



## THE EFFECTS OF MICROFINANCE INSTITUTIONS PROGRAM ON SMALL AND MEDIUM ENTERPRISES FINANCING IN GHANA

### ABSTRACT

This article investigates the effect of microfinance institutions program on small and medium enterprises financing in Ghana. It also examines SME's contributions to Ghana's economy, challenges microfinance institutions faced in issuing a credit to the SMEs and the contribution of microfinance institutions towards SMEs' growth in the country. The analysis indicates that microfinance institutions are the major institution that supports small and medium enterprises with credit in Ghana. Also, SME's role in economic development is overwhelming through Skills and knowledge developing, creation of employment, women empowerment, and support to large companies. Again, the result from the findings shows that: Microfinance institutions have a positive effect on SME's growth & development by providing them with credit, organizing training programs, advice on credit utilization, risk management and how to build a savings and investment culture. However, despite the contribution of microfinance to SMEs development, both the SMEs and MFIs have challenges in the country and the challenges of SMEs are Lack of capital, inadequate managerial skills, lack of formal education, poor marketing skills, and electricity issues. While the challenges of microfinance institutions include: High default rate, lack of information on SMEs loan applicants, regulatory issues, politics, and policies. In conclusion, both MFIs and SMEs are crucial to the development of the economy and the government needs to encourage and support them to be in long term operations. Finally, the researcher recommends that: There should be proper credit monitoring and supervision by microfinance institutions to ensure that SMEs use the loans offered to them judiciously to reduce their default rate for long term sustainability to be ensured.

**Keywords:** Microfinance Program, Small & Medium Enterprises, Credit, Financing, Ghana.

### 1. INTRODUCTION

Small and Medium Enterprises in Ghana faced a serious problem when looking for credit to support their businesses due to a lack of collateral and other financial requirements. Microfinance institutions are the major institution that supports small and medium enterprises with loans in the country. This article looked at financing SMEs through a microfinance program in the country. Again, it looks at small and medium enterprises contribution to Ghana's economy.

Small and medium enterprises and microfinance institutions both contributed to the social and economic development of Ghana and the welfare of low-income citizens. There is also overall agreement that small and medium enterprises performance is very significant in the economic development of developing countries said (Abor and Quartey 2010) while Advani (1997) from an economic point of view argued that small and medium enterprises had numerous benefit and noted as main interest area to some stakeholders like the investors, donors, policymakers to increase the growth rate of low-income countries.

In Ghana, SMEs' growth and development are constrained by low access to loans by conventional banks and other institutions. Microfinance has noticed that SMEs contribute immensely to the country's development and so came in to solve the institution's problem by serving the demands of the SMEs. Again, SMEs create employment for low-income & poor, poverty reduction, increase in income levels and help raise the standard of living of the poor. The Ghana living standard Survey 5 (GSS 2006) indicated that, despite the continuous improvement in poverty reduction in the country from 52 percent in 1991 / 1992 to 28.5 in 2006, the phenomenon is high still.

There is a need for the government and other stakeholders to continue supporting both the MFIs and SMEs since their advantages outweigh their disadvantages in the Ghanaian economy. According to Duffuor (cited in Bhasin and Akpalu, 2001) in his view, so far as SMEs will be ignored of credit and other necessary assistance financial and non-financial, developing economies will continue with unemployment issue and will never be the independent economy. As Hossain (1988) also indicated, most of the international developed communities in the world achieved their purpose of poverty reduction through the provision of a systematic and coherent service to poor households. The main reason why the majority of small and medium enterprises lack funds and other resources from most financial institutions is due to their high rate of collapse and unsustainability in the country. Furthermore, most of the small business was unable to repay the loans issued to them by the financial institutions and they also lack collateral securities. About 80 percent of the small and medium businesses especially the new ones' collapse in their first 5 years of operations and the collapse rate alarming is difficult for the Bankers to know the accuracy of entrepreneurs in terms of loan repayment and due to this, the small and medium businesses find it difficult to assess finances especially long duration of debt and equity. According to the National Business Incubator Association (NBIA, 2003).

