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EFFECT OF MICRO-FINANCE ACTIVITIES ON THE SURVIVAL OF SMALL AND MEDIUM SCALE ENTERPRISES

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DECLARATION

I hereby declare that this submission is my own work toward the award of the Master of Science in Accounting and Finance 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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NYANSAPO WO SANE NO BADWENMA

DEDICATION

This dissertation is dedicated to my children Christopher Tetteh, Christiana Tetteh, Elizabeth Tetteh and Edward Debrah Tetteh, and my lovely wife, Mrs. Patricia Tetteh for their wonderful support.The study is also dedicated to my cherished parents, Madam Christiana Amissah(of a blessed memory) and Mr. Richard Tetteh for their dedication towards my education, their encouragement and support to this level.

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ABSTRACT

Small and Medium Scale Enterprises (SMEs) have over the years become increasingly important to the growth of Ghana's economy. Their prominence came into the limelight in the late 1970s and early 1980s due to the economic recession which led to the decline of industrial growth and employment in many developing countries. SMEs play important role in the growth of the economy and it is estimated that SMEs are the engine of growth in Ghana's economy as they employ about 85% of the Ghanaian work force and contribute about 70% to the country's Gross Domestic Product (GDP). However, the issue of financing has become a major constrain for SMEs in Ghana and despite the major role SMEs play in the economic development, they may cease to exist when they are unable to have access to the needed financing. This study seeks to improve understanding of the microfinance and SME performance debate and more especially to add the Ghanaian perspective. The study investigates whether activities of microfinance institutions are able to improve the performance of SMEs in Ghanaian. Whiles several studies focused on the impact of SMEs on the economy, this study focused on a variety activities to measure the effect of microfinance on SME performance. The research questions addressed whether activities of microfinance institutions had a significant effect on the performance of SMEs within the periods of January, 2017 to December, 2019. The target sample was 397 respondents selected from 50 SMEs. Cross-sectional data was obtained from the questionnaires distributed to respondents. The study used SPSS to analyze responses and factor analysis to determine whether there was a statistically significant relationship between the performance of SMEs and the activities of microfinance institutions. The findings revealed that the activities of microfinance institutions such as availability of credit, depository services, business advisory services and loan insurance had significance positive effect on the performance of SMEs between the period of January 2017 to December 2019.

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LIST OF ABBREVIATIONS

SME…… Small and Medium Scale Enterprise

MFI……..……...….. Microfinance Institution

BoD……..……... Board of Directors

NBSSI……..… National Board for Small Scale Institutions

IASCF…… International Accounting Standards Committee Foundation

GSS……..… Ghana Statistical Service

GDP…….……..… Gross Domestic Product

IMF……... International Monetary Fund

BoG…….…… Bank of Ghana

GAMC…….……..Ghana Association of Microfinance Companies

SPSS…… Statistical Package for Social Sciences

CEO…… Chief Executive Officer

WACC……..…..…Weighted Average Cost of Capital

BoG……..…… Bank of Ghana

ISO……..…International Standards Organization

ROA…….…… Returns on Asset

ROE…….. Returns on Equity

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Over time, small and medium-sized enterprises (SMEs) are becoming increasingly important to the development of Ghana's economy. Their importance was highlighted in the late 1970s and early 1980s, when the economic crisis in many developing countries led to a decline in industrial growth and employment (Abor and Ajasi, 2017). According to Gwangwava, Manuere, Kudakwashe, Tough and Rangarirai (2014), the decline in the levels of employment within the formal sector due to retrenchments and closures of firms attributed to low capacity utilization and thereby resulted in SMEs sector assuming a greater prominence in providing alternative source of livelihood to many citizenry. Also, Kayanula and Quartey (2000), outlined certain outstanding strengths of SMEs that puts them in a better position as channels of development in developing economies than large enterprises such as; assisting in mobilizing idle funds, serving as seed-bed for indigenous entrepreneurship, they are labour intensive, promotes indigenous technical know-how, rely mainly on local resources and also cater for the needs of poor and adapts to customer requirements quickly.

Akugri, Bagah and Wulifan (2015) confirmed in a study that even in developed economies such as the USA, SMEs play important role in the growth of the economy. It is estimated that SMEs are responsible for about 60% of the China's industrial output and as well employ about 75% of the total workforce of China (Akugri et al, 2015). In Kenya, Kombo, Justus, Murumba and Makworo (2011), posited that "SMEs who include agriculture and rural businesses have contributed greatly to the growth of Kenyan economy", the sector contributes to the national objective of creating employment opportunities, training entrepreneurs, generating income and providing a source of livelihoods for the majority of low income households in the country accounting for 12-14% of

GDP in Kenya. This ultimately calls for the need to offer support and nurturing of SMEs to grow so as to contribute meaningfully to the national cause. In Ghana SMEs play a meaningful role in economic development as the Ghanaian economy is heavily dominated by SMEs. According to Amoah (2018), SMEs are the engine of growth in Ghana's economy and they employ about 85% of the Ghanaian work force and contribute about 70% to the country's Gross Domestic Product (GDP). Presently, SMEs have become the pivot around which the much needed job creation have been realized.

However, the issue of financing has become a major constrain for SMEs in Ghana over the past decades. Despite the major role SMEs play in the economic development of Ghana, they may cease to exist and even find it difficult to go beyond the conception and development stage when they are unable to have access to the needed financing. According to Fofowe (2017),
"insufficient finance is a key obstacle to firm growth and its been established that small firms face bigger challenges in obtaining finance as compared to larger firms".

Moreover, the emergence of micro-finance institutions in Ghana over the past few years is seen as an important machinery for financial and economic emancipation for SMEs. According to
Reiter and Peprah (2014), micro-finance has been touted by many as a "magic bullet" that is able to empower marginalized population by investing into their agency. As a core mandate, microfinance institutions are seen to exist to lend money to institutions and enterprises that do not qualify for regular bank loans. They provide financial aid for their members in the form of loans which accrue minimal interest over a specified period and also get involve in the business of their members in order to give them advice (Gracia, 2017). Over the past decade, micro-finance institutions in Ghana have contributed to the development of small scale businesses through the

provision of loan facilities to the small enterprises and entrepreneurs so as to take its rightful position as the premier provider of micro finance in Ghana (Amoah, 2018).An amount of $131.2 million representing total loans was issued by micro-finance institutions in Ghana to 358,717 active members in 2009 (KSF, 2011). However, following the emergence of micro-finance institutions in Ghana over the past few years with the objective of providing financing for the operations of SME's, there is the need to assess the impact of their financing and other activities on the survival (profitability) of the SMEs particularly in the Jomoro Municipality which has emerged as a home of SMEs.

The Jomoro Municipality is one of the 275 Metropolitan Municipal and District Assemblies in Ghana. The Municipality is located in the Western Region of Ghana as one of the 18 Municipal and District Assemblies. Over the years, the Jomoro Municipality has earn the accolade as a hob of SME's in Ghana. Statistically, the Municipality has about 80% of its employed population engaged in small and medium scale enterprises. This consist of 39% engaged in skilled agricultural, forestry, fishery businesses, 21% in services, manufacturing and sales, 20% in artisan/craft and related trade with only 2.6% engaged in the formal sector as managers, professionals and technicians (Ghana Statistical Service, 2014). It is therefore a good location for a study on SMEs in Ghana.

1.2 Problem Statement

SMEs are globally recognized as a tool for citizen empowerment and economic growth. In their study, Abor and Quartey (2010) noted that all available evidence "indicates that SMEs play an important and strategic role in the growth and development of every country, accounting for about 90% of enterprises in most countries of the world". In Ghana, SMEs are seen as the engine of the

country's economic growth. They employ about 85% of Ghana's labour force, contribute to 70% of the country's gross domestic product (GDP) (ESC, 2018), generate more innovation and contribute to the growth of the national economy through job creation, investment and exports.

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Despite the strenuous efforts by successive Ghanaian governments to ensure reduction in poverty and accelerate economic growth through formulating of policies that favour SMEs, sustainability of SMEs and for that matter their contribution to the growth of the economy continues to pose a serious challenge when such policies are unable to make the needed impact on the SMEs. The emergence of micro-finance institutions in Ghana is seen as the way forward for the survival and growth of SMEs. Agwu (2014) revealed that financial institutions offer the important financial lubricant that assist in the development of Small and Medium Enterprises. Emergence of microfinance institutions has been touted as the "magic bullet" that is able to empower marginalized population by investing into their agency and by lending money to institutions and enterprises that do not qualify for regular bank loans (Reiter and Peprah, 2014). However, the emergence of micro-finance institutions and the provision of financial aid to SMEs alone cannot guarantee the survival and sustainability of SMEs when their activities are not able to make the right impact on the profitability of the SME's.

As part of the current government administration, the financial sector clear-up exercise affected large number of micro-finance institutions leading to seizure and revocation of over 300 operating licenses. Since, the clean -up exercise only few studies have been conducted to ascertain the actual profitability of micro-finance institutions. The few studies conducted in this respect have reported missed results. Therefore, there is the need to address this knowledge gap. of the operating. The present study is therefore aimed at assessing the impact of the activities of the microfinance institutions on the performance (profitability) of SMEs.

1.3 Objectives of the Study

General Objective:

The general objective of the study is to examine the impact of the activities of microfinance institutions on the profitability of Small and Medium Scale Enterprises.

Specific Objectives

The study will specifically embark on the following:

1. To investigate the extent to which SMEs utilize microfinance.
2. To estimate the impact of microfinance on the profitability of SMEs.
3. To identify enabling factors that influences the impact of microfinance on the profitability of SMEs.

1.4 Research Questions

To examine the impact of microfinance activities, this study will seek to address the following research questions:

1. What extent do SMEs utilize microfinance?
2. What is the impact of microfinance on the profitability of SMEs?
3. What are the factors that influence the impact of microfinance on the profitability of SMEs?

