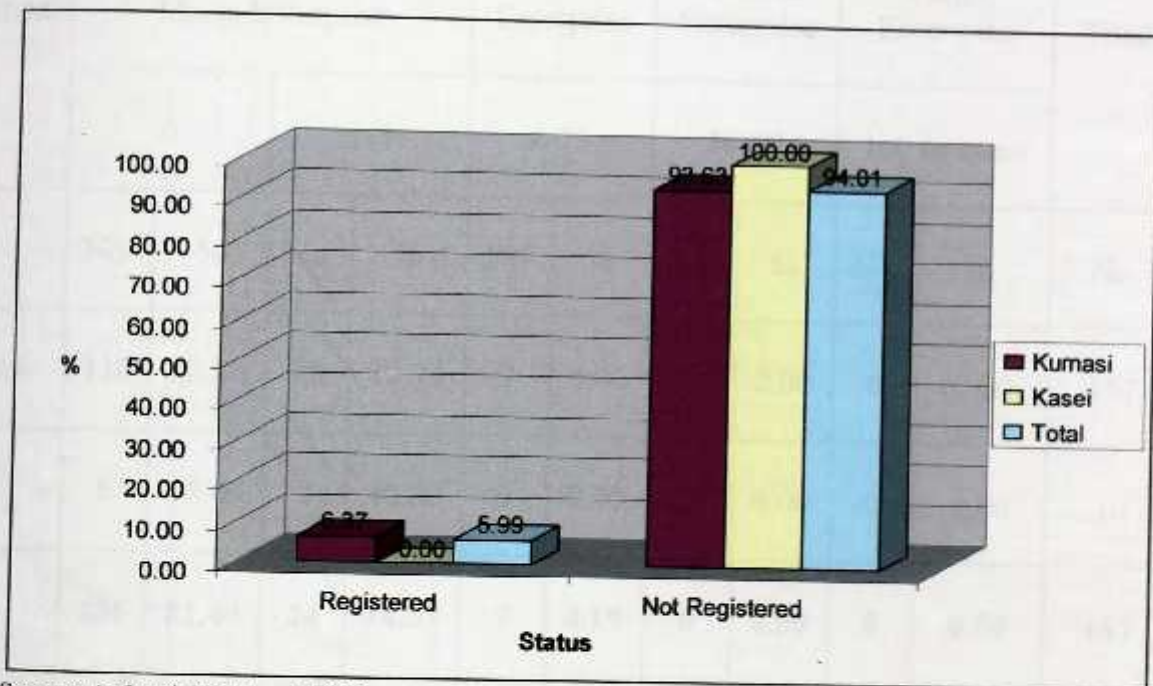
Table 4.2 Types of Business Ownership

Location	Sole Proprietorship		Partnership		Limited Liability Company		Others	
	Number	%	Number	%	Number	%	Number	%
Kumasi	156	99.36	1	0.64	0	0.00	0	0.00
Kasei	10	100.00	0	0.00	0	0.00	0	0.00
Total	166	99.40	1	0.60	0	0.00	0	0.00

Source: Author's Compilation, 2005

4.3.4.1 Status of Business

Fig. 4.4 Registration Status of Respondents' Businesses



Source: Author's Fieldwork, 2005

From fig. 4.4 over 94% (157/167) of respondents are not registered businesses and therefore operate as informal entities.

93.63% of 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 are registered businesses.

4.3.4.2 Size of Businesses

By Number of Employees

Table 4.3 Size of Business using Number of Employees

Location	No. of Employees										Total
	Micro Enterprise		Small Enterprise		Medium Enterprise		Large Enterprise		Total		
	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
Kasei	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, 2005

Table 4.4 Size of Business using Value of Assets

Location	Total Assets (Excluding land and buildings)								
	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 (over US\$250,000)		
No.	%	No.	%	No.	%	No.	%	No.	
Kumasi	152	96.82	5	3.18	0	0.00	0	0.00	157
Kasei	10	100.00	0	0.00	0	0.00	0	0.00	10
Total	162	97.01	5	2.99	0	0.00	0	0.00	167

Source: Author's Compilation, 2005

From the table 95.81% (160/167) 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 (95.54% 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 i.e. they employ between 6 – 10 workers. All of these respondents are engaged in the services sector (Traders, Barbering, Hairdressing, Food vendors, Dressmakers, etc.). There are no Medium or Large scale 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 capitals (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.

4.3.4.3 Nature of Businesses

9% (16/187) of respondents are engaged in Agriculture (farming); 6% in the urban centers and 27% in the rural areas. This is quite obvious as farming is the predominant mode of employment in the rural communities.

Whereas the bulk of respondents in the rural areas are involved in Agriculture (27%) and Agro – processing (27%), it should however, be noted that Trading activities dominate in both urban (29%) and rural (32%) areas. The reason for this trend is that most respondents are females and these generally engage 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 compare favorably with those from SAT records which covers the entire country.

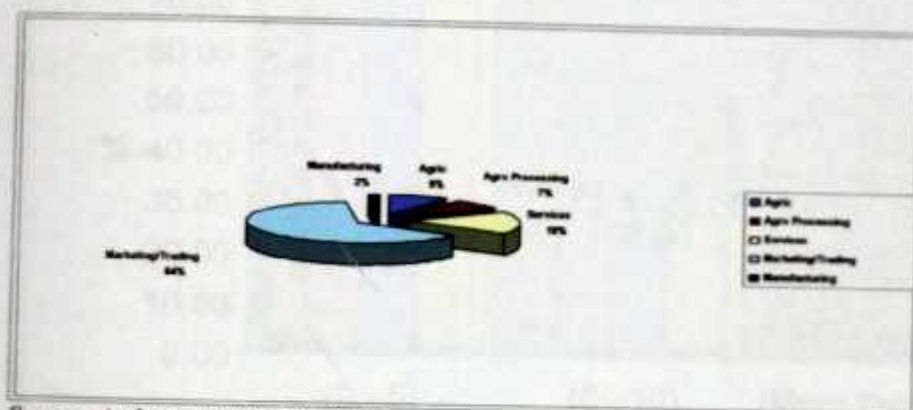
Refer table 4.5 and figures 4.5 A and B.

Table 4.5 Nature of Respondents Business

Location	Agric		Agro-Processing		Marketing/Trading		Manufacturing		Services		Total
	No.	%	No.	%	No.	%	No.	%	No.	%	
Kumasi	10	6	8	5	114	29	3	2	30	18	165
Kasei	6	27	6	27	7	32	0	0	3	14	22
Total	16	9	14	7	121	64	3	2	33	18	187

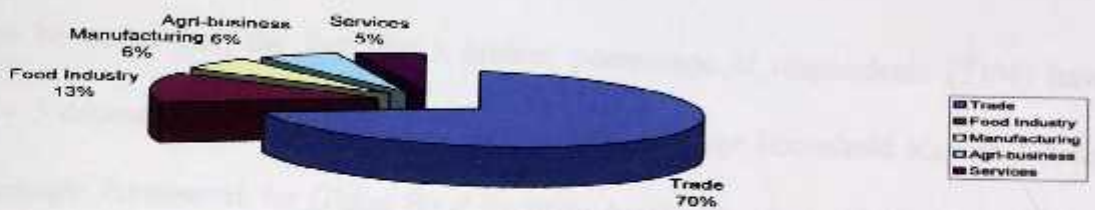
Source: Author's Compilation, 2005

Fig. 4.5 A Nature of Respondents Businesses



Source: Author's Fieldwork, 2005

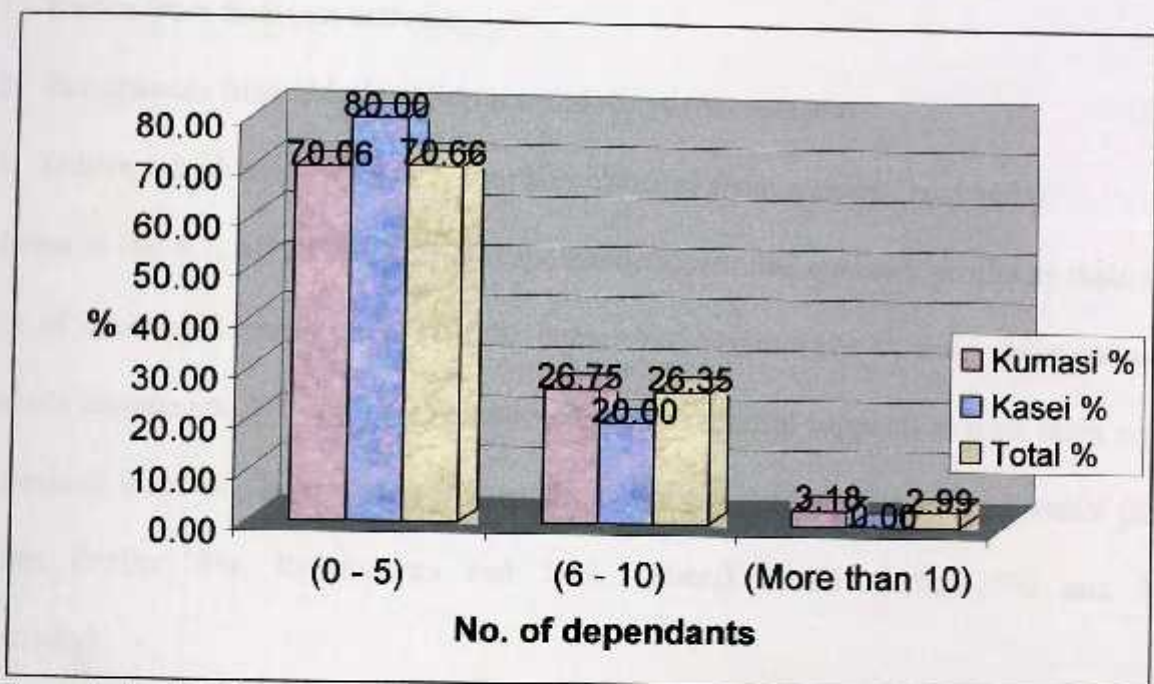
Fig. 4.5 B Nature of Respondents Businesses from documents available at SAT.



Source: *Poverty Reduction Through Micro Finance: SAT's Remarkable Experience and Impacts for the past ten years in Ghana. May, 2005*

4.3.4.4 Household Dependants

Fig. 4.6 Number of Household Dependants of Respondents



Source: *Author's Fieldwork, 2005*

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 34% 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

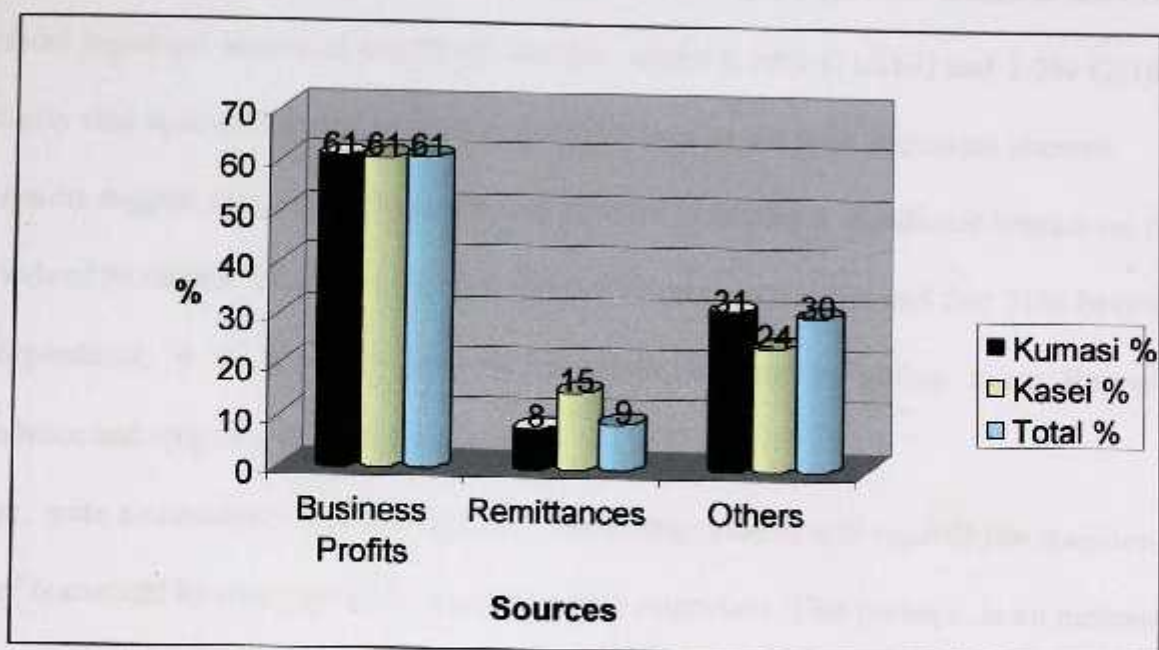
Sources of Household Incomes

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 support obtained from spouses (husbands).

