THE EFFECT OF MICRO FINANCE INSTITUTIONS ON THE GROWTH OF SMALL AND MEDIUM SCALE ENTERPRISES (SMEs); A CASE STUDY OF SELECTED SMEs IN THE KUMASI METROPOLIS

by

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A Thesis submitted to the Institute of Distance Learning, Kwame Nkrumah University of Science and Technology in partial fulfillment of the requirements for the degree of

COMMONWEALTH EXECUTIVE MASTERS OF BUSINESS ADMINISTRATION

OCTOBER, 2011

DECLARATION

I hereby declare that this submission is my own work towards the Executive Masters of 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 dissertation is dedicated to the loving memory of my late Dad, Daniel Godson Quaye. Your inspiration, encouragement and support in diverse forms would always be remembered and cherished.

It is also dedicated to my lovely wife, Naomi.

ACKNOWLEDGEMENT

The Lord has been faithful in granting me the strength, wisdom, knowledge and the courage needed throughout the period of study.

I wish to show immense appreciation to my supervisor, Mr. Henry Mensah who executed his duties of supervising this work in a passionate, lovely and affable manner.

My deep-heartfelt gratitude goes to my parents and siblings for their support in diverse forms.

To my lovely wife, Naomi, your encouragement is well appreciated.

I wish show appreciation for my good friend and course mate Mr. Romeo Akrasi of the Ghana Revenue Authority for his invaluable contribution in the success of this study.

Finally, a say a big thank you to all who contributed in diverse ways in the success of this study.

God bless you all.

ABSTRACT

This study discusses the effects of Microfinance Institution (MFIs) on the growth of Small and Medium Scale Enterprises (SMEs) in the Kumasi Metropolis. The study examined the detailed profile of SMEs in the Kumasi Metropolis of Ghana, the contribution of MFIs to entrepreneurial growth, the challenges encountered by SMEs in accessing credit and the rate of credit utilization by SMEs. An analysis of the profile of SMEs show that most SMEs are at their Micro stages since they employ less than six people and the sector is hugely dominated by the commerce sub-sector. The research also indicates that MFIs have had a positive effect on the growth of SMEs. Some of the critical contributions of MFIs include; greater access to credit, savings enhancement and provision of business, financial and managerial training. Irrespective of the contributions of MFIs to SMEs, there are challenges that affect their operations of both SMEs and MFIs. The major challenge faced by SMEs is the cumbersome process associated with accessing credit of which collateral security and high interest rate are major setback. The MFIs on the other hand, face some challenges relating to credit misappropriation and non-disclosure of the relevant facts of their businesses. In the final analysis, the research clearly reveals that MFIs have a positive effect on the growth SMEs. In other to enhance a sustained and accelerated growth in the operations of SMEs credits should be client-oriented and not product- oriented. Proper and extensive monitoring activities should be provided for clients who are granted loans.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE

INTRODUCTION

1.1. BACKGROUND OF THE STUDY

Microfinance encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients. (Asiama, 2007)

Indeed, the concept of microfinance is not new in Ghana. There has always been the tradition of people saving and/or taking small loans from individuals and groups within the context of self-help to start businesses or farming ventures.

Over the years, the microfinance sector has thrived and evolved into its current state, thanks to various financial sector policies and programmes undertaken by different governments since independence.

In Ghana, only 5 - 6% of the population is reported to have access to formal banking facilities (Basu et al., 2004). According to the 2000 Population and Housing Census of Ghana, 80% of the working populations are found in the private informal sector. This group is characterized by lack of access to credit, which constrains the development and growth of that sector of the economy. Clearly, access to financial services is imperative for the development of the informal sector and also helps to mop up excess liquidity through savings that can be made available as investment capital for national development. It is known that loans advanced by microfinance institutions are normally for purposes such as housing, petty trade, and as "start up" loans for their businesses. (Asaima, 2007)

Micro finance has several benefits for developing nations. Microfinance institutions (MFIs) have become the main source of funding micro enterprises in Africa and in other developing countries. As pointed out by the former UN Secretary General Kofi Annan during the launch of the International Year of Micro Credit (2005), "Sustainable access to microfinance helps alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care, and empowering people to make the choices that best serve their needs." (Kofi Annan, December 2003).

Small and Medium Enterprises (SMEs) are commonly believed to have very limited access to deposits, credit facilities and other financial support services provided by Formal Financial Institutions (FFIs). This is because these SMEs cannot provide the necessary collateral security demanded by these formal institutions and also, the banks find it difficult to recover the high cost involved in dealing with small firms. In addition to this, the associated risks involved in lending to MSEs make it unattractive to the banks to deal with micro and small enterprises (World Bank,1994). Statistically, small enterprises are reported to have high failure rates making it difficult for lenders to assess accurately the viability of their enterprises, the abilities of the entrepreneur, and the likelihood of repayment.

SMEs in Ghana have the tendency to serve as sources of livelihood to the poor, create employment opportunities, generate income and contribute to economic growth. Micro-finance, on the other hand, according to Otero (1999) is not just about providing capital to the poor to combat poverty on an individual level, it also has a role at an institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector.

Littlefield and Rosenberg (2004) argue that the poor are generally excluded from the financial services sector of the economy so MFIs have emerged to address this market failure. By addressing this gap in the market in a financially sustainable manner, an MFI can become part of the formal financial system of a country and so can access capital markets to fund their lending portfolios, allowing them to dramatically increase the number of poor people they can reach (Otero, 1999). More recently, commentators such as Littlefield, Murduch and Hashemi (2003), Simanowitz and Brody (2004) and the IMF (2005) have commented on the critical role of micro-credit in achieving the Millennium Development Goals.

However, some schools of thought remain sceptical about the role of micro-credit in development.

In the light of this, the study would find the relationship between SMEs and MFIs and to ascertain whether the operations of the former have any effects on the growth of the latter.

1.2. STATEMENT OF PROBLEM

SME's need both financial and non-financial services to enhance their productivity, profitability and growth. Sievers and Vanderberg (2004) hold the view that access to financial and business development services are essential for growth and development of Micro and Small Enterprises.

The Microfinance industry has become a major backbone in the sustenance and survival of SMEs in Ghana. Microfinance Institutions (MFIs), as part of their core business, provide credit to SMEs. In addition to these financial services, MFIs also provide non-financial services like business training, financial and business management to help improve the capacity of their clients in managing the loan resources granted them.

An informal discussion with entrepreneurs in the SME industry revealed that there is great reliance on credit as tool for business growth and profitability. However, most entrepreneurs asserted to the fact that they are faced with a challenge of inadequate capital in their businesses and this inhibits their growth. Some MFI institutions also believe that credit obtained by entrepreneurs are misappropriated. Another constraint of most SMEs is the lack managerial and business skills. There is the need to build these capacities in addition to financial resources in order to achieve growth.

The number of MFI institutions in Ghana continues to grow rapidly. However, their wide presence does not correspond with the extent of reduction in the major challenges that affect the growth of SMEs in the country. This study is designed to analyze the effect of MFIs on the growth of SMEs in Ghana and to propose a more effective approach that MFIs can adopt in order to meet the growth-oriented needs of SMEs.

1.3. OBJECTIVES OF THE STUDY

This study is intended to investigate the challenges that SMEs face in their efforts towards growth, with a particular interest in the role that micro-finance institutions play in the growth of SMEs.

In addition to gaining an in-depth understanding of the challenges facing development SMEs, the study focuses on ascertaining a knowledge base on the resources needed for the development of SMEs and in what ways MFIs can contribute to ensure a sustainable growth and development of SMEs in Ghana.

The specific objectives in this study are:

1. To provide a detailed profile of selected SMEs and MFIs in the Kumasi metropolis.

2. To determine the contribution of MFIs on the entrepreneurial activities that lead to sustainable growth of SMEs in the Kumasi metropolis.
3. To access the challenges SMEs face in accessing credit.
4. To examine the utilization of credit by SMEs for business growth.

1.4. RESEARCH OBJECTIVES

1. What are the profiles of SMEs and MFIs in the Kumasi Metropolis?
2. Does microfinance contribute to entrepreneurial activities that can lead to sustainable growth of SMEs in Ghana?
3. What are the challenges of SMEs in accessing credit?
4. Are credits effectively utilized by SMEs for business growth?

1.5. SIGNIFICANCE OF THE STUDY

It is worth mentioning that most researchers have found this area of study very important to the development of the socio-economic activities in developing countries like Ghana. This study is centered on the activities of MFIs and their contributions to the development of small and medium size businesses in Ghana.

A study of this nature is very imperative as it would provide the government with the needed information in designing a policy frame work to enhance the development of the SME industry. It would also enlighten the public on the role MFIs play in the SMEs sector.

Microfinance as a whole provides the average Ghanaian a means to have access to financial services in their localities to boost their living standards in a sustainable manner in line with the millennium development goal of alleviating poverty in developing countries. The study will assist MFIs to adopt the necessary measures needed to ensure the desired growth in the SME industry.

In addition, the study would serve as a source of reference for other researcher or members of the general public who need information in the subject. More importantly, entrepreneurs of SMEs may find it useful in the successful operation of their enterprises as the study will unveil some of the reasons why some SMEs fail.

1.6. ORGANISATION OF THE STUDY

The study is carefully organized into five (5) chapters: The first will focus on the introduction, which will include the background of the study, statement of problem, research questions, research objectives, and significance of the study.

Chapter two of the research study will deal with a review of related literature on Micro Finance and Small and Medium Scale Enterprises in Ghana.

Chapter three forms the methodology of the study. This chapter would give details of how the research would be conducted; it would include issues such research design, population sample and sampling procedure, data collection and organization procedures.

Chapter four would be the presentation, analysis and discussion of data collected.

Chapter five would deal with summary, conclusion and recommendation on the outcome of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1. INTRODUCTION

This chapter focuses on some of the concepts of microfinance and the role they play in the growth of SMEs. The concepts chosen are those that are in relation with the area of this thesis. The chapter opens with an overview of microfinance. This reviews the evolution of Microfinance in Ghana and the Challenges of the sector. It goes further to recount the development issues regarding the Microfinance concept. The next centre of attention is SME growth and development. This gives an idea of the characteristics, role, contributions and constraints of SME. The nature of microfinance is of importance in getting the services. This is reviewed and went further to look out for what determines the capital structure of a business. The chapter concludes with a review on why some firms face problems in accessing loans and the theoretical links between Microfinance and SME development.

2.2. THE CONCEPT OF MICROFINANCE

Microfinance is defined as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses. It is mostly used in developing economies where SMEs do not have access to other sources of financial assistance (Robinson, 1998). In addition to financial intermediation, some MFIs provide social intermediation services such as the formation of groups, development of self confidence and the training of members in that group on financial literacy and management (Ledgerwood, 1999). There are different providers of microfinance (MF) services and some of them are; Non-Governmental Organisations (NGOs), savings and loans cooperatives, credit unions, government banks, commercial banks or non bank financial institutions. The target group of MFIs are self employed low income entrepreneurs who are; traders, seamstresses, street vendors, small farmers, hairdressers, rickshaw drivers, artisans blacksmith etc (Ledgerwood, 1999).