1.5 Significance of the Study

Since the last three decades, microfinance has been positioned as a development tool to reduce poverty at global and local levels. It is hoped that the findings of this study will perform the

following functions: Provides avenues for the policy makers to assess the strengths and weaknesses in the provision of microfinance services to its SMEs clients, hence it will help the MFI to provide better quality and accessible services to the poor and vulnerable. Moreover, the outcome of the study is expected to aid management decisions by adding to the stock of knowledge on the effectiveness of microcredit services and profitability of the firm. It is also expected to inform policies towards enhancing the operation of MFI in group lending. The study will also aid prospective researchers in this field since the information herein will serve as reference document. This study is intended to investigate the relationship between microfinancing and the profitability of SMEs in Ghana. Importantly, the study will enhance management understanding of how the activities of micro-finance institutions through the provision of credit facilities, business advisory services, managerial training, depository services among others will help their firms by way of securing the needed capital and the managerial expertise to invest in productive assets that will lead to productivity growth, increase in production, hiring of new employees as inputs to production which is an important determination for firm performance. Moreover, when the SMEs experience growth they will be in the position to honor their tax obligations which will in-turn boost the tax revenue of the government. The study will also help policy makers to uncover ways by which the government can sustain the contributions made by SMEs towards the growth and development of the economy.

Theoretically, the researcher aims at contributing to existing literature on SMEs and how the activities of micro-finance institutions affect their performance Ghana. The study also contribute to knowledge as other researchers can also refer to it when undertaking similar studies as well as serve as a reference point for people who will want to study around the same topic.

1.6 Scope of the study

This study is limited to Micro-finance Institutions and SMEs in the Jomoro Municipality in the Western Region of Ghana and covers the period of January 2017 to December 2019. The dissertation is restricted to the objectives of the research which investigates the extent of utilization of microfinance by SMEs, the impact of microfinance on the profitability of SMEs as well as factors that influence the said impact. The Jomoro Municipality has a total population of about 150,107 with 49% being male and 51% being female. The municipality has about 80% of its employed population being SME operators and only 20% engaged in the formal sector. This consist of 39% engaged in skilled agricultural, forestry, fishery businesses, 21% in services, manufacturing and sales, 20% in artisan/craft (GSS, 2010).

1.7 Organization of the Study

There are five chapters over which the study is categorized. Chapter one of this study deals with the introduction, the background information of the study, highlighting the problem statement and also the objectives of the study. The significance of the study and the research questions will also be captured in this chapter. Besides the scope, the hypothesis and the limitations of the study have been outlined. Chapter two presents a review of literature on Small and Medium

Scale Enterprises (SME's), The results of previous studies on the impact of microfinance activities on the performance of SMEs and related studies are presented and chapter 3 describes the methodology of this paper. The fourth chapter provides the data and analysis in line with the research objectives and themes. The findings, conclusions and recommendations are summarized in Chapter 5.

1.8 Operational Definitions and Key Terminologies

Microfinance: A category of financial services that is targeted at low income earners and small business operators who are unable to access such services from commercial banks due to the nature of their business.

Small and Medium-scale Enterprises: These are private organizations that have employee strength between 30 -99 employees and have a turnover greater than US$200,000 and not more than UD$5 million (NBSSI, 2014)

SMEs Performance:The actual output of an organization as measured against its intended outputs which encompasses the financial performance such as ROA and ROE (Soltanizadeh, 2015). ***Profitability:*** This explains the process by which businesses make gains or yield returns over a specified period of time through their operations.

Utilization of Microfinance: The process by which SMEs make practical or effective use of the financial services targeted at them by microfinance institutions in the form of financial aid due to the nature of their business.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In chapter two of this paper, the work of the authors and editors on the concepts, definitions and methodological approaches relevant to this paper is discussed. The chapter is split into various parts concerning the literature review that lead to the definition of SMEs and microfinance institutions, the different strategies used to obtain the relevant literature, the theoretical foundations of the research and finally the different works leading to the field of research and methodology.

2.2 Conceptual Review

2.2.1 Micro-finance Institutions

The emergence of microfinance has been hailed widely as the miracle bullet that can empower marginalized people by investing in their agency. Micro-finance institution emerged in the 1970s to provide financial aid to low income earners in Ghana so as to provide financing for their business (Gracia, 2017). They provide this financial aid to their members in the form of loans or credit facilities which apparently accrue low interest over the specified loan term. They also get involved in the business activities of their members by proving them with business advisory services. Over time, microfinance institutions have become an important tool for poverty reduction and economic development (Mixmarket, 2011).

In Ghana, the concept of microfinance has its roots in the tradition of saving and obtaining small loans from individuals or groups as part of assistance in establishing a business or farm.In the 1970s, microfinance institutions in Ghana emerged as a result of a number of factors, the most important of which was the fact that there were few, if any, services available to low-income people in the formal sector and the perceived ability of the poor to effectively use credit to generate income (Ayeetey, 2014). According to Owus-Antwi et al. (2014) rural communities, especially small farmers and fishermen, did not have access to formal credit until the establishment of Ghana's first microfinance institution in the 1970s. Creditors and traders were the main sources of credit, so they applied excessive interest rates. In addition, commercial banks used their branches in rural areas to make payments mainly to cocoa farmers and to collect deposits for loans in urban areas. In this respect, the government launched an initiative to improve access to finance in rural areas.

Andah and Steel (2003) stated that commercial banks require strict guarantees and higher deposits to provide loans to rural communities. However, many fishermen and small farmers did not have

deposit accounts with commercial banks and therefore could not meet the requirements to guarantee commercial loans. According to Otero (1999), providing physical capital to the poor increases their self-esteem, enabling them to participate in the economy and society.

According to Mohammed Yunus, a prominent founder of microfinance institutions, microfinance institutions should provide credit to the poor who do not have access to traditional loans. The aim is to enable them to start their own businesses so that they can be independent and improve their living conditions. The main objective of MFIs is not only to provide capital to the poor to combat poverty, but also to create an institution that provides financial services to the poor, which has been ignored by the formal sector (Otero, 1999).

In its statement (2005), the MFI emphasized the key role of micro-credit in achieving the Millennium Development Goals (MDGs). For example, credit is expected to promote business creation through increased savings and investment. However, to access the effectiveness of loans, one must follow the loans to determine whether it is used for the purpose for which it was secured and this is what micro-finance institutions do by way of supervision and business advisory services.

Presently, the micro-finance continues to rise as the level of operations continues to rise. Many institutions and businesses are adding micro-finance to their line of business even though they might not have gone through formal registration. In Ghana, the Bank of Ghana (BoG) is the regulatory body and has the mandate to protect the interest of all customers so as to ensure sanity in the overall micro-finance system.

By the BoG Act 2002, Act (612), the BoG has given recognition to institutions that deliver micro-finance services. The BoG also issued out authorization to micro-finance institution to form an apex body in Ghana known as “Ghana Association of Micro-finance Companies (GAMC). The role of the umbrella association as directed by BoG is to ensure that their members comply with

the BoG regulations and operational guidelines since micro-finance institutions is subject to supervision from the BoG. Over the years, micro-finance has thrived and evolved into their current state. Micro-finance activities is seen to encompass the provision of financial services and the management of little monies through a range of products and a system of intermediary functions that targets low income clients such as credit facilities, business advisory services, depository services, insurance among others.

2.2.2 Nature of Small and Medium Scale Enterprises (SMEs)

OECD (2005) claimed that SMEs as "non-subsidiary and self-governing organizations which employ less than a given number of employees". Gwangwava et al (2014), the European Commission in 1996 defined SME is a company which has less than 250 employees, 40million Euros turnover and 27million Euros in the form of assets. Most studies on SMEs considered SMEs as firms that employs between 0 to 250 employees. Whiles in the US SMEs are seen to comprise of firms with not more than 500 employees (OECD, 2005), in Africa firms that employ between 0 to 200 workers are considered as SMEs. Considering the definitions, it is clear that the size of a firm in terms of the number of employees, the financial position and the annual turnover are considered as determining factors when defining SMEs.

In addition, IASCF (2007) concluded differently, namely that SME are not subject to disclosure requirements and therefore do not issue financial statements for general purposes for external parties and the regulator to be able to issue financial instruments. All the assets of a company are dedicated to its owners, who generally also act as managers of the company. In Ghana,GSA considers enterprises with fewer than 50 employees as SMEs. SMEs can also be defined by the fixed assets that the organisation owns and controls. NBSSI used amount of fixed assets (size) and the number of employees of the enterprise as the determining factors in defining SMEs. According

to the NBSSI, SMEs are enterprises that employ between 30 and 99 employees and have a turnover of between US$200,000 and US$5 million. According to Osei et al, it was significant in Ghana in the late 1970s and early 1980s, when the economic recession reduced industrial growth and employment in many developing countries (Abor and Ajasi, 2017). According to Gwangwava, Manuere, Kudakwashe, Tough and Rangarirai (2014), the decline in the levels of employment within the formal sector due to retrenchments and Business closures due to low employment rates signify that small and medium-sized enterprises are becoming increasingly important as an alternative source of income for many citizens. SMEs in Ghana mostly comprises of individual businesses or family businesses with no proper managerial layout to help in their progress. Some operators of SMEs have low educational background. Decisions taken by SMEs operators are normally subjective. SMEs in Ghana have no succession plan; the longer the owner lives the longer the business operates. The capital requirement for starting SMEs in Ghana is lower compared to larger firms. Most of the SMEs in Ghana are labor intensive and less advanced in using technology (Ngong, 2015).

2.2.3 Role of SMEs in an Economy

Small and medium-sized enterprises play an essential and key role in the growth and sustainable development of countries. According to the literature, all available evidence suggests that SMEs are important and strategic for the economic growth and development of all countries, "since they account for about 90% of enterprises in most countries of the world (Abor and Quartey, 2010).Over the years, SMEs have played critical roles in the development of the Ghanaian economy. The production landscape in Ghana captures SMEs as instrumental to the country's progress by giving 85% employment (Ayeetey, 2014).

