

**ACCESS TO FINANCE BY SMALL AND MEDIUM SCALE ENTERPRISES FROM  
SAVINGS AND LOANS INSTITUTIONS IN THE KUMASI METROPOLIS**

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**A Thesis submitted to the Department of Banking and Finance,  
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## CERTIFICATION

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

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## Dedication

This work is dedicated to my Family for their love and support through out the program.

It is also dedicated to my friends for their encouragement, advice and support.

Special dedications also go to my Mum who has supported me through prayers through out the study.

Last and most importantly, special thanks go to the Lord Almighty.

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## ABSTRACT

In today's Global Economy, SMEs are the engine of growth and for that matter they must be funded and thereby the state or the government must put policies that will assist their growth by accessing funds from financial institutions or the banks with lower interest rate.

The study aimed at finding out the type of credit used by SMEs from Savings and Loans Companies, other sources of credit accessed by SMEs in Kumasi, the major constraints faced by SMEs in accessing credit from savings and loans companies and to investigate to investigate the assessment criteria used by savings and loans companies in SME loan appraisal.

There is evidence that savings and loans companies are making credit available to the entrepreneurs of small and medium scale enterprises.

Prior to that inadequate credit was a major problem facing the Sector. There is the need in Ghana for our Universities in collaboration with the banks or financial institutions to educate the public about the importance of savings.

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## OVERVIEW AND BACKGROUND OF THE STUDY

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### 1.1 Introduction

Ghana has a population of about 22 million, which has been growing at about 3 percent per year. Recent statistics (1999-2000) indicate that 63 percent of the populations live in rural areas and 37 percent in urban areas. Gross domestic product (GDP) stood at US\$7.558 billion, with an annual growth rate of 4.5 percent (Budget Statement of Ghana, 2007). In Ghana, 90 percent of companies registered are micro, small and medium enterprises. It is estimated that SMEs employ 22 percent of the adult population in developing countries (Daniels, 1994; Gallagher & Robson, 1995).

The sector employs about 15.5 percent of the labour force in Ghana (Parker et al, 1994), and has experienced higher employment growth than large scale enterprises (5 percent). In Ghana, the sector accounted for 6 percent of GDP in 1998. This group has been identified as the catalyst for the economic growth of the country as they are a major source of income and employment and also create a suitable livelihood for the majority of the population. Small enterprises in developing countries like Ghana typically cite lack of access to finance as an important constraint in their operations.

According to Aryeetey et al (1994), there are several constraints to the development of SMEs especially the lack of access to resources and financial markets. Other constraints to SME development are the difficulty in finding skilled labor to employ. There is also the problem of access to modern technology, many firms use old machinery and have problems finding replacement parts to purchase (Andrea, 1981). But many believe that

the single most important factor constraining the growth of the SME sector is lack of finance. The lack of access was often associated with financial policies and bank practices and operations of SME that make it hard for banks to cover the high costs and risks involved in lending to small firms.

In general, the Financial Sector and the Structural Adjustment Programme (FINSAP) addressed the structural and institutional weaknesses of the financial sector in Ghana. It sought to ensure that businesses have access to institutional credits and deposit mobilization, and also reduced excess liquidity in the country in a regulated environment. It held the view that a strong and competitive financial sector could make significant contributions towards increasing mobilization of domestic savings currently held in the form of non-financial assets (Antwi-Asare/Addison 2000).

According to the World Bank, in 2004, Ghana's formal and semi-formal savings and loans sector reached approximately 1.5 million clients, with less than 30 percent receiving loans. Ghana's financial institutions have serviced a narrow range of clients and few have direct linkages with each other – leaving large portions of the bankable public, particularly micro-enterprises and small businesses, with limited or no access to convenient credit and secure savings options. Savings and Loans Companies which fall under the formal sector are privately owned organizations, which are registered and licensed under the Non-Bank Financial Institution (NBFI) Law and are permitted to offer banking services limited to loans, savings and time deposits.

Informal sources are less significant as lenders for business than they are for consumption purposes. This is partially attributable to the nature of their liabilities, which are of a very short-term nature, and because people save with them mainly to accumulate a lump sum

for purchases (Aryeetey et al, 1994). The principal reasons for this are the relatively high interest rates, short repayment periods, and limited lending capacity of individual lending units. Aryeetey (1994) further states that it is interesting that informal lender believe that the risks associated with SME lending have gone down considerably following the liberal policies of government. They believe that earlier defaults in the 1980s were due to the absence of production materials for their micro-entrepreneur clients. Thus, poor returns and external factors forced them to default. This corroborates the perception of bankers that default by micro businesses is generally not willful. In that case, improving the access of small enterprises to factor and product markets should enhance their creditworthiness.

## **1.2 Statement of the Problem**

The major problem hampering the development of industrialization in Ghana is inaccessibility to finance. Over the years certain beliefs and imagined problems about obtaining finance from the formal banking system have prevailed and have served as major constraints in accessing funds (Ofei, 2003). In many cases Small and Medium Scale Enterprises (SME's) are not able to access loans because of conditions attached to the banking methodologies of the major commercial banks (Ofei, 2003). To remedy the situation, the Bank of Ghana issued regulations governing Savings and Loan Companies, and legislation on Non-Bank Financial Institutions (NBFI) and later successively passed the Credit Reporting Act (Act 726) to help reduce the risk associated with lending and lower cost of capital.

In the past few years, financial institutions have grown and new companies have entered the market. There are 23 banks, 124 rural banks, 13 Savings and Loans companies presently in Ghana (MOFEP, 2007). In Kumasi, the financial sector is still largely

dominated by the major commercial banks whose products and services are inaccessible to SMEs. A number of the Savings and Loans companies are now operating and are offering varied products and services to the business community, individuals and households. It is unknown whether the entry of Savings and Loans Companies into the financial sector has increased SME's access to credit. It is also not known whether SME operators are aware of the financial products offered by these institutions. Furthermore, no empirical study exists which documents evidence that the products and services currently being offered by the Savings and Loans Companies are well-suited for SME operations in the country and thus SME's largely patronize such credit facilities. It is also not known whether there are pressing constraints which hamper the access to the credit that Savings and Loans Companies offer.

The focus of this study to ascertain whether Savings and Loans companies have sufficiently bridged the gap in terms of credit access by SMEs. To achieve this, the following research questions have been raised:

- What are the products and services offered by Savings and Loans Companies in the Kumasi Metropolis?
- What are the terms and conditions attached to the products offered by the Savings and Loans Companies?
- What business activities or operations are sponsored by Savings and Loans Companies vis a vis the ones SMEs are involved in?
- Are there any non-financial services offered by Savings and Loans Companies to SMEs?

### **1.3 Objectives of the Study**

To answer the questions raised above, the following specific objectives were addressed in

the study;

- To examine the type of credit used by SME's from Savings and Loans Companies
- To identify other sources of credit accessed by SME's in Kumasi
- To identify the major constraints faced by SME's in accessing credit from Savings and Loans companies.
- To investigate the assessment criteria used by Savings and Loans Companies in SME loan appraisal.

#### **1.4 Justification of the Study**

Credit, a vital part of today's business operations and the primary means of covering business operational costs and serving as start-up capital, is the primary constraint that hampers growth and development of SME's in Ghana. The Savings and Loans Companies in Ghana established to promote a savings culture and most importantly provide loans for small sized business operations and households are key institutions business operators look up to for credit assistance.

This study analyses the access to credit by SME's from Savings and Loans Companies, examining the loan assessment criteria, other sources of credit for SME's, non-financial services provided by Savings and Loans Companies and the constraints faced by SME's in their attempt to access this credit. With the Government of Ghana pursuing a policy of using the private sector as the engine of economic growth and promoting the golden age of business in this country, an academic research effort to analyse the ability or otherwise of SME's to access credit in Kumasi from Savings and Loans Companies is a welcome reference material for policy makers when discussing issues on financing SME operations in Ghana. The study will also provide useful advice/recommendations to the ever-

expanding banking industry to develop products better suited for the business operations of SMEs in the country. In the academic community, the study can serve as important reference material and further highlight areas where further empirical studies could be conducted to better equip the business community, banking industry, policy-makers and all stakeholders concerned.

### **1.5 Scope of the Study**

Geographically, the study was carried out in Kumasi and its environs. The units of investigation were the Savings and Loans Companies in Kumasi that had operated for two years or more, and the beneficiaries of these institutions who operate Small and Medium Scale Enterprises.

The conceptual scope is based on the subject of credit accessibility and the Savings and loans scheme that seem to be fast catching up with the Ghanaian economy.

### **1.6 Limitations**

The limitation of the study includes;

- Unwillingness of entrepreneurs of small and medium scale enterprises to divulge information

### **1.7 Organization of the Study**

The research study was organized into five chapters. Chapter one comprised the introduction to the study, made up of the study's background and problem statement. In this chapter, the study's objectives were clearly outlined and the justification for the study stated. The last section of chapter one focused on the organization of the study. An extensive and thorough review of relevant literature aimed at obtaining detailed

knowledge of the subject matter being studied was provided in chapter two. Chapter three concentrates on understanding the dynamics of the study area.

In chapter four, the data was summarized, organized and illustrated with the use of appropriate descriptive and inferential statistics. Here again, the results of the data analysis were discussed in the context of the study objectives and the literature reviewed in chapter two. A summary of the main findings, recommendations of the study and the conclusions drawn from the study were covered in the fifth chapter of the study.

### 2.1 Introduction

This chapter reviews the Small and Medium Scale Enterprises in Ghana, the microfinance landscape in Ghana vis-a-vis the access to finance by Small and Medium Scale Enterprises from microfinance institutions.

Proponents of microfinance, Yunus et al (1974), have argued that it is a surest way of reducing poverty by half as enshrined in the Millennium Development Goals by 2015. They contend that since the introduction of microfinance in the 1970s by Mohammed Yunus, it has become increasingly prominent as a strategy for economic development benefiting low-income groups especially in developing countries. Financial services are made available to people who would have been neglected by the formal banks. It is believed that the lives of beneficiaries are transformed through the activities of microfinance institutions.

### 2.2 Small and Medium Scale Enterprises development

The development of small and medium scale enterprise has gained a lot of attention especially in the developing countries and to some extent developed countries. A recent World Bank Review on Small and Medium Business Activities established the commitment of the World Bank Group to the promotion and development of small and medium enterprises sector as a core element in its strategy to foster economic growth, employment and poverty alleviation.

There is growing recognition of the role small and medium scale enterprise play in sustained global and regional economic recovery. The unfortunate aspect of this

realization is that there is very little systematic research in this area especially in the developing world.

In the United State for instance, the number of small and medium scale enterprise development programmes have grown less than 10 in 1987 to more than 300 in 1996 (Sevens and Kays, 1997). Most of such programmes make loans or give classes to low-income to start new ones or to strengthen those that were already in operation.