2.3. EVOLUTION OF THE MICROFINANCE SUB-SECTOR IN GHANA

Indeed, the concept of microfinance is not new in Ghana. There has always been the tradition of people saving and/or taking small loans from individuals and groups within the context of self-help to start businesses or farming ventures.

For example, available evidence suggests that the first credit union in Africa was established in Northern Ghana in 1955 by Canadian Catholic missionaries. However, Susu, which is one of the microfinance schemes in Ghana, is thought to have originated from Nigeria and spread to Ghana in the early twentieth century. (Asiama, 2007)

Over the years, the microfinance sector has thrived and evolved into its current state, thanks to various financial sector policies and programmes undertaken by different governments since independence. Among these are:

a) Provision of subsidized credits in the 1950s;
b) Establishment of the Agricultural Development Bank in 1965 specifically to address the financial needs of the fisheries and agricultural sector;
c) Establishment of Rural and Community Banks (RCBs), and the introduction of regulations such as commercial banks being required to set aside 20% of total portfolio, to promote lending to agriculture and small scale industries in the 1970s and early 1980s;
d) Shifting from a restrictive financial sector regime to a liberalized regime in 1986;

e) Promulgation of PNDC Law 328 in 1991 to allow the establishment of different categories of non-bank financial institutions, including savings and loans companies, and credit unions. (Asiama, 2007)

The policies have led to the emergence of three broad categories of microfinance institutions. These are:

a) **Formal suppliers** such as savings and loans companies, rural and community banks, as well as some development and commercial banks;
b) **Semi-formal suppliers** such as credit unions, financial non-governmental organizations (FNGOs), and cooperatives;
c) **Informal suppliers** such as susu collectors and clubs, rotating and accumulating savings and credit associations (ROSCAs and ASCAs), traders, moneylenders and other individuals. (Asiama, 2007)

2.4. MICROFINANCE PRODUCTS AND SERVICES

The services provided by microfinance institutions can be categorized into four broad different categories:

a) Financial intermediation or the provision of financial products and services such as savings, credit, insurance, credit cards, and payment systems should not require ongoing subsidies.

b) Social intermediation is the process of building human and social capital needed by sustainable financial intermediation for the poor. Subsidies should be eliminated but social intermediation may require subsidies for a longer period than financial intermediation.

c) Enterprise development services or non financial services that assist micro entrepreneurs include skills development, business training, marketing and technology services, and subsector analysis. This may or may not require subsidies and this depends on the ability and willingness of the clients to pay for these services.

d) Social services or non financial services that focus on advancing the welfare of micro entrepreneurs and this include education, health, nutrition, and literacy training. These social services are like to require ongoing subsidies and are always provided by donor supporting NGOs or the state (Bennett, 1997; Legerwwod, 1999)

2.5. ORGANIZATION OF MICROFINANCE INSTITUTIONS

2.5.1 Cooperative financial institution

This is a financial institution that can be termed semiformal. It constitutes credit unions, savings and loan cooperatives and other financial cooperatives. They are generally identified 21 as credit unions or savings and loan cooperatives and provide savings and credit services to its members. There are no external shareholders and run the same as a cooperative and implementing all its principles. Members who are at the same time customers make the policy of the cooperative.

They are either elected or work on voluntary bases. They are not often subjected to banking regulations but have their own regulations and are under the supervision of the ministry of finance of the country.

Individual financial cooperatives in a country are often govern by a league that coordinate activities of these credit unions, trains and assist its affiliates, act as a place where the deposit and provide inter lending facilities and act as a link between external donors and the cooperative system (Schmidt, 1997) .They raise capital through savings but to receive loans is not easy. Loans are delivered following the minimalist approach where the requirements for loans are not often difficult to meet by customers; little collateral, character and co-signing for loans between members. These loans are usually loans within the savings of the member (Schmidt, 1997).

2.5.2 Group Lending

This method of providing small credits to the poor is most use by microfinance that provides loans without collateral. The interest charge is around not much different from that of commercial banks but far lower than interest charge by individual by money lenders (Natarajan, 2004). The Grameen bank is a typical example of microfinance institution using this method. The repayment rate is very high since each member is liable for the debt of a group member (Stiglitz, 1990). Group formation is made by members who know themselves very well or have some social ties. Loans are not granted to individuals on their own but to individuals belonging to a group; and the group acts as a collateral which is term social collateral. This is to avoid the problems of adverse selection and also to reduce costs of monitoring loans to the members who must make sure the loan is paid or they become liable for it (Armendariz, 1994).

2.5.3 Individual Lending

This is the lending of loans to individuals with collateral. Besley and Coate (1995), say despite the advantages of lending to groups, some members of the group may fail to repay their loan. Montgomery (1996) stresses that this method of lending avoids the social costs of repayment pressure that is exerted to some group members. Stiglitz (1990) highlights that members in group lending bear high risk because they are not only liable for their loans but to that of twenty-two group members. Navajas et al. (2003) and Zeitingner (1996) recommend the importance of routine visits to the clients to make sure the loan is use for the project intended for. These monitoring is vital but at the same time increases the cost of the microfinance institution.

2.5.4 Self-help groups (SHG)

This is common among women in the rural areas who are involved in one income generating activity or another (Ajai, 2005). Making credit available to women through SHGs is a means to empower them. This group is an institution that helps its members sustainably with the necessary inputs to foster their lives.SHG provides its members with not only the financial intermediation services like the creating of awareness of health hazards, environmental problems, educating them etc. These SHGs are provided with support both financial, technical and other wise to enable them engage in income generating activities such as; tailoring, bee keeping, hairdressing, weaving etc. It has a bureaucratic approach of management and are unregistered group of about 10 – 20 members who have as main priority savings and credit in mind (Ajai, 2005). The members in the SHG have set dates where they contribute a constant and equal sum as savings. These savings are then given out as loans to members in need for a fixed interest rate (Bowman, 1995).

2.5.5 Village Banking

This is a method of lending to individual members to have constant access to money for their Micro-enterprise daily transactions (Mk Nelly and Stock, 1998). Borrowers are uplifted using this method because they own SME that earn money sustainably. This enables them to acquire a larger loan sum which gives them higher profit when introduced into the business and of course the interest with this high sum is high making the bank financial sustainable. Village banking as of the 90s has gained grounds and certain adjustments are made to suit partner institutions (Nelson et al; 1996). Hatch and Hatch (1998) Village banking loan and savings growth rate increases as the bank continue to exist.

2.6. DEFINITIONS OF SMALL AND MEDIUM-SCALE ENTERPRISE (SME)

The issue of what constitutes a small or medium enterprise is a major concern in the literature.

Different authors have usually given different definitions to this category of business. SMEs have indeed not been spared with the definition problem that is usually associated with concepts which have many components. The definition of firms by size varies among researchers. Some attempt to use the capital assets while others use skill of labour and turnover level. Others define SMEs in terms of their legal status and method of production.

Storey (1994) tries to sum up the danger of using size to define the status of a firm by stating that in some sectors all firms may be regarded as small, whilst in other sectors there are possibly no firms which are small. The Bolton Committee (1971) first formulated an "economic" and "statistical" definition of a small firm.

Under the ***"economic"*** definition, a firm is said to be small if it meets the following three criteria:

• It has a relatively small share of their market place;

• It is managed by owners or part owners in a personalized way, and not through the medium of a formalized management structure;

• It is independent, in the sense of not forming part of a large enterprise.

Under the ***"statistical"*** definition, the Committee proposed the following criteria:

• The size of the small firm sector and its contribution to GDP, employment, exports, etc.;

• The extent to which the small firm sector's economic contribution has changed over time;

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

Weston and Copeland (1998) hold that definitions of size of enterprises suffer from a lack of universal applicability. In their view, this is because enterprises may be conceived of in varying terms. Size has been defined in different contexts, in terms of the number of employees, annual turnover, industry of enterprise, ownership of enterprise, and value of fixed assets.

Van der Wijst (1989) considers small and medium businesses as privately held firms with 1 – 9 and 10 – 99 people employed, respectively. Jordan *et al* (1998) define SMEs as firms with fewer than 100 employees and less than €15 million turnover. Michaelas *et al* (1999) consider small independent private limited companies with fewer than 200 employees and López and Aybar (2000) considered companies with sales below €15 million as small.

It is clear from the various definitions that there is not a general consensus over what constitutes an SME. Definitions vary across industries and also across countries. It is important now to examine definitions of SMEs given in the context of Ghana.

2.6.1. The Definition of SME from the Ghanaian perspective

There have been various definitions given for small-scale enterprises in Ghana but the most commonly used criterion is the number of employees of the enterprise (Kayanula and Quartey, 2000). In applying this definition, confusion often arises in respect of the arbitrariness and cut off points used by the various official sources. In its Industrial Statistics, the Ghana Statistical Service (GSS) considers firms with fewer than 10 employees as small-scale enterprises and their counterparts with more than 10 employees as medium and large-sized enterprises. Ironically, the GSS in its national accounts considered companies with up to 9 employees as SMEs (Kayanula and Quartey, 2000).

The value of fixed assets in the firm has also been used as an alternative criterion for defining SMEs. However, the National Board for Small Scale Industries (NBSSI) in Ghana applies both the "fixed asset and number of employees" criteria. It defines a small-scale enterprise as a firm with not more than 9 workers, and has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Ghana cedis. The Ghana Enterprise Development Commission (GEDC), on the other hand, uses a 10 million Ghanaian cedis upper limit definition for plant and machinery. It is important to caution that the process of valuing fixed assets poses a problem. Secondly, the continuous depreciation of the local currency as against major trading currencies often makes such definitions outdated (Kayanula and Quartey, 2000).

In defining small-scale enterprises in Ghana, Steel and Webster (1991), and Osei *et al* (1993) used an employment cut-off point of 30 employees. Osei *et al* (1993), however, classified small-scale enterprises into three categories. These are: (i) micro - employing less than 6 people; (ii) very small - employing 6-9 people; (iii) small - between 10 and 29 employees. A more recent definition is the one given by the Regional Project on

Enterprise Development Ghana manufacturing survey paper. The survey report classified firms into: (i) micro enterprise, less than 5 employees; (ii) small enterprise, 5 -29 employees; (iii) medium enterprise, 30 – 99 employees; (iv) large enterprise, 100 and more employees.

2.7. THE ROLE OF MFIS THE GROWTH AND DEVELOPMENT OF SMES

The purpose or goal of any firm is to make profit and growth. A firm is defined as an administrative organization whose legal entity or frame work may expand in time with the collection of both physical resources, tangible or resources that are human nature (Penrose, 1995).