Notwithstanding the fact that SMEs gives higher employment opportunities, they are gainful drivers of financial development and advancement for the Ghanaian economy. Azende (2012) opined that "the potential benefits of SMEs to any economy includes contribution to the economy in terms of goods and services, creation of jobs at relatively low cost of capital, provision of a vehicle for reducing income disparities, development of a pool of skilled and semiskilled employees as a basis for future industrial expansion". For instance, it is evaluated that SMEs account for about 70% of Ghana's GDP. SMEs reinforces the financial expansion of the economy through advancement of new and unsaturated sectors in the country.

The enthusiasm for SMEs in reinforcing progress in the economy has been the arguments in many nations across the globe. Governments at all levels have welcomed interventions to advance the development of SMEs due to the significant contribution to the economy (Feeney and Riding, 1997). Even in developed economies, SMEs should be a major driver of development and progress as they have a strong commitment to economic development with great potential to create jobs, improve local technology, diversify production, develop local entrepreneurship and integrate with large industries in the future (CBN, 2011).

2.3Theoretical Foundation of the Study

In this paper, the theoretical framework is based on pecking order theory and capital structure theory. According to the pecking order theory, managers always prefer three sources of financing, while the capital structure theory deals with a systematic approach to finance entrepreneurial activities that combines equity and debt. These theories help to explain the various interactions between the selected variables. In this section an attempt was made to provide a theoretical framework for the study of SMEs.

2.3.1 Pecking Order Theory

The Pecking Order Theory as propounded by Donaldson (1961) and modified by Myers and Majluf (1984), explains that organizations always prioritize their sources of financing from internal financing to equity taking into consideration the cost of financing, where equity is considered as the last resort. According to the pecking order theorists, the managers of an organization believe that financing a firm comes from three (3) sources, thus internal funds, debts and new equity and that when financing investment opportunities managers first consider internal financing, then after debt and when that is exhausted equity will be issued. This means that businesses maintain and adhere to a hierarchy of financing sources when taking up investment opportunities and will prefer internal sources of financing as the first option when available, then will consider debt when external sources of financing is required, but when debt is no more efficient the business will consider equity. This shows that equity is a less preferred option to raise capital for organizations and this is because of information asymmetry between managers and investors, when managers who are assumed to know more about the actual conditions of the firm than investor issue new equity, investors turn to believe that managers think the firm is over-valued and are taking advantage of the over-valuation thereby the investors will place a lower value to the new equity issuance. Since managers possess better information regarding the performance of the company than external users, external users will always demand higher returns as compensation for the higher risk they are taking. Unlike internal financing which looks at the firm's retained earnings, for external financing the company must incur fees to obtain debt or equity. However, when considering external financing, managers will prefer debt to equity since the cost of debt is lower as compared to the cost of equity. According to Zeidan, Galil and Shapir (2018), SMEs as well as private firms will always follow the pecking order theory hence micro-finance institutions remain a major option for SMEs when considering financing.

2.3.2 Capital Structure Theory

The theory of capital structure presented by David Durand (1952) explains the systematically structured method to finance a company's assets by combining equity and debt (liabilities). Durand emphasized that changes in leverage lead to changes in the cost of capital, consistent with the net return approach of capital structure theory. Therefore, when the leverage ratio increases, the capital structure increases, the weighted average cost of capital (WACC) decreases and goodwill increases.

Duran also presented an alternative paper that contradicts the net income approach in taxexempt capital structure theory. According to this paper, the WACC does not change. He argued that an analysis of the business as a whole is done in the market and that any discount is independent of the leverage ratio. He stated that if taxes are expected, WACC will decline due to increased debt financing and goodwill. It is important to note that the assumption behind this approach is that the cost of capital is a function of the capital structure and an optimal capital structure. An optimal capital structure means that at a given debt ratio, the cost of capital is minimized and goodwill is maximized, implying the sustainability and development of the business. The careful analysis of capital structure helps firms by optimizing the cost of capital hence improving profitability. In this study, the researcher looks at the sustainability and growth of SMEs hence the need for a careful consideration of equity and debt ratio by the SMEs which brings to bear the activities of micro-finance institutions so as to ensure the performance of the SMEs. From this theory it is clear that the use of external funding have influence over the sustainability and growth of SMEs hence the activities of micro-finance institutions is expected to have much influence over the performance of SMEs.

2.4 Empirical Literature Review

The activities of micro-finance institutions over the last decades has emerged as a significant tool for ensuring the sustainability and growth of SMEs in Ghana (Reiter and Peprah, 2014; Owusu et al, 2017). Activities of micro-finance institutions can be viewed as a machinery for financial and economic emancipation for SMEs and a magic bullet that is able to empower SMEs by investing into their business activities since the 1970s. The growing trend is for SMEs to consider a careful analysis of their capital structure so as to optimize the cost of capital thereby improving profitability. It is therefore important to ensure that the emergence of microfinance institutions or their activities have an adequate effect on the SME performance to maintain their key and strategic contribution to growth and development in all countries.

2.4.1 SMEs Utilization of Microfinance

Geoffrey and Emenike (2018) investigate the relationship between microfinance institutions' (MFIs') support and growth of small and medium size enterprises (SMEs) in Nimule, South Sudan. They used descriptive analysis, Pearson's linear correlation coefficient (PLCC) analysis, and ordinary least square regression analysis to evaluate the responses obtained through questionnaires and interviews. Results of the quantitative analysis using PLCC revealed that positive linear relationship exists between loan provision, savings account provision, managerial skills provision and growth of SMEs in Nimule, South Sudan. Similarly, results of the regression analysis indicate that loan provision, savings account provision, and managerial skills provision have positive and significant effect on SMEs growth in Nimule. These findings indicate, amongst others, that MFIs support contributes significantly to growth of SMEs in Nimule, South Sudan.

Machingammbi (2014) assess the impact of Microfinance on Small and Medium Enterprises (SMEs) in Zimbabwe. Data was collected from 105 randomly selected SMEs using the questionnaires. Graphs and Charts were used in data presentations and analysis. The findings of the study highlighted that majority SMEs had access to MFI Loans although only a few of them were able to secure the amount they required in full. The research study further revealed that significant number of SMEs beneficiaries of MFI Loans was effectively utilizing the loans for business purposes thus enhancing their growth. Most of the SMEs indicated a positive effect of MFI Loans towards promoting their product quality and range, increase in branch network, improved cash flow levels and increase in market share.

Isola et al. (2016) examine the impact of Microfinance Institutions' policies on the growth and development of Small Scale Business in Nigeria for the period 2005 to 2012The study adopts the use of Multiple Regression Analysis to regress the relationship between the dependent variable and independent variables. The study observed a positive relationship between capital formation through the use of microfinance institutions facilities and increase in the numbers of small and medium scale businesses. This shows that there is an increase in the demand for microfinance facilities especially among the economically active poor, an indication that microfinance facilities could serve as veritable tool for development as it offers the poor opportunity to move out of poverty line through the use of cycles of loans and repayments system.

2.4.2 Impacts of microfinance on the profitability of SMEs

Alhassan et al. (2016) examine the effect of microcredit from these MFIs on profitability of SMEs with data from 199 women entrepreneurs in the Tamale Metropolis of Ghana. Semi structured

interview checklist was used to survey the women owned SMEs whilst questionnaires were administered to the Microfinance Institutions. A paired sample t-test was employed to determine the changes in Gross Profit over time after which effect of size was also determined. The results indicate a significant increase in the average monthly gross profit over time. A further investigation however shows a small effect size indicating that the change in the monthly gross profits observed is of less practical importance to the operation of the enterprises.

Mousa (2020) identify the relationship between micro credits from MFIs and the SMEs' financial performance. Secondary data were collected from 17 SMEs in North Lebanon. Another secondary data were collected from four MFIs in Lebanon concerning the characteristics of their beneficiaries. Data were analyzed using SPSS Ver. 23. The results showed notable relationships between amount of micro loan and the dependent variables, the number of women recipients of credits remains little in Lebanon, the categories of businesses mostly profiting from the MFIs in Lebanon are commerce, service, and trade sectors and the beneficiaries are primarily situated at Mount Lebanon, South, Bekaa, and at the north.

Gyimah and Boachie (2018) ascertain whether microfinance products such as loans, savings, insurance, and education effects small business growth in Ghana. The study uses descriptive and inferential statistics on responses of 248 small business owners for data analysis. Using a multiple linear regression analysis, the study found that all the microfinance product or services positively affects small business growth, and the greatest influence is micro loans.Irene et al. (2015) review the effects of microfinance services on the performance of MSMEs using an explanatory research design. The study targeted 429 MSMEs registered by the Kiambu Municipal Council and sampled 270 enterprises. The study utilized multiple regression analysis set draw inferences on the study using SPSS statistical package. The study found access to savings schemes, managerial training

and loan grace period to be statistically significant in determining the performance of MSMEs. This study concludes that increasing provision levels of micro finance will result in increased performance of small enterprise.

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Dennis et al. (2015) discusses the effects of Microfinance credit on the performance of Small and Medium enterprises in Uasin Gishu County, Kenya. The study targeted over 5,000 entrepreneurs with a sample size of 47SMEs. The study used simple random sampling of 47SMEsout of the SMEs there were 17 SMEs did not take loan with MFIs while 30SMEs have loans with MFIs. In the final analysis, the research clearly found that MFC have a positive effect on the performance of SMEs with a level of significant of less than 5%. In order to enhance a sustained and accelerated growth in the operations of SMEs credits should be client-oriented and not productoriented. It's concluded that MFIs are concerned with provision of financial services to people who are economically poor and who therefore experience financial exclusion in that they do not have ready access to mainstream, commercial financial services.