In Ghana, Savings and Loans institutions target the micro, small and medium scale enterprises that are already in business. There are very few cases that people are provided with vocational skills after which they are given seed money. It must be noted that this practice is usually provided by credit based NGOs, Savings and Loans Companies always lend to economically active entrepreneurs (viable existing businesses).

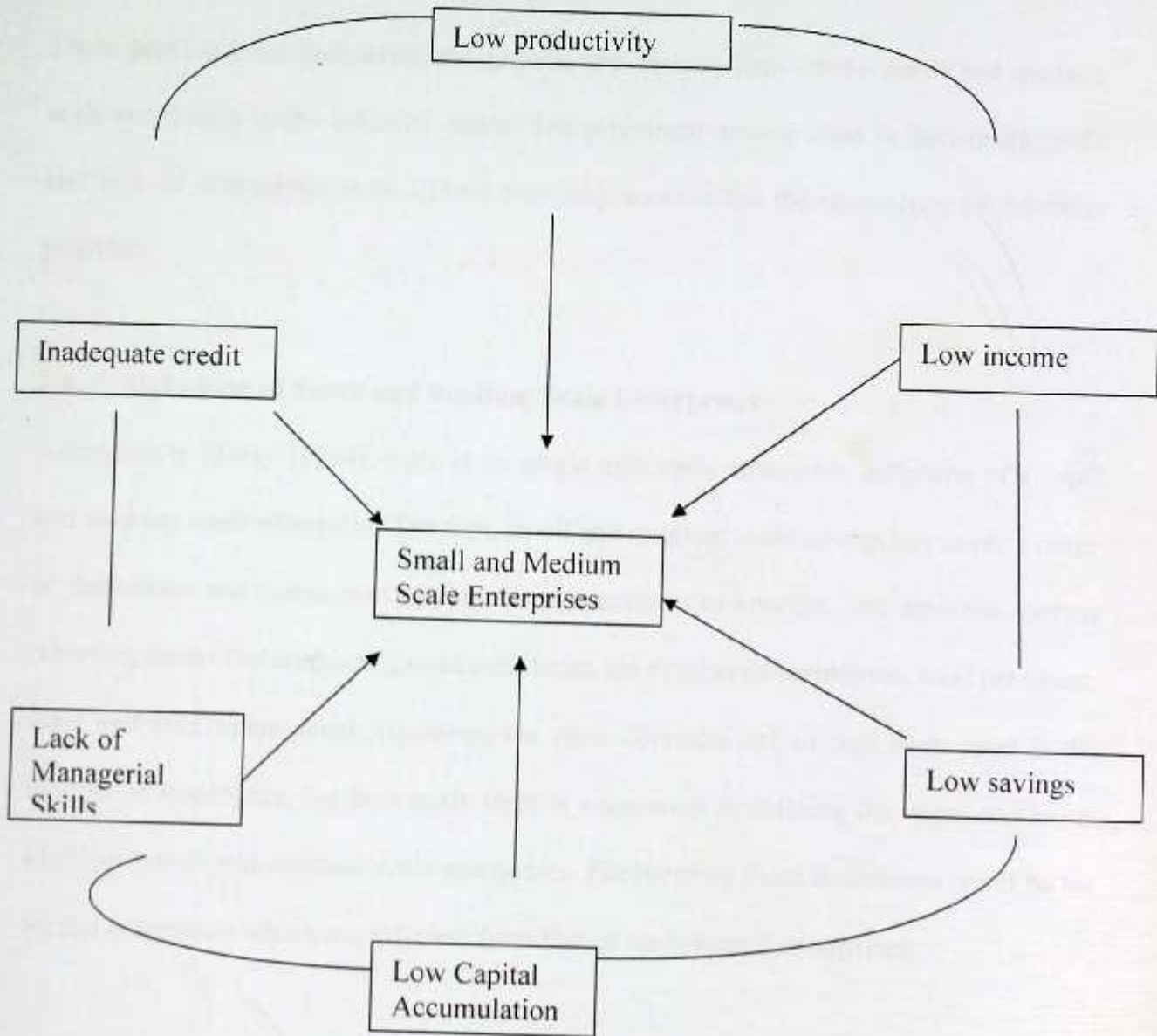
Some community development scholars describe small and medium scale enterprises as a promising way to help the working poor, the unemployed and in the developed world those that are on welfare (Banerjee, 1998; Raheim and Alter, 1998; Friedman, 1998). This hope stems from the few programmes that seem to have been successful in developing countries that have served massive numbers of self-employed poor (Christen et al, 1995).

Typical examples are the Grameen bank in Bangladesh and Bancosol in Bolivia.

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### 2.3 The Concept of Small and Medium Scale Enterprises in Ghana

Figure 2.1 Concept of Small and Medium Scale Enterprises in Ghana



Source: Author, 2007.

The small and medium scale enterprises in the informal sector are faced with a lot of problems. Some of these are;

- Low productivity
- Low income
- Low savings
- Low capital accumulation

- Lack of managerial skills
- Lack of credit or inadequate credit

These problems are hampering the growth and development of the small and medium scale enterprises in the informal sector. The prominent among them is inadequate credit and lack of managerial skills. These two may account for the occurrence of the other problems.

## **2.4 Definition of Small and Medium Scale Enterprises**

According to Storey (1994), there is no single uniformly acceptable definition of a small and medium scale enterprise. The term small and medium scale enterprises cover a range of definitions and measures, varying from one country to another, and between sources reporting them. The commonly used criteria are the number of employees, total net assets, sales and investment level. However, the most common definitional basis used is the number of employees, but here again there is a variation in defining the upper and lower limits of small and medium scale enterprises. Furthermore these definitions could be for formal enterprises which are different from that of the informal enterprises.

### **2.4.1 Classification of Businesses in the Private Sector in Ghana**

The definition of an enterprise is one of the subjective issues. Enterprises can be classified into four levels namely; micro, small, medium and large. Even though there are some authors who argue strongly for the inclusion of multi-national firms. In literature, attempts to define enterprises have resulted in remarkable diversity of definitions that have sparked debates based on different approaches (Hailey, quoted in Yamoah, 2001). The definition of the scale of an industry/enterprise is country specific, thus the stage of economic development of a country is a major determinant of the size of an industry

(Appiah-Badu, 2002 quoted in Dwumah, 2005).

According to Hoselitz (1968), there are two approaches used in defining enterprises. The first approach seeks to find quantitative measures such as employment levels, horse power or capital equipments at some convenient valuation. This seems to be more expedient, especially when the question of resources allocation, industrial promotion and administration of regulations relating to industries is to be answered (Thomi and Yankson, 1985). The second approach focuses on the non-financial aspects such as the nature of management, source of capital, market and management-worker relationship (Staley and Morse, 1965).

The United Nations Industrial Development Organization (UNIDO) defines firms/enterprises in Developing Countries based on the number of workers as follows:

- 1 **Large** - firms with 100+ workers
- 2 **Medium** - firms with 20 - 99 workers
- 3 **Small** - 5 - 19 workers
- 4 **Micro** - < 5 workers (UNIDO, 1979).

In Ghana, the first approach appears to be the one used more often. Enterprises have been variously defined, but the most commonly used criterion is **the number of employees** of the enterprise. In applying this definition, confusion often arises in respect of the arbitrariness and cut off points used by the various official sources. As contained in its Industrial Statistics, the GSS considers firms with less than 10 employees as Small Scale Enterprises and their counterparts with more than 10 but less than 30 employees as Medium while those with more than 30 workers are considered as large scale firms (GSS, 2003).

An alternate criteria used in defining enterprises is the value of fixed assets in the organization. However, the NBSSI in Ghana applies both the 'fixed asset and number of employees' criteria. It defines a Small Scale Enterprise as one with not more than 9 workers, has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Cedis (US\$ 9506, using 1994 exchange rate). The Ghana Enterprise Development Commission (GEDC) on the other hand uses a 10 million Cedis upper limit definition for plant and machinery. A point of caution is that the process of valuing fixed assets in itself poses a problem. Secondly, the continuous depreciation in the exchange rate often makes such definitions out-dated.

In terms of size, the Ghanaian private sector is classified by the NBSSI into the small-scale including micro, medium-scale and large-scale businesses. This classification is presented in Table 2.1:

**Table 2.1: Classification of Ghanaian Private Sector Businesses by Size**

<b>ENTERPRISE CLASSIFICATION</b>	<b>NUMBER OF EMPLOYEES</b>	<b>FIXED ASSETS EXCLUDING LAND AND BUILDINGS</b>
Small Scale Business Including Micro	6-29 1-5	Up to US \$10,000
Medium Scale Business	30-99	Not more than US \$100,000
Large Scale Business	100-More	Greater than US \$100,000

Source: National Board of Small Scale Industries, 2000

The small-scale industries, including the micro enterprises constitute 96 per cent of all manufacturing businesses in Ghana. They employ 53 per cent of persons engaged in the sector. The medium scale enterprises constitute only 3 per cent of the manufacturing businesses and employ 13 per cent of persons engaged in the sector. The large-scale enterprises make up only 1 per cent of manufacturing businesses, and employ 34 per cent of all persons' engaged in the sector (NBSSI, 2002).

#### **2.4.2 Classification of Businesses by Ownership**

As argued by Stanley and Morse (1995), enterprises can also be defined or classified based on the nature of management or the ownership structure. In Ghana the private sector can be generally classified into Ghanaian and non- Ghanaian depending on the ownership. Also based on the type of ownership and the nature of management, it could be classified into four main groups namely; Sole Proprietorship (one-man business), Partnership (owned by two or more people), Limited Liability Companies and Public Listed Companies (companies listed on the Ghana Stock Exchange) (Stanley and Morse, 1995).

#### **2.5 Overview of the Small and Medium Scale Enterprise in Ghana**

The private sector in Ghana is faced with numerous obstacles but in the face of all these seemingly insurmountable hurdles, the sector has made great strides towards taking center stage as the accelerator of industrial and economic growth. The Ghanaian private sector is dominated by small and medium scale enterprises that are mostly into buying and selling as well as the rendering of service for profits. The economic structure of the country depicts a very vibrant service and commerce sector which incidentally is predominately

private sector in nature. The situation offers a lot of opportunities to the youth who are the most employed in the service and commerce sub-sector.

### **2.5.1 Weak and Undeveloped Private Sector**

The structure of Ghana's economy has changed little since independence. Ghana continues to rely on traditional agricultural and mineral commodities (mainly cocoa, gold and timber), which are subject to fierce international competition. There has been limited diversification into manufactured goods and traded services, or movement to adding value to primary products. Ghana has low levels of productivity, investment, technology and innovation.