The term growth in this context can be defined as an increase in size or other objects that can be quantified or a process of changes or improvements (Penrose, 1995). The firm size is the result of firm growth over a period of time and it should be noted that firm growth is a process while firm size is a state (Penrose, 1995). The growth of a firm can be determined by supply of capital, labour and appropriate management and opportunities for investments that are profitable. The determining factor for a firm's growth is the availability of resources to the firm (Ghoshal, Halm and Moran, 2002).

Enterprise development services or business development services or nonfinancial services are provided by some MFIs adopting the integrated approach. The services provided by nonfinancial MFI services are; marketing and technology services, business training, production training and subsector analysis and interventions (Ledgerwood, 1999).

Enterprise development services can be sorted out into two categories. The first is enterprise formation which is the offering of training to persons to acquire skills in a specific sector such as weaving and as well as persons who want to start up their own business.

The second category of enterprise development service rendered to its clients is the enterprise transformation program which is the provision of technical assistance, training and technology in order to enable existing SMEs to advance in terms of production and marketing. Enterprise development services are not a prerequisite for obtaining financial services and they are not offered free of charge. These charges are subsidized by the government or an external party since to recover the full cost in providing the services will be impossible by the MFI. The enterprise development services may be very meaningful to businesses but the impact and knowledge that is gained cannot be measured since it does not usually involve any quantifiable commodity. It has been observed that there is little or no difference between enterprises that receive credit alone and those that receive both credit packages and integrated enterprise development services (Ledgerwood, 1999).

2.8. GENERAL CONSTRAINTS TO SME DEVELOPMENT

Despite the wide-ranging economic reforms instituted in the region, SMEs face a variety of constraints owing to the difficulty of absorbing large fixed costs, the absence of economies of scale and scope in key factors of production, and the higher unit costs of providing services to smaller firms (Schmitz, 1982; Liedholm & Mead, 1987; Liedholm, 1990; Steel & Webster, 1990). Below is a set of constraints identified with the sector.

Input Constraints: SMEs face a variety of constraints in factor markets. However, factor availability and cost were the most common constraints. The specific problems differed by country, but many of them were related, varying according to whether the business perceived that their access, availability or cost was the most important problem and whether they were based primarily on imported or domestic inputs (World Bank, 1993; Parker et al, 1995). SMEs in Ghana emphasized the high cost of obtaining local raw materials; this may stem from their poor cash flows (Parker et al, 1995). Aryeetey et al(1994) found that 5% of their sample cited the input constraint as a problem. However, Daniels & Ngwira (1993) reported that about a third of Malawian SMEs reported input problems. This can also be contrasted with only 8.2%, 7.5% and 6.3% of proprietors in Botswana, Swaziland and Lesotho. It was also found that input constraints vary with firm size.

Finance: Access to finance remained a dominant constraint to small scale enterprises in Ghana. Credit constraints pertaining to working capital and raw materials were cited by respondents (between 24% and 52% in Parker et al, 1995). Aryeetey et al (1994) reported that 38% of the SMEs surveyed mention credit as a constraint, in the case of Malawi, it accounted for 17.5% of the total sample (Daniels & Ngwira, 1993). This stems from the fact that SMEs have limited access to capital markets, locally and internationally, in part because of the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms. As a result, SMEs often cannot obtain long-term finance in the form of debt and equity.

Labour Market: This seems a less important constraint to SMEs considering the widespread unemployment or underemployment in these countries. SMEs generally use simple technology which does not require highly skilled workers. However, where skilled workers are required, an insufficient supply of skilled workers can limit the specialization opportunities, raise costs, and reduce flexibility in managing operations. Aryeetey et al

(1994) found that 7% of their respondents indicated that they had problems finding skilled labour, and 2% had similar problems with unskilled labour. However, only 0.9% of firms were reported to have had labour problems.

Equipment & Technology: SMEs have difficulties in gaining access to appropriate technologies and information on available techniques. This limits innovation and SME competitiveness. Besides, other constraints on capital, and labour, as well as uncertainty surrounding new technologies, restrict incentives to innovation. 18% of the sampled firms in Aryeetey et al (1994) mentioned old equipment as one of the four most significant constraints to expansion (18.2% in Parker et al, 1995), this is in contrast to the 3.4% reported in Malawi (Daniels & Ngwira, 1993; Makoza & Makoko, 1998).

Domestic Demand: 24.9% of Malawian proprietors indicated they had marketing constraints, while 5% of respondents were the figure quoted in the Ghanaian case (Aryeetey et al, 1994; Daniels & Ngwira, 1993). The business environment varied markedly among SMEs in countries, reflecting different demand constraints after adjustment. There were varying levels of uncertainty caused by macroeconomic instability and different levels of government commitment to private sector development. Recent economic policies have led to a decline in the role of the state in productive activity but a renewed private investment has created new opportunities for SMEs. Nonetheless, limited access to public contracts and subcontracts, arising from cumbersome bidding procedures and/or lack of information, inhibit SME participation in these markets. Also, inefficient distribution channels often dominated by larger firms pose important limitations to market access for SMEs. As noted in the case of Ghana, demand constraints limited the growth of SMEs (Parker et al, 1995).

International Markets: Previously insulated from international competition, many SMEs are now faced with greater external competition and the need to expand market share. However, this problem was mostly identified in medium-sized enterprises in Ghana (12.5% in Aryeetey et al, 1994:13), less than 1% of the total sample complained there were too many imported substitutes coming into the country. Daniels & Ngwira(1993) also reported a similar figure for Malawi (0.9%). However, Riedel et al (1988), reported that Tailors in Techiman (Ghana) who used to make several pairs of trousers in amonth went without any orders with the coming into effect of trade liberalisation. Limited international marketing experience, poor quality control and product standardisation and little access to international partners, impede expansion into international markets. It is reported that only 1.7% of firms export their output (Aryeetey et al, 1994).

Regulatory Constraints: Although wide ranging structural reforms have improved, prospects for enterprise development remain to be addressed at the firm-level.

• **Legal**: High start-up costs for firms, including licensing and registration requirements can impose excessive and unnecessary burdens on SMEs. The high cost of settling legal claims and excessive delays in court proceedings adversely affect SME operations.

In the case of Ghana, the cumbersome procedure for registering and commencing business were key issues often cited. However, Aryeetey et al (1994) found that this accounted for less than 1% of their sample. Meanwhile, the absence of antitrust legislation favours larger firms, while the lack of protection for property rights limits SME access to foreign technologies.

Managerial Constraints

• **Lack of Entrepreneurial & Business Management Skills**: Lack of managerial know-how places significant constraints on SME development. Even though SMEs tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, prevalent in most countries in the region, has a magnified impact on SMEs. The lack of support services or their relatively higher unit cost can hamper SME efforts to improve their management because consulting firms often are not equipped with appropriate cost effective management solutions for SMEs. Furthermore, absence of information and/or time to take advantage of existing services results in weak demand for them. Despite the numerous institutions providing training and advisory services, there is still a skills gap among the SME sector as a whole. According to Daniels & Ngwira (1993), about 88% of Malawian SMEs desired training in various skills but as of 1992, less than 6% have actually received it. In Ghana, a lot has actually been achieved in this regard, though there is still room for improvement.

Institutional Constraints: The lack of cohesiveness and the wide range of SME interests limit their capacity to defend their collective interests and their effective participation in civil society.

Associations and collective action: Associations providing a voice for the interests of SMEs in the policy-making process have had a limited role compared to those of larger firms. Many of the entrepreneurs associations have yet to complete the transition of their goals from protectionism to competitiveness (World Bank, 1993). Additionally, the potential economies of collaborative arrangements in production and sales among SMEs have not been adequately explored. It is reported that about 98% of all SMEs in Malawi sell their products to the final consumer with the exception of chemicals, plastics, and wholesale trade which sell to other commercial or manufacturing enterprises (Makoza & Makoko, 1998). There are very few forward linkages. However, backward linkages were common with 71% of enterprises procuring unprocessed, semi-processed or finished products.

The dependence of the SME sector in Ghana on large-scale enterprises as purchasers of output, either for sale, as final goods or to be used as intermediate inputs, are very limited. Only 13% of firms produce any item for or component for larger firms. Interdependence among SMEs is very minimal. As reported in Osei et al (1993), only 17.6% of firms with growing output and 8.4% of those whose output stagnated have other SSEs as customers.

2.9. THE FACTORS THAT AFFECT SME'S ACCESS TO CREDIT

The type of population to be served and the activities that the target market is active in and also the level or stage in development of the business to be financed is determined by the MFIs. SMEs differ in the level in which they are and the products and services offered to them by the MFIs are towards meeting the demands of the market. SMEs are financed differently and the financing is determined by whether the firm is in the start-up phase or existing one and also whether it is stable, unstable, or growing. The type of activities that the business is involve in is also determined and this can be; production, commercial or services activities (Ledgerwood, 1999).

a) Start-up or existing SMEs

In identifying the market, MFIs consider whether to focus on already existing entrepreneurs or on potential entrepreneurs seeking for funds to start up a business venture. Working capital is the main hindrance in the development of already existing SMEs and to meet up, the borrow finance mostly from informal financial services such as; families, friends, suppliers or moneylenders. The finances got from these informal financial services have high interest rates and services offered by the formal sector or not offered by these informal financial services. MFIs see it less risky to work with existing microenterprises because they have a history of success (Ledgerwood, 1999).

Businesses that are financed by MFIs from scratch consider that they will create an impact in the society by alleviating poverty by increasing their level of income. An integrated approach lay down the foundation for start-up businesses to pick up since financial services alone will not help them. They need other services such as skills training and to equip them with all the necessary tools that can hinder them from obtaining loans. Existing businesses with part of their capital being equity is preferred by most MFIs to work with since the level of involvement is high and consequently lower risk (Ledgerwood, 1999).

b) Levels of SME development

MFIs provide their products and services based on the level of development of the businesses. SMEs can be grouped into three main levels of business development that profit from access to financial services.

i) Unstable survivors are groups that are considered not credit worthy for financial services to be provided in a sustainable way. Their enterprise are unstable and it is believe they will survive only for a limited time and when MFIs focus on time to revert the situation by providing them other extra services, it is noticed that costs increases and time is also wasted.

ii) Stable survivors are those who benefit in having access to the financial services provided by MFIs to meet up with their production and consumption needs. Stable survivors are mainly women who engage in some sort of business activities to provide basic needs such as food, child health, water, cooking for the household, etc. These types of microenterprises rarely grow due to low profit margins which inhibit them to reinvest and an unstable environment due to seasonal changes which makes them to consume rather than to invest in the business.

iii) Growth enterprises are SMEs with high possibility to grow. MFIs focusing on these types of microenterprise are those that have as objective to create jobs, and to move micro entrepreneurs from an informal sector to a formal sector. MFIs prefer to provide products and services to meet the needs of this group since they are more reliable and posing them the least risk (Ledgerwood, 1999).