Quaye et al. (2014) assess the role of one of the stakeholders, microfinance institutions (MFIs) in helping to bridge the financing gap faced by SMEs in Ghana. The research established that there was indeed the existence of SME financing gap in the country as most of them were denied access to credit by commercial banks and other financial institutions. The research revealed that the operations of microfinance institutions (MFIs) are having positive impact on SMEs. The study also revealed some risk mitigation tools used by MFIs in granting loans to SMEs which included provision of collateral security in the form of land or any other valuable asset, business records, credit history among others.

2.4.3 Factors influencing the impact of microfinance on the profitability of SMEs

Ogah-Alo et al. (2019) examine the effect of micro-credit lending on the SMEs financial performance in Nigeria, using aggregated time series data from 1992 to 2017 and the Ordinary Least Square (OLS) regression method for the analysis. The findings indicate that micro-lending in the form of loans and advances impact positively on the various performance indicators such as net-profit, return on equity and return on investments. On the contrary, overdraft was found to impact negatively on return on equity of shareholders. Again, the unstable socio-political environment in Nigeria calls for serious concerns in the sector.

Prah (2016) examines whether microfinance credit facilities contribute to the growth of the SME sector in the Cape Coast Metropolis of Ghana. Descriptive study design as well as quantitative analysis was carried out. Simple random sampling technique was used to sample 357 respondents for the study. The study revealed that most of the SMEs in the Cape Coast Metropolis have contracted microfinance credit facilities and that there was significant difference in growth of the SMEs before and after receiving microfinance credit facilities. The study also discovered that strict repayment terms, shorter repayment period, higher interest rate as well as small loan amounts were the major challenges that confronted the SMEs in the use of microfinance credit facilities to grow their businesses in the Cape Coast metropolis of the Republic of Ghana.

Obokoh et al. (2016) explored the extent to which current microfinance lending impacts on indigenous SME access to finance and how the intermediation services of the microfinance banks (MFBs) contributed to or otherwise to the development of SMEs. A total of 800 such indigenous SMEs were identified, however, data were obtained from 300 of the identified indigenous SMEs from a questionnaire survey in four states (provinces) within the country that make up the Niger Delta region. The result shows positive contribution of microfinance lending to the development

of such enterprises. However, it appears that a number of factors including cumbersome process, poorly packaged business plans and perceived high cost of credit still limit the access of indigenous SMEs to credit.

Bongomin et al. (2017) establish the moderating effect of financial literacy in the relationship between access to finance and growth of small and medium enterprises (SMEs) in developing economies. Cross-sectional research design was used in the study and data were collected from 169 SMEs located in Jinja and Iganga central markets. The findings reveal a positive and significant moderating effect of financial literacy in the relationship between access to finance and growth of SMEs in developing economies. In addition, financial literacy and access to finance also have significant and positive effects on growth of SMEs in developing economies.

Tundui and Tundui (2020) investigate performance drivers of women-owned businesses that are funded primarily through microcredit. The paper uses a cross-sectional survey that covered 208 women business owners who had access to microcredit. The authors use a logistic regression analysis to model the relationship between independent variables and enterprise performance. The paper demonstrates that microcredit plays a significant role in business performance. The credit amount has the most significant influence on the enterprise capital base, whereas the effect on profits is insignificant. Also, owners are more likely to report growth in profits if they possess skills in business management. In addition, younger business owners and necessity entrepreneurs are more likely to report success in their businesses. Other factors that have a significant effect on business performance are product cycle, loan use and family support.

Haider et al. (2017) explore the difference in certain performance indicators of MSEs who owners have been given training against those whose owners have never been given any kind of training.

In order to conduct study survey research has been conducted and a sample of 384 MSEs was selected on simple random basis. The findings revealed that all the performance indicators including sales increase, income increase, assets increase, employment increase, and meeting household expenses have shown a significant difference among the two groups.

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2.4.4 Challenges of SMEs

Despite the critical roles SMEs play towards the development of economies, extant literature stipulates that they continually face series of challenges which affect their growth and sometimes leads to their collapse. According to Oketch (2000), due to the small size of SMEs, they are exposed to constraints such as; lack of proper planning, improper financing or capital structure, unavailability of credit facilities and poor management which are the main causes of failure of SMEs as well as hindering their development.

In Ghana, many SMEs emphasize the high cost of obtaining raw materials as a hindrance to their development (Parker et al, 1995) and this is due to the low capital base. Also, poor management due to lack of managerial know-how is identified as another constraint which impede the development of SMEs. Most managers of SMEs lack the necessary managerial skills and expertise and so established its management approach by “trial and error” (Hayford, 2012).

Moreover, external competition with foreign goods imported into the market and the need to expand market share is also seen as a challenge to SMEs in Ghana. This puts strong pressure on SMEs with regard to efficiency, price, quality and satisfaction of customers (Hayford, 2012). The cost of starting a business and the licensing and registration requirements poses much challenge to SMEs development. Operators of SMEs need to go through some cumbersome process to get their business registered which is frustrating and ends up killing the passion in many entrepreneurs. The final and major challenge of SMEs is the access to financing (credit facilities). SMEs have difficulty in obtaining access to credit from formal banks due to lack of adequate collateral. Most

SMEs in sub-Saharan Africa do not make it beyond their first year of existence because they do not receive support from traditional banks (Abor and Biekpe, 2006).

2.4.5 Micro-finance and SMEs Performance

Evidence in extant literature suggests a number of papers view micro-finance as the way forward to the development of SMEs. Mintah and Attefah (2014) examined the effects of micro-finance institutions on the growth of SME's by considering 20 micro-finance institutions and 200 SMEs. Their results demonstrated that micro-finance institutions provide loans to businesses and create enabling environment for savings. Their study further revealed that SMEs use greater proportion of of their profits to service loans due to huge interest and shorter repayment periods. They finally recommended that SMEs should implement micro-finance institutions advice offered through their business advisory services to promote the growth of their business. However, their study was limited only to the Kumasi Metropolis of Ghana.

Tawiah et al (2006) in a study on the effect of micro-finance on SMEs performance indicated that micro-finance institutions have had a positive effect on the growth of SMEs. Their study also identified some critical contributions of micro-finance institutions to SMEs as greater access to credit, savings enhancement and provision of business financial and managerial training. Even though their study confirmed that of the earlier researchers, they also limited their study to the Kumasi Metropolis. The results of their analysis showed that micro-financing has a significant effect on SME's incomes and therefore to enhance SMEs development, more micro-finance institutions will have to provide more micro-finance facilities to SMEs (Doligez, 2017).

According to Pei-Wen, Zariyawati and Annuar (2016), through their investigation of the impact of micro-finance facilities on SMEs performance in Malasia found out through their regression result that, micro-financing has a significant effect on SMEs income. As a result to enhance SMEs development, they also suggested more micro-finance institutions will have to assist in providing micro-finance facilities to SME's. The researchers used primary data collected through questionnaires distributed among selected SME owners. Notwithstanding, Yeboah (2017), in their research looked at the impact of micro-finance on grassroots development using SMEs in Kwabre East District of the Ashanti Region. They conducted a survey by administering structured questionnaire. It was evident that micro-finance as a development intervention has some level of impact on grass-root development which is a direct benefit to the operators of SMEs. These benefits include positive impact on knowledge, basic needs, employment, income and assets. It is obvious now that majority of studies conducted in this area used primary data source for their data analysis which this study is no different. Finally, Berguiga (2008), in a question to find out if the positive of micro-finance depends on specific characteristics of SMEs. He provided solution by examining a section of the population that have benefited from microloans. He opined that micro-loans best suit particular types of individuals such as micro entrepreneurs who are endowed with entrepreneurial capacities reinforced by professional experience, training and education.

2.5 Conceptual Framework of the Study

The conceptual framework of this study assisted in the comprehension of the relationship among the micro-finance institutions activities as defined by Owusu, Yankson and Frimpong (2017). According to Owusu et al (2017), the activities of micro-finance institutions through the provision of credit facilities and business advisory services will allow firms to invest in productive assets that are likely to lead to productivity growth, increase in production, hiring of new employees as

inputs to production which is an important determination for firm performance. Thus the framework of the dissertation spelt out the relationship between activities of micro-finance institutions (independent variables) and SMEs Performance (dependent variable). In this study, the researcher adopted a similar conceptual framework and sought to investigate the relationship between the independent variables and the dependent variables.