The objective of this article is to expatiate the effects of microfinance institutions program on small and medium enterprises financing in Ghana, to discuss microfinance credit impact on small & medium enterprises development, to determine the challenges facing microfinance institutions in issuing small and medium enterprises with credit in Ghana, assess the contributions of small & medium enterprises to the Ghanaian economy, and finally to examine the challenges small and medium enterprises face in assessing loan/credit for their establishment.

The SMEs in Ghana faced more challenges getting access to credit to finance their business. This is due to the high rate of collapse and unsustainability of the institutions, increase in their default rates and lack of collateral. This article investigates the reasons why SMEs faced a greater challenge when accessing capital from conventional institutions. Is it a lack of collateral? Because the business is informal? The caliber of individuals involved in the small and medium business? The procedure involved in the issuing of the credit? Nature of their businesses? Due to the high default rate? Or what. Upon all the above, Microfinance institutions came to fill in the gap of small and medium enterprises problems in the country by offering them the needed capital and other support because small and medium enterprises are very important in the Ghanaian economy and it serves as an income source to the low-income & poor in the country. Again, the study examines the problems that microfinance institutions faced in issuing a credit to the small and medium enterprises in Ghana. These were the knowledge gap which gave rise to this article.

Due to the above motivation of the article, is seek to find solutions to the ensuing questions: Does microfinance institutions program have effects on small and medium enterprises financing in Ghana?, Does microfinance credit have an impact on small & medium enterprises development?, What are the challenges that microfinance institutions faced in issuing small and medium enterprises with credit in Ghana?, What are the contributions of small & medium enterprises to the Ghanaian economy?, Do small and medium enterprises face challenges when assessing credit for their establishment in Ghana?

The government and the stakeholders all should work towards the sustainability of both microfinance institutions and small and medium enterprises in the country. Because, both institutions contribute immensely towards the development of Ghana through employment creation, poverty reduction, income-generating activities and an increase in the living condition of the low-income and poor individuals in the country.

## **2. LITERATURE REVIEW**

### **2.1 Theoretical Review**

The Ghana Statistical Service (GSS) define any enterprise that employs below ten (10) workers as small businesses and defined medium and large-sized businesses or enterprises as those that employ more than ten (10) workers. The SMEs in Ghana is categorized into two (2) enterprises. That is rural enterprise and urban enterprises. The former enterprise is further divided into two subgroups as organized and unorganized enterprises. Those organized enterprises have a payroll, were paid salaries and they have organized and registered offices while the unorganized enterprises mainly consist of workers without salaries, work in an open space like artisans, a temporary wooden structure, sometimes at home and only employ few workers (Kayanula and Quartey, 2000).

Microfinance is financial institutions whose main aim is providing micro-financial services that are micro like loan/credit, savings, insurance & remittances to the poor or low-income individuals (Asian Development Bank, 2000). Hartarska (2005) defined a microfinance program as offering or issuing of services which are small scale to the poor or low-income individuals. Again, the effective technique or instrument that is used in fighting or reducing poverty among the low-income individuals through services rendered to them and the poor who also lack access to these services or been denied services by traditional/conventional banks are defined as microfinance (Dokulilova et al, 2009).

### **2.1 Empirical Literature Review**

Nieman & Nieuwenhuizen (2009:275) as was cited by Chimucheka (Chimucheka, 2013) stated that growth is written as the main success characteristic in a cultural setting". While Fatoki and Garwe (2010:731), cited in Chimucheka (2013) indicated that, the success of a business is mostly defined and measured by concepts like profit, productivity, changes in sales, changes in assets, and changes in employment. Similarly, Chimucheka (2013:793) argues that the financial growth of a business as a measurement which is very important as a success or performance of a business is mostly used by stakeholders in accessing business performance. Again, The most very successful SMEs are those that are run/owned by entrepreneurs whose level of skills are high both managerial and technical, and good training accompanied by a high educational level (Rogerson 2008:70). However, Lack of training and no formal education can lead to a lack of managerial skills in SMMEs owners (Chimucheka 2010:787). Chimucheka (2010:787). they supported this view by further citing Hellriegel et al. (2008:98) who concludes that education, skills, and training help to develop management competencies and experiences which are very necessary for the success of every enterprise.