2.10. THEORETICAL LINKS BETWEEN MICROFINANCE AND SME DEVELOPMENT

Accessing credit is considered to be an important factor in increasing the development of SMEs. It is thought that credit augments income levels, increases employment and thereby alleviates poverty. It is believed that access to credit enables poor people to overcome their liquidity constraints and undertake some investments such as the improvement of farm technology inputs thereby leading to an increase in agricultural production (Hiedhues, 1995).

The main objective of microcredit according to Navajas et al, (2000) is to improve the welfare of the poor as a result of better access to small loans that are not offered by the formal financial institutions.

Diagne and Zeller (2001) argue that insufficient access to credit by the poor just below or just above the poverty line may have negative consequences for SMEs and overall welfare. Access to credit further increases SME's risk-bearing abilities; improve risk-copying strategies and enables consumption smoothing overtime. With these arguments, microfinance is assumed to improve the welfare of the poor.

It is argued that MFIs that are financially sustainable with high outreach have a greater livelihood and also have a positive impact on SME development because they guarantee sustainable access to credit by the poor (Rhyme and Otero, 1992).

Buckley (1997) argue that, the indicators of success of microcredit programs namely high repayment rate, outreach and financial sustainability does not take into consideration what impact it has on micro enterprise operations and only focusing on “microfinance evangelism”. Carrying out research in three countries; Kenya, Malawi and Ghana, Buckley (1997) came to the conclusion that there was little evidence to suggest that any significant and sustained impact of microfinance services on clients in terms of SME development, increased income flows or level of employment. The focus in this augment is that improvement to access to microfinance and market for the poor people was not sufficient unless the change or improvement is accompanied by changes in technology and or technique.

Zeller and Sharma (1998) argue that microfinance can aid in the improvement or establishment of family enterprise, potentially making the difference between alleviating poverty and economically secure life. On the other hand, Burger (1989) indicates that microfinance tends to stabilize rather than increase income and tends to preserve rather than to create jobs.

Facts by Coleman (1999) suggest that the village bank credit did not have any significant and physical asset accumulation. The women ended up in a vicious cycle of debt as they use the money from the village banks for consumption purposes and were forced to borrow from money lenders at high interest rate to repay the village bank loans so as to qualify for more loans. The main observation from this study was that credit was not an effective tool to help the poor out of poverty or enhance their economic condition. It also concluded that the poor are too poor because of some other hindering factors such as lack of access to markets, price stocks, unequal land distribution but not lack of access to credit. This view was also shared by Adams and Von Pischke (1992).

A study of thirteen MFIs in seven countries carried out by Mosley and Hulme (1998) concludes that household income tends to increase at a decreasing rate as the income and asset position of the debtors is improved. Diagne and Zeller (2001) in their study in Malawi suggest that microfinance do not have any significant effect in household income meaning no effect on SME development. Investing in SME activities will have no effect in raising household income because the infrastructure and market is not developed.

Some studies have also argued that using gender empowerment as an impact indicator; microcredit has a negative impact (Goetz and Gupta, 1994; Ackerly, 1995; Montgomery et al, 1996).

Using a "managerial control" index as an indicator of women empowerment, it came to conclusion that the majority of women did not have control over loans taken by them when married. Meanwhile, it was the women who were the main target of the credit program. The management of the loans was made by the men hence not making the development objective of lending to the women to be met (Goetz and Gupta, 1994). Evidence from an accounting knowledge as an indicator of women empowerment concluded that women are marginalized when it comes to access to credit (Ackerly, 1995).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. INTRODUCTION

This section focuses on the research techniques adopted for this study with the aim of achieving the research objectives. It elaborates the research design and provides details regarding the population, sample and sampling techniques and the research instruments used in collecting data for the study. It also discusses the data collection methods and data analysis plan.

3.2. STUDY AREA

The study area selected for the research work is the Kumasi Metropolis in the Ashanti region of Ghana. The Kumasi metropolis is the most populous district in the Ashanti Region. During the 2000 Population Census it recorded a figure of 1,170,270. It has been projected to have a population of 1,625,180 in 2006 based on a growth rate of 5.4% per annum and this accounts for just under a third (32.4%) of the region's population. Kumasi has attracted such a large population partly because it is the regional capital, and also the most commercialized centre in the region. Ashanti Region is currently the second most urbanized in the country, after Greater Accra (87.7%). The large urban population in the region is mainly due to the fact that the Kumasi metropolis is not only entirely urban but accounts for a third of the region's population. The major sectors of the economy fall under Trade/ Commerce/Services which accounts for about 71%, Manufacturing/Industry which takes up of 24% and the Primary Production sector which takes only 5%.

Kumasi is predominantly a trade and commerce (service economy inclusive) with an employment level of 71 per cent. This is followed by industry and agriculture with employment levels of 24 per cent and 5 per cent respectively. Kumasi has therefore established itself as a major commercial centre. Commercial activity is centred on wholesaling and retailing. Both banking and non-banking financial institutions also offer ancillary services.

The Industrial Sector is made up of manufacturing (breweries, beverages) and wood processing (plywood, boards). Most of the industries are located in the Asokwa-Ahinsan-Kaase industrial area, the hub of large-scale formal industries. There is Vehicular parts production and service industry located at Suame Magazine which is the second largest industrial area in the metropolis. The famous Suame Magazine where small engineering based industries are sited contributes immensely to the economy of the metropolis. The woodworking business at Anloga produce to meet the needs of residents as well as clients from Accra and other parts of the country and neighbouring countries of Burkina Faso, Ivory Coast and Mali. Another area of interest is the handicraft-industry.

3.3. POPULATION AND SAMPLING TECHNIQUES

The target population for the study comprised 433 Small and Medium Scale Enterprises in Kumasi. An enquiry from the Kumasi office of the National Board for Small Scale Business Industries (NBSSI) showed that 433 businesses have registered with the board from 2006 to August, 2011. In addition, a population of 13 registered Microfinance Institutions operate in the Kumasi Metropolis. These institutions are registered with the Bank of Ghana. For the purpose of this research, only registered Microfinance Institutions were used. (www.bog.gov.gh)

A simple random sampling technique was used to select a total of 150 entrepreneurs that constituted our sample size. The lottery technique was applied. The names of all the 200 SMEs were written on papers, folded them and mixed thoroughly in a bow. The researcher picked one folded paper at a time until the needed numbers of 150 SMEs were obtained for the study. Simple random sampling was used because it gave all the respondents equal chance of being selected.

3.4. DATA COLLECTION PROCEDURE

Primary data were obtained for the study. The primary data were those collected from the field by the researcher from Small and Medium Scale Enterprises (SMEs) and Micro Finance Institutions (MFIs) in the Kumasi Metropolis.

Again purposive sampling was used to select 8 Microfinance institutions. Though there were a number of MFIs, some were not suitable because they were not officially registered with the Bank of Ghana. The researcher used the purposive sampling technique for selecting MFIs that have great experience in micro credit operations. For the purpose of this research only registered MFIs were selected.

3.5. RESEARCH INSTRUMENTS

The study employed the use of questionnaire and interview guide. The questionnaires were mainly used to gather information from entrepreneurs in the SME sector and Microfinance institutions. The interview guide was also used to gather information from some of the MFIs where additional data was needed. The use of questionnaire allows the researcher to collect large amount of data in a relatively short time. The availability of a number of respondents in one place makes possible an economy of time and provides a high proportion of usable responses (Kaln and Best, 2006). The questionnaire was designed by the researcher.

3.6. RESEARCH DESIGN

Survey research design is adopted in this study to assess the effect of MFI's on the growth of SMEs in Ghana. A survey is an investigation about the characteristics of a given population by means of collecting data from a sample of that population and estimating their characteristics through the systematic use of statistical methodology. The survey is a non-experimental, descriptive research method. It tends to be quantitative and aims to collect information from a sample of population such that the results are representative of the population within a certain degree of error.

Survey research design was chosen because the sampled elements and the variables that are being studied are simply being observed as they are without making any attempt to control or manipulate them. Also the design is chosen because quantitative information needs to be collected through the use of standard and structured questionnaire.

However, some of the weaknesses are that the researcher may not have sufficient information about all the variables occurring at the time. The researcher does not have control or knowledge regarding what variables were controlled and this makes causal statements very difficult to make.

3.7 DATA ANALYSIS

Data collected from the questionnaire were analysed, summarised, and interpreted accordingly with the aid of descriptive statistical techniques such as total score and simple percentage. Qualitative as well as quantitative methods were used in the analysis of the primary data collected. The quantitative data was analyzed using Statistical Package for Social Scientists (SPSS) and Microsoft Excel. The findings were presented in the form of tables, charts and figures.

CHAPTER FOUR

ANALYSIS, DISCUSSIONS AND PRESENTATION OF RESULTS

4.1. INTRODUCTION

This chapter presents a detailed discussion and analysis of findings of the study with particular reference to the responses received, findings of the study, tables and figures and other related charts that are useful to the study. It presents discussions on the detailed profile of SMEs who are beneficiaries of the products of MFIs, the contribution of MFIs on the entrepreneurial activities that lead to sustainable growth of SMEs in the Kumasi metropolis, the challenges SMEs face in accessing credit, and the utilization of credit by SMEs for business growth. Data collected for the study were quantitatively and qualitatively analyzed.

4.2. RESPONSES RECEIVED

The questionnaires distributed were in two categories, one category for SMEs and the other for MFIs. In all 158 questionnaires were distributed for responses. Out of 158 questionnaires given to respondents, 152 were received representing an overall response rate of 96.20%. The collected responses were made up of 8 completed questionnaires from MFIs, and the remaining 252 were collected from the SMEs. This is represented in Table 4.2 below.

Table 4.2 – Responses SMEs and MFIs

CATEGORY	QUESTIONNAIRES SENT	RESPONSES RECEIVED	RESPONSES RATE (as % of total)
SMEs	150	144	96
MFIs	8	8	100
TOTAL	**158**	**152**	**96.20**

Source: Field Survey, October 2011

4.3. BACKGROUND OF SELECTED SMEs

The background of the respondents is needed for a comprehensive outlook of the sample of the study, and to know if they fit in the category of the right respondents needed for the research. In order for the researcher to find out the existence of these SMEs, it was imperative to know when these SMEs were started.