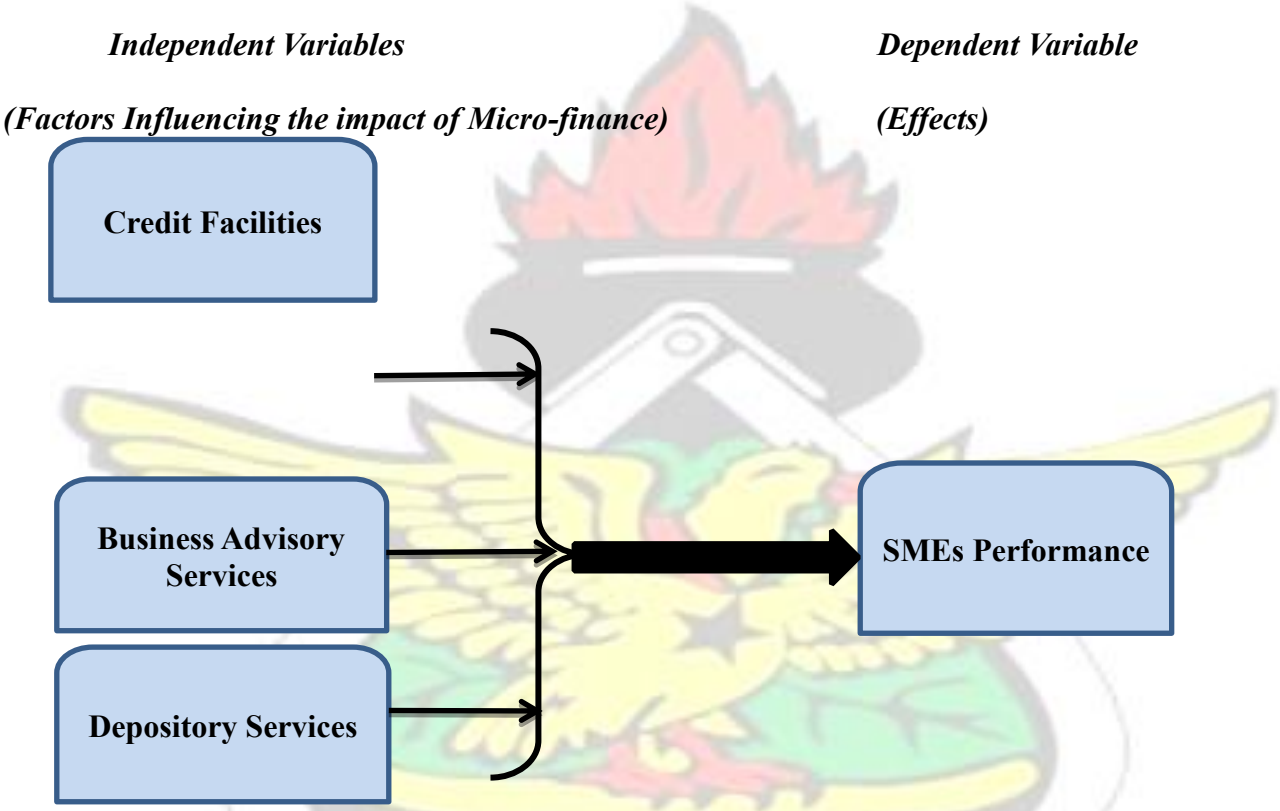


Figure 2.1 **Conceptual Framework (Path Diagram of the Causal Relationship between Activities of Micro-finance Institutions and SMEs Performance)**
Source: Owusu., Yankson and Frimpong (2017)

Figure 2.1 shows the benefits of the activities of micro-finance institutions which leads to firms investing in productive assets that are likely to lead to productivity growth, increase in production, hiring of new employees as inputs to production and ultimately improvement in the performance of the SMEs. The independent variables in this conceptual framework are the activities of micro-finance institutions.

There are various activities of micro-finance institutions such as loans services, business advisory services and depository services which will lead to the SMEs achieving higher performance if well managed. The results of the study on the Ghanaian SMEs in the Jomoro Municipality which will be discussed in Chapter 4 will reveal whether the above activities of micro-finance institutions are critical on the SMEs. The dependent variable in this study is the performance level. In this study, the researcher perceived that the loan services, business advisory services and depository services were the most important activities of micro-finance institutions (independent variables) towards SMEs, and they would help the SMEs to attain high level performance (dependent variable).

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter provides a brief summary of the problem under study, the aim of the dissertation and the theoretical framework for answering the research questions raised. This chapter also presents the design of the research, the sources of data, sampling methodology, the size of the sample and how to collect and analyze data using graphical representations. The research is quantitative nature and the data was derived from primary and secondary sources. The researcher designed the study in such a way as to be able to provide the explanations presented in the research questions.

3.2 Research Design

This study applied a quantitative research model using a descriptive strategy in which the subject's behavior is observed and described without being influenced by the subject. This design is considered more appropriate for describing the relationship between variables using mathematical and statistical formulae and numbers. This design is also useful when it is not possible to examine or measure the large number of samples needed to conduct more quantitative experiments. The

study considered primary and secondary data which spanned between the periods of January, 2017 to December, 2019. In addition, the researcher planned the study procedures in accordance with a wide range of hypotheses and detailed methods of data collection and analysis techniques that helped the researcher achieve his research objectives.

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3.3 Population

In order to ascertain adequate information on SMEs in Ghana and as well have a fair representation of the industry, the study considered the following selected SMEs in the following category: Agriculture (Farmers), Fishery (Fishermen), Craft and Art, Service and Sales,

Technicians. The study considered a sample size of **397** respondents, which were drawn from the **50** SMEs such as Agriculture - 120, Craft and Art - 80, Fishery - 100, Technicians - 47 and Service and Sales - 50. The response rate was **80%** and represent fairly the entire population of the industry and so the results of the study could be generalized to all SMEs in the Jomoro Municipality.

3.4 Sampling Techniques and Sample Size

The study used a simple and targeted random sampling method. The rationale for choosing this approach was to assure that all members of the population had an equal opportunity to participate in the survey, and to ensure that only those who are affected by the survey, i.e. managers or operators of SMEs, were included or contacted for the survey. The quantitative approach the study adopted was to ensure that any element of bias that could prevail in the gathering and presentation of data was prevented. It was also to ensure objectivity and reliability of the research undertaken. Determining the optimal sample size is aimed at ensuring statistically significant results with respect to the relationship between the selected microfinance variables and the performance of SMEs. Generally, in order to achieve a statistically significant effect, a sample size of at least 80% is used, as a smaller sample size may reduce the strength of the statistical results (Agalega and

Antwi, 2013).The larger the sample size used in a study, the more reliable the test tends to be and the lower the likelihood of Type II error. The sample size was determined as a proportion of the population engaged in SMEs in the Municipality. The total proportion of the population engaged in SMEs constitutes **39.0 %** representing approximately **56,741** of the total population (GSS Report, 2010). The sample size is **397** at **95%** level of confidence with **0.05** margin of error.

Using the formular;

$$n = \frac{N}{1 + Ne^{\wedge}2}$$

Where: **n = Sample Size**

N = Population Size e = Level pf

precision (margin of error)

By substituting **56,741** and **0.05** into the formulae, **n = 397**. Therefore a sample size of 397 was selected for the study from the SMEs in the Jomoro Municipality.

3.5 Data Collection Method

The study derived data from two (2) sources, thus both primary and secondary data sources were considered for this study which spanned the period of January, 2017 to December, 2019. The study derived primary data from the design and distribution of research questionnaires, which were administered to **397** operators of **50** SMEs (namely; 120 - Farmers, 80 - Craft and Art, 100 - Fisheries, 47 - Technicians and 50 Service and Sales) in the Jomoro Municipality. The response rate was 80% which was seen to be encouraging. Secondary data in the study was collected from

the Annual Financial Statements of the SMEs, SMEs documentations on micro-finance, Annual Reports of micro-finance institutions as well as other existing literature that is relevant to this study.

3.6 Data Collection Instruments

The study used a questionnaire as the instrument for data collection in this study. The yearly data on ROA and ROE were retrieved from the annual financial statements of the SMEs and computed using excel. The survey questionnaire (Barnor, 2014) is a list of questions carefully designed to obtain valid answers from a selected sample. The questionnaire and a fact sheet explaining the purpose of the survey were distributed to SME managers and employees. In order to maximise the chances of obtaining a correct answer, the length of the questionnaire was taken into account and the terms used in the questionnaire were not as technical and therefore did not require explanation.

Table 1: Overview of Questionnaire

Questionnaire Section	No. Of Questions	Purpose
Utilization of micro-finance by SMEs.	4	Reveal the extent to which SMEs in the Municipality utilize microfinance.
Impact of micro-finance on profitability.	7	Reveal whether micro-finance has direct impact on profitability of SMEs.
Perceived enabling factors influencing the impact of microfinance on profitability.	6	Reveal the perceived enabling factors influencing the impact of microfinance on the profitability of SMEs.

Source: Author's Computation (2020)

3.7Data Analysis Technique

In this study, following the gathering of questionnaires, the total responses of each question were tabulated and subsequently developed into graphical diagrams. These were used to analyze the

extent to which SMEs utilize micro-finance, the impact of micro-finance on the profitability of SMEs and identify the enabling factors that influence the impact of microfinance on the profitability of SMEs. The data from primary sources were analyzed using content and logical analysis technique, whiles quantitative data analysis was done using Statistical Package for Social Sciences (SPSS) to generate tables and charts. With the aid of extant literature, the variables of the study were identified and the questionnaire was designed to address them. In addition, factor analysis techniques are used to analyse the data for objective 3 of the study. This allows us to describe the variability between the observed related variables in terms of potentially fewer unnoticed factors. The technique takes the maximum common variance out of all variables and converts it into a common value.

3.8Study Area

The study is limited to SMEs and microfinance institutions in Jomoro Municipality, Western Ghana. Jomoro Municipality, which was officially part of the former Eastern Nzema Municipality, was established in 1988 by Legislative Instrument (L.I.) 1394, the administrative capital being Half Assini Municipality. Jomoro Municipality is one of the 275 Metropolitan,

Municipal and District Assemblies (MMDAs) in Ghana and one of the 14 municipalities in the Western Region. Jomoro Municipality is situated in the south west part of the West Region of Ghana and covers a total area of 1,495 square kilometres.The municipality is bounded to the south by latitude 4, 80 N and the Atlantic Ocean (Gulf of Guinea). To the north it is bounded by latitude 5, 21 N and the Nini River. It is also located between longitude 2, 35 W in the east and longitude 3, 07 W in the west. Jomoro municipality borders the municipalities of Amenfi West and Aowin to the north, Nzema municipality to the east and Côte d'Ivoire to the west and the Gulf of Guinea to the south (GSS Report, 2010).The municipality is located in the forest belt of Ghana. The municipality's original vegetation was of the tropical rainforest type characterised by its evergreen

landscape with a wide variety of plant species (Jomoro MTDP District, 2010). The current vegetation consists of a forest reserve in Ankasa characterised by tall forest. There are designated fallow areas and tree plantations, as well as farms/plantations (Damnyag et. al, 2013). There are also large areas of swamp forest which are not cultivated for most of the year due to their water saturated nature. The district has a high rainfall that falls in two rainy seasons and a uniformly high temperature characterises the climate of the district. The climate owes its precipitation to the low pressure zones of the Sahara desert that attract winds from the south of the equator (MTDP of Jomoro District, 2010). The climate is conducive to plant growth and is considered the district's greatest advantage. There is also a Harmattan air mass that brings dry conditions but is under the influence of the monsoon and equatorial mass, resulting in variable weather conditions, including moderate to very heavy rains (MTDP of Jomoro District, 2010).