The agriculture sector dominates the Ghanaian economy – both in terms of its contribution to GDP – over 30 per cent, and the fact that it involves over 60 per cent of the working Ghanaian population. The predominance of the rural economy also holds as far as exports are concerned. Cocoa and timber which are the main export crops as well as gold are all obtained from the rural areas (National Private Sector Medium Term Development Strategy, 2003).

### **2.5.2 Limited Diversification**

Ghana's revealed endowment-based comparative advantage is clearly based on its natural resources and lies in traditional agricultural and mineral commodities - agriculture (especially cocoa), timber and gold. There is potential for more effective exploitation of these endowments. But continued reliance on a few commodities with low prices and wages, and which are subject to fierce international competition in slow growing markets have left the country vulnerable to global commodity price fluctuations. There has been very limited diversification into fast growing markets – in manufactured goods and traded

services for example. Non-traditional exports such as tuna and pineapples trebled in the 1990's but they still only make up one -fifth of total exports (National Private Sector Medium Term Development Strategy, 2003).

### **2.5.3 Limited Industrial Development and Structural Transformation**

Industry still makes a relatively insignificant contribution to the Ghanaian economy (contributing 25 per cent to GDP and accounting for 10 per cent of employment). Main industries are mining, lumbering, light manufacturing, and aluminum, agro-processing (cassava starch, fruits and cocoa by-products). But evidence from around the world suggests that all countries which are industrialized are mostly developed as well and so for Ghana as a nation to develop than the industrial sector needs to be the leading sector. The main reason behind this limited industrial development is the huge initial capital investment that is required for establishing an industry (National Private Sector Medium Term Development Strategy, 2003).

This factor tends to unknowingly eliminate the SME's in the industrial development drive. Therefore it is mostly multinationals through foreign direct investments that are able to take up industrial development in the country. With all the positive effects this is having on the economy, there are some very important negative effects that need to be mentioned. One is the low level of human employment that is associated with it as modern equipments are mostly used in production. Also given the low literacy rate in the country, very few people are employable in this instance.

### **2.5.4 Orientation to Domestic Markets**

Exports of primary products aside, Ghanaian firms (except for large ones) tend to focus on domestic markets. Annual exports are less than US\$150 per capita, compared with

US\$1,000 per capita for Mauritius, for example. This is because of their inability to source for long term credit for expansion and so they are forced to put emphasis on the domestic market which given the low purchasing power of the people, is low (National Private Sector Medium Term Development Strategy, 2003).

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#### 2.5.5 Low Levels of Productivity, Investment, Technology and Innovation

The domestic orientation of many firms in Ghana means that they have only limited exposure to competition. This in turn means that there is little incentive to invest and increase levels of productivity – through technology or innovation for example. Firms in Mauritius for example are on average 4 times more efficient than even large firms in Ghana (despite much lower wage rates in Ghana).

#### 2.5.6 Preponderance of Informal Micro and Small Enterprises

In common with most developing economies, Ghana has many more small firms than large ones. About 70 per cent of enterprises are micro (i.e. employ less than 5 people). It is a striking fact that about half of Ghana's households are engaged in non-farm productive enterprises. When farm productive enterprises (including small scale agro-processing activities) are taken into account, it is clear that the vast majority of households in Ghana are engaged in some form of private sector activity, albeit on a very small scale. Growth can come from small firms, but a key issue in Ghana is that many Micro Small and Medium Scale Enterprises (MSMEs) operate, at least in part, in the informal sector. It is estimated that nearly 40 per cent of Ghana's GNI is attributable to informal sector activity. This compares with an average of 18 per cent in European OECD countries (Asomaning –Bimpong, 2005).

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A typical business operating in the informal sector in Ghana will be operating extra legally in that it will not be registered, will not have title to land or access to other property rights that can be used as collateral, and will not have a bank account. Informal or semi-informal status has disadvantages. From the State's point of view it is very likely that such enterprises are paying less tax than they should (although the same claim may be made for formal sector firms). From the point of view of the enterprise – lack of formalization can be a disadvantage particularly in relation to lack of property rights. The Government of Ghana's policy is to remove barriers to formalisation and to address constraints that have a particular impact on informal enterprises. Government will carefully review the extent to which it is appropriate to bring informal operators into the tax system, in the light of poverty reduction issues (National Private Sector Medium Term Development Strategy, 2003).

#### **2.5.7 Poorly Functioning Markets**

The market system in Ghana is currently mal-functioning. International and regional competitiveness benchmarking makes it clear that Ghana has a long way to go to develop the kind of markets in which the small and medium scale enterprise can thrive and become competitive. Key systemic issues which have been identified include - weaknesses in the financial sector; underdeveloped infrastructure including utility connections and services; weak public service including problems with corruption and unpredictable and uncertain laws and policies; inefficient customs clearance; weak tax administration; poor systems for business registration; limited access to timely and effective commercial dispute resolution; and limited access to land due to problems with property titling (Aryeetey et al, 2000).

Most of the constraints on the efficient operations of markets in Ghana are caused by Government. They are due either to poor service, or to the imposition of undue costs on the small and medium scale enterprises. Weak, inefficient administration by the public service translates into time, money, risk and inefficiency for individual businesses. This in turn affects Ghana's competitiveness in global and regional markets (Aryeetey et al, 2000).

## **2.6 Contribution of the SME's to the Development of Ghana**

It is a statistical fact that the Small and Medium Scale enterprise in Ghana plays an important role in the socio-economic development of the country. The Private Sector of Ghana employs the greatest number of people in the country. For instance the agricultural sector alone employs more than half of the economically active Ghanaians. Although the proportion of people employed by the agricultural sector declined between 1984-2000 from 61.1 per cent to 50.7 per cent, it is still high and significant. Also, the industrial share in total employment increased from 12.8 per cent in 1984 to 16.3 per cent in 2000 while the service sector share of employment also increased from 26.1 per cent in 1984 to 33 per cent in 2000. Of employment generated by the private sector, formal private sector employs 6.9 per cent, whilst informal sector employs 93.1 per cent (PEF, 2006).

The private sector contributes about 40 per cent of country's GNP and accounts for about 22 per cent of real Gross Domestic Products (GDP)

## **2.7 Potentials for Growth**

Small and Medium Scale Enterprises have been one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low income countries. These enterprises have been recognized as the engines through which the

growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries. It is estimated that the private sector, more especially SMEs employ 22 per cent of the adult population in developing countries (Daniels, 1994; Daniels & Ngwira, 1992; Daniels & Fisseha, 1992; Fisseha, 1992).

However, some authors have contended that the job creating impact of the small and medium scale enterprises is a statistical flaw as it does not take into account offsetting factors that makes the net impact more modest (Biggs, Grindle & Snodgrass, 1988). It is argued that even though they result in increases in employment, they are not always associated with increases in productivity. Nevertheless, the important role performed by these enterprises cannot be overlooked.

Small and medium scale firms have advantages over their large-scale competitors. They are able to adapt more easily to market conditions given their broadly skilled technologies. The choice of private sector within the industrial sector is based on the following propositions: the public sector has not been an engine of growth and a good provider of employment. This is because they tend to require the services of highly trained, educated and skilled labour which in most developing countries are scarce. The private sector which in Ghana is dominated by SMEs, on the other hand mobilize funds which otherwise would have been idle mostly from family members, friends and micro finance institutions. They have also been recognized as seed-bed for indigenous entrepreneurship because it provides a platform for local managerial expertise to be showed.

Due to their flexible nature, the private sector is able to withstand adverse economic

conditions. They are more labour intensive and therefore, have lower capital costs associated with job creation (Anheier & Seibel, 1987). They perform useful roles in ensuring income stability, growth and employment. Since SMEs are labour intensive, they are more likely to succeed in smaller urban centres and rural areas, where they can contribute to the more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. And given that 60 per cent of Ghanaians are residing in the rural areas, the importance of the SME sector can not be over emphasized.

## **2.8 Challenges Facing the Small and Medium Scale enterprises in Ghana**

There are limited managerial and technical skills within the small and medium scale enterprises. Managers of most SMEs more often than not lack training in management and technical skills and this affects their performance. There is a general consensus that there is a need for training on various aspects of their respective businesses. Lack of managerial know-how places significant constraints on private sector development. Even though they tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, prevalent in most countries in Sub Saharan Africa, has a magnified impact on private sector development. The lack of support services or their relatively higher unit cost hamper SME efforts to improve their management because consulting firms often are not equipped with appropriate cost effective management solutions. Furthermore, absence of information and/or time to take advantage of existing services results in weak demand for them. In Ghana, a lot has actually been achieved in this regard, though there is still room for improvement (Aryeetey et al, 1994).

Competition on the world market demands from exporters greater attention to quality, price, productivity and reliability. These are potential non-tariff barriers for the entry into

the global market. Products of firms in Ghana, especially those in the informal sector have not been able to compete with those from outside the country in terms of quality, price, and productivity among others due to inefficient structures responsible for ensuring quality standards in addition to firms' internal weaknesses. For example, sanitary and phytosanitary Regulations have been used by governments to block Ghanaian exports of fish and palm oil to Europe. The Ghana Standards Board (GSB), which is responsible for this is located in a few cities and greatly overwhelmed by local challenges (ISSER, 2000).

Entrepreneurs complained that their electricity bills have been increased considerably and they think that the rates are too high. An entrepreneur gave an example that his bill was raised from ₵7000 to ₵90,000. They claim that the increases in electricity bills have been very sharp and the electricity company has not bothered to offer any explanations to them, even when they have asked what had accounted for the increases (AGI, 2006: 34).

In Ghana, land issues remain a major constraint on private sector development. Some of the related problems are; cumbersome and fraudulent land acquisition procedures, poor enforcement of land rights, inadequate system of dispute resolution for land rights and inefficiencies in issuing development and building permits by the Town and Country Planning Department among others. The GoG is implementing the National Land Policy through The Land Administration Project (LAP) to modernise the system and procedures for registering ownership and securing interest in land to enhance the growth of rural lending and micro credit as well as for the banking systems. Key issues under consideration are; security of tenure in rental markets, security in title to land in peri-urban areas, strengthening access to justice in relation to land disputes for poor people whose interest may be threatened by the land reform process and innovative approaches to enhancing access to land titles (Aryeetey et al, 1994).

The role of land policy in relation to growth and poverty reduction has recently been highlighted in a major international report which concludes that strengthening poor people's land rights and easing barriers to land transactions can result in a wide range of Social and economic benefits including empowerment of women and marginalized groups, and increased private investment (Ministry of Lands and Forestry, 1999). Land for entrepreneurial activities is difficult to acquire especially in the urban areas either because owners are unwilling to release land or rentals or leases are expensive. In some cases, especially in the case of farmers, land is leased on crop sharing bases. This is a system where after harvest of the crop, the farmer and the landowner share the produce into two equal halves. This becomes the payment for the land. Land is vested in individuals or families and this normally generates lots of litigation as ownership determination becomes a problem and affects negatively the development of enterprise and industry (National Private Sector Medium Term Development Strategy 2004-2008).