As shown in fig. 4.7, 61% (136/222) of respondents mentioned business profits as their main source of household income, 9% (19/222) mentioned remittances as their main source of household income and 30% (67/222) 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). Kasei (61%, 15% and 24% respectively).

Fig. 4.7 Main sources of household Incomes



Source: Author's Fieldwork, 2005

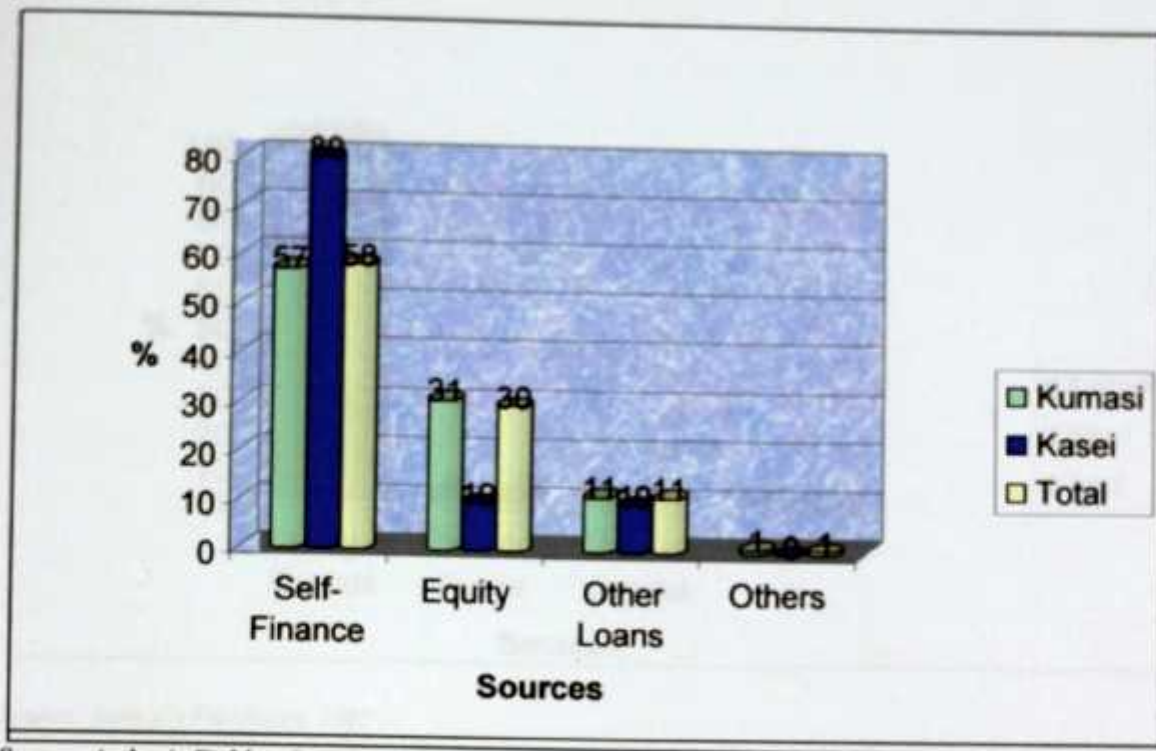
The trend shown above is an indication of the relative importance with which the respondents view the various sources of household income.

Table 4.6 Importance of Household Income Sources

Location	Ranking											
	1. Profits 2. Remittances 3. Others		1. Profits 2. Others 3. Remittances		1. Remittances 2. Profits 3. Others		1. Remittances 2. Others 3. Profits		1. Others 2. Profits 3. Remittances		1. Others 2. Remittances 3. Profits	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
Kumasi	81	51.59	64	40.76	2	1.27	0	0.00	10	6.37	0	0.00
Kasei	7	70.00	2	20.00	0	0.00	0	0.00	1	10.00	0	0.00
Total	88	52.69	66	39.52	2	1.20	0	0.00	11	6.59	0	0.00

Source: Author's Compilation, 2005

Fig. 4.8 Sources of Business Finance



Source: Author's Fieldwork, 2005

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 of business before they can access credit facilities. Another explanation is that, most clients tend to reinvest part of their profits in their businesses.

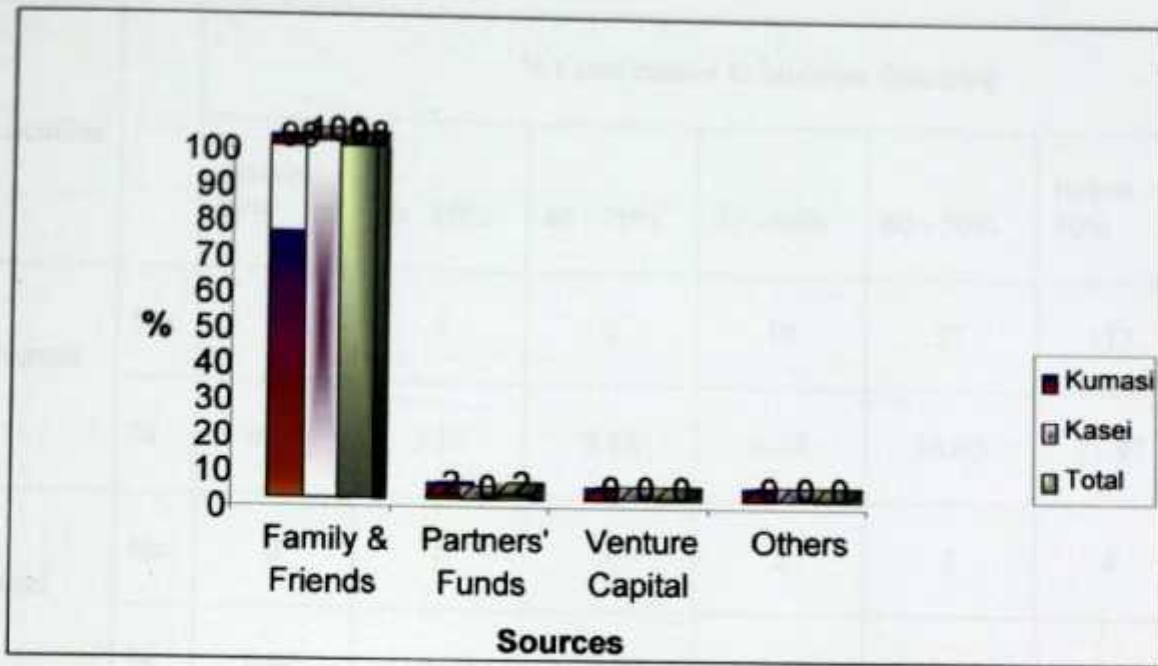
4.5.1.2 Sources of Equity Funds

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. 4.9.

Fig. 4.9 Sources of Equity Funds



Source: Author's Fieldwork, 2005

The overall contributions of these other sources to the funding of client's businesses are shown in table 4.7.

The table explains what percentage of total business funding comes from SAT's loan facilities.

For 70% of respondents, SAT loans contribute under 50% of the funding needs of their businesses. This is supported by the fact that 92% of respondents think they could have started businesses or in actual fact had already started without SAT's intervention. Only 8% thought otherwise.

There isn't any significant variation in this trend from the two branches.

The results suggest there is still a substantial financial need of micro enterprises that is not being met.

Table 4.7 Contributions by Other Funding Sources to Overall Business Financing

Location		% Contribution to business financing						Total
		Above 90%	90 - 80%	80 - 70%	70 - 60%	60 - 50%	Below 50%	
Kumasi	No.	0	5	6	10	23	113	157
	%	0.00	3.18	3.82	6.37	14.65	71.97	100.00
Kasei	No.	0	1	1	2	2	4	10
	%	0.00	10.00	10.00	20.00	20.00	40.00	100.00
Total	No.	0	6	7	12	25	117	167
	%	0.00	3.59	4.19	7.19	14.97	70.06	100.00

Source: Author's Compilation, 2005

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 engender business growth and expansion.

4.5.3 Loan Access

Procedure for loan access at SAT are 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 don't seem to be bothered.

In spite of this however, clients still have concerns with some issues relating to loan access. Key issues mentioned by respondents as being problems with loan access from SAT include Application procedures, delays at the offices of SAT, high interest rates and others.

Table 4.8 Problems Related to Loan Access

Location	Frequency					
	Application procedures	Delays	Interest rates	Collateral	Others	Total
Kumasi	43	35	41	0	36	155
Kasei	8	8	6	0	4	26
Total	51	43	47	0	40	181

Source: Author's Compilation, 2005

28% (51/181) 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 24% (43/181) of respondents, the problem with loan access at SAT is the long delays experienced while processing the loans. According to SAT it takes an application for a loan from SAT between 4 and 6 weeks before disbursement.

High interest rate is the problem for 26% (47/181) of respondents. Interest rates on loans from SAT range from 3% per month to 10% per month. This translates to about 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),
- Advise 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. 22% (40/181) 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.

4.5.3.2 Difficulties in Paying Loans

Table 4.9 Difficulties in the payment of Loans

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

Source: Author's Compilation

Only 15.6% (26/167) of respondents has ever had difficulties in paying their loans from SAT.

In the branches the trend is as follows: Kumasi 15.29% and Kasei 20.00%

This is a very strong indicator of why SAT has a near 100% recovery rate of its loans.

Table 4.10 Reasons for payment difficulties

Location	Frequency					
	Poor Farm Yields	Poor Trading Returns	Long Travel Times	Procedures & Processes at SAT	Others	Total
Kumasi	3	9	3	3	4	22
Kasei	2	3	1	2	2	10
Total	5	12	4	5	6	32

Source: Author's Compilation, 2005

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

- ❖ Poor Farm Yields - 16% (5/32)
- ❖ Poor Trading Returns - 37.5% (12/32)
- ❖ Long Traveling Times to SAT's Offices to make payment - 12.5% (4/32)

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 Kasei. One would normally have expected this be the case in the rural branches such Kasei. This revelation therefore appears to suggest that SAT needs to consider opening a few more branches in Kumasi to better serve its large clients base in the metropolis.

- ❖ Processes and Procedures at Offices of SAT - 16% (5/32)
- ❖ Others (short amortization period) - 18% (6/32).

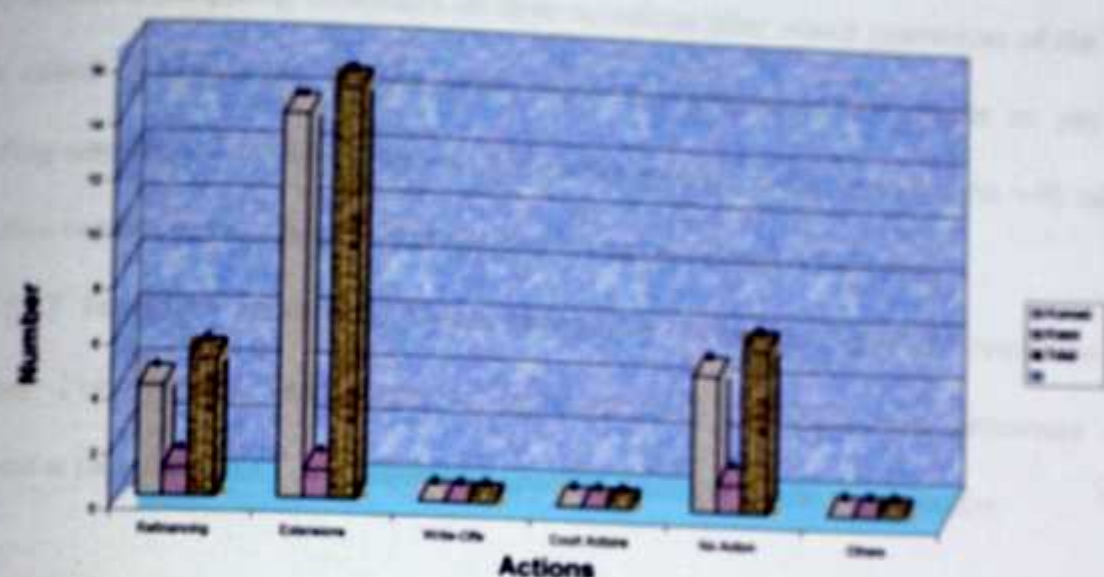
Though SAT has identified some reasons attributed by clients for their inability to pay loans on some occasions, the organization has not compiled and analyzed such data. According to the head of credits at SAT, the following are some of the reasons given by clients who default in paying loans.

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 obligations
5. Eviction by government agents such as district, municipal and metropolitan assemblies from the places of business which negatively affects their businesses.

4.5.3.3 Actions Taken By SAT

Fig. 4.10 shows some of the actions taken by the MFI when client default in loan payment.