According to the 2010 Population and Housing Census, the district's population is about 150,107, of whom 73,561 are men and 76,546 are women. The municipality is under the traditional and supreme jurisdiction of the West Nzema Traditional Council, based in Benyin. The municipality of Jomoro is inhabited mainly by the Akan people who represent 88.7% of whom 60.5% are Nzemas and 15.4% are Fantis. About 6.0% of the municipality's population is ewes and other foreign languages make up 3.1% (GSS Report, 2010). The municipality has an important traditional agricultural sector, with agriculture employing almost 60% of the municipality's total workforce. This includes small farmers and commercial farmers growing cash crops such as cocoa, coconut, palm and a variety of food crops. Jomoro Municipality has a total population of about 150,107, of whom 49% are men and 51% women. About 80% of the workforce is employed in small and medium-sized enterprises, of which only 20% are in the formal sector. Of these, 39% are employed in agriculture, forestry and fisheries, 21% in services, manufacturing and sales, and 20% in crafts (GSS, 2010).

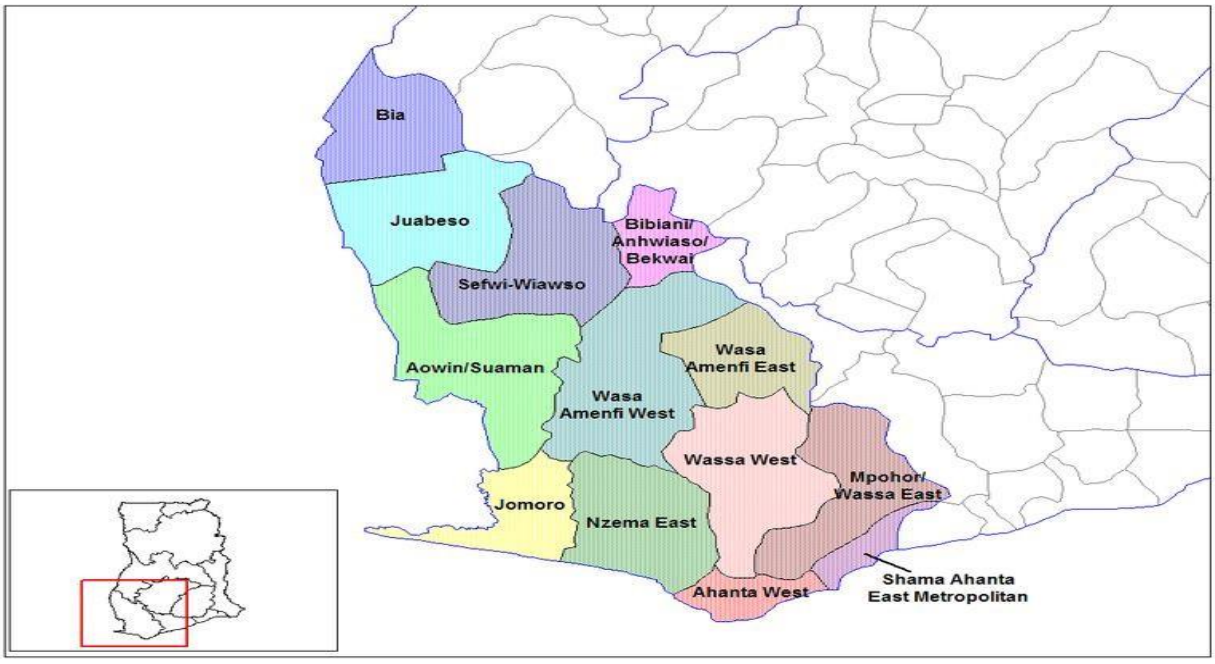


Figure 3.1: Map of Western Region showing the Jomoro Municipality.

Source: GSS, Graphical Information System (GIS), Section 2019.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

In the study area, this chapter analyses and presents the data collected. This chapter begins with the respondent's demographic profile. Section 4.3 discusses the SME business profile. Section 4.4 presents the conclusions on the scope of microfinance use. Section 4.5 presents the conclusions on the perceived impact of microfinance on profitability and section 4.6 discusses the factors affecting the impact of microfinance on SMEs.

4.2 Demographic Profile of Respondents

This section provides respondents demographic characteristics of those who were SME operators in Jomoro Municipality. The respondent profile included: gender, age and education level. Samples were drawn from a total of 397 respondents.

4.2.1 Gender Distribution of Respondents

Table 4.1 shows the gender distribution of the respondents. Concerning the gender distribution of the 397 respondents sampled for the study, more than half, 65.0% (n=258) were males and the remaining 35% (n=139) representing females. This means about 50 percent more males responded the questionnaires than their female counterparts.

Table 4.1: ***Gender of Respondents***

Category	Frequency	Percent
Male	258	65.0
Female	139	35.0
Total	397	100.0

Source: Field Survey Data, 2020

4.2.2 Age Distribution of Respondents

With regards to the age distribution of the respondents as shown in Table 4.2, 7.5% (n=30) were less than 20 years of ages, 38.3% (n=152) were within the age group of 20-29year, and 10% (n=40) were within the age group of 30-39years. While 16.7% (n=66) were within the age bracket of 40-49years, the remaining 27.5% (n=109) were 50 years of age and above. On the whole, 92.5% of the respondents were 20 years old and above. This mean that the majority (93%) of the respondents are 20 years and older (i.e legally matured enough to undertake binding business transactions).

Table 4.2: ***Age Distribution of Respondents***

Category	Frequency	Percent
Less than 20years	30	7.5
20-29years	152	38.3
30-39years	40	10.0
40-49years	66	16.7
50years and above	109	27.5
Total	397	100.0

Source: Field Survey Data, 2020

4.2.3 Educational Qualification of Respondents

Regarding the educational qualification of the participants included in the study as presented in Table 4.3, 40.0% (n=159) had Bachelor Degree qualifications. This is followed by those with Diploma/Certificate qualifications. This group constituted 33.3% (n=132) of the respondents. While 20% (n=79) of the respondents had a Masters degree, the remaining 6.7% (n=27) had SHS/O-/A-level qualifications. Overall, 93.3% had Diploma/Certificate qualification or above. The implication is that majority of the respondents had tertiary level of education and therefore were capable of reading and understanding the issues of micro finance activities investigated by the questionnaire.

Table 4.3: Educational Qualification of Respondents

Category	Frequency	Percent
SHS/ O/A- Level	27	6.7
Diploma/ Certificate	132	33.3
Bachelor Degree	159	40.0
Masters degrees	79	20.0
Total	397	100.0

Source: Field Survey Data, 2020

4.3 Profile of Firms

This section presents the profile of the 397 SMEs sampled for the study. The characterization included the number of employees, daily sales revenue, age of firm, ownership structure, and type of ownership

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4.3.1 Number of Employees

Regarding the number of employees of the 397 sampled SMEs, 47.5% and employee capacity of less than 6 representing a micro-enterprise, 47.5% had employees capacity of 6-29 and are therefore said to be small-sized enterprises and the remaining 5% (n=4) were medium-sized enterprise with employee capacity of 30-99. The above findings are summarized in **Table 4.4**.

Table 4.4: Number of employees

Category	Frequency	Percent
Less than 6	189	47.5
6-29	189	47.5
30-99	19	4.7
Total	397	100.0

Source: Field Survey Data, 2020

4.3.2 Daily Sale Revenue

Pertaining to the daily sales revenue of the SMEs sampled (Table 4.5), 41.2% claimed their average daily sale revenue stood at less than GH¢500. In addition, while 36.3% of the firms had an average daily sales revenue of GHS 500-1000, 22.5% of the firms also had an average daily sales revenue of more than GHS 1000.

Table 4.5: DailySale Revenue

Category	Frequency	Percent

Less than GHS 500	164	41.2
GHS 500-1000	144	36.3
Above GHS 1000	89	22.5
Total	397	100.0

Source: Field Survey Data, 2020

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4.3.3 Age of Firm

Regarding the duration operation of the SMEs sampled (Table 4.6), 7.5% were less than one year in operation, 33.8% were young firms with 1-5 years in operation, 31.2% were adult firms with 6years to 10years operational experience, and finally, 27.5% were matured firm with more than 10 years in business.

Table 4.6: Age of Firm

Category	Frequency	Percent
Infant firm-less than one year	30	7.5
Young firm-1 to 5 years	134	33.8
Adult firm-6 to 10 years	124	31.2
Matured firm-more than 10 years	109	27.5

Category	Frequency	Percent
Infant firm-less than one year	30	7.5
Young firm-1 to 5 years	134	33.8
Adult firm-6 to 10 years	124	31.2
Matured firm-more than 10 years	109	27.5
Total	397	100.0

Source: Field Survey Data, 2020

4.3.4 Ownership Type

About the ownership type of the SMEs selected, 33.8% were owned by one person (sole proprietorship), 16.2% had joint ownership (partnership), 35% were limited liability companies, and finally 15% indicated family business. This observation is presented in**Table 4.7** below.

Table 4.7: Ownership Type

Category	Frequency	Percent
Sole proprietorship	134	33.8
Partnership	64	16.2
Limited liability company	139	35.0
Family business	60	15.0
Total	397	100.0

Source: Field Survey Data, 2020

4.3.5 Ownership Structure

Concerning the ownership structure of the SMEs sampled as presented in Table 4.8, large majority, 78.8% were wholly local-based firms. While 7.5% of the firms were wholly foreignowned, the remaining 13.7% were jointly owned by Foreign-Domestic partners.