One difficulty that faces Private Enterprises is the inadequate of both local and foreign markets for their produce. The enterprises are unable to produce in large volumes and therefore are confined to particular markets which place a limitation on their sales and subsequent production (Aryeetey et al, 1994).

Poor packaging of products is one of the problems affecting most SME's. Due to the fact that packaging is poor or non-existent, they are unable to penetrate some markets in the in and outside their locations (AGI, 2006).

The private sector in Ghana is unable to benefit from Foreign Direct Investments. FDIs have direct benefits for a host country: financing new firms or expansion of existing ones,

creating jobs, and generating tax revenue. FDI's also have indirect benefits for domestic firms – spillovers – from accelerated transfer of superior technology, turnover of skilled labour, and increased export opportunities.

There are significant infrastructure constraints on private sector development in Ghana. There are inadequate and inefficient storage facilities at the ports for exporters and transshipment goods; a number of feeder roads and some major roads are in unsatisfactory condition; and energy services remain unreliable. In view of the impact that these infrastructure sectors has on business in Ghana, it is vital that the private sector is mainstreamed in the implementation, monitoring and evaluation of the sector strategies. The infrastructure programmes of the country are therefore being reviewed to ensure adequate opportunities exist for private sector engagement in design, implementation and monitoring of the infrastructure sector.

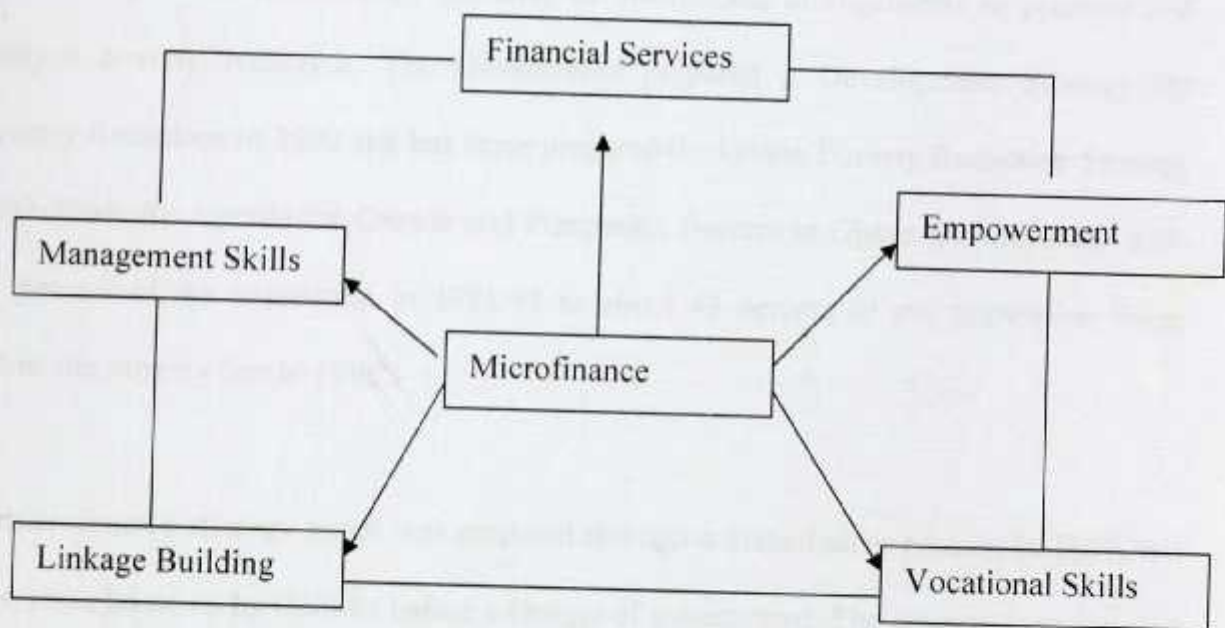
The need to reduce both the burden imposed on the private sector by inefficient and inappropriate administrative systems and to improve service delivery to the private sector can not be over emphasized. This is due to the fact that almost all the constraints on the private sector development identified in almost all the private sector surveys and analysis have at their heart governments administrative system and the performance of the public servants who administer it; both at the central and local government levels. Two particular issues related to this system are corruption and the business licensing regime- both the number and complexity of the system of fees, fines and business operating permits (licences). The Public Sector Reform (PSR) process therefore presents an opportunity to ensure that enhancing the enabling environment for private sector development is one of the core themes of the process (Ministry of Public Sector Reforms, 2004).

## 2.9 The Concept of Microfinance Institutions

Microfinance development has emerged as a major strategy to combat the twin issues of poverty and unemployment that continue to pose a major threat to the polity and economy of both the developed and developing countries. Governments of different countries have adopted several approaches and strategies to combat poverty and unemployment.

Microfinance has gained a lot of grounds in many developing countries as an important financial intermediary through which low income earners gain access to financial services. It is regarded as a critical factor in poverty alleviation efforts as the promotion of entrepreneurship through small-scale businesses as it enhances the livelihoods of beneficiaries.

Figure 2.2 Concept of Microfinance



Source: Author, 2007.

From figure 2.2, the basic services required of microfinance institutions are in two fold.

- Financial services
- Non-financial service (education)

The financial services include the provision of credit and an enabling environment for savings. The non-financial services include capacity building through the provision of managerial skills and education on social issue to empower entrepreneurs, provision of vocational skills which is believe to position the entrepreneur well to take advantage of business opportunities, linkage building through the formation of groups and strengthening existing groups.

Ghana has focussed on poverty reduction as the core of its development strategy. This approach was galvanized in 1995 with launching of the first version of Ghana-Growth and Poverty Reduction Strategy initiative of institutional arrangements to promote and analyze poverty reduction. The Government prepared a Development Strategy for Poverty Reduction in 2000 and has since prepared the Ghana Poverty Reduction Strategy 2002-2004: An Agenda for Growth and Prosperity. Poverty in Ghana has decreased from 51 percent of the population in 1991-92 to about 43 percent of the population living below the poverty line in 1998.

A microfinance strategy paper was prepared through a consultative process in 2000, but was never taken up by Cabinet before a change of government. The poverty focus has led the new regime to expand subsidized credit programmes that are not consistent with the best practices in microfinance and tend to undermine development of the industry.

In Ghana microfinance is directed at the productive poor or the economically active poor, that is, those who operate or have the potential to participate in income generating activities. The practice has been offering services to those who are already in business. Microfinance in Ghana provides two major financial services; mobilizing savings deposits and credit allocation. A third function which is thought to be performed by very few of them includes other business promotion services which includes training in business management, book-keeping and marketing skills.

### **2.10 Definition of Microfinance**

According to Steel et al (July, 2004), microfinance refers to small financial transactions with low-income households and micro and small and medium scale enterprises, using non-standard methodologies such as character-based lending, group guarantees, and short-term repeat loans.

Others describe microfinance as an enabling, empowering, and bottom-up tool to poverty reduction that has provided considerable economic and non-economic positive externalities to low-income households especially in developing countries. It is being hailed as a sustainable tool to combat poverty and is increasingly becoming a tool to exercise developmental priorities for governments in developing countries.

Opponents to this argue that there has been a gradual realization that microfinance alone is not enough. They contend that microfinance is not a replacement of jobs that are not there. They are of the view that if the main objective of microfinance is poverty reduction then it requires a holistic and in-depth understanding of the interplay between economic, social, and the cultural extracts of the developmental process.

For the purpose of this study microfinance is defined as the provision of financial services, which includes savings mobilization, allocation of credit, and the provision of other services such as group formation, education in social issues to empower beneficiaries and general business advisory services, to the economically active poor to transform their lives holistically.

### **2.11 Core Activities of Savings and Loans Institutions**

A licensed Savings and Loans core business involves savings mobilization and provision of credit. The deposit mobilization could be from the entire public or from members, depending on the type of license issued to that particular institution. Savings services may be either forced or voluntary in nature. Forced savings are fixed amounts required from borrowers as a commitment to joint or individual loan security.

Experience has shown that no analysis is carried out to find out how much an entrepreneur should contribute. Since the amount to be contributed is directly linked to the loan amount that an individual or group seek, it matters not to the entrepreneur how the amount is paid and will do all that they can to pay in order to take a large loan size. The savings may also be used for repayment of loan contracted.

Voluntary savings are supposed to be flexible amounts paid by beneficiaries to enable them accumulate funds for significant expenses such as medical costs and schools fees, and withdraw them when needed. Practice has rather shown that such amounts which are expected to be flexible are indeed not; rather a fixed amount is usually added to the repayment instalment of clients. Withdrawal of such monies is very difficult when needed. This presupposes that there is not much education on the benefits that could be derived from savings.

## 2.12 The Role of Government in Increasing Access to Finance to SME's in Ghana

The promotion and growth of Small and Medium Scale enterprises in Ghana was not high on the agenda of growth of government during the 1960s. The then President of the Republic, Dr. Nkrumah was socialist-biased and emphasized in his modernization efforts on state participation but did not encourage the domestic indigenous sector. The local entrepreneurship was seen as a potential political threat. There was lack of a coherent and comprehensive policy framework for SME development.

The un-sustainability of the "large scale sector" policy stance was clearly demonstrated by the abysmal performance of both public enterprises in the late 1970s. It was the poor performance of the economy in the late 1970s and early 1980s which brought about economic reforms culminating in the Economic Recovery and Structural Adjustment Programmes.

Rising inflation and falling real wages also forced many formal sector employees into secondary self-employment in an attempt to earn a decent income. This brought about a policy shift in favour of small and medium scale enterprises in the early 1980s. According to Steel and Webster (1991), small and medium scale enterprises and self employment grew by 2.9 percent per annum (ten times as many jobs as large scale employment).

The shift in policy in favour of small and medium scale enterprises was basically meant for the formal small and medium scale enterprises to the neglect of the informal sector. The effort of government to promote small and medium scale enterprises led to the following technical and institutional support for the sector.

In an attempt to strengthen the small and medium scale enterprises the government

undertook a lot of measures in 1992. Prominent among them was the setting up of the Private Sector Advisory Group and the abolition of Manufacturing Act of 1971 (Act 356) which led to the repeal of a number of price control laws.

Another remarkable effort of government was programmes aimed at providing skills training under master craftsmen in institutions such as National Vocation and Training Institute and Opportunity Industrialization Center, and the setting up of the National Board for Small Scale Industries which is to provide technical support and credit for small scale enterprises.