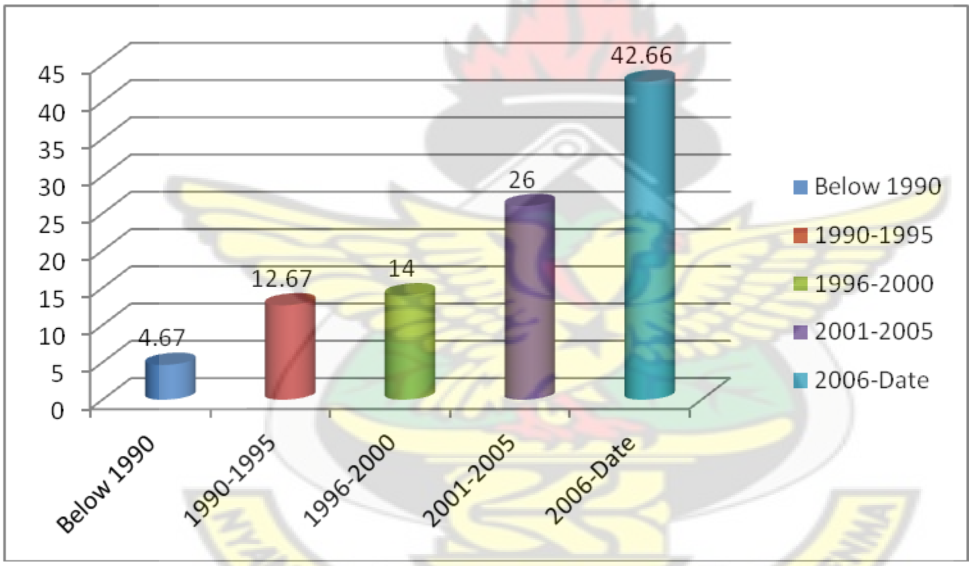
4.3.1 Years of Operation

From Figure 4.3 below, it shows that, 42.66 percent of the respondents (SMEs) begun their operations from 2006 and late, 26 percent started their businesses between 2001-2005, 14 percent start their businesses between 1996 – 2000, 12.67 incorporated their business in 1990-1995 and only 4.67 percent were established in the 1980s. This shows that, most of the SMEs sampled for the study were established in the 21st century, thus early and late 2000 and have the requisite experience in terms of their dealing with Microfinance Institutions.

In establishment of business, various objectives are taken into consideration before such establishment come into existence. When respondents were asked about these objectives, varied objectives were given such as:

- To generate income to support their family
- To serve the community
- For better growth of Ghanaian economy
- To create employment opportunities for other Ghanaians
- To be self employed

Figure 4.3: Commencement of Business Operation



Source: Field Survey, October 2011

4.3.2 Line of Business and Number of People Employed

Table 4.3.1 below gives the line of businesses of the respondents, as shown, 7.64 percent are engaged in manufacturing, 64.58 percent are engaged in commerce, 13.19 percent are also engaged in services and 14.59 percent are also engaged in other services such as repairs of assets, self employed tailoring and dress making.

On the other hand, a majority of 72.22 percent have employed less than 6 people in their work, 26.39 percent have employed 6-9 people, 1.39 percent has employed 10-29 people and none of the respondent have employed above 30 people. This analysis suggests that, these SMEs have also created an opportunities for others to be employed.

This finding falls in line with the findings of Kumasi Metropolitan Assembly (KMA) which says that Kumasi is predominantly trade and commerce with an employment level of 71 per cent.

Also, it is imperative to mention that most SMEs in the Kumasi metropolis are at the Micro state since they employ less than six people in their businesses. In defining small-scale enterprises in Ghana, Steel and Webster (1991), and Osei *et al* (1993) used an employment cut-off point of 30 employees. Osei *et al* (1993), however, classified small-scale enterprises into three categories of which the first category is Micro which employs less than six people. In addition, the findings in this research show that SMEs provide livelihood for the masses of the people through income generation and employment.

Table 4.3.1: Line of Business and Number of People Employed

Item	Manufacturing	Commerce	Service	Others	Total
< 6	2	77	12	13	**104(72.22%)**
6-9 People	9	16	5	8	**38(26.39%)**
10-29 People	0	0	2	0	**2(1.39%)**
30-99 People	0	0	0	0	**0(0.00%)**
Above 100	0	0	0	0	**0(0.00%)**
Total	**11(7.64%)**	**93(64.58%)**	**19(13.19%)**	**21(14.59%)**	**144**

Source: Field Survey, October 2011

4.2.3 Sources of Business Capital and Adequacy of Capital

Capital is the most valuable item in the establishment of SMEs, especially in this part of the globe. On the sources of business capital, it was found that, 4 percent sponsored themselves for the initiation of their businesses, 2 percent relied on friends and relatives, 5.33 percent were from partnerships, and a majority of 88 percent acquired loans from banks and other financial institutions, with only 0.67 percent acquiring capital from other sources. This analysis also brought to bear that, the sample of this study is mainly associated with respondents who always deal with the MFIs.

However, it was unanimously agreed among all respondents that the capital for the operation of their businesses are not adequate as per the demand of goods and services they need for their operations.

Table 4.3.2: Sources of Business Capital and Adequacy of Capital for Business

SOURCES OF BUSINESS CAPITAL	FREQUENCY	PERCENTAGE
Self	6	4.00
Friends and Relatives	3	2.00
Partnership	8	5.33
Loans from Banks and MFIs	132	88.00
Others	1	0.67
Total	**150**	**100**

Source: Field Survey, October 2011

4.4. THE CONTRIBUTION OF MFIs IN THE OPERATIONS OF SMEs

For the questionnaire given out to the operators of SMEs, it was found that, 91.33 percent, thus one hundred and thirty seven (137) of the respondents have knowledge about the operations of Micro Finance Institutions (MFI's). This gives much evidence that the respondents sampled for study have much knowledge on the operations of the Microfinance Institutions. The table below shows how these respondents got to know about the operations of MFI's.

4.4.1 Knowledge of Microfinance Institutions

Table 4.4.1 below shows that out of the one hundred and thirty seven (137), 21.9 percent got to know about MFIs through friends, 68.61 percent heard through the media, 8.03 percent through an MFI officials and 1.46 percent through handbill. This analysis shows that, most of the respondents got to know the Micro Finance Institutions through the media such as the radio station, print media and the television.

Moreover, it was establish that, all the 137 respondents have had some benefits from the operations of the MFIs in one form or the other. The beneficiaries point out that, they received some benefits from MFIs in the form of credits and financial/management training or both.

Table 4.4.1: Knowledge Microfinance Institutions

Item	Frequency	Percentage
Friends	30	21.90
Media	94	68.61
MFI Official	11	8.03
Handbill	2	1.46
Others	0	0.00
Total	**137**	**100.00**

Source: Field Survey, October 2011

4.4.2 Products Offered by MFIs and their effects on SMEs

Clearly, it was evident that, all the respondents who had knowledge of the MFIs have been enhancing their managerial, financial and management skills of their businesses as shown in Table 4.4.2 below. Nevertheless, on the side of applying for credit facility, 94.16 % indicating one hundred and twenty nine (129) of the respondents had done so. This outcome gives much evidence that, not all the SMEs are granted loans and other financial credit from the MFIs except in cases where policies and requirements of the MFIs are met by the SMEs.

It reveals that, much of the loan facilities granted by the MFIs are either used as an add up of the accumulated amount towards the expansion of their business or for the day to day operation of their business as MFIs do not always grant some part of the full amount of credit facility applied by the SMEs.

Table 4.4.2: Products Offered by MFIs

Item	Yes	No
Has the availability of MFIs contributed to the enhancement of your managerial skill, financial management skill and overall business knowledge?	137(100.00%)	0(0.00%)
Have you ever applied for credit facility from any MFI?	129(94.16%)	8(5.84%)

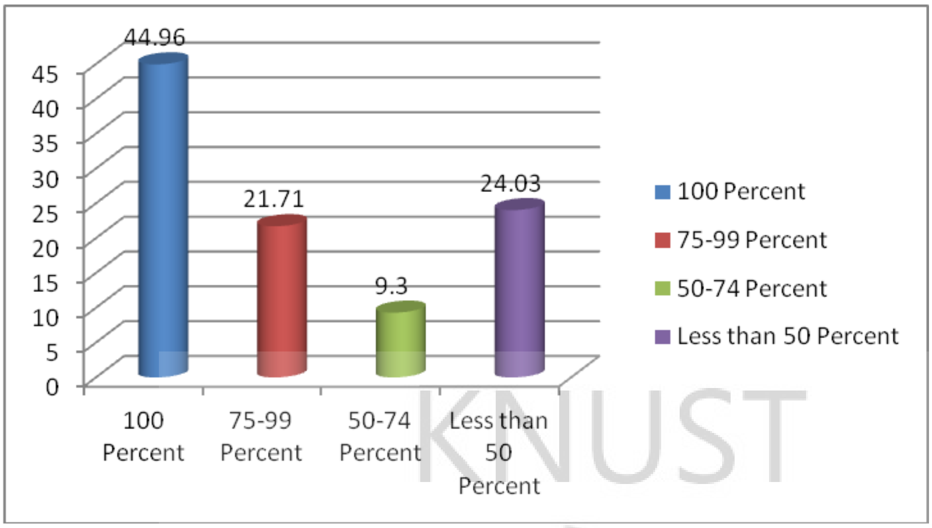
Source: Field Survey, October 2011

4.4.3 Percentage of Applied Loan Granted

Figure 4.4.1 shows the percentage of loans granted to the SMEs as per what they applied. The study shows that, majority of the SMEs are granted the total amount they applied for, of this, 44.96 percent were of this opinion. 21.71 percent were also granted between 75-99 % of the loan they applied, 9.3 percent of the SMEs also were granted between 50-74% of the loan they applied, whilst 24.03 percent were given less than 50 % of the loan they applied for.

However, indication from the beneficiaries shows a period of uncertainty in the granting of loan facility. This period stretches from weeks to months as expressed by beneficiaries in the table below.

Figure 4.4.1: Percentage of Applied Loan Granted



Source: Field Survey, October 2011

4.4.4 The Waiting Period Required to Access Credit

As shown in table 4.4.3 below, majority of the beneficiaries take between 2-3 weeks to access loans from the MFIs, whiles others, thus 28.68 percent takes 3-4 weeks, 24.81 percent takes 1-2 weeks and 14.73 percent takes more than 4 weeks to access credit facility from the MFIs. Evidently none of the respondents take less than a week to access credit facility from the MFIs; this may be due to the documentation and authentication of documents associated with the accessing of credit facilities.

SMEs operators were found to be consistently transacting business with more than one MFI, on their part, this scheme is developed for them to boost their capital base to help expand their businesses rapidly and to meet the capital demands of their businesses, since one MFIs are reluctant to give huge sums of loans for recapitalization of businesses. Moreover, they agreed unanimously, as all the SMEs operators who access credit facilities indicate that they are able to access more credit from MFIs than the traditional banks.

Transacting business with MFIs come with varying expectations from partners involved in the business. When respondents were asked of their expectations before transacting with MFIs, it became known that, each respondent had his/her own expectation but were all converging to the point of acquiring loan, some of their expectations include:

- To access prompt credit
- To be assured of getting credit on time and as and when needed
- To access more funds to expand their business
- To receive support such as management training and accounting skills to manage their business.