Table 4.8: Ownership Structure

Category	Frequency	Percent
Local firm- above 50% ownership of shares	313	78.8
Foreign firm-above 50% ownership of shares	30	7.5
Foreign- Local partnership	54	13.7
Total	397	100.0

Source: Field Survey Data, 2020

4.4 Extent of Microfinance Utilization

The first study purpose is to determine degree of microfinance utilization by SMEs. This objective was achieved using a five-point likert type scale and the findings presented in the **Table 4.9** below. Mean and standard deviation were used to present the findings. The findings are arranged according to the most frequently use of microfinance service to the least. Mean values ranging from 4.00-5.00 represents the uses of microfinance services most frequently used by the selected

SMEs. Mean value of 3.00-3.99 represents the microfinance services occasionally used by the firms, Mean values of 2.00-2.99 represents microfinance services rarely used, and hose with mean values of 1.00-1.99 represents those microfinance services not used at all by the SMEs.

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Table 4.9: Extentof Microfinance Utilization

Microfinance Utilization	N	Mean	Stdev
Regular Savings with MFIs	278	4.33	0.91
Obtain loan often from MFIs	256	4.19	1.13
MFIs offer regular training of management of SMEs	219	4.08	1.02
Frequently seek working capital management advises from MFIs	215	3.91	1.25
Often seek advice from MFI regarding prudent investment decisions	217	3.63	1.36
Often fall on MFIs general financial management advisory services	213	3.61	1.28

Scale: 1=Never; 2=Rarely; 3=occasionally; 4=often; 5=Very often

The findings revealed that the following microfinance services were often or frequently used by the selected SMEs (Mean: 4.00-5.00); savings (M=4.33, SD=0.91), loans (M=4.19, SD=1.13), and training (M=4.08, SD=1.02). The implication is that these are the microfinance services mostly used by the selected SMEs. The following microfinance services were also found to be occasionally used (Mean: 3.00-3.99) by the SMEs including, working capital management advises (M=3.91, SD=1.25), investment decisions and opportunities (M=3.63, SD=1.36) and general financial management advisory (M=3.61, SD=1.28).

4.5 Perceived Impact of Microfinance on Profitability

The second purpose of the research was to evaluate the perceived impact of microfinance on profitability by SME operators in the Jomoro Municipality. The purpose findings are shown in Table 4.10 below. To determining the perceived impact of microfinance on profitability, the study examined the findings of gains made with the microfinance utilization by SMEs. The level of perceived impact of microfinance on profitability was represented by mean and standard deviation.

Table 4.10: Perceived Impact of Microfinance on Profitability

Impact of Microfinance on Profitability	N	Mean	Std
Helps in expansion of business (increase asset base)	320	4.35	1.03
Helps in increase yield (productivity)	319	4.19	1.01
Increase profit margins (profitability)	320	4.08	0.90
Employ more workers	318	3.71	0. 99
Improved capital mix	320	3.66	1.03
Improved sales	320	3.64	1.11

Scale: 1= Very Low, 2=Low, 3=Moderate, 4 =High, 5=Very high,

The study revealed that microfinance usage influence profitability greatly (Mean: 4.00-5.00). This is because the utilization of the microfinance services were believed to have brought each of the following performances; expansion of business (M=4.35, SD=1.03), high rate of productivity (M=4.19, SD=1.01), and Increase profit margins (M=4.08, SD=0.90).The SMEs were also found to moderately gain from microfinance usage (Mean=3.00-3.99). This was achieved in the area of employing more workers (M=3.71, SD=0. 99), Improved capital mix (M=3.66, SD=1.03) and Improved sales (M=3.03, SD=1.11).

4.6Factors Influencing the Impact of Microfinance on SMEs

The third goal of the research was to examine the factors influencing the impact of microfinance on SMEs. This objective was achieved with a five-point Likert scale and table 4.13 summarises the results. The respondents agreed that the item was a significant factor influencing the impact of microfinance on SMEs if the overall mean score for each item was significantly higher than 3.0 (test score). A z-test was conducted on the sample at 5% alpha, using the hypothesis (Ho: $\mu \leq 3.0$; H1: $\mu > 3.0$) to determine whether the mean was higher than 3.0. Since the sample size was greater than 30, a t-test was not used, but a z-test.

Table 4.11: Factors Influencing the Impact of Microfinance on SMEs

	N	Mean	Stdev	z-stat	Sig. (one – tailed test)
Availability of credit (loans service)	320	3.95	1.12	9.29	0.000***
Interest on credit	318	3.61	1.19	3.74	0.000***
Availability of depository services (savings)	318	3.76	1.16	2.43	0.007***
Interest on deposit	220	3.40	1.57	1.98	0.081*
General business advisory services	215	3.44	1.17	1.99	0.079*
Loan advisory services (financial advice)	319	3.79	1.44	2.59	0.044**
Loan/General insurance	320	3.85	1.20	4.56	0.000***

,**,statistically significant at 10%,5% and 1% alpha level respectively**

Scale: 1=strongly disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly.

The outcome of the one-sampled z-test is that the SME operators are of the view that, some factors serves as an enabler in the microfinance and SME performance nexus. (P<0.05). The main factors Influencing the Impact of Microfinance on SMEs included; availability of loans (M=3.95, SD=1.12, z=9.29, P=0.000), interest/cost of credit (M=3.61, SD=1.19, z=3.74, p=0.000), Availability of depository services (M=3.76, SD=1.16, z=2.43, P=0.007) and Loan/General insurance (M=3.85, SD=1.20, z=4.56, P=0.000). The findings from the test results revealed that the coefficients of availability of Credit, availability of Depository Services, availability of Business Advisory Services and Loan Insurance are all positive and significant at (P-value < 0.05), this exhibits a significance positive relationship between SMEs performance and the activities of MFIs in Ghanaian and indicates that increase in the activities of MFIs in terms of availability of credit, depository service, business advisory services and loan insurance leads to increase in the profitability of SMEs.

4.7 Discussion of Results

4.7.1 SMEs Utilization of Microfinance

The study found that, the SMEs utilize the following microfinance services, savings, loans, training, working capital management advices, investment decisions and general financial management advisory services. These results imply that SMEs patronize and utilize number of microfinance services. The results are in line with the study of, Geoffrey and Emenike (2018), who investigated the relationship between microfinance institutions' (MFIs')support and growth of small and medium size enterprises (SMEs). Results of the quantitative analysis using PLCCrevealed that positive linear relationship existsbetween loan provision, savings account provision, managerial skills provision and growth of SMEs in Nimule, South Sudan. Similarly, results of the regression analysis indicate that loan provision, savings account provision, and managerial skills provision havepositive and significant effect on SMEs growth in Nimule.These findings indicate, amongst others, that MFIs support contributes significantly togrowth of SMEs in Nimule, South Sudan.

Machingammbi (2014) assess the impact of Microfinance on Small and Medium Enterprises (SMEs) in Zimbabwe.The findings of the study highlighted that majority SMEs had access to MFI Loans although only a few of them were able to secure the amount they required in full. The research study further revealed that significant number of SMEs beneficiaries of MFI Loans was effectively utilizing the loans for business purposes thus enhancing their growth. Most of the SMEs indicated a positive effect of MFI Loans towards promoting their product quality and range, increase in branch network, improved cash flow levels and increase in market share. Isola et al. (2016) examine the impact of Microfinance Institutions'policies on the growth and development of Small Scale Business in Nigeria for the period 2005 to 2012. The study observed a positive

relationship between capital formation through the use of microfinance institutions facilities and increase in the numbers of small andmedium scale businesses. This shows that there is an increase in the demand for microfinance facilities especially among the economically active poor, an indication that microfinance facilities could serve as veritable tool for development as it offers the poor opportunity to move out of poverty line through the use of cycles of loans and repayments system.

4.7.2 Impacts of Microfinance on profitability of SMEs

The study found that, the following microfinance services impact on the profitability of SMEs, it expanse the business, high rate of productivity, increase profit margins, moderate gain from microfinance usage. These results imply that SMEs profitability is impacted by several factors The results are in line with Alhassan et al. (2016) examine the effect of microcredit from these MFIs on profitability of SMEs with data from 199 women entrepreneurs in the Tamale Metropolis of Ghana. The results indicate a significant increase in the average monthly gross profit over time. A further investigation however shows a small effect size indicating that the change in the monthly gross profits observed is of less practical importance to the operation of the enterprises. Mousa (2020) identify the relationship between micro credits from MFIs and the SMEs' financial performance. The results showed notable relationships between amount of micro loan and the dependent variables, the number of women recipients of credits remains little in Lebanon, the categories of businesses mostly profiting from the MFIs in Lebanon are commerce, service, and trade sectors and the beneficiaries are primarily situated at Mount Lebanon, South, Bekaa, and at the north.

Gyimah and Boachie (2018) ascertain whether microfinance products such as loans, savings, insurance, and education effects small business growth in Ghana. The study found that all the

microfinance product or services positively affects small business growth, and the greatest influence is micro loans. Irene et al. (2015) review the effects of microfinance services on the performance of MSMEs using an explanatory research design. The study utilized multiple regression analysis set draw inferences on the study using SPSS statistical package. The study found access to savings schemes, managerial training and loan grace period to be statistically significant in determining the performance of MSMEs. This study concludes that increasing provision levels of micro finance will result in increased performance of small enterprise.