## CHAPTER THREE - METHODOLOGY

### 3.1 INTRODUCTION.

This chapter covers the methodology of the study

### 3.2 Target Population

The target population for the survey was Savings and Loans Institutions in Kumasi and their Small and Medium Scale Enterprises beneficiaries. Four Savings and Loans Companies were randomly selected based on their responsiveness to the researcher and their willingness to answer the questionnaire used for the study. Beneficiaries of these institutions who operated small and medium scale enterprises were selected.

Table 3.1 Lists of Savings and Loans Institutions in Kumasi

<b>Savings and Loans Institutions</b>
First Allied Savings and Loans Limited
Garden City Savings and Loans Ltd
Union Savings and Loans Limited
Women's World Banking
Pacific Savings and Loans Limited
Opportunity International Limited
Richgold Savings and Loans Limited

### 3.3 Sample Determination

The sample size of the beneficiaries was taken from a population of 45,786. The sample size determination for both the savings and loans companies and the beneficiaries is as shown below;

$$n = \frac{N}{1 + N(\alpha)^2}$$

n = sample size      N = population       $\alpha$  = margin of error;  $\{\alpha = 0.1\}$

The institutions used are First Allied Savings and Loans Limited, Women's World Banking, Union Savings and Loans Limited and Garden City Savings and Loans Limited. Using the above formula one hundred (100) beneficiaries were randomly selected for the study. The sample size from each institution was determined by multiplying the proportion of the population of each institution to the total population by the total sample size for the study.

Table 3.2 Sample Size Determinations

Savings and Loans Institutions	Population (N)	Proportion (percent) (B)
First Allied Savings and Loans Limited	24266	53
Garden City Savings and Loans Limited	14652	32
Union Savings and Loans Limited	3205	7
Women's World Banking	3663	8
<b>Total</b>	<b>45,786</b>	<b>100</b>

Source: Field Survey, 2007.

### **3.4 Data for the Survey**

Primary data for the survey was collected from two sources. These were the financing institutions who were offering the financial services and education, and the beneficiaries of these services who were operating small and medium scale enterprises. Two sets of interview schedules were used in order to achieve the objectives of the survey. The first interview schedule was administered to four (4) Savings and Loans Institutions. The import of the schedule was to ascertain the services being offered to the clientele, the institutional capacity as a microfinance institution and how they are meeting the needs of their clients. In addition, it was to find out how their operations were being affected by regulations and requirements of the Bank of Ghana.

The second interview schedule was administered to 100 entrepreneurs of small and medium scale enterprises who were clienteles to the Savings and Loans Institutions. The interview sought to find out their pattern of savings and its relation to loan amount, the services they were seeking from their respective Savings and Loans institution and how relevant the Business Advisory Services were to them vis-à-vis their capacity to utilize the loans. It was also to find out the problems they faced in doing business with the institutions.

Secondary data was obtained from Ghana Association of Microfinance Institutions, Ghana Statistical Services, Bank of Ghana and National Board for Small Scale Industries.

### **3.5 Analytical Tool**

The case study approach was used to carry out the study. This is because it will enable the researcher to study the pattern of clients' savings over time with the selected institutions which have operated over a considerable number of years in Kumasi. Simple charts and frequency tables were also employed in the analysis of the work.

#### 4.1 Introduction

This chapter captures the analysis and discussion of the data that was gathered from the field. It gives a general analysis of data from all four institutions that were selected for the study.

From table 4.1, it could be realized that the vision statements of all the institutions, with the exception of Union Savings and Loans, are ensuring the provision of financial service to small and medium scale enterprises. Women World Banking is the only institution that emphasized on building the capacity of its customers especially women.

The institutions primarily exist to provide financial to small and medium scale enterprises. Most importantly their focus is to make credit available to these enterprises. GCSL happens to have a wider coverage in Kumasi with four branches, followed by FASL with three branches, USL with two branches and WWBG with only a branch in Kumasi. Nonetheless FASL has more clients than all the others in Kumasi.

Table 4.1 Demographic Matrix of the Savings and Loans Companies in Kumasi

INSTITUTION ATTRIBUTE	GARDEN CITY SAVINGS AND LOANS (GCSL)	FIRST ALLIED SAVINGS AND LOANS LIMITED (FASL)	UNION SAVINGS AND LOANS LIMITED (USL)	WOMEN WORLD BANKING SAVINGS AND LOANS LIMITED (WWBG)
Establishment	1996	1997	1996	1983
Vision	To bridge the credit-gap between small and medium scale enterprises by helping to bring banking to the doorstep of its customers	To create an excellent institution, a leader in the provision of quality services to micro and small enterprises	N/A	To build assets of low income women, participation and power, and build a financial systems that work for the majority
Mission	<ol style="list-style-type: none"> <li>To provide a life-line for SMEs by making microfinance loans and other credit facilities available</li> <li>To be a leading Savings and Loans institution in Ghana</li> </ol>	To offer continuous access, efficient, innovative and responsive financial services to micro and small scale entrepreneurs for the mutual benefit of all stakeholders	To become the leading provider of best financial services to micro and small businesses and households, helping to create high level of wealth for its customers	To integrate more women into the economy of Ghana by providing credit, savings, training, and technical services to women in micro and small enterprises
Objective	<ol style="list-style-type: none"> <li>To mobilize savings and grant loans to SMEs and other customers</li> <li>To embark on daily susu mobilization to on-lend to the productive sector</li> </ol>	N/A	N/A	To back millions of low income women as entrepreneurs, managers of household economies and as change agents in their communities
Branches	4 in Kumasi	3 in Kumasi, 1 in Accra	2 in Kumasi	7 nationwide (1 branch in Kumasi)

Source: Field Survey, 2008.

Table 4.2 Operational features of Savings and Loans

	<b>GCSL</b>	<b>WWBG</b>	<b>FASL</b>	<b>USL</b>
Products Available to SMEs	Savings; Term Deposit; Credit facility; Current account	Savings; Business advisory services; Credit facility; term deposit; Current account	Savings; Credit facility; Business advisory services; Term deposit; Current account	Savings; Credit facility; Term deposit; Current account
Credit delivery methodology	Individuals	Groups and Individuals	Groups	Individuals
Mode of Repayment	Daily on the field	Daily on the field and at the office	Daily, Weekly, Bi-weekly; Monthly on field	Daily
Form of Security	Savings	Savings and group guarantee	Group guarantee and savings	Savings

Source: Field Survey, 2007.

Data from the table above indicates that the products offered by the institutions do not differ much from one another except in the credit delivery methodology and the mode of repayment. All the institutions use savings of clients as a form of security both for individual and group loan methodology and group guarantee for group loans where members are liable to each other for non-payment of loan.

## 4.2 Demographic Characteristics of Beneficiaries

Table 4.3 Sex of Respondents

	<b>FEMALE</b>	<b>MALE</b>	<b>TOTAL</b>
FASL	37	16	<b>53</b>
GCSL	20	12	<b>32</b>
WWBG	8	-	<b>8</b>
USL	5	2	<b>7</b>
<b>Total</b>	<b>70</b>	<b>30</b>	<b>100</b>

Source: Field Survey, 2008.

From table 4.3, it could be realized that 70 percent of respondents are females. This goes to stress the commitment of these Savings and Loans Institutions to enhance the economic status of women who are considered to be among the vulnerable and the excluded. There is also the belief that women are able to turnover any smaller amount in a variety of businesses than their male counterparts. Moreover there is the notion among Savings and Loans Institutions that women tend to pay back loans given to them on time than men though this has not been proven scientifically.

Table 4.4 Household Size of Respondents

HOUSEHOLD SIZE	PERCENTAGE
1	6
2	20
3	19
4	18
5	18
6	11
7	6
8	1
9+	1
<b>Total</b>	<b>100</b>

Source: Field Survey, 2008.

Table 4.4 indicates the number of household members. The average household size is 4.08 which is below an average of 5.2 for the Kumasi Metropolis.

Table 4.5 Educational Level of Respondents

LEVEL	PERCENTAGE
None	15
Middle School	12
Basic/Junior High	19
Senior High	39
Post Senior High	10
Tertiary	5
<b>Total</b>	<b>100</b>

Source: Field Survey, 2008.

From the table 4.5 it could be realized that about 31 percent of the respondents have had some formal education that is expected to provide some basic knowledge to help them manage their businesses. 15 percent of respondents have never gone to school. The other 44 percent have passed through senior school and therefore are expected to manage their businesses well.

### 4.3 Type of Enterprise

Table 4.6 type of Enterprise of Respondents

TYPE OF ENTERPRISE	PERCENTAGE
Trading/Commerce	92
Manufacturing/Production	8
<b>Total</b>	<b>100</b>

Source: Field Survey, 2008.

From table 4.6, it is not surprising that 92 percent of the respondents were engaged in commerce or trading with only 8 percent who are engaged in production. Example of trading activities included; agro-chemicals, provision shops, pharmaceuticals, clothing dealers etc. The trading or commerce sector is the most lucrative to savings and loans companies, especially Garden City Savings and Loans which takes all repayment and savings on daily basis. Thus the savings and loans companies are very sure that they can pounce on daily sales as loan repayment or savings. Through this risk of losing their monies or experiencing default is eliminated.

As pointed out in chapter 2, opponents to Savings and Loans argued therefore that microfinance can not cater for jobs that are not there. Thus by financing mostly trading

activities, which may not have any employment generation potential, then the employment that microfinance expected to generate is an illusion. Sustainability of such enterprises is even questionable since most enterprises go back to square one as they cannot sustain themselves in any way unless another loan is advanced to the enterprise. Thus the borrowing – repayment cycle of small and medium scale enterprise in the informal sector continues.

#### 4.4 Status of the Enterprise

Out of the 100 respondents surveyed, only seven of them had registered their enterprises and were complying with all statutory responsibilities. The rest had not registered their enterprises. Thus only 7 percent were operating in the formal sector whilst the rest were in the informal sector.

Table 4.7 Status of Enterprises of Respondents

STATUS	PERCENTAGE
Registered	7
Non-registered	93
<b>Total</b>	<b>100</b>

Source: Field Survey, 2008.

#### 4.5 Type of Business location

From table 4.8, it could be observed that those who operate in sandcrete and metal containers present about 66 percent. This may be due to the fact that out of the many locations recorded the two, metal container and sandcrete shops offer the best protection of their wares than the other locations. The third most widely used is the use of wooden table structure.

Table 4.8 Business Location

	GCSL	FASL	USL	WWBG	TOTAL
Open space at market	5	8	2	-	15
Sandcrete shop	20	21	4	6	51
Wooden table structure	3	8	-	-	11
Wooden kiosk	2	5	-	-	7
Metal container	2	10	1	2	15
Open place in house	-	1	-	-	1

Source: Field Survey, 2008.