#### **2.2.1 Sources of Finance for Small and Medium Enterprises**

Small & medium enterprises have challenges of funds raising to start or expand their enterprises. To have an appropriate source of funds, it would be beneficiary for running the business either in short term or long term. There are several reasons why SMEs need to raise funds for their enterprises. Four among the reason are:

- **Startup capital:** Small and medium enterprises need capital to start a new business and to make it grow.
- **Business expansion:** Small and medium enterprises need funds to make the enterprise large / expand the enterprise for growth like in the area of purchases of machinery, production, personnel, and other potential enterprise growth.

- Innovation: Small and medium enterprises need funds to carry out innovation for the company's products and services. This innovation could be the company buying new equipment or upgrading the old one to meet standards.
- Capital structure modification: Small and medium enterprises need funds for modification of their capital structure. Thus, for the company to either change their short term debts to long term debts or changing a percentage of equity capital to debt capital.

The small and medium enterprises have a different method they raise finance either internal source or external source. The internal sources of raising capital are equity finance and the external source of raising capital is debt financing. The equity financing is advantageous because there is no interest rate charge and it again gives the organization a financial autonomy. The demerit of using the equity capital is that the enterprise may not have sufficient funds to manage their activities and this will limit the company's fast growth. To have enough startup capital, external financing is the best. The external sources of funding or capital include loans from microfinance institutions, grants, and capital market instruments. Oncioiu (2012) said there is a need for enterprise debt financing when there is an increase in the organization's expenditure.

### **Equity Finance**

The amount of money that business owners contributed and invested in a business from their savings is referred to as Equity capital. Most small and medium enterprises depend solely on equity financing because it is a challenge to get funds from other sources. The more small and medium enterprises grow, the more it needs funds and this calls for capital searching or other alternative means of getting capital. Equity financing is the number of funds kept in an enterprise without interest, not repayment date. Also, the methods of raising equity funds are of two kinds. Thus, the internal method and external methods. The internal method of equity funds is from owners of the enterprise, members of family, friends or plow-back profits and the external method of equity capital is funds that are from other sources externally, and not from owners of the enterprise. (Ou & Haynes 2006.) From the above, it can be seen that the finance provided by the enterprise owners is far more than debt financing especially the case of new business because of limited resources not having the needed collateral to back up loans According to Ou & Haynes (2006), there are two ways when small and medium enterprises operators would like more capital from the equity to match to their needs. Whenever SME is facing a financial challenge it is not having other sources/methods to raise funds for the enterprise. Whenever cash outflow of the company is greater than the amount of cash inflow in the enterprise.

### **Debt Financing**

Capital structure decision in either small or large company is either to use equity financing method or the debt method of financing or the combination of both methods of financing. Small and medium enterprises usually face challenges in acquiring the needed funds for their enterprises and also for the running of the enterprise making it search for other sources of financing the enterprise. To be part owners of the business enterprise, shareholders always prefer using the external method as an alternative source. Debt financing differs for SMEs as against large organizations. Larger organizations have greater prospects for external capital because they have a much better and bigger asset which could be used as collateral and for loans baking up. The smaller enterprises are very attached to lenders where they can get a longer-term method of financing instead of shorter-term loan financing.

### **2.2.3 Other Sources of Finance for SMEs Growth in Ghana**

The small and medium enterprises have several sources of finance for their businesses or startup companies. Firstly it is to calculate the amount of money needed and the time that the

money is needed. The financial requirements or needs for funds of a particular business will vary from the other depending on the business type or size. Ewiwile said the sources of finance that are accessible to small and medium enterprises or small businesses include:

- The business owner's savings.
- The business associates who are family and friends.
- Business partners and associates.
- A loan from financial institutions / Banks.
- Small businesses administration and a financial assistance program.
- Some stakeholder (manufacturers, wholesalers, retailers, Members of the trade, and customers).
- From all the sources above, only personal savings are accessible to the businesses. The other sources, examples of loans from financial institutions is very difficult to access. No access to finance for SMEs or insufficient capital is one of the problem/limitations to small business development.