Fig. 4.10 Interventions by SAT



Source: Author's Fieldwork, 2005

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

Refinancing	- 19.23% (5/26)
Time Extension	- 57.69% (15/26)
Write-Offs	- 0%
No Action	- 23.08% (6/26)
Court Action	- 0%

These actions by SAT in instances of clients having difficulties in loan payment are good measures which do not only help 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 no action, clients themselves have been able to overcome the challenges. For instance, cases such as problems with traveling time, processes and procedures at the offices 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. Customer Care
3. Marketing Strategies
4. Inventory Management
5. Credit Management

Table 4.11 gives examples of training services provided by SAT and how clients perceive these services.

Table 4.11 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
Kasei	10	8	10	0	9	0	37
Total	167	138	145	5	159	0	614

Source: Author's Compilation, 2005

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 of 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 4.12 gives examples of business advisory services provided by SAT and how clients perceive these services.

Table 4.12 Non-Cash Benefits: Business Advice

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

Source: Author's Compilation, 2005

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 were, part of their capitals in such investments which may not bring them immediate returns.

2. The level of financial sophistication 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 were assessed in several areas including

- ♣ Retooling/Acquisition of New Equipment
- ♣ Increases in the number of employees
- ♣ 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.

See table 4.13.

Table 4.13 Impacts on Business Activities

Location	Frequency									
	Retrofitting/ New Equipment	Increased Employees	Higher Production Level	Improved Production Methods	Effective Marketing	Establish ment of New Branches	Diversified Operations	Increased Sales/ Turnover	Total	
Kumasi	16	9	17	11	34	2	59	63	211	
Kasei	1	1	2	1	1	0	8	12	26	
Total	17	10	19	12	35	2	67	75	237	
%	7.2	4.2	8.0	5.1	14.8	0.8	28.3	31.6	100.0	

Source: Author's Compilation, 2005

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 they have indicated have affected their business profits.

Results are shown in table 4.14

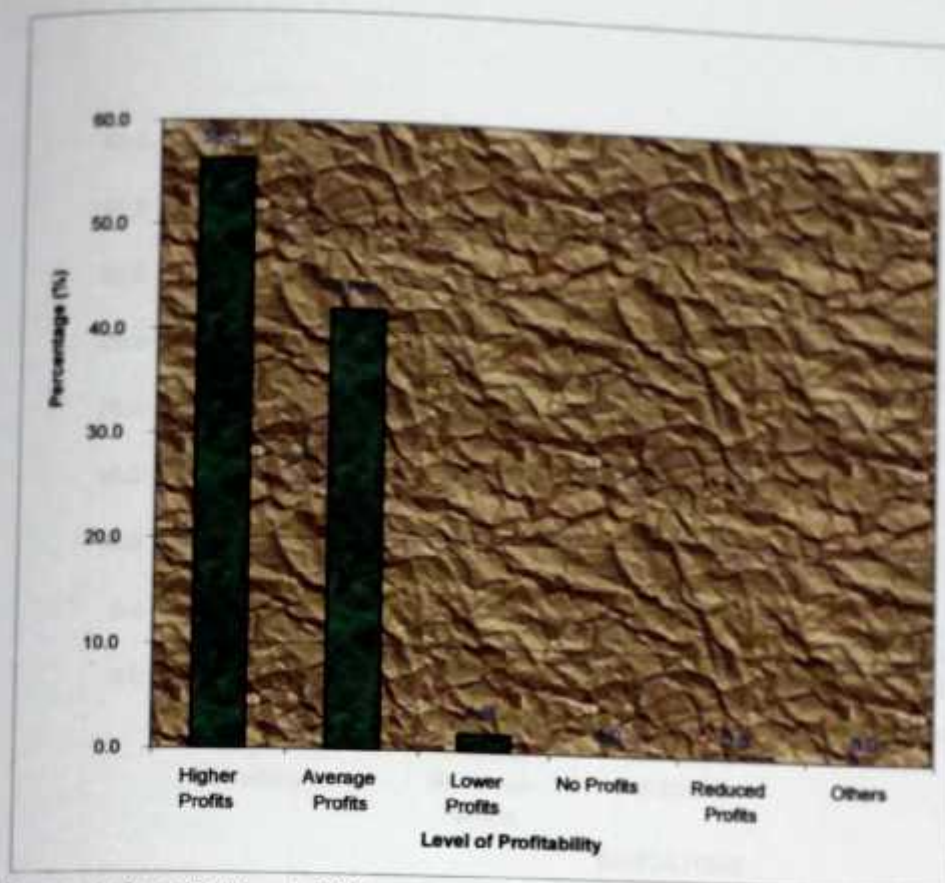
Table 4.14 Impacts on Business Profits

Location	Frequency						
	Higher Profits	Average Profits	Lower Profits	No Profits	Reduced Profits	Others	Total
Kumasi	85	69	3	0	0	0	157
Kasei	9	1	0	0	0	0	10
Total	94	70	3	0	0	0	167
Percentages	56.3	41.9	1.8	0.0	0.0	0.0	100.0

Source: Author's Fieldwork, 2005

Results from this suggest a strong impact on the profit levels of the respondents. Refer fig. 4.11.

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



Source: Author's Fieldwork, 2005

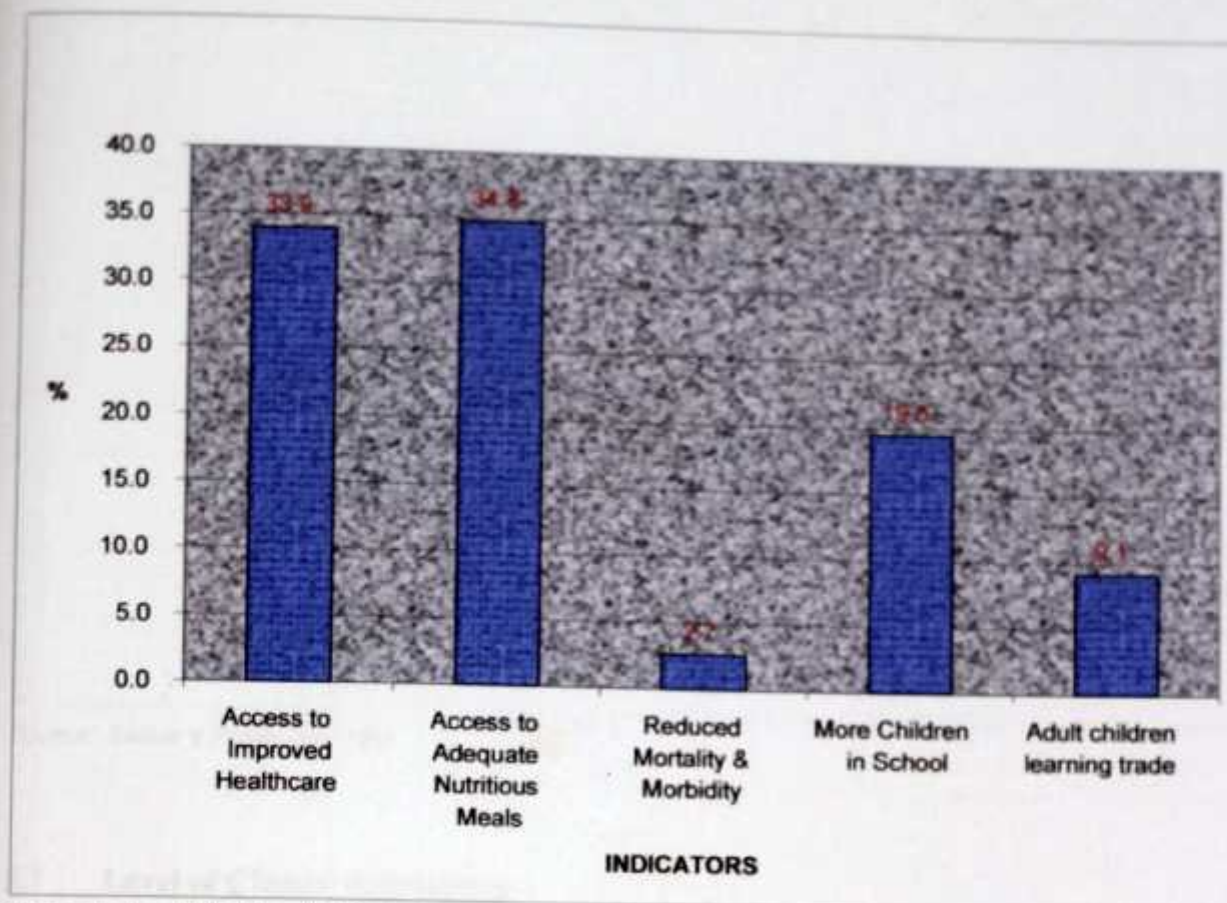
4.6.2 Indirect Impacts

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 school-going age in schools
5. Getting more of adult children who are out of school to learn some trade/skills

Fig. 4.12 Impacts on Households



Source: Author's Fieldwork, 2005

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% (10/131) of respondents have built new houses and they attribute the ability to profits from their businesses.

39% (45/131) have undertaken some levels of repair and or rehabilitation of their houses and

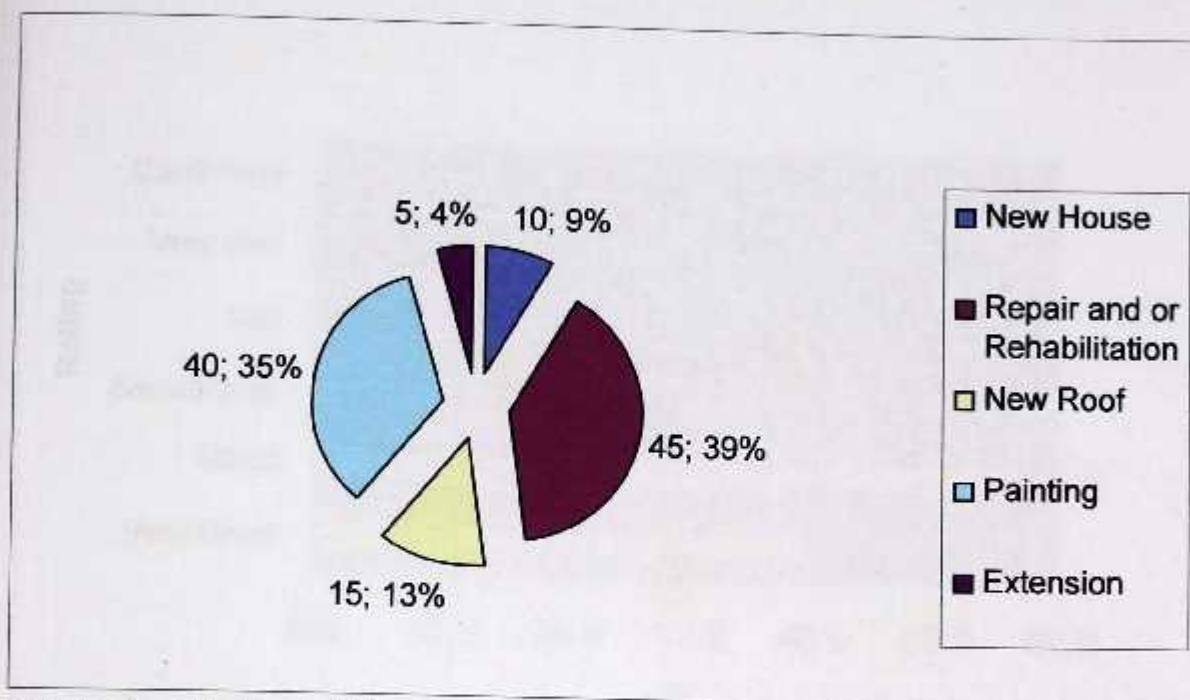
13% (15/131) have put up new roofs.

Again, 35% (40/131) have been able to paint their houses at a point in time whilst another 4%

(5/131) have made extensions such as adding more rooms, new facilities like toilets, kitchen,

etc.

Fig. 4.13 Impacts on Household Infrastructure



Source: Author's Fieldwork, 2005

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.