#### 4.6 Services Received from Savings and Loans Institutions

It was realized from the survey that out of the 100 respondents interviewed, 47 of them were able to identify that they were receiving saving services from the institutions. The service which was accessed by all respondents was credit services. SMEs see saving as mandatory or a condition to be met before one gets a loan from a Savings and Loans institution.

With the poor savings mobilization in Ghana as well as the Sub-Saharan Africa, it is expected that people will be educated well enough to appreciate the need to save rather than using credit as "bait" for people to save. Thus the idea of saving to accumulate capital and other important benefits that could be derived from it is not a bother to practitioners of Savings and Loans.

Only 29 respondents said that they receive business advice training. Upon an in-depth enquiry as to the type of advice it was realized that clients are counselled to ensure prompt payment of loans so as to obtain repeat loans since poor repayment disqualifies one from taking another loan from the institution. There were no other financial or non-financial services that were made available to the clients. This was confirmed by the institutions that part from the saving and credit services no other services are rendered to the clients.

Table 4.9 Services Received

	GCSL	FASL	USL	WWBG	TOTAL
Saving	15	25	3	4	47
Credit	32	53	7	8	100
Business Advice	5	20	-	4	29

Source: Field Survey, 2008.

#### 4.7 Savings Pattern by Respondents

As pointed out earlier the urge to save is motivated by the credit that will be advanced to the saver. It is in itself not a bad idea but the survey indicated that saving by clients to these institutions was mandatory.

Nonetheless most of them have been saving with the traditional susu people who do not promise them any loan but it may be granted. In such instances net savings is always zero as they end up taking everything either before or just after finishing a cycle. Savings was made daily, weekly, bi-weekly or monthly.

Table 4.10 Frequency of Savings before Loan

FREQUENCY OF SAVING	FIRST LOAN	SECOND LOAN	THIRD LOAN	FOURTH LOAN
Daily	50	19	6	1
Weekly	32	15	2	-
Bi-weekly	4	6	-	-
Monthly	-	7	-	-
Bulk Saving	5	13	5	-

Source: Field Survey, 2008.

It could be realized from the table 4.10 that higher number of the respondents saved daily or weekly before their first and second loan although the number decreases as you move from cycle to cycle. In the case of daily saving, GCSL accounted for 50, 19, 6 and 1 for first, second, third and fourth loan cycle respectively. This is in consonance with their methodology for credit delivery. What is of importance is the question of whether their clients were saving from their profit vis-à-vis the amounts that were being saved daily.

This was a common phenomenon among all the institutions. The only explanation given was the non-availability of data that could be used and the unwillingness of the clients to divulge accurate and precise information about their business activities.

The critical issue relating to the pattern of savings is when a client makes a bulk payment representing the required savings based on the loan required. Thus the idea of inculcating the habit of saving in the clients is defeated. This normally happens after the first cycle although few of them made bulk savings before their first loan. Another observation that was unravelled is that though credit is based on amount of savings, there were ceilings as

to the maximum amount of loan that can be granted. This therefore put a limitation on people who have the ability to save more.

#### 4.8 Determination of Savings Amount

From the survey 85 percent of respondents said they determined the amount to save themselves whilst 15 percent said it was determined by a representative of the institution. The higher number who determined the amount on their own would have done so based on their cashflow analysis but surprisingly 80 of the respondents said that the amounts they were saving was principally based on the credit they needed.

Table 4.11 Decision on Amount to Save

	PERCENTAGE
Client	85
Savings and Loans Representative	15
<b>Total</b>	<b>100</b>

Source: Field Survey, 2008.

Another revelation was that where savings were determined by a representative of the institution, it was only communicated to clients based on the loan amount they desire. Thus, as pointed out earlier, no analysis whatsoever is carried out by the Savings and Loans Institutions.

#### 4.9 Correlation between savings and Amount of Loan Granted

The amount of loan that could be obtained depended on the credit policies of a particular

institution. In all cases it was supposed to be a multiple of one's savings. For FASL, loan amount was supposed to be four times the savings whereas GCSL, USL and WWBG is two times the savings. The real situation on the ground is as shown by tables 4.12 and 4.13.

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Table 4.13 Average Loans and Savings

	GCSL		FASL		USL		WWBG	
	Mean	Mean	Mean	Mean	Mean	Mean	Mean	Mean
	Savings GH¢	Loan GH¢	Savings GH¢	Loan GH¢	Savings GH¢	Loan GH¢	Savings GH¢	Loan GH¢
1st Cycle	435.50	890	77.32	408.49	55	110	65	130
2nd Cycle	693.75	1,425	165.92	708.75	95	190	80	160
3rd Cycle	900	1,817.14	225	482.86	-	-	-	-

Source: Field Survey, 2008.

The survey data gave a different relationship with reference to the maximum loan amount that one can access comparing it to institutional policy on lending. According to the lending policy of the institution, loan amount is supposed to be two times the savings.

From the correlation coefficient for GCSL, as well as for the other cycles, it could be seen that there is actually a strong positive linear relationship between maximum loan amount and amount of savings as shown by a correlation coefficient,  $r = 0.98$ . Moreover, 95.8

percent of the variation in the amount of loan that is granted to a client is explained by the savings that clients as indicated by a coefficient of determination,  $r^2 = 0.9575$ .

The average loan sizes for 1st, 2nd, and 3rd cycle were 890, 1,425 and 1,817.14 Ghana cedis as against mean savings of 435.50, 693.75 and 900 Ghana cedis.

With respect to FASL, the correlation coefficient from the entire data presented a rather low coefficient of determination,  $r^2 = 0.6843$ . this means that about 68.43 percent of the variation in loan amount is explained by savings. Further, there is slightly strong positive linear relationship between loan amount and savings given by  $r = 0.827$ .

From the survey data, the mean loan amount for 1st, 2nd, and 3rd cycles were 408.50, 708.75 and 842.85 New Ghana Cedis as against the mean savings of 77.32, 165.93 and 225 New Ghana Cedis respectively for FASL.

The survey data confirmed the loan amounts in accordance to the lending policies of WWBG and USL. Average first loan was 110 and 130 New Ghana Cedis as against savings of 55 and 65 New Ghana Cedis for USL and WWBG respectively. There may be deviations to this phenomenon.

It was realized that while some are given amounts lesser than what is due them, others are given amounts greater than what is due them based on the amount of savings. This can lead to default. This is because it is assumed that loan amount requested is in accordance with business needs that client save towards.

It therefore suggests that there could be other factors that come into play to determine the loan amount for a client which needs to be considered. The most important is the cashflow of the business as well as that of the household and time of the business cycle. Since there is strong positive relationship between savings and the loan request, it suggests that the economically poor can save. All microcredit schemes, be it government or private should inculcate the habit of savings as a precondition not just opening of accounts as it happens mostly in government microcredit schemes.

#### **4.10 Use of Savings**

Savings was used by the institutions as a form of security or used to repay loan. With the exception of GSCL and USL where a savings account is opened for the client with the contribution before the first loan, the others just use it as security. It was only USL that pays an interest on the savings account of its loan clients. In all cases, subsequent savings after taken a loan is used to repay the loan and any extra is used to add onto the security sum.

A common observation is that clients usually use their savings to settle their loans especially when the outstanding balance of the loan is either equal or less than the savings. Thus net savings at the end of the loan period was normally zero. This may be the reason behind clients making bulk savings of required amount needed as security for a repeat loan.

#### **4.11 Access to Savings**

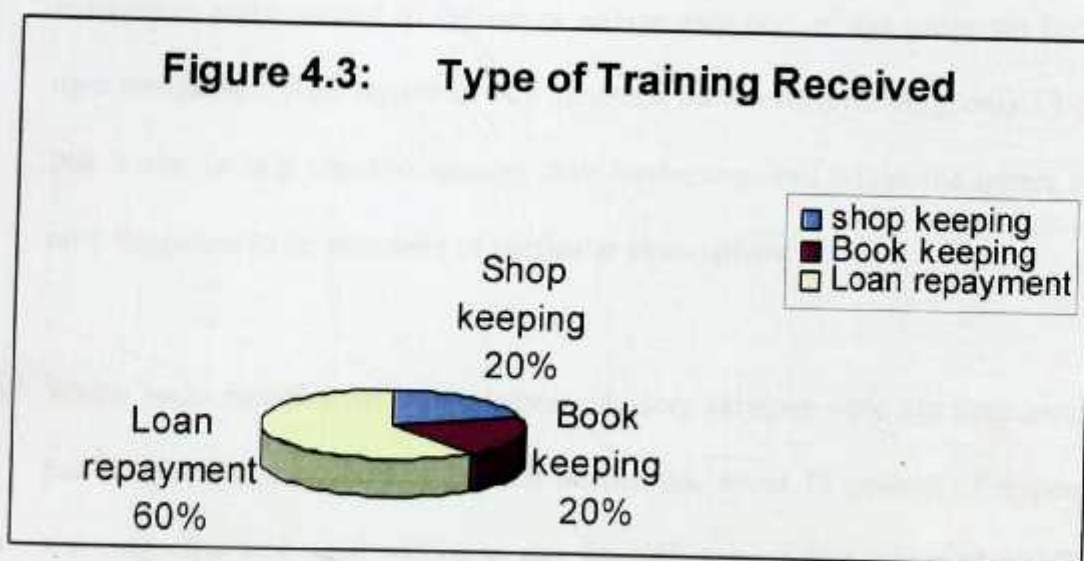
All respondents reported that they do not have access to their savings bc it the required security or more than that. Moreover none of them is aware of any interest paid on their

savings although USL was supposedly paying interest on the savings deposit of its loan clients. Clients can only withdraw when they have finished servicing their loans. It was observed that if a client is no more interested in taking a repeat loan after finishing a particular cycle, he or she discontinues the saving and may request for or withdraw savings so accumulated if it is not used to net off loan if there is an outstanding balance.

#### 4.12 Capacity Building of Entrepreneurs

This is preferably one of the essential tools that is needed by entrepreneurs of small, medium or large enterprises. For those in the large enterprises may have the requisite know-how or can have access to training and business advice. Those at a great disadvantage are entrepreneurs in small and medium scale enterprise and are in the informal sector.

From the survey, 20 respondents reported having received some sort of business advisory training. The training was in areas of book keeping, loan repayment and shop keeping.



Source: Field Survey, 2008.

From figure 4.3 it could be realized that 60 percent of those who reported having received

business advisory training, had the training on loan repayment. It was gathered that this was the focus of the training and clients' orientation. Clients are advised to ensure strict adherence to the terms of the loan concerning repayment. The 20 percent of the 20 who said that they have received training in book-keeping had nothing to substantiate their claim. It was not different for those who had received training in keeping their shop. What matters most to the financing institutions was how they could get their money back without the clients defaulting.