Table 4.4.3: Period it takes to Access Credit

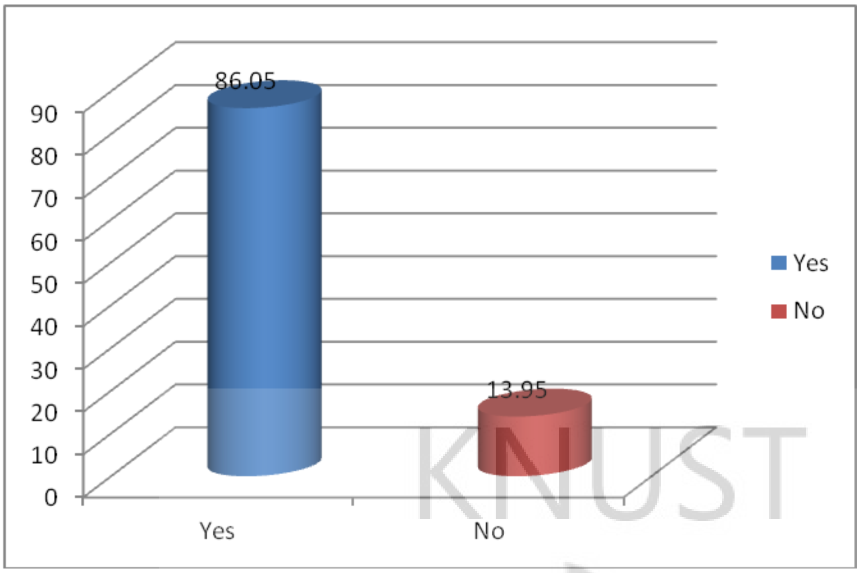
Item	**Frequency**	**Percentage**
Less than a week	0	0.00
1-2 Weeks	32	24.81
2-3 Weeks	41	31.78
3-4 Weeks	37	28.68
Above 4 Weeks	19	14.73
Total	**129**	**100.00**

Source: Field Survey, October 2011

4.4.5 The level of Satisfaction of SMEs

Figure 4.4.2 below shows an overwhelming expectations being met by the beneficiaries of the products of MFIs. As indicated, 86.05 percent of the beneficiaries' expectations were met, whiles 13.95 percent expectations were not met, which might be due to other reasons relating to the process of acquiring credit facility from the MFIs. This is an indication that most SMEs have a high level of satisfaction in the operations of MFIs.

Figure 4.4.2: Expectations Being Met



Source: Field Survey, October 2011

4.4.6 The Effect of MFIs on SMEs

The existence of MFIs has in one way or the other contributed to the development of SMEs. When SMEs were asked whether the existence of MFIs have had any effect on their business, it was found that majority of them, thus 88.32 percent recorded a positive effect, 8.76 percent could not ascertain their growth whiles 2.92 remain unchanged as shown in Table 4.4.4 below. However, none of the respondents indicated a negative effect of the existence of MFIs on their business. Hence it can be deduced that, MFIs have contributed positively in the operations of SMEs.

This assertion is buttressed by Rhyme and Otero (1992), when they indicated that MFIs that are financially sustainable with high outreach have a greater livelihood and also have a positive impact on SME development because they guarantee sustainable access to credit by the poor.

Table 4.4.4: Results on the effect of MFIs on SMEs

Item	Frequency	Percentage
Don't Know	12	8.76
Positive	121	88.32
Negative	0	0.00
Unchanged	4	2.92
Total	**137**	**100.00**

Source: Field Survey, October 2011

4.5. CHALLENGES FACED IN ACCESSING CREDITS

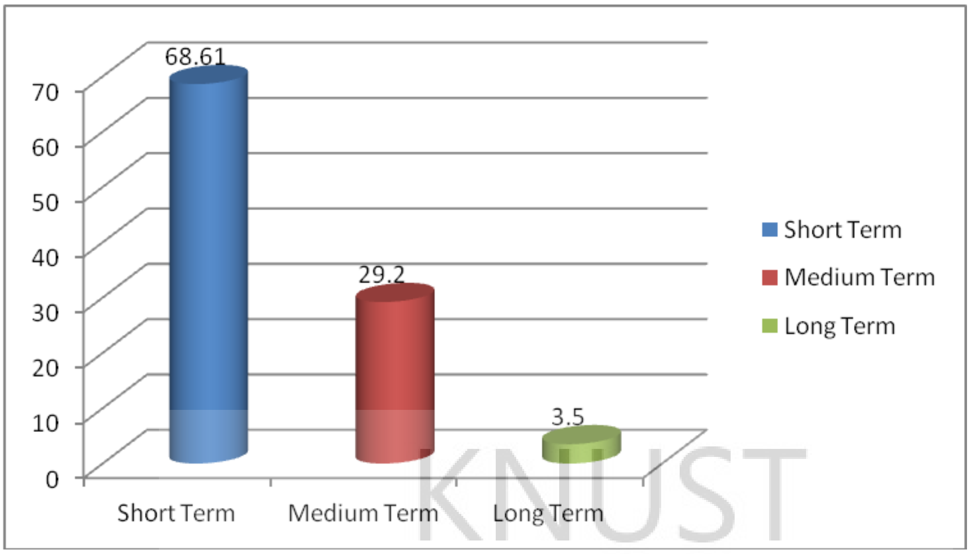
As common to many schemes, especially with respect to financial institutions, accessing credit facilities come with its own challenges that impede the process and hinder the full potential of utilization of credits granted.

4.5.1. Types of Credits Requested by SMEs

Credit accessibility were found to be mainly in short terms which dominate with a percentage of 68.61, 29.2 percent of the respondents indicate they wanted to have a medium term credit facility from the MFIs and 3.5 percent requested for long term credit facilities. Majority of the respondents have been successful in almost all of the loans they have applied. Short Term credits dominate since MFIs find it very risky to offer Medium-Long term credit as loans defaults are likely to be higher with such facilities.

In addition, the need for short-term credit is driven by the fact that most SMEs use their loans to finance recurrent expenditure incurred in the day-to-day running of their businesses.

Figure 4.5.1: Kind of Credit Request by SMEs



Source: Field Survey, October 2011

4.5.2 Collateral securities and Other Criteria for credit qualification

Some of the challenges facing the SMEs include fulfilling the criteria for accessing loan facilities. With reference to Table 4.5.1 below, these criteria were found to be cumbersome for a majority of the respondents of which 55.47 percent said so, however, about 44.53 percent do not see them as cumbersome. It was also realized that, very few MFIs require collateral securities as a prerequisite for their loans as only 38.69 percent of the respondents responded in the affirmative when asked about collateral securities. However, 40.15 percent of respondents indicated that they were always able to supply the needed collateral securities which are normally motor vehicles, shops and on few occasions, houses.

It is worth mentioning that in most of the cases where collateral securities were required, they were in the form client's available savings with the financial institution, and others were required to form groups in order to access the loans while group members serve as guarantees for loans granted and are therefore liable for repayments on behalf of defaulting members.

Apart from collateral security that serves as a challenge for some SMES in accessing credit, SMEs enumerated other challenges they face in their bid to access credit from MFIs. The following were frequently mentioned by the SMEs in relation to challenges in accessing credits:

- Forming of groups in order to be granted a loan
- Cumbersome and bulky documentations before credits are granted
- Backing credits with guarantors with good financial standing
- Meeting the minimum requirement of saving up to three months before credits are granted.
- High interest rates

Table 4.5.1: Criteria for credit qualification and Collateral security

Item	Yes	No
Do you find the criteria for accessing loans from MFIs cumbersome?	76(55.47%)	61(44.53%)
Do MFIs always require collateral securities before granting loans?	53(38.69%)	84(61.31%)
Do you always get the collateral requested?	55(40.15%)	82(59.85%)

Source: Field Survey, October 2011

4.6. RATE OF UTILIZATION OF CREDITS

Business needs constant recapitalization in order to run smoothly and to meet daily demands on the market. These needs normally arise as a result of desire to explore other profitable business lines or the need to expand existing business.

4.6.1 Frequency of Credit Requests

The rates at which SMEs need credit for varied purposes; for business expansion or otherwise, have been presented in table 4.6.1 below. The issue about credit requests and intended purposes received varied responses from SMEs. As as some needed recapitalization as often as possible, majority of the respondents are not sure of how often they needed credit.

As indicated in Table 4.5.1 below, it was found that majority of the respondents, thus 32.85 percent are not sure of how often they need loans for their businesses whiles in terms of how often they apply for such loans, it was also found to be 'not sure' for majority of the respondents, thus 50.36 percent.

This analysis gives credence to the fact that beneficiaries of MFIs do need credit most of the time for their businesses but do not apply for loans as many times as the need arises. However the researcher also found that, SMEs hesitate in applying for credit as often as they need them due to the high interest rate associated with the facilities given to them and the difficulties they face in satisfying some prerequisites needed for the facility.

Table 4.6.1: Rate at which credit is accessed

Item	**Not Often**	**Often**	**Very Often**	**Not Sure**
How often do you need a loan for your business	17(12.40%)	33(24.09%)	42(30.66%)	45(32.85%)
How often do you apply for loans from MFIs	27(19.71%)	23(16.79%)	18(13.14%)	69(50.36%)

Source: Field Survey, October 2011

4.6.2 Misapplication of Credits

On the issue of how credits are utilized for business purposes, respondents gave some indication of situations not relating to business for which credits acquired are applied.

Below are some of the most frequent purposes for which credits are applied for by some SMEs.

- Payment of school fees
- Medical bills
- To purchase a vehicle for transportation for business purposes alike
- For house building project
- Solve unexpected family issues
- Payment of rent

Data relating to the usage of the loans also indicates to some extent, the non-usage of the credit acquired for the intended purposes, which amounts to misapplication of funds. In Table 4.6.2 below, it became clear that, 57.67 percent of SMEs always felt the need to acquire loans for other purposes, and literally use the loans specifically meant for business for other purposes as shown above. The responses show that 41.1 percent do not use exactly what they have acquired as loans for solely business use but rather used for settling of other pressing social and family issues.

Amazingly, majority of the respondents concede that the loans they acquire lead to increase in their capital base for business operation. This shows that, the operations of the MFIs lead to improvement in the daily activities of the beneficiaries.

However, the non-usage of credit for the intended purpose for which it was acquired, amounts to credit misappropriation. This is one of the major setbacks in the growth of SMEs as admitted by SME operators. Due to this when respondents were asked to suggest ways by which misappropriation could be minimized or avoided, the following are some of the suggestions given:

- Educating clients on the proper usage of loans by encouraging beneficiaries to use the credit for the intended purpose.
- MFIs should increase their rate of inspection of the shops and the daily activities of their clients.
- By investing in profit- generating businesses that have enough cash flow for repayment of loans given.