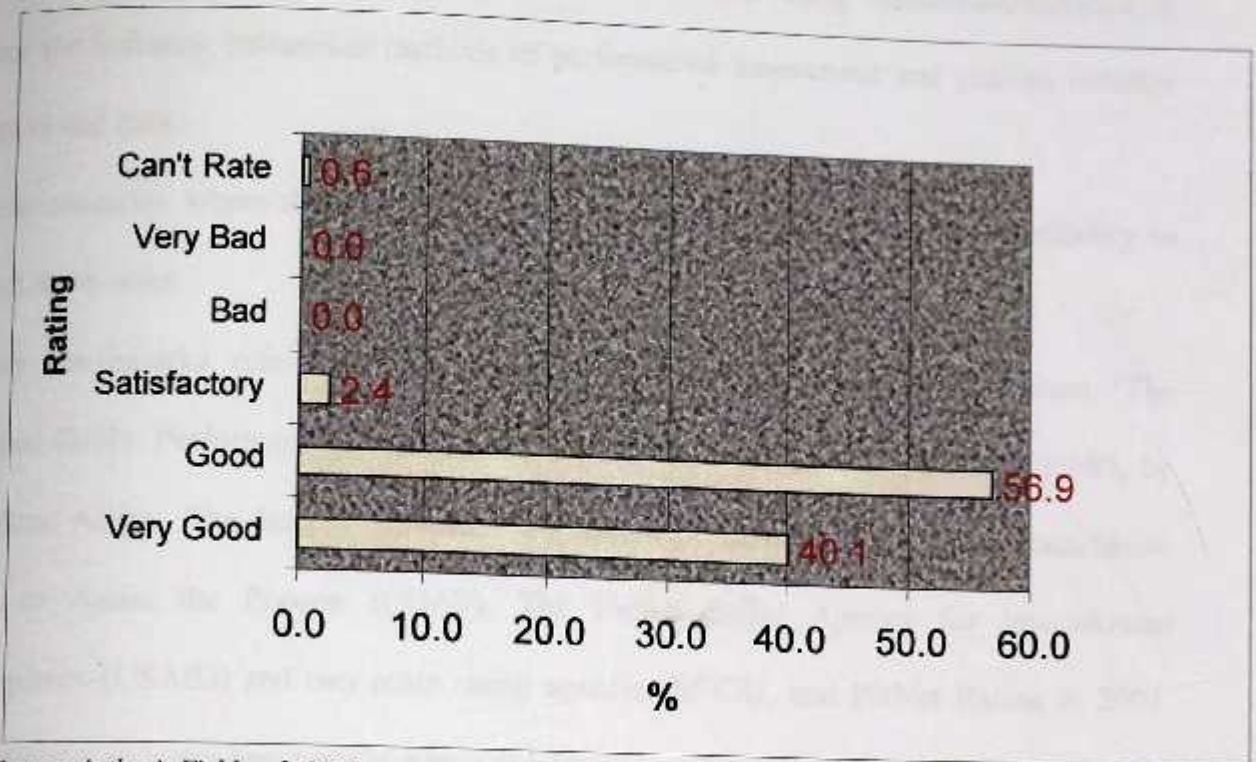
Whilst 40.1% (67/167) of respondents rate the services of SAT as Very Good, 56.9% (95/167) of them rate the services of SAT as Good.

For 2.4% (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 0.6% (1/134) could not decide.

Fig. 4.14

Clients' Level of Satisfaction



Source: Author's Fieldwork, 2005

4.8 The Institution (SAT)

This section of the study now assesses the performance of the intermediary institution; Sinapi Aba Trust (SAT) over the study period 1998 - 2002. The objective here is to demonstrate that an MFI can support micro enterprises and still be successful.

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 of the 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 MicroRate Africa, The Inter - American Development Bank (IADB), The Consultative Group to Assist the Poorest (CGAP), The United States Agency for International Development (USAID) and two other rating agencies MICRL and PlaNet Rating in 2001. Consequently, industry benchmarks where provided are only for the period 2000 - 2002.

4.8.2 Growth: Outreach and Impact

SAT has since its inception in 1994 grown phenomenally in terms of outreach and impacts.

The growth of SAT over the period under consideration is depicted in table 4.15 and figs 4.15, 4.16, 4.17 and 4.18.

SAT within 8 years of its establishment has been able to expand to all 10 regions of Ghana and serves as many as 110 communities.

Growth rate has been very steady and consistent between 1998 and 2001 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.

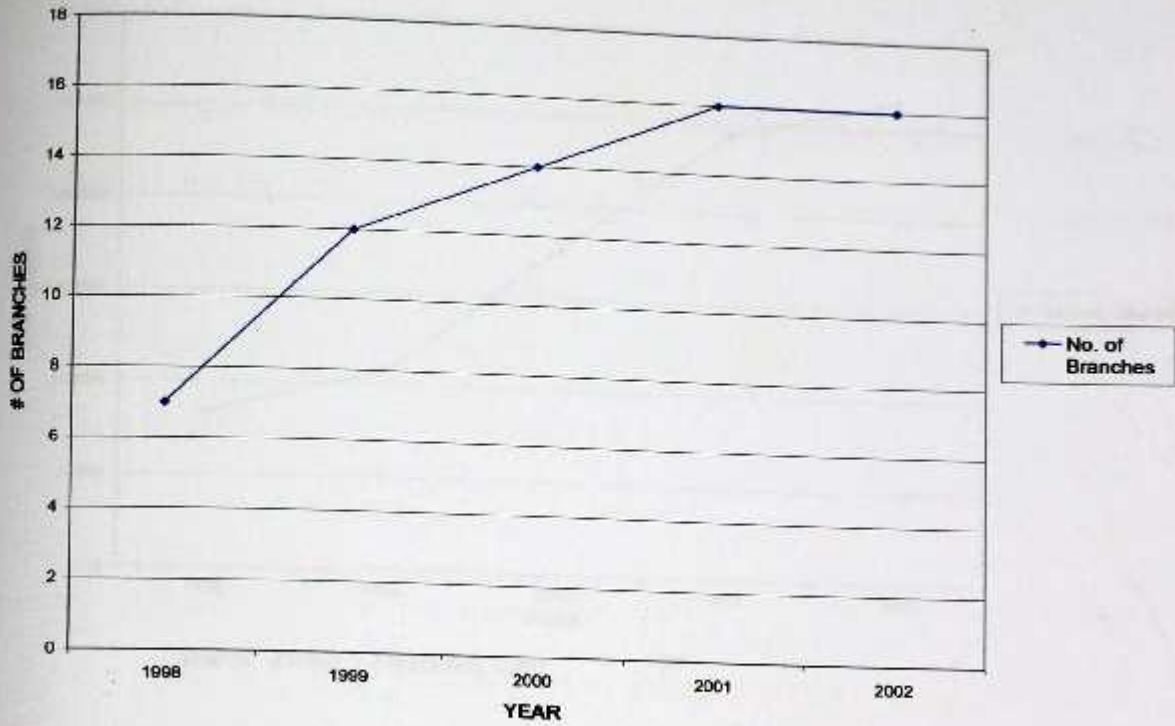
SAT has over the years increased its staff strength in a direct response to the growing expansion of the organization in terms of the number of branches and clients.

Table: 4.15 Growth of SAT in terms of clients and no. of branches, 1998-2002.

Indicator	1998	1999	2000	2001	2002
No. of Branches	7	12	14	16	16
No. of Staff	70	89	109	138	170
No. of Clients	8,435	10,690	17,580	24,396	26,615
% of women clients	90	89	88	90	94

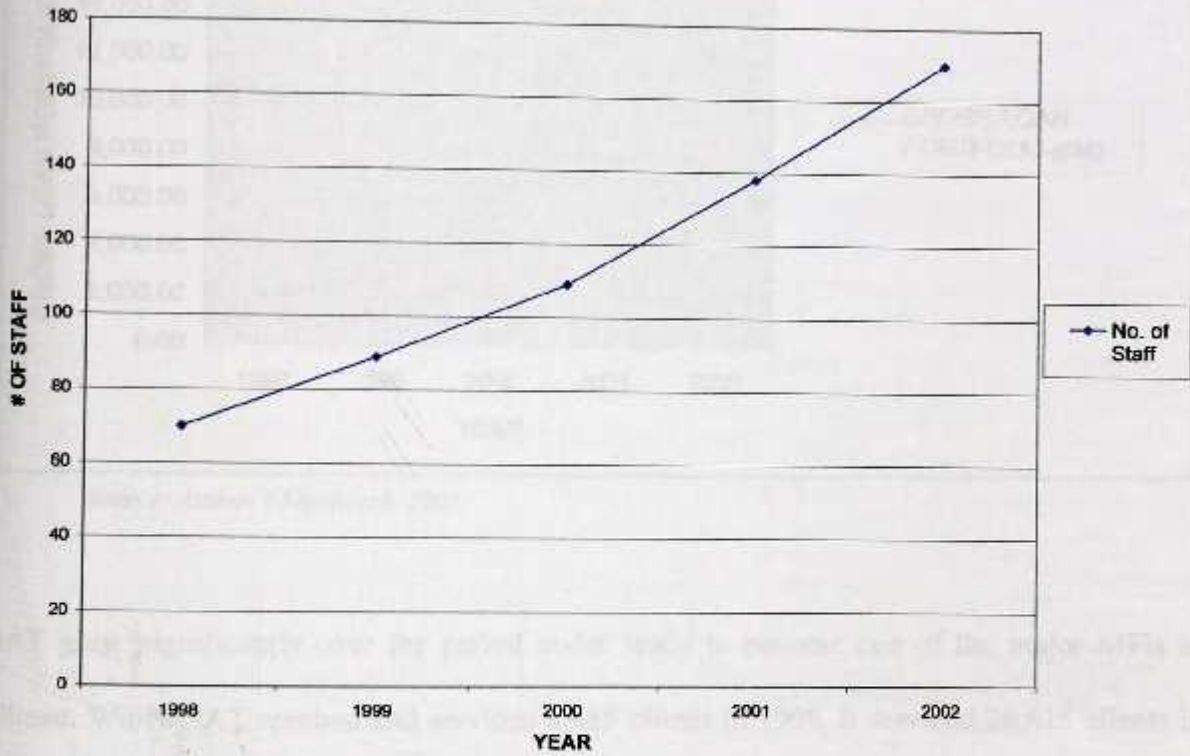
Source: SAT Annual activity and financial reports for 1998, 1999, 2000, 2001 and 2002