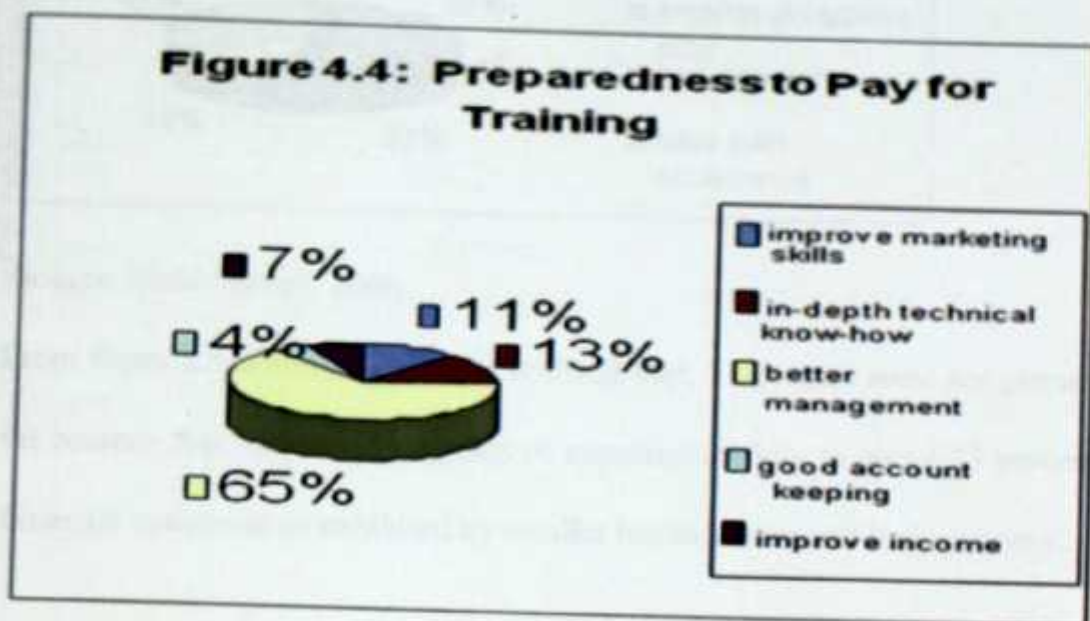
The issue of whether provision of business advisory training is relevant to entrepreneurs of small and medium scale enterprises in the informal sector revealed that only 29 out of the 100 respondents reported as having received training elsewhere. Unfortunately, this was a coincidence because they received the training by participating in association meetings of which they are members. Some of the associations included:

- Tailors and Dressmakers Association
- Traders Association
- Cooperatives

During such meetings, groups such as the Pharmacy Council, GTZ, USAID and individuals were invited to deliver or advice members of the group on how to manage their businesses. With regard to why they took part in such training, only 13 of the 29 said that it was to help them to manage their businesses well whilst the others said that they only happened to be members of particular associations.

Whilst some respondents said business advisory services were not necessarily since they had long years of experience in their businesses, about 73 percent of respondents said it was important and were willing to pay for such service if it was made available to them

by their respective Savings and Loans Institutions. The reasons they gave ranged from better management of business, good account keeping, how to improve business income, improve marketing skills and to have in-depth technical know-how about their businesses.



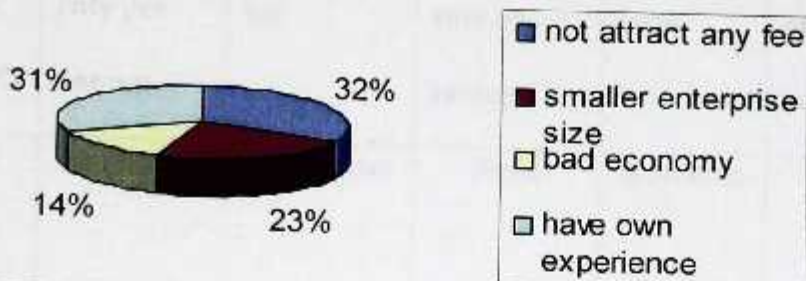
Source: Field Survey, 2008.

Thus many of the respondents are of the view that there is the need for them to manage their businesses well. Mismanagement is one of the biggest problems facing many entrepreneurs in Africa and even high ranking officers of state. It is therefore not strange that better management of business forms 65 percent of the reasons given for their preparedness to pay for business advice training.

Reasons given by 27 percent of the 100 respondents who said they would not pay for such business advice training included:

- Training should be free
- Smaller enterprise size
- Bad economy
- Have own experience.

**Figure 4.5 Reasons for Rejecting Capacity Building**



Source: Field Survey, 2008.

From figure 4.5 above, it could be realized that, 31 percent were not prepared to pay for the reasons that they had had years of experience while to about 23 percent, it is due to financial constraint as exhibited by smaller business size and bad economy.

#### **4.13 Loan Processing**

In all instances, loan processing starts with savings. Prospective loan clients are made to start saving with the institutions for a stipulated time before a loan is granted. After completion, application forms are filled and within 2-3 days loans are granted. Repeat loans may take a maximum of 2 days. Thus loan processing time was considered very short.

#### 4.14 Terms of Loan by Savings and Loans Institutions

SAVINGS AND LOANS INSTITUTION	Interest rate per annum	Processing fee	Interest rate on savings	Loan term	Frequency of repayment	Default charge
FASL	28 percent	2 % of loan	None	6 months	Varied	2 % instalment amount
GACL	30 percent	1 % of loan	6 percent	6 months	Daily	None
USL	28 percent	1 % of loan	6 percent	6 months	Daily	None
WWBG	28 percent	2 % of loan	None	6 months	Daily	None

Source: Field Survey, 2008.

The survey indicated that interest rate cut across all sectors. This favoured the beneficiaries in the commerce or trade sector as against their counterpart in the production sector. This is because of the time lapse that exists between production and marketing, since they usually rely on the revenue of current production for subsequent production such that they are not able to turn over the credit many times as compared to their counterpart in the trading/commerce sector.

The 2 percent default charge according to FASL is to instil repayment discipline in the client so as to avoid default. According to them it is waived when a genuine and substantiated reason(s) established. Though table indicated an interest component on savings by GACL and USL, this was not confirmed by clients who were not aware of any interest paid.

#### **4.15 Perceived Impact of Savings and Loans Operations on Beneficiaries**

According to the survey the effect of their affiliation with their respective institutions has been encouraging. According 68 percent of the respondents reported that the impact of the operations of the Savings and Loans Institution has been very good whilst 32 percent reported that it has been good. The only reason given was the fact that they have been able to secure loans from these institutions which was very difficult or impossible to obtain from the formal banks.

It could be realized that lack of credit seems to be the major constraint facing the entrepreneurs of small and medium scale enterprises in the informal sector in Ghana. Issues that bother on effective management practices, capital accumulation through their own effort, simple book keeping, and a host of others do not seem to be a problem to them. None of the Savings and Loans Institution had assessed the impact of their services on their beneficiaries. This makes it difficult for the Savings and Loans to actually know the needs of their clients and to develop innovative products and services that meet their needs.

#### **4.16 Complaints of Beneficiaries**

The following were the issues raised by clients that needed to be addressed by their respective Savings and Loans Institution. They included:

- Grace Period – According to clients of FASL the one month grace period that they used to enjoy has been strapped. This according to them put a lot of pressure on them since they will have to resume payment the day, a week or month from day of disbursement. For those who pay on daily basis they are not able to turnover the loan well enough.

- **Loan Term** – The six months period that is given to finish loan payment is short and it does not take into consideration the loan amount.
- **Interest on Savings** – interest is not paid on their savings but they pay high interest on the loan given.
- **Loan Size** – According to the clients, the loan amount granted them is small. The issue is that clients think that by obtaining bigger amount their businesses will grow but they forget whether their businesses could meet the repayment.
- **Times Spent at Savings and Loans Institution office** – After the completion of the required savings clients visit the institutions three times on the average and spend between one to three hours each visit. This takes much of their time off their businesses.
- With the exception of GCSL which organizes clients' forum to interact with them, the rest do not have any means of addressing the complaints of their clients.

#### **4.17 Regulatory and Policy Framework of bank of Ghana**

The regulatory measures that were recorded included:

- High secondary reserve
- Collateral security (require lease)

According to the institutions the high secondary reserve does not make enough funds available for lending. The primary and secondary reserves stand at 10 percent and 15 percent respectively of all deposits. This means that 25 percent of all deposits is available for lending and other businesses. The institutions contended that because clients are not able to provide the required documents covering a landed property, they are unable to access amount that their businesses may need.

CHAPTER FIVE - FINANCIAL INSTITUTIONS AND CREDIT

From the above discussion it could be realized that apart from making credit available to clients by these institution very little is being done to actually bring to bear the concept of microfinance. This may perpetuate the borrowing-repayment vicious cycle of entrepreneurs of small and medium scale enterprises in the informal sector. What is of interest to them is that loans given out come in safely and time.

## CHAPTER FIVE - FINDINGS, RECOMMENDATION AND CONCLUSION

### 5.1 Introduction

This chapter discusses the finding from the survey analysis, present recommendations and conclusion of the study.

### 5.2 Findings

From the survey the following findings were made:

**LIBRARY**  
**KWAME NKRUMAH UNIVERSITY OF**  
**SCIENCE AND TECHNOLOGY**  
**KUMASI-GHANA**

- **Credit Need Assessment of Enterprise**

Loan amounts that were granted were only based on the savings made by a client. There were no analyses carried out to determine the credit needs of the business vis-à-vis the repayment capacity of the business.

- **Timing of Loan**

Loan was granted with no regard to business cycle of a particular enterprise. This is due to the contractual agreement that have to be fulfilled on the part of the institution once one completed saving the required amount. Thus loan may be given at times when a particular business is experiencing recession. This may bring a lot of hardship on the clients with respect to loan repayment therefore becoming a disservice to the clients.

- **Human Resource Development Towards Good Management Skills**

Capacity building for clients was not identified with any one Savings and Loans Institution. The so-called training offered was hammering on the prompt payment of loans by clients. Thus the other facets of microfinance that is expected to put the entrepreneurs on a sound footing to effectively run their businesses were missing. In spite

of the willingness of some of the clients to pay for training in business advice and citing the need for proper management skills as been of more importance to them, there seems to be no place for them other than that of their associations they belong. This suggests that the Savings and Loans Institution have not actually identified the needs of their clients. Moreover, the interactions that occur are mainly between the clients and savings mobilizing officers who do not have the requisite technical know-how to render business advisory services to the clients. Furthermore there are no well developed training or modules to carry out such services. There has never been any organized training by an established public institution such as the National Board for Small Scale Industries to educate entrepreneurs in the informal sector.

- **Interest on Savings**

It was clear from the study that respondents did not receive interest on their savings. It is believed that if a Savings and Loans Institution demonstrates the payment of interest on savings, it will encourage its clients not to see their savings only as collateral security but a way of investment that will earn them a return. By this they may save whenever they have excess liquidity.