Table 4.6.2: Usage of Credit Acquired

Item	Yes	No
Have you ever felt the need to acquire a loan for other purposes apart from business	79(57.67%)	58(43.33%)
Have you ever used loans for other purposes apart from business purposes	47(31.91%)	32(68.09%)
Do you always use exactly what you acquired as loan for solely business use	80(58.39%)	57(41.61%)
Do the loans acquired lead to increase in your capital	93(67.89%)	44(32.11%)

Source: Field Survey, October 2011

A study of thirteen MFIs in seven countries carried out by Mosley and Hulme (1998) concludes that household income tends to increase at a decreasing rate as the income and asset position of the debtors is improved. Diagne and Zeller (2001) in their study in Malawi suggest that microfinance do not have any significant effect in household income meaning no effect on SME development. Investing in SME activities will have no effect in raising household income because the infrastructure and market is not developed.

It is therefore essential to indicate that favourable structures should be put in place, beyond credit offer, to ensure that SMEs can generate enough income to cater for the needs of their households in order to minimize credit misappropriation.

4.7. THE BACKGROUND OF MFIs

Eight (8) microfinance institutions were sampled to study how they operate and how SMEs benefit from their operations.

It was found that, all the selected eight (8) MFIs begun their business in the 2000s. They were set up by different group of companies/individuals for various objectives such as:

- To provide timely and attractive financial solutions in a friendly and highly environment
- To provide basic and simple financial services to the lower end of the society
- To encourage savings and investment and give them access to financial intermediaries not open to individuals in the traditional banks

These MFIs were found to be providing all types of services such as the savings, loan/credit, investment and other non-financial services.

Unanimously, all the eight (8) MFIs selected for the study have all the various forms of businesses as their target market. These include:

- Manufacturing
- Commerce
- Service

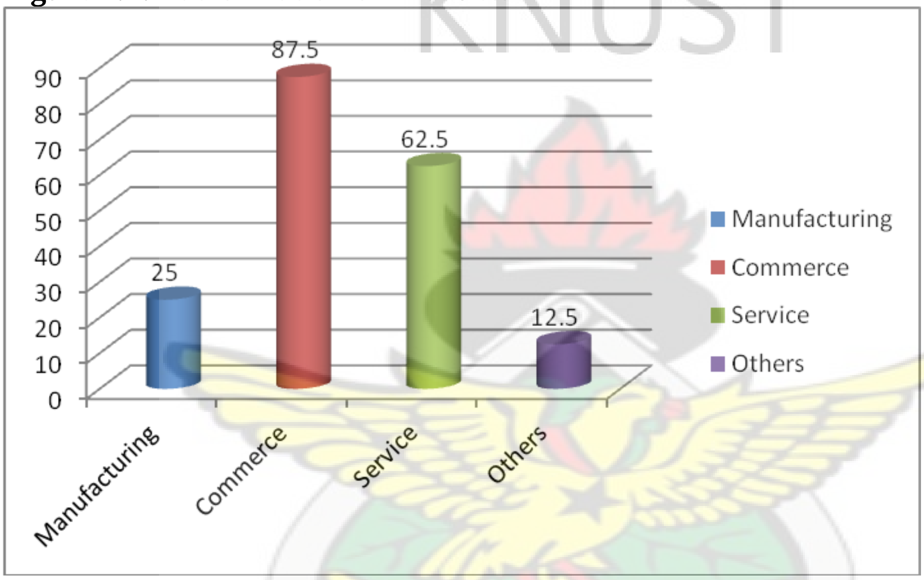
4.7.1 Patronization of MFI Products

Figure 4.7 below represents the percentage of patronage of MFI products by various sectors of SMEs. The Table shows that a majority 87 percent of MFI products are patronized by the commerce sector. The service sector is next to commerce with 62.5

percent of patronage, manufacturing sector has 25 percent and the other forms of businesses have 12.5 percent.

This is because majority of the clients of the MFIs are mostly found in the areas where selling and buying is the most predominant occupation among the inhabitants and the Kumasi Metropolis is one of such areas where commerce employs about 71 percent of the population.

Figure 4.7: Patronization of Products



Source: Field Survey, October 2011

4.8. THE CONTRIBUTION OF MFIs IN THE GROWTH OF SMEs

All the MFIs indicate vast knowledge about the activities of SMEs, and mostly provide credit to them on short term basis alone, and on rear occasions provide medium term loans mostly for the manufacturing industry.

Out of the eight (8) MFIs, five (5) indicate they give a percentage of 75-99 percent of the loan requested whiles the remaining three (3) give a fixed amount which is considered to be 100 percent. The researcher's observation shows that, most of the beneficiaries normally do not request for a huge loan facilities, thereby making it possible for the MFIs to provide the entire credit facility to them.

On the issue of the period it takes before a loan is granted, the MFIs indicate that, it takes within 1-4 weeks before credits are granted, however, the speediness, to a large extent, depends on the information provided by the clients since the MFIs authenticate the information before authorization is given for the granting of credits. This assessment of the client's credit worthiness is mainly based his/her ability to repay the loan and the managerial skill of the client.

4.8.1 Prerequisites for accessing MFI credits--Collateral Securities

On the provision of collateral securities, it was observed that, security is required for certain kinds of credits. Some MFIs do not require any form of security at all but rather grant credit based on the savings capacity of the client. In situations where collaterals are needed, it was found that, the MFIs requested any of the following collaterals;

- Land
- Car
- Shops as a reference point for guarantee

On the total percentage of applicants who qualify for loans within a month, the researcher found that, less than 25 percent of loan applicants qualify for loans as per data given by MFIs.

4.9. CHALLENGES MFIs FACE IN GRANTING CREDITS

The operations of the MFIs were also associated with some challenges as were enumerated by the MFIs. These challenges are provided below:

- Problem of repayment of loans
- Lack of collateral security required on the part of the SMEs
- Poor records keeping on the part of the SMEs
- Non disclosure of detailed operations of the SMEs
- Lack of transparency in the business accounts and related business information
- Misappropriation of loans granted
- Lack of proper documentation in terms of business registration and a permanent business address

4.10. THE RATE OF CREDIT UTILIZATION

All MFIs indicate that, regular clients very often requested for credit. As per their evaluation, this leads to growth in their business hence, the need for recapitalization always.

Nevertheless, as to whether loans granted are injected into the business activities of clients, MFIs were very doubtful as to right appropriation of the credit granted to the SMEs.

Due to the doubtfulness, the MFIs respondents gave some of the activities they think clients use the loans for. Some of these activities are:

- To finance funerals
- To pay school fees of their wards

- To solve family matters
- To finance medical bills
- For payment of travelling tickets

To the above aforementioned misappropriation of the loans, these suggestions were given in order to avoid the misappropriation of funds.

- Proper monitoring of clients business
- Strict assessment of clients' credit worthiness before granting loan facilities
- Thorough analysis of clients business information

Moreover, for the general improvement of MFI services to ensure accelerated and sustained growth of the SME sector, the following suggestions were given by MFIs:

- MFIs should make registration of business and having permanent address a criteria of giving out of loans
- Credits should be a client-need oriented and not a product oriented
- MFIs should grant loans with moderate interest rate.
- Constant evaluation and monitoring should be put in place to provide appropriate remedy to some of the challenges of the SMEs that may be arise.

It imperative to note that MFIs have helped to improve the fortunes of most SMEs. However, the success of MFIs cannot be measured just by what they do, but also by the effects of their activities on their clients.

In the light of this, Buckley (1997), argue that, the indicators of success of microcredit programs; namely high repayment rate, outreach and financial sustainability does not take into consideration what impact it has on micro enterprise operations and only focusing on "microfinance evangelism"

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

5.1.2 Profile of SMEs in the Kumasi Metropolis

The contribution of the SME sector to the economy in terms of employment cannot be ignored. The SME sector in made up of various sub-sectors such as; commerce, Service, Manufacturing and other artisan bodies. The research shows that the sector is hugely dominated (93%) by commerce which is basically buying and selling. This, the researcher believes, is due to the fact that very little capital is needed to begin and operating such businesses does not require any regulatory processes.

It was also revealed that about 72 percent of the total population of SMEs in the Kumasi Metropolis are at their Micro stages since they employ less than six people in their businesses. This shows that the sector though has a potential for growth is faced with a high capital constraint.

In terms of start-up capital, the research unveils that Financial Institutions play an important role as most respondents indicated that the source of their start-up capital were financial institutions.

5.1.3 The Contribution of MFIs to the Entrepreneurial Activities of SMEs.

As mentioned earlier, the major setback in the SME sector is capital constraint and this constraint, as it were, are supposed be minimized by the existence of the traditional banks through credits. However, most entrepreneurs have indicated that access to credit from the traditional banks has been their major problem.

The research finding show that MFIs have contributed enormously to the growth of the SME sector through several activities as enumerated below:

1. Greater access to credit. The MFIs have provided SMEs a greater access to credit than the traditional banks. Most respondents indicated that 100% of their credit demand was granted. Since most of these SMEs are Micro, their credit needs are very small and their credit needs are most of the times meet. Most SMEs were found to be dealing with more than one MFI, and the credits granted helped to boost their capital and expand their businesses.

2. An enhanced saving habit. The traditional banking sector is unable to introduce saving products that will attract Micro businesses. MFIs have been able to create a platform that enables Micro businesses to save the little income they earn on daily basis with little cost. For most MFIs, the saving accumulated is the basis for the amount of loan to be granted. The habit of saving has been enhanced through the activities of MFIs.

3. Business, Financial and Managerial Training. A majority of SMEs revealed that they have been beneficiaries of Business, Financial and Managerial training activities of MFIs.

Knowing that most entrepreneurs lack or have very little knowledge in financial management, these support services have gone a long way to make them more competitive and very alert to the implications of their financial decisions.

4. General effects. The findings also revealed a majority of 86 percent respondents indicating that the operations of MFIs had had a positive effect on their businesses.

5.1.4 The challenges SMEs face in accessing credit

Despite the contribution of MFIs in the activities of SMEs, there are some challenges faced by SMEs in the process of accessing credit. Some of the SME respondents find the process of accessing credit as cumbersome. Some these challenges are:

- Inability to provide the collateral securities in cases where they are demanded.
- High interest rate was as mentioned as one of the challenges faced in accessing credit. The high interest rates in most cases make clients unable to repay their loans.

The MFIs on their part provided some of the challenges they also face in granting credit. These are:

- Problem of repayment of loans
- Lack of collateral security required on the part of the SMEs
- Poor records keeping on the part of the SMEs
- Lack of transparency in the business accounts and related business information
- Lack of proper documentation in terms of business registration and a permanent business address.

5.1.5 Rate of credit utilization

It is a fact that if credits are misapplied, SMEs will be unable to achieve business growth. The research revealed that 43 percent of respondents in the SME sector felt the need to use business loans for other purposes whiles 31 percent actually indicated that they have misapplied their business loans.

This phenomenon is a bit worrying as the increase in this practice will defeat the goals of the MFIs and in the worst scenario make clients unable to repay their loans. The rise in this practice is likely to trigger the need for collateral securities as the percentage of loan default is likely to rise as a result of misapplication of credit.