Fig: 4.15 **Branches of SAT, 1998 – 2002**



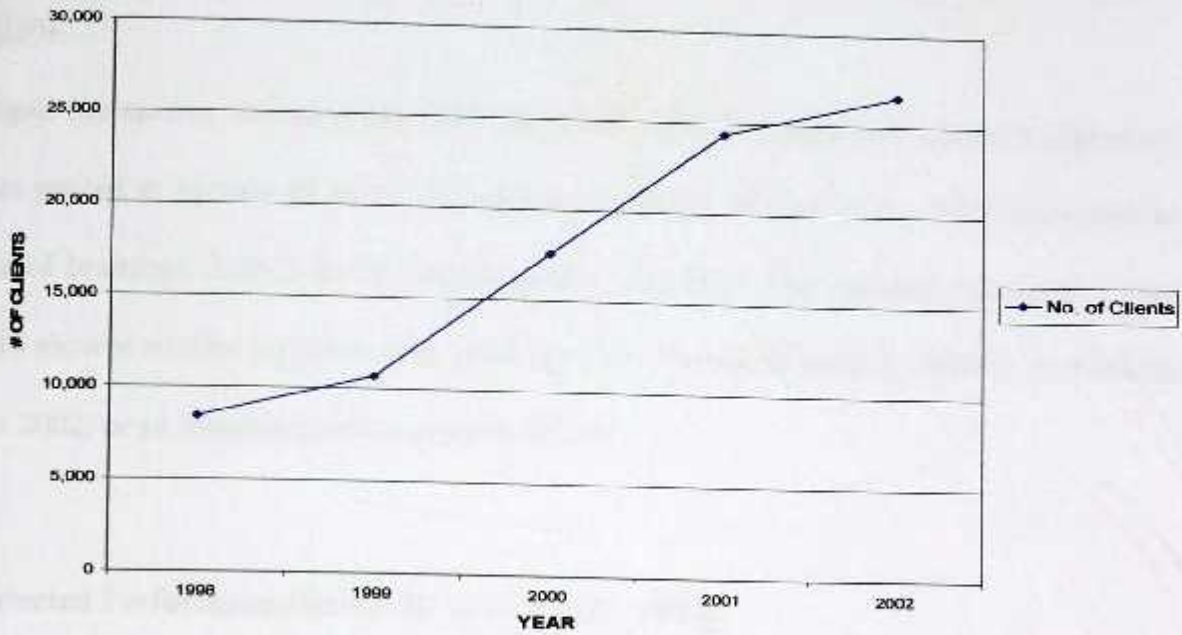
Source: Author's Fieldwork, 2005

Fig: 4.16 **SAT'S Growing Staff Strength, 1998 – 2002**



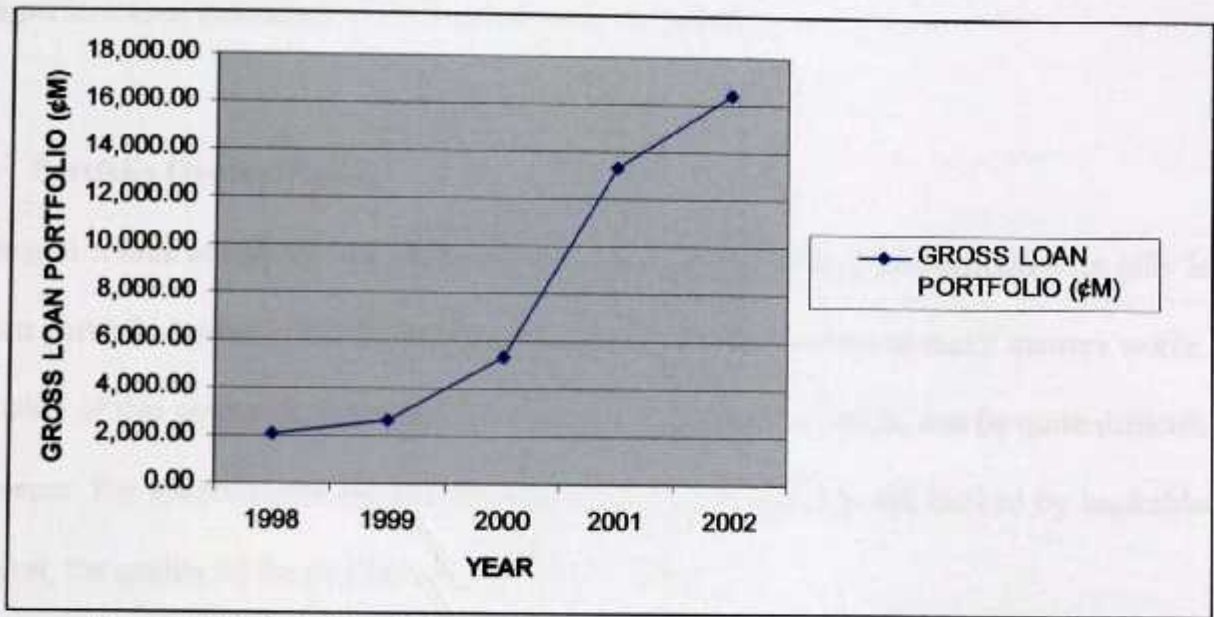
Source: Author's Fieldwork, 2005

Fig: 4.17 SAT'S Growing Outreach



Source: Author's Fieldwork, 2005

Fig: 4.18 SAT'S Growing Loan Portfolio, 1998 – 2002



Source: Author's Fieldwork, 2005

SAT grew significantly over the period under study to become one of the major MFIs in Ghana. Whilst SAT reached and serviced 8,435 clients in 1998, it serviced 26,615 clients in

2002 representing over 68% increment over the period and an average yearly increment of about 35%.

This rapid increase in outreach has been the result of SAT's aggressive branch expansion program geared to service all of the 10 regions of Ghana. In four years, SAT increased its number of branches from 7 to 16, becoming the only MFI with national coverage. Loans portfolio showed similar rapid increase, growing from 2.1 billion cedis in 1998 to 16.4 billion cedis in 2002, or an average yearly increment of 75%.

4.9 Selected Performance Ratios for SAT (1998 – 2002)

In this section, two categories of performance ratios; portfolio quality and financial management ratios for SAT over the period 1998 – 2002 are considered.

Other performance indicators of SAT are given in Appendix 3.

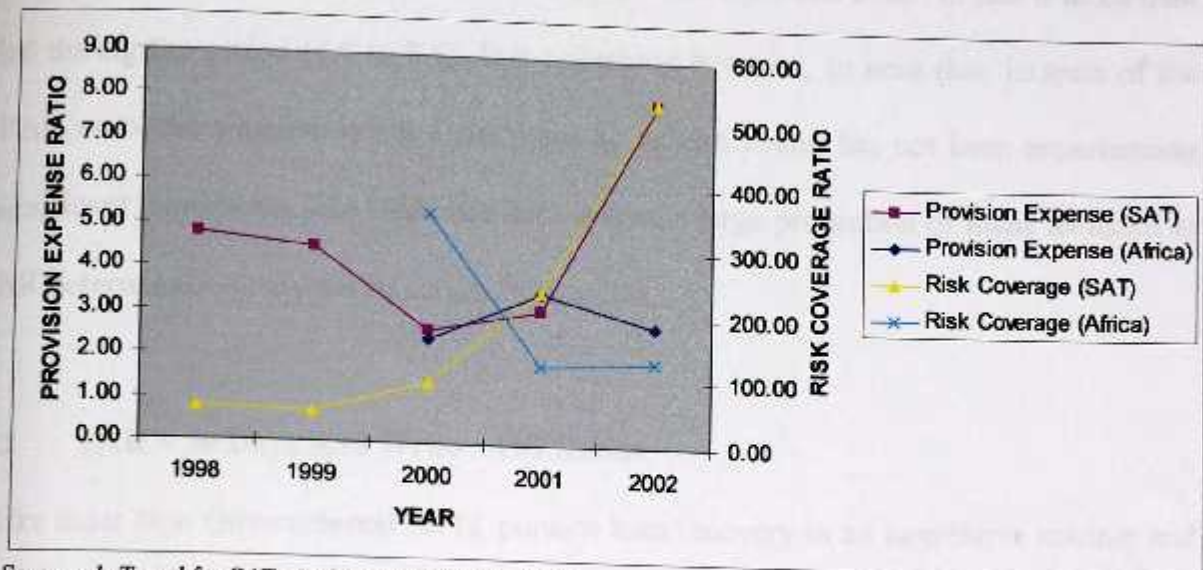
4.9.1 Portfolio Quality Ratios

The largest source of risk for any financial institution resides in its loan portfolio. Not only is the loan portfolio normally by far the largest asset of an MFI but also, to make matters worse, the quality of that asset and therefore the risk it poses for the institution, can be quite difficult to measure. For microfinance institutions, whose loans are typically not backed by bankable collateral, the quality of the portfolio is absolutely crucial.

4.9.1.1 Provision Expense and Risk Coverage Ratios

The Provision Expense ratio gives an indication of the expense incurred by an institution to anticipate future loan losses. It is expected to increase in step with overall portfolio growth.

Fig: 4.19 Provision Expense vs. Risk Coverage for SAT, 1998 – 2002



Source: 1. *Trend for SAT: Author's Fieldwork, 2005*
 2. *Trend for Africa: Global MicroRate Africa, 2003*

SAT between 1998 and 2000 experienced a general decline in its provision expense ratio. The ratio has declined from a high of 4.8 in 1998 to 2.63 in the year 2002. The ratio more than doubled from 3.10 in 2001 to about 8 in 2002.

The Risk Coverage ratio which measures how much of the portfolio at risk is covered by the MFI's loan loss allowance has rather seen a steady increase over the period. Risk Coverage has risen from 52 times in 1998 to a high of 534 times in 2002, surpassing the industry average of 131 times.

SAT appears to cover its risks very well with a declining Provision Expense ratio (except in 2002) and increasing Risk Coverage ratio. Though SAT did not spend excessively on anticipating future loan losses, it made provisions to cover its risks several times over. Perhaps, the organization's readiness to increase its risk coverage ratio in spite of the generally low provision expense ratio, stems from the fact that PAR > 30 days kept rising over the period. The PAR>30 days has risen steadily between 1998 and 2002, dipping only

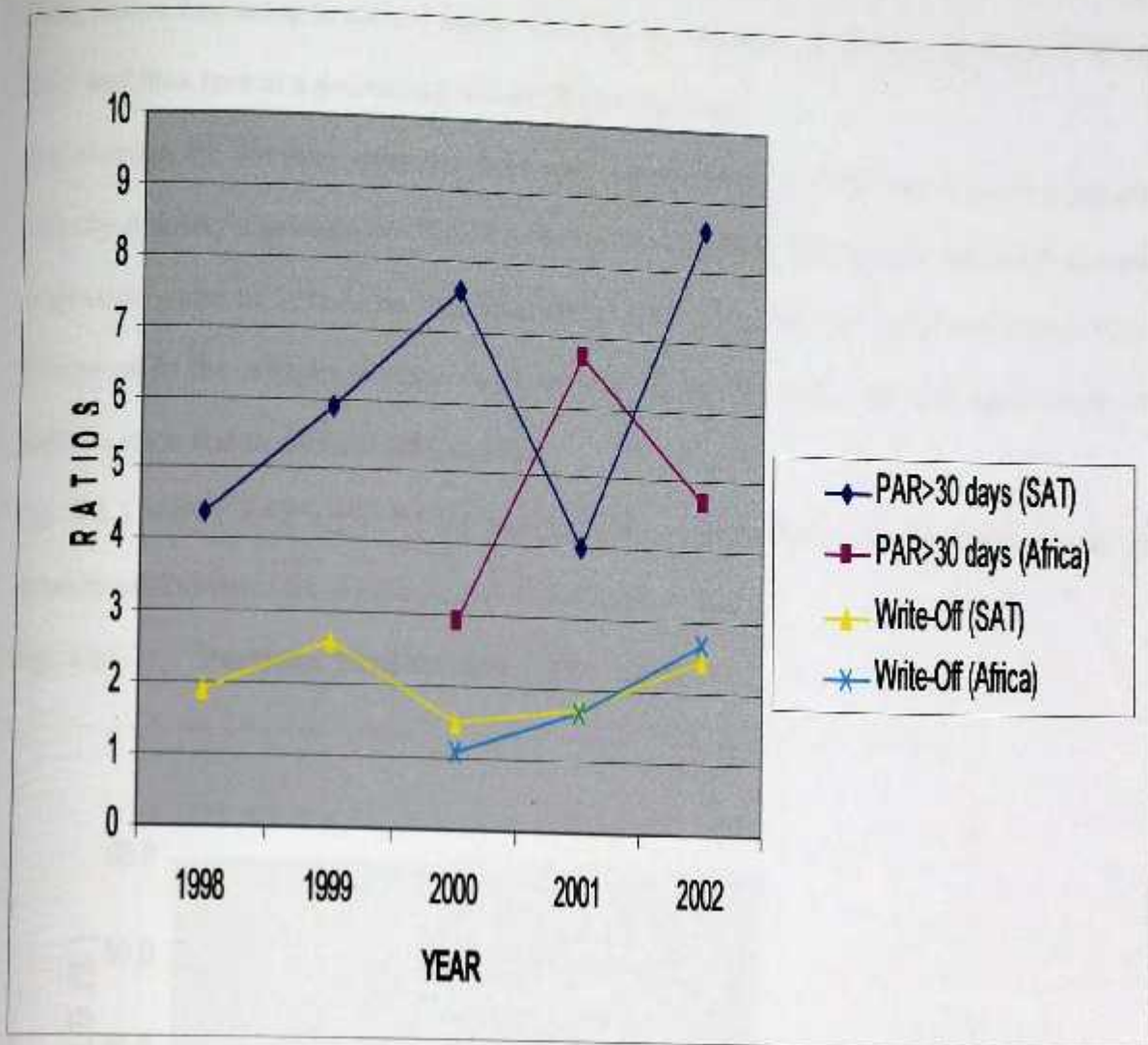
for a brief period in 2001. The ratio rose sharply between 2001 and 2002. In fact it more than doubled during the period (4.0 to 8.6). It is refreshing however, to note that, in spite of the high PAR ratio, the situation is not a risky one as write-off ratio has not been experiencing any significant increments. The inference here is that, a large proportion of loans included in the PAR determination may not be seriously overdue.

4.9.1.2 PAR > 30 Days And Write – Off Ratios

SAT like most Non Governmental MFIs, pursues loan recovery in an aggressive manner and does not encourage write-offs claiming that recovery is a continuous effort and will make the efforts for as long as it will take to recover. SAT has also employed other methods such as the use of the law courts and security personnel to enhance recovery. The declining trend in write-off may be a pointer to the fact that, SAT's credit methodology is effective and very efficient. Measures taken by SAT to ensure credit repayment include the following:

- The provision of training sessions as a pre-requisite to qualify for financial services which offers relevant advisory services to clients and prospective clients as well to improve upon their profit levels through sound marketing management, good record keeping, accounting and basic health techniques.
- The effective and frequent monitoring of clients' projects and accounts serves as a better deterrent to prevent defaults.

Fig: 4.20 PAR vs. WRITE - OFF FOR SAT, 1998 - 2002



Source: 1. Trend for SAT: Author's Fieldwork, 2005
 2. Trend for Africa: Global MicroRate Africa, 2003

4.9.2 Financial Management Ratios

Financial Management ratios assure that there is enough liquidity to meet an MFI's obligations to disburse loans to borrowers and to repay loans to its creditors. Even though financial management is principally a back office function, decisions made in this area can directly affect the bottom line and even the survival of the institution.