- **Access to Credit**

The Savings and Loans Institution made loans available to clients which would have been very difficult with the formal financial institutions that may require landed property with correct supporting documents. This enabled clients to have good bargain once they had cash readily available to transact business.

### ▪ **Capital Accumulation**

Surprisingly, many of the clients did not see saving as a service been offered to them by their respective institutions. It was realized that saving was seen as a precondition for credit such that, apart from the first loan, it does not matter how one saves. Most people therefore only make bulk payment which was used as security. The real understanding and benefits of saving was missing as savings was being used as a "bait" for credit.

According to staff of these institutions a client stops saving whenever he or she decides not to continue taking the loan. The clients normally use their savings to settle any outstanding balance in such instance. Thus net savings always very small or zero after finishing a particular loan cycle.

It was also identified that no interest was paid on savings by the institutions. This suggests that whatever loan is given has a component being the savings belonging to the client. Clients therefore end up paying interest on their own savings. This covers as demotivating factor such that they would not want to deposit more in their accounts even if they have the capacity to do so on the assumption that it will be considered as boosting security towards obtaining a repeat loan.

What was significant about the savings was that fact that it was collected on the field at clients' business posts. Thus the service was provided at the doorstep of the clients. This therefore offered them the opportunity to save.

### **5.3 Recommendations**

From the discussions made, the following recommendations are suggested:

- **Education on Savings**

It is suggested that prospective as well as existing clients should be well educated on the importance of savings. Moreover, conscious effort should be made to include in the curricula of schools of all ages, the need to cultivate the habit of savings such that it will be appreciated when such people come of age. There is also the need for a massive public sensitization on the importance of savings.

- **Protection of Deposits**

There is the need for Bank of Ghana to provide enough security for public deposits with deposit mobilizing institutions. BoG must tighten its regulatory framework as well as its requirements for deposit taking institutions so as to restrict the influx of “Savings and Loans Institutions” in the country. This is necessary due to the situation where the public have their deposits stolen by some of the institutions. Such a move will increase the confidence of the public in the institutions that will take their deposits. The Bank of Ghana should also strengthen and empower the association to cater for those that are outside BoG’s control such as NGOs and susu operators.

- **Human Resource Development of Small and Medium Scale Enterprises**

The plans envisaged in the 2007 State of the Nation Address should be brought to bear on entrepreneurs of small and medium scale enterprise. Existing structures providing training especially to the informal sector should be strengthened as well as provide support for non-governmental organizations that specialized in that regard. The government must

come out with a policy to address capacity for the informal sector where SME's abound.

- **Determination of Credit Need of an Enterprise**

It is recommended that loans granted should be based on the cashflow lending methodology. In the case of small and medium enterprise, cashflow method assumes that financial inflow and out of the enterprise is not separated from that of the household as such cashflow of both should be considered in computing loan amount vis-à-vis the repayment capacity. Although this is not a panacea to default but it serves as a guide as to the maximum loan amount that should be granted to an enterprise and the repayment frequency.

- **Grace Period**

It is recommended that Savings and Loans Institutions allow some grace period to enable beneficiaries' turnover the loan for some time before they start repayment. Interest could be charged for that period and spread over the entire loan term.

#### **5.4 Conclusion**

There is evidence that Savings and Loans Institutions are really making credit available to entrepreneurs of small and medium scale enterprises. Prior to this, inadequate credit was a major problem facing the sector. As conceptualized, Savings and Loans Institutions are not to provide only credit but other financial services- to provide investment opportunities to the clientele, and non-financial services such as training in business management- to keep their clientele well informed to take reasonable decisions concerning their businesses.

The payment of interest is very crucial in attracting and if Savings and Loans Institutions are able to show to their clients how their savings are growing it will encourage them not to save for loans. Bank of Ghana should strengthen its monitoring to protect the deposits of savers and as well bring unscrupulous deposit taken institutions to book. This will boost the confidence of the public in deposit taking institutions.

Moreover, policy concerning the small and medium scale enterprises should be counted as a strong power to influence the economy as a whole. There is the need for policy shift towards massive human resource development for entrepreneur's of small and medium scale enterprises sector as envisage in the government three priority areas of development. The overall result of these towards the SME's can help to reduce poverty and improve living standards of the people.

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**APPENDICES**

**APPENDIX I**

**QUESTIONNAIRE FOR BENEFICIARIES**

**TOPIC: ACCESS TO FINANCE BY SMALL AND MEDIUM SCALE  
ENTERPRISES FROM SAVINGS AND LOANS COMPANIES IN THE  
KUMASI METROPOLIS**

**A. PERSONAL DATA**

1. Name of respondent .....
2. Age of respondent .....
3. Sex of respondent      F [ ]      M [ ]
4. Level of Education .....
5. What is the size of your household .....

**B. ENTERPRISE INFORMATION**

6. What type of enterprise are you engaged in? .....
7. Description of Business Location .....
8. Registration Status of your enterprise .....
9. What is the name of the microfinance institution you affiliate with? .....
10. Where did you source finance before seeking assistance from this microfinance institution?  
a.....      b.....      c.....

11. How long have you associated yourself with this microfinance institution?.....

12. What services have you received from them?

a.....b.....

c..... d.....

13. If savings is one of the services, can you provide how often you saved before your loan?

a. First loan ..... b. Second loan .....

c. Third loan ..... d. Other loans (specify).....

14. Who determined the amount to save? a. Myself [ ] b. SAVINGS AND LOANS INSTITUTION representative [ ]

15. How was the amount determined?

a. based on profit [ ] b. based on loan required [ ]

c. other (specify) .....

16. Is the credit you take related to your savings? Yes [ ] No [ ]

17. If yes what are the loan(s) amount vis-à-vis the amount of savings you had in your account at that time.

Loan	Savings

18. How long did you save before your first loan?.....

19. How much savings did you make before your first loan? .....

20. Do you have access to your savings after taking a loan? Yes [ ] No [ ]

21. Are you aware of any interest paid in your savings? Yes [ ] No [ ]

22. If yes, what was/is the rate? .....
23. Have you received any form of business advice training from the SAVINGS AND LOANS INSTITUTION? Yes [ ] No [ ]
24. If yes, what type of training(s) have you received from the institution?
- a. .... b. ....
- c. .... d. ....
25. Did you pay for the training? Yes [ ] No [ ]
26. If yes to question 20, how will you assess the SAVINGS AND LOANS INSTITUTION in terms of providing business advice? a. Very good [ ] b. Good [ ]
- c. Poor [ ] d. Very poor [ ]
27. Have you on your own sought business advice from any other place? Yes [ ] No [ ]
28. If yes how many times? .....
29. Why did you go for the advice?.....
30. Name the firm(s) which gave you the advice.....
31. What type of advice did you receive?
- a. .... b. ....
- c. ....
32. How much did you pay on the average for the advice?.....
- Ask question 30 if answer to question 20 is No*
33. Will you be prepared to pay for such service if it is made available to you by the SAVINGS AND LOANS INSTITUTION?
- Yes [ ] No [ ]
34. If yes why?.....
35. If no why?.....
36. How would you describe the impact of the SAVINGS AND LOANS INSTITUTION

on your business?

Very good [ ]    Good [ ]    Poor [ ]    Very poor [ ]

*Questions 34 – 35 is intended for respondents who have received secondary education or above*

37. Did you receive any training in school concerning good business practices? Yes [ ]  
No [ ]

38. If yes what are the specifics? .....

39. How often do you visit the SAVINGS AND LOANS INSTITUTION before obtaining a loan? .....

40. What is the average time you spend during each visit? .....

41. How often do you repay you current loan? .....

42. How much do you repay for each installment of your loan? .....

43. What is your average sale per day/week/month? .....

44. What is your household expense per month? .....

45. Do have any other source of income apart from your business? Yes [ ] No [ ]

46. If yes please specify.....

47. How much do you receive?.....

48. What will you want change in the operations of the microfinance you associate with?

a.....

b.....

c.....

49. Why do you want them changed? .....

.....

50. How do you want them changed? .....

.....

.....  
*Thank you for your time and the information given. It will be treated confidentially and will only be used for the purpose of the study.*

**APPENDIX II**

**QUESTIONNAIRE FOR MICROFINANCE INSTITUTIONS**

**TOPIC: ACCESS TO FINANCE BY SMALL AND MEDIUM SCALE ENTERPRISES FROM SAVINGS AND LOANS COMPANIES IN THE KUMASI METROPOLIS**

1. Name of respondent.....
2. Position of respondent.....
3. How long have worked with the institutions?.....
4. What is your educational qualification? .....
5. Major courses studied .....
- .....
6. What training have you attended upon resumption of duty?  
.....

**Institutional Information**

7. What services do you offer to your clientele?
  - a. ....
  - b. ....
  - c. ....
  - d. ....

8. Do you have a training manual for training your clients? Yes [ ] No [ ]

9. If no why?.....

10. Do you offer business advisory service for your clients? Yes [ ] No [ ]

11. If yes what are some of the advisory services offered?

a. .... b. ....

c. .... d. ....

12. If no why? .....

13. How is/are Advisor services delivered? .....

.....

**Products Information**

14. What major savings and loans products do you have and what are the features of these products?

Product	Feature	Target Market (Enterprises)	Methodology for Marketing

15. What is the sectoral breakdown of your clientele?

Sector	Number of Clients

16. Have you conducted any survey on the impact assessment of your programme?

Yes [ ] No [ ]

17. If yes what was the general outcome of your survey

.....

18. a. If no, do you think it is necessary to assess the impact of your services? Yes [ ]

No [ ]

b. Why? .....

19. What have been the major complaints of your clients about your services?

a. .... b. ....

c. .... d. ....

20. What steps are taking to address these complaints?

a. .... b. ....

c. .... d. ....

21. How do you assess the needs of your clients? .....

.....

22. What is the flow chart for loan acquisition? (this can be done on a different sheet).

23. Do you have any feedback mechanism? Yes [ ] No [ ]

24. If yes how is this utilized? .....

.....

**Regulatory and Policy Framework**

25. Is your operation to promote SMEs affected by any regulatory measures of Bank of Ghana? Yes [ ] No [ ]

26. If yes what regulatory measure(s)

a. .... b. ....

c. .... d. ....

27. How are these affecting you? .....

.....

28. What do you suggest to the above? .....

.....

.....

29. Are you affected by any Government intervention in pursuant of the Growth and Poverty Reduction Strategy? Yes [ ] No [ ]

30. If yes, which of them?

a. .... b. ....

c. .... d. ....

31. How have any affected your operations?

.....

.....

32. What do you suggest? .....

.....

.....

33. In your own words how will you define microfinance?

.....

.....

*Thank you for your time and the information given.*