5.2 CONCLUSION

The research which was undertaken to find the effects of MFIs on the growth of SMEs reveals that MFIs have a positive effect on the growth of the latter, notwithstanding the inherent challenges. It has been noted that, access to credit which is a major challenge in the SME sector has been reduced to a large extent through the operations of MFIs. The findings also show that MFIs have also contributed to the growth of SMEs through the provision of non-financial service such as Business, Financial and Managerial training programmes.

MFIs have also contributed largely in the area of mobilizing savings through their saving schemes that make saving more accessible, less costly and ready to receive little amounts. The habit of saving is enhanced as low income earners who where hitherto unable to save with traditional banks are offered an opportunity to save. The practice helps to improve capitalization as most of these saving are ploughed back in their businesses.

It is also critical to highlight the challenges that have the tendency of derailing the efforts of the MFIs in granting credit. Some of these are the inability of clients to repay their loans and the rate of credit misappropriation. It is worth noting that MFIs provide better access to credit than the traditional banks. However, the research reveals that a good number of MFIs require collateral security before loans are granted and this negatively affects the SMEs as some are unable to provide the collateral requested. High interest rate has also been mentioned as one of the challenges in accessing credit facilities of MFIs. In relation to high interest rate, MFIs have explained that the risk attached to the granting of loans is on the high side and are unable to reduce the interest rates.

In the midst of these challenges, I wish to emphasise that the finding of this research clearly indicates that MFIs have had a positive effect on the growth of SMEs.

5.3 RECOMMENDATIONS

In view of the findings made and conclusions drawn from the study the following recommendations are provided to help enhance an accelerated and sustained growth in the SME sector and also provide recommendations to help in the improvement of the services of MFIs.

The MFIs may be quick to measure their success rate by considering factors like high repayment, outreach and financial sustainability, but these may not be success if their activities do not reflect in the growth of SMEs. The growth of SMEs does not only rely on access to credits but also the creation of favourable and formidable business environment.

The MFIs have a great responsibility of ensuring the proper use of credit which is an important facility in business acceleration. To achieve this, credits should client-oriented and not product- oriented. Proper and extensive monitoring activities should be provided for clients who are granted loans.

In order to reduce the rate of default, MFIs can research into very profitable business lines and offer credit to clients who have the capacity to exploit such business lines.

Finally, the researcher recommends that business and financial training should be provided by MFIs on a regular basis and most cases should be tailored toward the training needs of the clients.

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APPENDICES

Appendix 1

Questionnaire for data collection from Small and Medium Scale Enterprises (SMEs) on the topic. "THE EFFECT OF MICRO FINANCE INSTITUTIONS ON THE GROWTH OF SMALL AND MEDIUM SCALE ENTERPRISES (SMEs); A CASE STUDY OF SELECTED SMEs IN THE KUMASI METROPOLIS.

We would be very grateful if you could spend some time to respond to these questions for us. You are assured that any information provided would be used for academic purposes only and will be held strictly confidential.

Please, tick [√] or fill in as appropriate.

A. DEMOGRAPHICS (To provide a detailed profile of Small and Medium Scale Enterprises)

1. When did your business begin operations? ....

2. What was the objective for establishing your business?

....

....

3. What is your line of business?

a. Manufacturing [ ]   b. Commerce [ ]   c. Service [ ]   d. Others(Please specify).............................

4. How many people have you employed?

a. Less than 6 people [ ]   b. 6-9 people [ ]   c. 10-29 people [ ]

d. 30-99 people [ ]   e. Above 100 [ ]

5. What is (are) the source(s) of your business capital?

a. Self [ ]   b. Friends &Relatives [ ]   c. Partnership [ ]

d. loans from banks & finance institutions   e. Others (Please specify).....................

6. Do you have adequate capital for your business? a. Yes [ ] b. No [ ]

7. If NO, in what ways do you intend to acquire additional capital for your business?

....

....

....

B. THE CONTRIBUTION OF MFIs IN THE OPERATIONS OF SMEs

8. Do you know about the operations of Micro Finance Institutions? a. Yes [ ] b. No [ ]

9. If Yes, how did you get to Know about Micro Finance Institutions(MFIs)?

a. Friends [ ] b. Media [ ] c. MFI official d. Handbill [ ] e. Others (please specify):................

10. Have you ever benefited from any services of Micro Finance Institution(s)?

a. Yes [ ] b. No [ ]

11. Which products of Micro Finance Institutions have you benefited from?

a. Credits [ ] b. Financial & Management training [ ] c. Others (please specify).....................

12. Has the availability of MFIs contributed to the enhancement of your managerial skill, financial management skill and overall business knowledge? a. Yes [ ] b. No [ ]

13. Have you ever applied for credit facility from any MFI? a. Yes [ ] b. No [ ]

14. What percentage of loan applied was granted?

a. 100 per cent [ ] b. 75-99 per cent [ ] c. 50-74 per cent d. Less than 50 percent [ ]

15. How long does it take to access credit from your MFI?

a. Less than a week [ ] b. 1-2 weeks [ ] c. 2 -3 weeks [ ] d. 3-4 weeks [ ]

e. above 4 weeks [ ]

16. How many Micro Finance Institutions do you work with?

a. None [ ] b. 1 [ ] c. 2 [ ] d. 3 [ ] e. 4 [ ] f. 5 and above [ ]

17. Do you access more credit from MFIs than the traditional banks? a. Yes [ ] b. No [ ]

18. What were your expectations about MFIs before doing business with them?

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

19. Have these expectations been met? a. Yes [ ] b. No [ ]

20. In general, how has the existence of MFIs affected your business?

a. Don't know[ ] b. Positive [ ] c. Negative [ ] d. Unchanged [ ]

C. THE CHALLENGES FACED IN ACCESSING CREDITS

21. What kind of credit do you normally request from MFIs?

a. Short term [ ] b. Medium term [ ] c. Long term [ ]

22. How many times have you applied for loans from MFIs?
....

23. Out of the number of times you applied for loans, how many times were you successful in getting the loan? ....

24. Do you find the criteria for accessing loans from MFIs cumbersome?

Yes [ ] No [ ]

25. Do MFIs always require collateral securities before granting loans? a. Yes [ ] b. No [ ]

26. What kind of collateral do they request?

a. Land [   ]   b. House [   ]   c. Car [   ]   d. Shop [   ]   e. Other (Please specify)....................

27. Do you always get the collateral requested?   a. Yes[   ]   b. No [   ]

28. What are the major challenges you face in accessing loans from MFIs?

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

D. THE RATE OF UTILIZATION OF CREDITS BY SMEs

29. How often do you need a loan for your business?.

a. Not Often [ ]   b. Often [   ]   c. Very Often [   ]   d. Not sure [ ]

30. How often do you apply for loans from MFIs?

a. Not Often [ ]   b. Often [   ]   c. Very Often [   ]   d. Not sure [   ]

31. Have you ever felt the need to acquire a loan for other purposes apart from business?

a. Yes [   ]   b. No [   ]

32. Have you ever used loans for other purposes apart from business purposes? a. Yes [ ]   b. No [   ]

33. Do you always use exactly what you acquired as loan for solely business use? a. Yes [   ]   b. No [   ]

34. Apart from your business, what other purposes do you use your loans for?

....

35. Do the loans acquired lead to increase in your capital?   a. Yes [   ]   b. No [   ]

36. Kindly suggest how credit misappropriation can be avoided

....
....

Appendix 2

Questionnaire for data collection from Micro Finance Institutions (MFIs) on the topic. "THE EFFECT OF MICRO FINANCE INSTITUTIONS ON THE GROWTH OF SMALL AND MEDIUM SCALE ENTERPRISES (SMEs); A CASE STUDY OF SELECTED SMEs IN THE KUMASI METROPOLIS.

We would be very grateful if you could spend some time to respond to these questions for us. You are assured that any information provided would be used for academic purposes only and will be held strictly confidential.

Please, tick [√] or fill in as appropriate.

A. DEMOGRAPHICS (To provide a detailed profile of Micro Finance Institutions)

1. When did your Micro Finance Institution (MFI) begin operations?

....
....

2. What was the main objective for establishing this Micro Finance Institution?

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

3. What products do you provide?

a. Savings [ ] b. Loan/Credit [ ] c. Investment [ ]
d. Non - financial services [ ] e. Others (Please specify)..............................

4. Which category of SMEs serve as your target market?

a. Manufacturing [ ] b. Commerce [ ] c. Service [ ] d. Others (Please specify)................

5. Which category of SMEs patronise your products the most?

a. Manufacturing [ ] b. Commerce [ ] c. Service [ ] d. Others (Please specify).................

6. What challenges do you face in doing business with SMEs?

....
....

B. THE CONTRIBUTION OF MFIs IN THE GROWTH OF SMALL AND MEDIUM SCALE ENTERPRISES (SMEs)

7. Do you know about the activities of SMEs? a. Yes [ ] b. No [ ]

8. What kind of credit facility do you offer?
a. Long term [ ] b. Medium term [ ] c. Short term [ ]

9. What percentage of loans requested do you grant?
a. 100 per cent [ ] b. 75-99 per cent [ ] c. 50-74 per cent d. Less than 50 percent [ ]

10. How long does it take to process and disburse credits?

a. Less than a week [ ] b. 1-2 weeks [ ] c. 2 -3 weeks [ ] d. 3-4 weeks [ ]

e. above 4 weeks

11. What are your criteria for providing credit?

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12. Do you find the criteria for loan processing cumbersome? Yes [ ] No [ ]

13. Do you always require collateral securities before granting loans to SMEs?
a. Yes [ ] b. No [ ]

14. What kind of collateral do you request?

a. Land [ ] b. House [ ] c. Car [ ] d. Shop [ ] e. Other (Please specify)..................

15. Do SMEs always get the collateral requested? a. Yes [ ] b. No [ ]

16. What percentage of total applicants qualify for loans within a month?
a. less than 25 [ ] b. 26 to 50 [ ] c. 51 to 75 [ ] d. 76 to 100 [ ]

C. THE CHALLENGES SMEs FACE IN ACCESSING CREDITS

17. Do you face any challenges in granting credits to SMEs? a. Yes [ ] b. No [ ]

18. If yes, kindly provide the challenges you face in granting credits to SMEs.

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D. THE RATE OF CREDIT UTILIZATION BY SMEs

19. How often do your regular clients request for credit?
a. Not Often [ ] b. Often [ ] c. Very Often [ ] d. Not sure [ ]

20. As per your evaluation, do loans granted lead to growth in their businesses?
a. Yes [ ] b. No [ ]

21. In your own evaluation, do you think clients use all loans granted for business activities? a. Yes [ ] b. No [ ]

22. If no, what activities do you know clients use the loans for?

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23. Kindly suggest how credit misappropriation can be avoided.

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24. Kindly provide suggestions as to how credits and other non-financial services provided for SMEs can be improved?

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