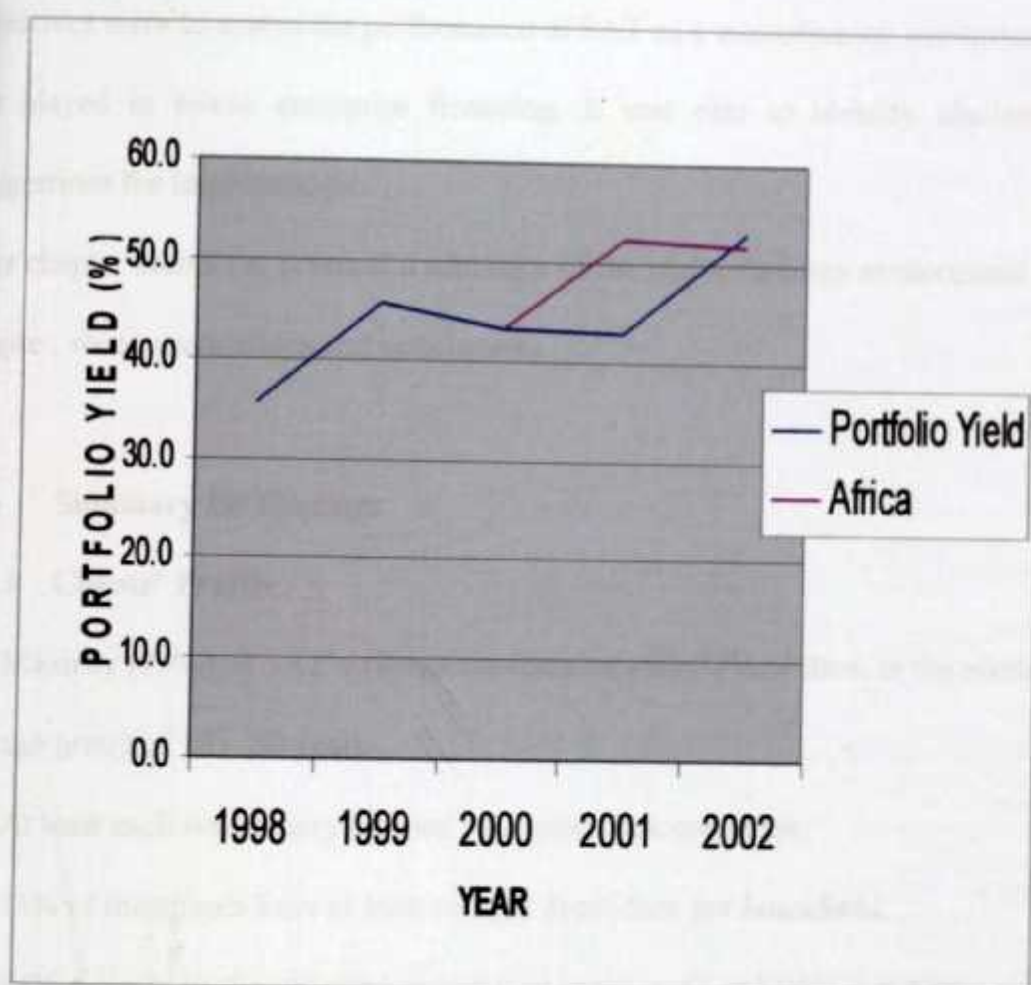
In this section the key ratio analyzed is the Portfolio Yield (PY). The PY indicates the gross loan portfolio's ability to generate cash financial revenue from interests, fees and commissions.

SAT's PY rose slightly between 1998 and 1999 and then declined slightly between 1999 and 2001 before beginning to ascend again. The industry average rose sharply between 2000 and 2001 and then rose at a decreasing rate the following year.

The average PY for SAT over the three-year period (2000 – 2002) was 46.43% compared with the industry's average of 49.13% over the same period. This implies that SAT was able to generate close to 50% of its cash financial revenue from interests, fees and commissions. Compared to the African average, SAT has not performed badly, but will need to try and improve upon this to perhaps 50% or more.

Fig. 4.2.1 shows SAT's PY for the period 1998 – 2002. There is a comparison with the industry performance for Africa for the period 2000 – 2002.

Fig: 4.21 Portfolio Yield for SAT, 1998 – 2002



Source: 1. Trend for SAT: Author's Fieldwork, 2005
2. Trend for Africa: Global MicroRate Africa, 2003

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. This study has therefore assessed the impacts of micro finance institutions using Sinapi Aba Trust, on micro enterprises in the Ashanti region of Ghana. The objectives were to assess the performance of SAT as a microfinance institution and the role it has played in micro enterprise financing. It was also to identify challenges and make suggestions for improvement.

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% operate 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.

- o The potential to develop cottage industries exists as the 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%

92% of clients rank Business Profits as the most important source of household income, 1% rank Remittances as the most important source and 7% rank Spousal Support as the most important source.

5.1.3 Business Financing

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

- Self financing - 58%
- Equity funds - 30%
- Other loan sources - 11%
- Other sources (sale of personal belongings and effects) - 1%

Clients are making a lot of savings and using their savings to finance their businesses.

Family and friends form the major source of equity funds (98%). Partners' funds form only 2% of equity fund sources. Beneficiaries are not taking advantage of other type of equity funds like Capital Venture Funds, etc.

For 70% of clients, SAT's loan constitute less 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 engender 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

- ⊙ 28% of clients want SAT to review its application process.
- ⊙ 24% want SAT to streamline its procedures and cut out delays at their offices.
- ⊙ 26% think that interest rates charged by SAT on its loans are high. 3 – 10% per month works out to 36 – 120% p.a.

5.1.5 Group Collateral

SAT's group collateral policy works fine. 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.

22% of clients want SAT to repackage its training program

Only 16% have ever encountered difficulties in paying loans. Reasons/causes advanced for difficulties are

- Poor farm yield - 16%
- Poor returns on trading - 38%
- Long travel times - 12%
- Procedures at offices of SAT - 16%
- Others (loan duration) - 18%

SAT has not written off any loan.

23% of cases where clients had difficulty in paying loans required no action(s) from SAT.

Court actions are sometimes used to retrieve loans.

19% of the cases were refinanced and

58% had their times extended.

5.1.6 Direct Impact

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/acquisition of new equipment	- 7.2%
Increased number of employees	- 4.2%
Higher Production levels	- 8.0%
Improved production methods	- 5.1%
Effective marketing strategies	- 14.8%
Opening of new branches	- 0.8%
Diversification of clients' operations	- 28.3%
Increased sales/turnover	- 31.6%

5.1.6.2 Profitability

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

Higher profits	- 56.3%
Average profits	- 41.9%

Lower profits	- 1.8%
No profits	- 0%
Reduced profits	- 0%

5.1.7 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 (33.9%)

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 Good Nutrition (34.8%)

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 (2.7%)

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

4. More Children in School (19.5%)

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 (9.1%)

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.

6. Improvements in Household Infrastructure

9% of clients have built new houses;

39% have undertaken repair and rehabilitation works on their houses;

13% of clients have replaced their roofs;

35% have painted their houses;

4% have made extensions (more rooms, toilet facilities, etc) to their existing houses.

5.1.8 Growth and outreach

SAT has expanded within 8 years to cover the entire country. By 2002 SAT operated in 16 branches in all 10 regions serving 26,615 clients in 110 communities.

Loan portfolio increased from 2.1 billion Cedis in 1998 to 16.4 billion Cedis in 2002 representing an average yearly increment of 75%.

5.1.9 Financial Performances

SAT has posted very good financial indicators. Sustainability/Profitability ratios have been very good. Both ROA and ROE consistently outperformed the industry averages in Africa between 1998 and 2002.

SAT has since 1999 achieved Operational Self-Sufficiency (OSS) and Financial Self-Sufficiency (FSS) since 2001.

The Efficiency and Productivity ratios are encouraging. Personnel productivity ratio is high; 148 clients per staff member.

Portfolio Quality ratios: Provision Expense Ratio has declined consistently from a high of 4.8 in 1998 to 3.10 in 2001. The ratio however, increased abnormally to 7.97 in 2002. Risk

Coverage however, has risen from 52 times in 1998 to 411 times in 2002.

Though the Risk Coverage ratio and PAR > 30 days have seen steady increases, Write-Off has consistently declined implying that a large portion of loans included in the PAR determination may not be seriously overdue.

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 9/11 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 2001 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 itself 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, Akomadan, Asante Mampong and Kumasi.

Technology

MFI's 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 invariably affects the operational cost of the institutions.

3.3 Recommendations

Capacity Development for Micro Enterprises

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
- Etc.

Capacity Development for the Micro finance sector

The micro finance sector itself needs 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 intervention

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 echoed by many of the respondents.

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 of 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 14.5%.

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, efficiency 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 profitably. The loans portfolio grew rapidly from 2.1 billion Cedis in 1998 to 16.4 billion Cedis in 2000 representing an average yearly increase of 75%.

SAT recorded a 1,087% increase in ROA and a 1,055% increase in ROE between 1999 and 2000. The profitability of SAT over the period was much higher than the industry average.

Since 1999, SAT has operated above break – even point and has thus maintained Operational Self Sufficiency. Similarly, it also attained and maintained Financial Self Sufficiency in the year 2001.

In fact, the institution has consolidated its position and positioned itself well within the industry.

SAT expanded rapidly between 1998 and 2002 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 26,615 clients by 2002.

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; trade, food industry, manufacturing, agri-business and services.

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, bakers, restaurants, vegetable growers, livestock owners, tailors, designers, shoe makers, furniture makers, plastic and leather bag makers, 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 led to improved 'behaviours' 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 has 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 micro enterprises in national economic development, they are not well financed. The study has shown that when adequately financed, micro enterprises will be able to play 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 Micro enterprises sector and by extension the national economy.

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Appendix 1 Sample of questionnaire used for interview of key person interview.

**KNUST
DEPARTMENT OF ECONOMICS AND INDUSTRIAL MANAGEMENT**

MBA STUDENT THESIS

TOPIC: THE IMPACTS OF SINAPI ABA TRUST AS A NON GOVERNMENTAL ORGANIZATION (NGO) IN THE FINANCING OF SMALL, MICRO AND MEDIUM ENTERPRISES (SMMEs) IN GHANA.

RESEARCH QUESTIONNAIRE

FOR

SINAPI ABA TRUST

**NAME: WILBERFORCE BAFFOUR ANSAH
INDEX NO. PG67449/03**

SUPERVISOR: MR. KWAKU BOATENG

2008

KEY PERSON QUESTIONNAIRE – SINAPI ABA TRUST (SAT)

A. RESPONDENT'S PROFILE

1. Name.....
2. Position.....
3. Number of year with firm.....
4. Number of years in current Position.....

B. LENDING AND SAVINGS INFORMATION

5. 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.

6. Please give a brief profile of your clients

- Micro enterprise
- Small enterprise
- Medium enterprise
- Others. Please specify

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

.....

.....

.....

.....

8. Please provide the following information

Statistics	1998	1999	2000	2001	2002
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					
Total number of savers/depositors					
Number of female savers/depositors					
Number of male savers/depositors					
Total amount saved/deposited by females					
Total amount saved/depositors by males					
Total savings/deposits mobilized					

C. PORTFOLIO QUALITY INFORMATION

9. Please provide the following information

Statistics	1998	1999	2000	2001	2002
No. of loans paid on or before the date					
Total amount of loans paid on or before time (i.e. paid on time)					
No. of female borrowers paying on time					
Total amount of loans paid on time by females					
No. of male borrowers paying on time					
Total amount of loans paid on time by males					
Total Number of loans past due					
Outstanding balance of loans in arrears (Total amount of loans past due)					
No. of females loans past due					
Amount of females loans past due					
No. of male loans past due					
Amount of male loans past due					
Outstanding balance of loans >30 days late					
No. of female loans >30 days late					
Amount of female loans >30 days late					

Statistics	1998	1999	2000	2001	2002
No. of male loans >30 days late					
Amount of male loans >30 days late					
Total Number of loans written off					
Total amount of loans written off					
No. of female loans written off					
Amount of female loans written off					
No. of male loans written off					
Amount of male loans written off					
Loan Loss Reserve					

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

.....

.....

.....

D. SOCIO - ECONOMIC IMPACT

D1. COMMUNITIES

11. Please indicate the impacts 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)

12. Please indicate the impacts of your microfinance scheme on your borrowers.

(Please tick as many as applicable)

- Establishment of new businesses
- Expansion of enterprises
- Diversification of activities
- Increased 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

13. 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.

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F. SUGGESTIONS FOR IMPROVEMENT

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

.....
.....
.....

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

.....
.....
.....

F. PROFITABILITY AND EFFICIENCY

15. Please provide photocopies of statements of account for 1998, 1999, 2000, 2001, and 2002.

Thank you.

Appendix 2: Sample of Beneficiary Clients Questionnaire

**KNUST
DEPARTMENT OF ECONOMICS AND INDUSTRIAL MANAGEMENT**

MBA STUDENT THESIS

TOPIC: THE IMPACTS OF SINAPI ABA TRUST AS A NON GOVERNMENTAL ORGANIZATION (NGO) IN THE FINANCING OF MICRO ENTERPRISES IN GHANA.