4.7.3 Factors influencing the impact of microfinance on the profitability of SMEs

The study found that, the SMEs utilize the following microfinance services, savings, loans, training, working capital management advices, investment decisions and general financial management advisory services.These results imply that SMEs patronize and utilize number of microfinance services which in the long run affect SMEs profitability. The study found that, the following microfinance services impact on the profitability of SMEs, it expanse the business, high rate of productivity, increase profit margins, moderate gain from microfinance usage. The microfinance factors affecting profitability of include; accessibility to credit, business advisory, depository services and loan insurance may lead to the ability of SMEs to invest in productive assets that are likely to lead to productivity growth, increase in production, hiring of new employees as inputs to production and ultimately improvement in the performance of the SMEs. The findings of this study are consistent with that of Anane (2012); Mintah and Attefah (2014); Tawiah (2006) who also investigated the relationship between activities MFIs and the profitability of SMEs. They found that services received by SMEs from MFIs overtime enables them (SMEs) to increase productivity and increase incomes.Ogah-Alo et al. (2019) examine the effect of micro-credit lending on the SMEs financial performance. The findings indicate that micro-lending in the form of loans and advances impact positively on the various performance indicators such as net-

profit, return on equity and return on investments. On the contrary, overdraft was found to impact negatively on return on equity of shareholders.Again, the unstable socio-political environmentin Nigeria calls for serious concerns in the sector.

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Prah (2016) examines whether microfinance credit facilities contribute to the growth of the SME sector in the Cape Coast Metropolis of Ghana. Descriptive study design as well as quantitative analysis was carried out. The study revealed that most of the SMEs in the Cape Coast Metropolis have contracted microfinance credit facilities and that there was significant difference in growth of the SMEs before and after receiving microfinance credit facilities. The study also discovered that strict repayment terms, shorter repayment period, higher interest rate as well as small loan amounts were the major challenges that confronted the SMEs in the use of microfinance credit facilities to grow their businesses in the Cape Coast metropolis of the Republic of Ghana.Obokoh et al. (2016) explored the extent to which current microfinance lending impacts on indigenous SME access to finance and how the intermediation services of the microfinance banks (MFBs) contributed to or otherwise to the development of SMEs. The result shows positive contribution of microfinance lending to the development of such enterprises. However, it appears that a number of factors including cumbersome process, poorly packaged business plans and perceived high cost of credit still limit the access of indigenous SMEs to credit.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The study purposely examined the effect of micro-finance activities on the survival of small and medium scale enterprises by using SMEs in the Jomoro Municipality as study area. Specifically, the study's aim was toexamine the extent of microfinance utilization, the perceived influence of microfinance on profitability and to identify the factors influencing the impact of microfinance on SMEs.The study employed a survey strategy with quantitative methodology and crosssectional dimension to achieve its objectives. The study also used structured questionnaire as instrument to gather data. Overall, 397 participants were sampled from SMEs in the Jomoro locality. The sampled participants included the owners, general managers, sales managers and accountants. Data was analyzed using descriptive statistics and inferential statistics.

With regard to the extent of microfinance utilization by SMEs in Jomoro Municipality, the study found that the most frequently utilized microfinance services by SMEs included savings, borrowing and managerial training. Occasionally also, the following working capital management advises, investment decisions and opportunities and general financial management advisory.Regarding the perceived influence of microfinance on profitability, the study found that the SMEs were able to expand their businesses, increase rate of productivity, increase profit margins, employing more workers, improved capital mix and improved sales. With regard to the factors influencing the impact of microfinance on SMEs, the study found that the main factors were availability of loans, interest/cost of credit, Availability of depository services and Loan/General insurance.

5.2 Conclusions

This study was conducted to assess the impact of the activities of microfinance institutions on the profitability of Small and Medium Scale Enterprises in Ghana, with a focus on Takoradi metropolis using structured questionnaire and quantitative research approach. The study found that, the SMEs utilize the following microfinance services, savings, loans, training, working capital management advices, investment decisions and general financial management advisory services. The study found that, the following microfinance services impact on the profitability of SMEs, it expanse the business, high rate of productivity, increase profit margins, moderate gain from microfinance usage. The microfinance factors affecting profitability of include; accessibility to credit, business advisory, depository services and loan insurance may lead to the ability of SMEs to invest in productive assets that are likely to lead to productivity growth, increase in production, hiring of new employees as inputs to production and ultimately improvement in the performance of the SMEs.The study found that, the SMEs utilize the following microfinance services, savings, loans, training, working capital management advices, investment decisions and general financial management advisory services. The study found that, the following microfinance services impact on the profitability of SMEs, it expanse the business, high rate of productivity, increase profit margins, moderate gain from microfinance usage. The microfinance factors affecting profitability of include; accessibility to credit, business advisory, depository services and loan insurance may lead to the ability of SMEs to invest in productive assets that are likely to lead to productivity growth, increase in production, hiring of new employees as inputs to production and ultimately improvement in the performance of the SMEs.

5.3 Recommendations of the Study

First, the study recommends that SME practionners must enhance their knowledge on financial literacy as well as enhancing their skills with the use of the internet so that they can gather useful market information to aid them improve profitability and competiveness. Also, SMEs must develop interest in financial management and risk management technologies to help them enhance their market size and operational effectiveness.

Again, stakeholders like the National Board for Small Scale Industry (NBSSI), Association of Ghana Industries (AGI), Federation of Association of Ghanaian Exporters (FAGE) and GhanaExport Promotion Council (GEPC) should orient their members on effective credit management and its roles to enhance their profitability. Besides, managers and owners of SMEs should improve their knowledge and skills in ICT in order to adopt technologies to build selfcompetency and also encourage the use of internet.

Moreover, the recommendations in this study are based on the findings of the researcher. The study revealed that Microfinance institutions provide managerial training for SMEs. The managers of microfinance institutions are urged to find ways to assess the outcomes of the training. However, many more of such training should be organized for the management of SMEs on areas of working capital management and investment appraisal. This will help managers to know whether or not the firm is making good use their available funds.Also, microfinance was found to have an influence on SME performance. The study recommends to management the SMEs to frequently patronize the services of the microfinance institutions. This will help them to easily have access to credit and expertise on the job training. Furthermore, general business advisory services were found to be factors which influence the impact of microfinance on SME performance. The study recommend that microfinance institutions should develop specific and tailored business growth pieces of

advice suitable for the different situation a particular company. This will help the SMEs to withstand strict competition and resist collapse.

5.4 Limitations of the Study

The study is limited in scope because it did not cover many of the SMEs in Ghana but limited to those in Jomoro Municipality. This is because the researchers were constrained by time and financial resources preventing a larger number of SMEs in the sample. Also, the researchers were to meet a narrow deadline for the submission of the study report. Getting information from the respondents was an added challenge.

5.5 Suggestion for Further Studies

Future studies should consider expanding the scope of the study especially, the number of SMEs in Ghana to ensure high dependability and reliability of the results. Future studies can look at the impact of use of Credit Advice on the performance of Small and Medium Enterprises.

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APPENDIX

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, INSTITUTE OF DISTANCE LEARNING QUESTIONNAIRE ON THE EFFECT OF MICROFINANCE ON THE SURVIVAL OF SMALL AND MEDIUM SCALE ENTERPRISES

Dear Respondent,

This questionnaire attempts to measure the extent to which SMEs utilize microfinance, the impact of microfinance on the profitability of SMEs and will broadly also look at the factors influencing the impact of microfinance on the profitability of SMEs

The research is being done in partial fulfillment of the award of a Master of Science Degree from the KNUST Institute of Distance Learning program. The questions here are used for only academic purposes and therefore any information given here will be treated with confidentiality.

Please tick (√) your best response to the following questions where multiple answers have been provided. In other cases, please provide narrative or most appropriate response.

A. **PERSONAL INFORMATION**

1. **Gender:** Male [ ] Female [ ]
2. **Age Group:** 18 - 25 [ ] 26 - 39 [ ] 40 - 49 [ ] 50 - Above [ ]
3. **Level of Education:** No formal education [ ] Basic education/Form 4 [ ] Secondary [ ] Tertiary education(first degree) [ ] Master degree [ ]
4. **Level of knowledge in your industry:** Very high [ ] High [ ] Neutral [ ] Low [ ] Very low [ ]
5. **Level of knowledge in financing methods used by your industry:** Very high [ ] High [ ] Neutral [ ] Low [ ] Very low [ ]

B. **BACKGROUND OF BUSINESS**

6. **Name of Business:**……..……..……
7. **Date Business was formed:**……..……..
8. **Industry and Sector of Business:** ……..……..…….
9. **Specify the nature of Business:**……..……..…… ….……..……..

C. **EXTENT OF MICROFINANCE UTILIZATION**

10. Have you recently accessed credit: Yes [ ] No [ ]
11. Where do you often access credit: Microfinance [ ] Commercial Bank [ ]
12. Have you ever accessed credit from microfinance before: Yes [ ] No [ ]
13. How would you rate the services rendered by microfinance institutions: Very satisfactory [ ] Satisfactory [ ] Neutral [ ] Unsatisfactory [ ] Very bad [ ]

D. **IMPACT OF MICROFINANCE ON PROFITABILITY**

14. Do access to credit from microfinance have impact on profitability of SMEs: Yes [ ] No [ ]
15. If yes, arrange the impact in order of performance:

Impact	1	2	3	4	5
Helps in expansion of business (increase asset base)					
Helps in increase yield (productivity)					
Increase profit margins (profitability)					
Employ more workers					

Improved capital mix					
Improved sales					

NB: 1 means highest and 5 means lowest.

E. FACTORS INFLUENCING THE IMPACT OF MICROFINANCE ON SMEs

16. Are there factors that influence the impact of microfinance on the profitability of SMEs:
    Yes [ ] No [ ]
17. If yes, indicate how the following factors influence the impact of microfinance on the profitability of SMEs:

Factors	1	2	3	4	5
Availability of credit (loans service)					
Interest on credit					
Availability of depository services (savings)					
Interest on deposit					
General business advisory services (SMEs advice)					
Loan advisory services (financial advice)					
Loan/General insurance					

NB: 1 means highest and 5 means lowest.

Other Issues

Please, give any comment on any needs that you see as relevant but not addressed by the questionnaire.

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……
……

Thank you for your support in undertaking this important exercise.

KNUST
NYANSAPO WO SANE NO BADWENHWA