**RESEARCH QUESTIONNAIRE
FOR
BENEFICIARY CLIENTS**

**NAME: WILBERFORCE BAFFOUR ANSAH
INDEX NO. PG67449/03**

SUPERVISOR: MR. KWAKU BOATENG

2005

Enumerator.....

Beneficiary Clients Questionnaire

A. PROFILE

INDIVIDUALS

1. Name of Officer
- Age..... Sex.....
2. Number of Employees.....
3. How long have you been in this business?.....

ENTERPRISE

4. Name of Enterprise.....
5. Type of business (Please tick as appropriate)
 Sole Proprietorship Partnership
 Company Others. Please specify.....
6. Contact Person..... Age..... Sex.....
7. Legal Status.....
8. Number of employees.....
9. How long has this business been in existence?.....
10. Please give an estimate of the total assets of your enterprise (excluding land and buildings)
 Up to €91M
 Up to €910M
 Up to €2,275M
 Over €2,275M

HOUSEHOLD INFORMATION

11. Please supply the following information on your 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 not in school		
Number of aged male dependants		
Number of aged female dependants		

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

Profits from your business(es) []

Remittances from adult children []

Others. Please specify []

13. Please rank the sources of income listed above in order of importance

	1	2	3
Profits	[]	[]	[]
Remittances	[]	[]	[]
Others	[]	[]	[]

B. NATURE OF BUSINESS

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

- Agricultural
- Agro processing/Agri-business
- Marketing/Petty trading
- Manufacturing
- Services
- Others. Please describe.....

C. FINANCING

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

16. 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.....

.....

17. 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.....

.....

18. Has SINAPI ABA sent you or any enterprise/individual you know to court over default in loan payment? [] Yes [] No.

19. What are requirements for obtaining a loan from SINAPI ABA?

20. Apart from SINAPI ABA Trust what other sources of finance do you have for your business (Tick as many as applicable)?

Self

Equity

Loan

Other. Please specify.....

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

Sources of finance	Percentage %
Self	
Equity	
Loans	
Others	

22. If your answer to 20 includes Equity please give the source. (Tick as many as applicable).

- Friends and family members
- Partners' investment
- Venture capital
- Others. Please specify.....
-

23. 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 []

24. Is there any ceiling to the number of times that you can obtain loans from SAT? []
 Yes [] No

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

26. Apart from financial assistance, what other forms of assistance do you obtain from SAT? Choose from the options 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			

27. What problems 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

28. 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

29. In what ways have the changes indicated above (29) affected your profit/income from your business?

- [] High profits
- [] Average profits
- [] Low profits

- No change
- Reduced profits
- Others

30. How do you rate SINAPI ABA's performance?

- Very good Good Fair
- Satisfactory Very Bad Can't Rate

31. Would have started your business without SINAPI ABA's support?

- Yes No

HOUSEHOLD LEVEL

32. In what ways have the additional income obtained in (32) above if any, affected your household?

- Members can easily access/obtain improved healthcare when needed.
- Members get adequate and nutritious meals when needed.
- Morbidity and mortality 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.....

33. What are your general impressions about Micro financing in your community?

.....

.....

34. What improvements could SINAPI ABA introduce in its operations to enhance its service delivery?

35. Are there any hindrances in obtaining loans from commercial banks? Please state them.

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

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

Thank you.

Appendix 3: Further Financial Performance Indicators from SAT

Table: 1 Extracts of Findings from documents available at SAT

Statistic		1998	1999	2000	2001	2002
Net Operating Income	€'000,000	-59.00	39.00	917.00	1,312.00	1,028.00
Average Equity	€'000,000	2,730.00	4,400.00	8,824.00	13,703.00	17,817.00
Average Assets	€'000,000	3,011.00	4,794.00	9,537.00	20,720.00	23,645.00
Operating Revenue	€'000,000	782.00	1,345.00	3,054.00	5,824.00	8,894.00
Loan Loss Provision Expense	€'000,000	100.00	120.00	140.00	414.00	1,309.00
Operating Expenses	€'000,000	841.00	1,306.00	2,137.00	4,512.00	7,866.00
Gross Loan Portfolio	€'000,000	2,089.00	2,677.00	5,315.00	13,358.00	16,432.00
Cash Financial Revenue	€'000,000	742.00	1,224.00	2,303.00	5,728.00	8,722.00
Number of Branches		12	14	16	16	16
Number of active Borrowers		8,435.00	10,690.00	17,580.00	24,396.00	26,615.00
Number of Personnel		70.00	89.00	109.00	138.00	170.00
Number of loans outstanding		4,669.00	4,707.00	7,716.00	11,433.00	11,295.00
Portfolio in Arrears > 30 days	€'000,000	92.00	158.00	404.00	535.00	1,414.00
Value of Loans written off	€'000,000	40.00	70.00	0.00	233.00	403.00

Sources: SAT Financial Statements 1998 – 2002

Opportunities International-Sinapi Aba Savings and Loans (OI-SASL)
Business Plan, Revised Version, July, 2003

Savings and Loans

Table: 2 Extracts of Findings from documents available at SAT

Statistic		1998	1999	2000	2001	2002
Net Operating Income	¢'000,000	-59.00	39.00	917.00	1,312.00	1,028.00
Average Equity	¢'000,000	2,730.00	4,400.00	8,824.00	13,703.00	17,817.00
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Sources: SAT Financial Statements 1998 – 2002

Opportunities International-Sinapi Aba Savings and Loans (OI-SASL)
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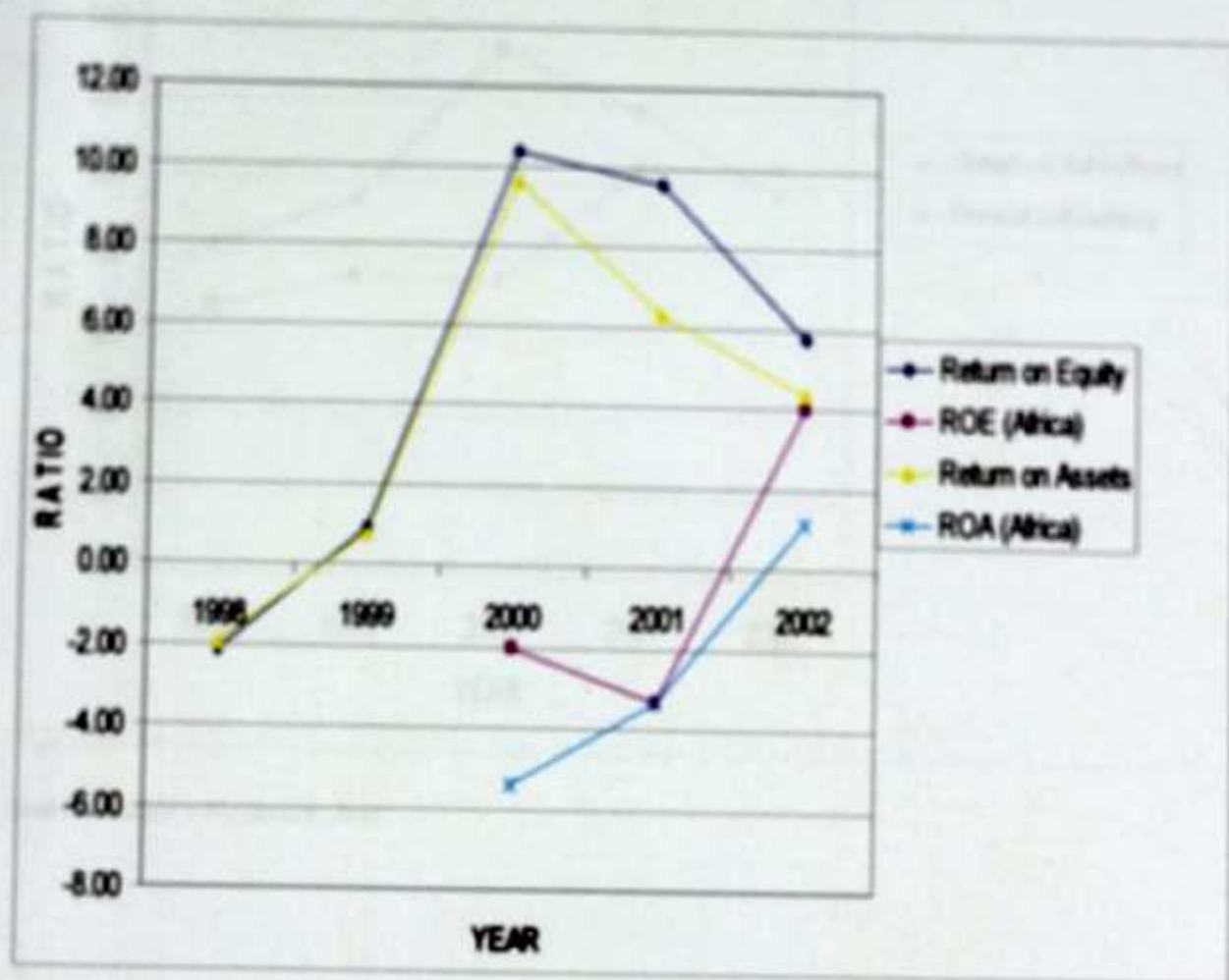
Savings and Loans

Table: 3 Financial Ratios of SAT, 1998 – 2002

Category	Type of Ratio	Formula	1998	1999	2000	2001	2002
Sustainability/Profitability	1. Return on Equity	Net Operating Income ÷ Average Equity	-2.16	0.89	10.39	9.57	5.77
	Africa				-2.00	-3.30	4.00
	2. Return on Assets	Net Operating Income ÷ Average Assets	-1.96	0.81	9.62	6.33	4.35
	Africa				-5.40	-3.30	1.10
	3. Operational Self Sufficiency	Operating Revenue ÷ Loan Loss Provision + Operating Expense	83.10	94.32	134.12	118.23	96.94
	Africa		NOT AVAILABLE				
	4. Financial Self-Sufficiency	Adjusted Operating Revenue ÷ Loan Loss Provision + Operating Expense + Expense Adjustment.	67.00	75.00	74.00	103.00	104.00
	Africa		NOT AVAILABLE				
Financial Management	5. Yield on Gross Loan Portfolio	Cash Financial Rev ÷ Gross Loan Port.	35.52	45.72	43.33	42.88	53.08
	Africa				43.30	52.30	51.80
Efficiency/Productivity	6. Personnel Productivity	No. of Active Borrowers ÷ No. of Personnel	121	120	161	177	157
	Africa				136	164	169
	7. Cost Per Borrower	Operating Expenses/Number of Active Borrowers	43.35	53.12	20.60	26.42	38.01
	Africa				82.00	44.00	57.00
	8. Average Outstanding Loan Size	Gross Loan Port ÷ No. of Loans Outstanding	0.45	0.57	0.69	1.17	1.45
	Africa		NOT AVAILABLE				
	9. Operating Expenses	Operating Expenses ÷ Ave Gross Loan Port.	40.26	48.79	40.21	33.78	47.87
Africa				56.30	55.90	45.80	
Portfolio Quality	10. PAR > 30 days	Portfolio in Arrears > 30 days ÷ Gross Loan Port	4.40	5.90	7.60	4.01	8.61
	Africa				2.90	6.70	4.70
	11. Write - Off	Value of Loans Written off ÷ Gross Loan Port	1.91	2.61	1.51	1.74	2.45
	Africa				1.10	1.70	2.70
	12. Risk Coverage	Loan Loss Provision ÷ Portfolio in Arrears > 30 days	52.23	45.89	93.01	237.35	533.73
Africa				353.90	121.80	131.00	
	13. Provision Expense	Loan Loss Provision ÷ Gross Loan Port	4.79	4.48	2.63	3.10	7.97
Africa				2.40	3.50	2.80	

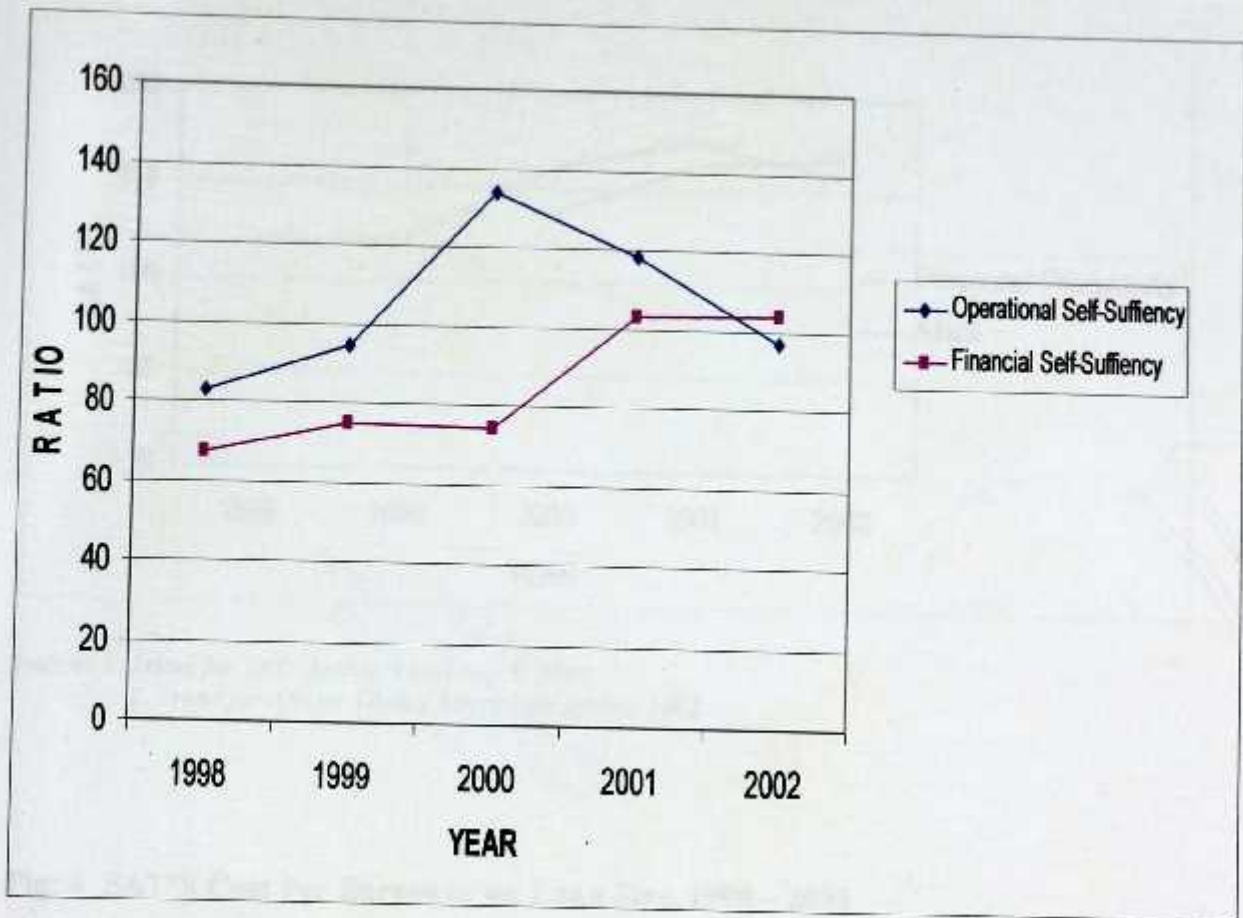
Source: SAT Annual activity and financial reports for 1998, 1999, 2000, 2001 and 2002
CGAP/World Bank Group, 2003

Fig: 1 SAT'S ROE vs. ROA, 1998 - 2002



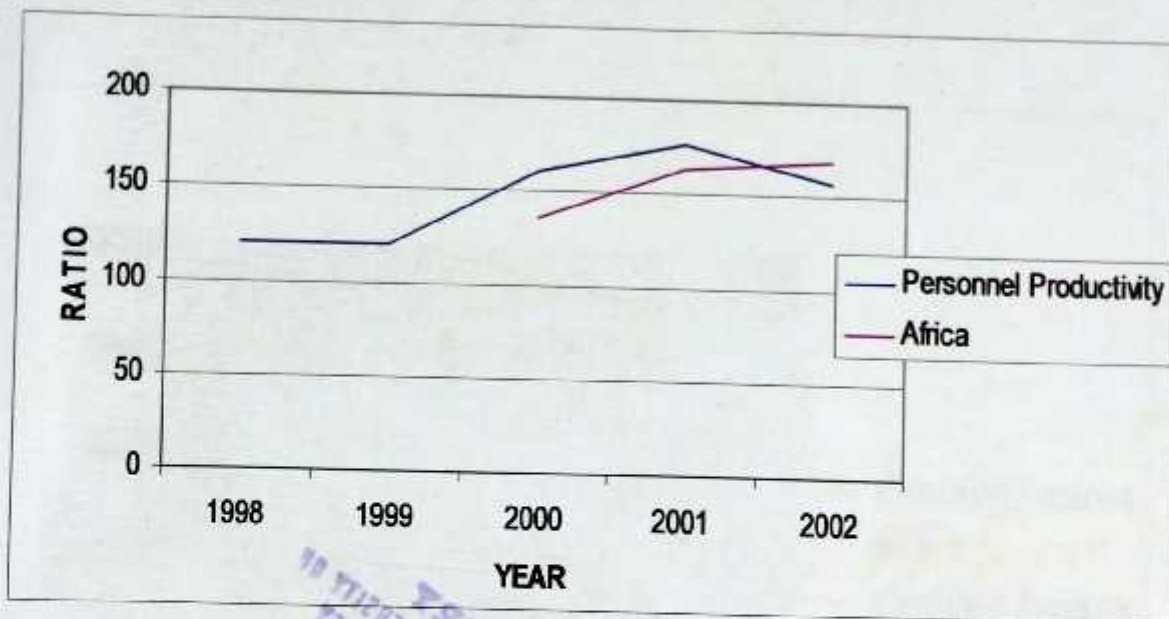
Source: 1. Trend for SAT: Author's Fieldwork, 2005
2. Trend for Africa: Global MicroRate Africa, 2003

Fig: 2 FSS vs. OSS for SAT, 1998 – 2002



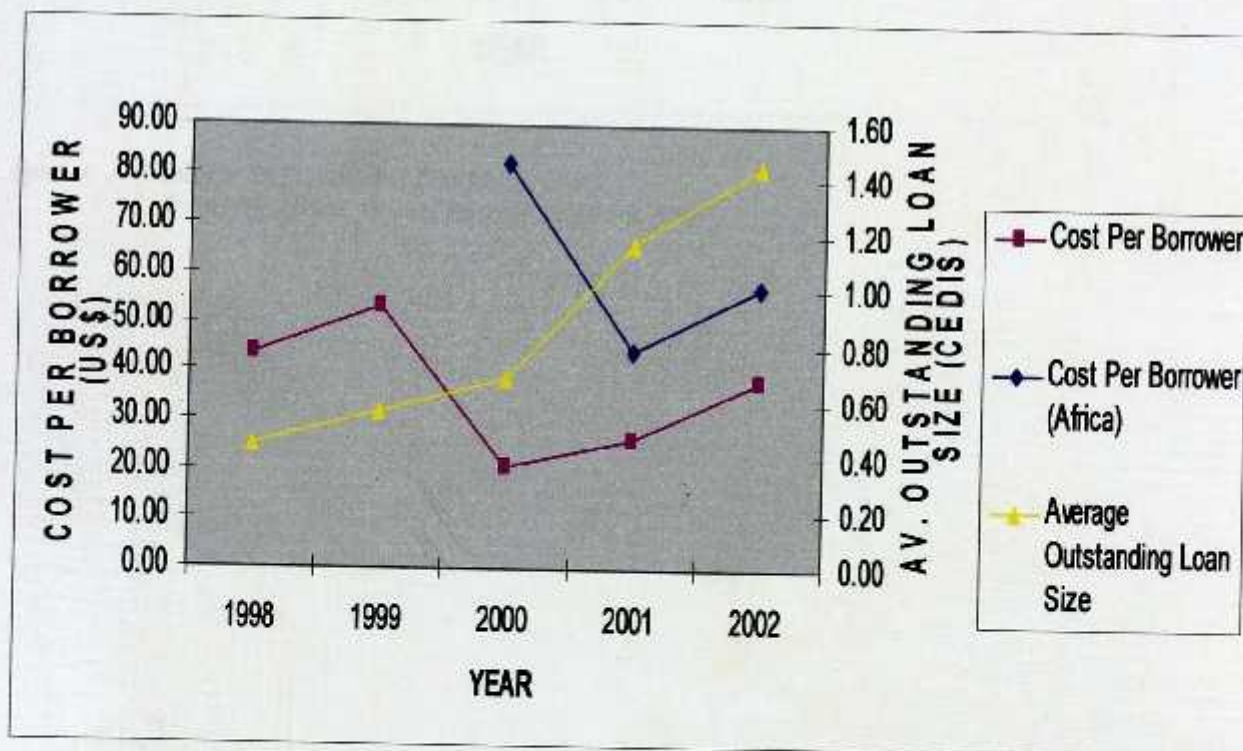
Source: Author's Fieldwork, 2005

Fig: 3 SAT'S Personnel Productivity, 1998 – 2002



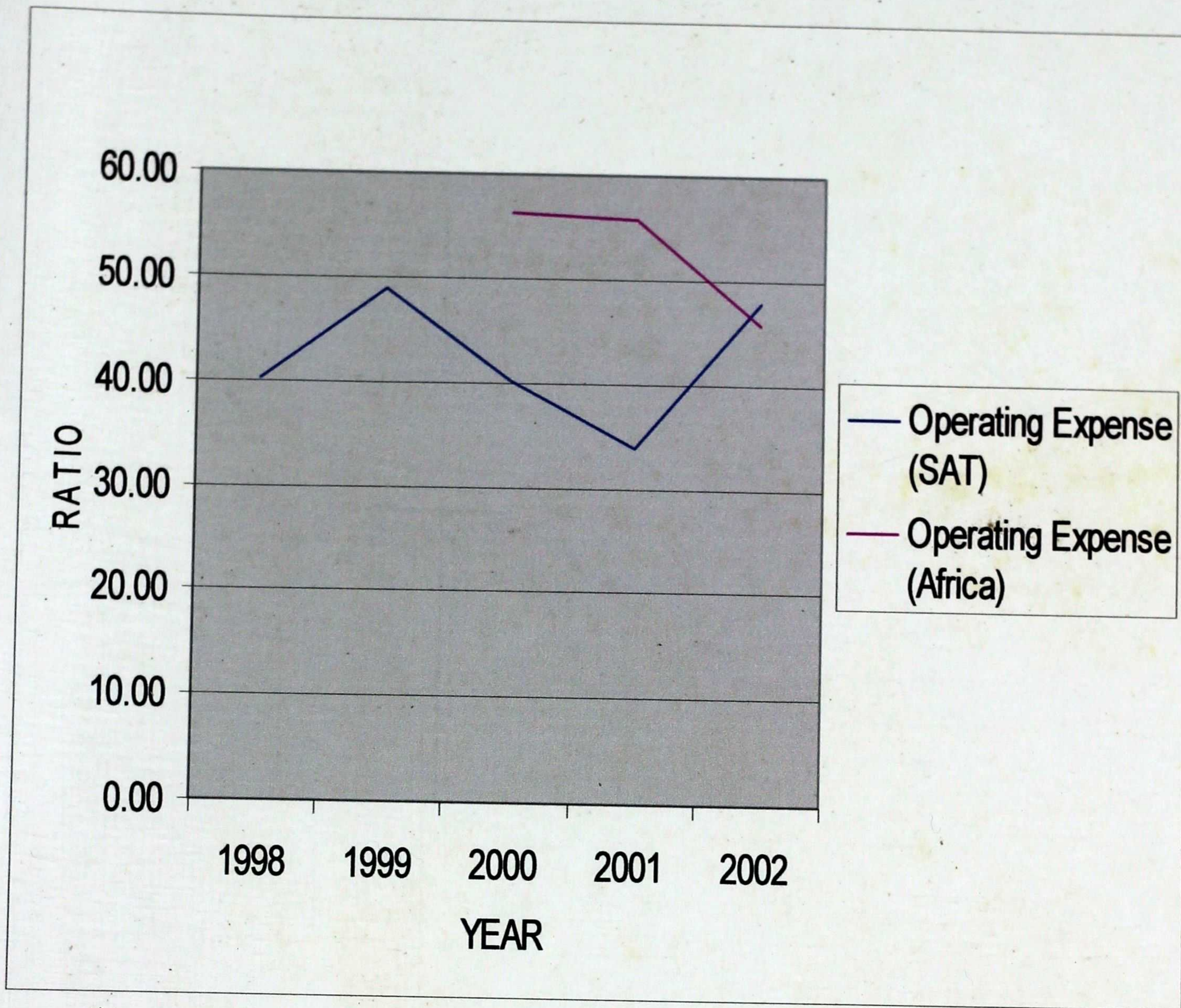
Source: 1. Trend for SAT: Author's Fieldwork, 2005
 2. Trend for Africa: Global MicroRate Africa, 2003

Fig: 4 SAT'S Cost Per Borrower vs. Loan Size, 1998 – 2002



Source: 1. Trend for SAT: Author's Fieldwork, 2005
 2. Trend for Africa: Global MicroRate Africa, 2003

Fig: 5 Operating Expense Ratios



Source: 1. Trend for SAT: Author's Fieldwork, 2005
2. Trend for Africa: Global MicroRate Africa, 2003