### **2.3.4 Microfinance Lending Models to Small and medium enterprises**

The microfinance institutions play a credible role in supporting SMEs with funds because the enterprises have difficulty in funds raising by themselves. The loans that the microfinance offers the SMEs is an amount of capital with conditions attached to it to start businesses, expand or develop, and to help sustain the activities of the enterprises. There are several strategies or models adopted by the microfinance institutions in granting/issuing a credit to the small and medium enterprises. Some of the strategies include the lending of financial statements, lending of a credit score, lending based on asset, and the lending of relationships. The processes/procedures that microfinance institutions use in lending are the mixture of borrower & customer information, policy selecting, observation techniques, and loan contract type. According to Berger & Udell (2004), these were classified into two namely the quantitative data also called the hard data, and the qualitative data known also like the soft data.

#### **Lending of Financial Statement**

The lending of financial statements of an enterprise is the reports/records that indicate the situations or the financial standing of an enterprise. These types of financial lending models are into three (3) different kinds namely: The lending of the balance sheet of the enterprise, the lending of cash flow statement of the enterprise, and finally, the lending of the income statement of the enterprise. The assets & liabilities of the business enterprise with owners' equity are what is specified/indicated on the balance sheet of the company while the cash flow statement indicates the company's movement of cash in and out specifically in financing and investing activities. The income statement also shows the income and the expenditure of the company for some time and the company's net profit. The key purpose & objective of financial statement lending is for measuring borrowers' financial stands or evaluating their worth. With this requirement, two important hard information is needed. Firstly, a financial statement that is legal and certified at the same time audited and prepared by a recognized institution must be provided. Secondly, the company's financial calculation that is realized from the financial statement of the company should look like a financial requirement that is strong and powerful. The sources or methods of a company's debt repayment would be analyzed with the expected cash flow of the enterprise. The results realized from the financial statement analyzed could indicate the firm's ability and capability in different areas like personal guarantee and collateral. (Allen, William & Tara 2014.)

### **Lending Based on Assets**

The lending based on assets most secured and one of the fastest forms of credit granted to small and medium enterprises. Under this method of lending, the institutions' efforts are based on the collateral security that the small & medium enterprises pledged by. This collateral security may include those valuable assets like land, inventories, account receivables, and gold. That is a situation where a microfinance institution offered loans to a small & medium enterprise according to the asset value been pledged as collateral. The main condition that is necessary as the lending method based on asset loan is been determined by asset worth or value offered to the bank. The loan is given according to the quantity or value of the security provided. The higher the securities value, the higher the amount of loan issued.

The financial institution evaluates the value of the collateral security daily to ensure that, the value of the security is far more than the loan. The most simple and very common procedure in loan granting is providing valuable collateral security by the SMEs. Some collateral securities that can be a pledge by the SMEs in case of lending the financial statement lending are inventory & accounts receivables. Also, relationship lending & credit scoring are used. In lending based assets, credit duration is according to collateral security's value that is used to pledge by enterprise or firm. (Udell 2004.)

### **Lending based on Credit Scoring**

Credit scoring lending is an evaluation that is done by a microfinance institution statistically before issuing loans to small & medium enterprises operators. The main aim is to access the enterprise creditworthiness to see if they qualify for the loan. This kind of strategy is used in deciding credit offerings or credit not given. These scoring of the credit is determined by certain factors and among those factors are indicated below:

- **Payment history:** this means that, history of the enterprise credit payments. It is the biggest concern & interest of the institution that customers can repay their debts the due time expected of them and not default. The way and manner in which customers of the enterprise pay their loans influenced several scores credit that the customer is likely to get.
- **Debt levels:** under the debt level strategy, the institution looked debt history of the enterprise. The debt amount is enterprise owe & the money value that the firm is requesting.

The above procedure and processes are referred to as utilization of credit. The duration of the history of the credit is the following technique whereby the subsector takes into consideration the time of the credit history of the organization. When the time of the loan is long term it is very advantageous. (Abdou & Pointon 2011.) The credit score number mostly ranges from 300 to 850 credit rating. With time to gather information for evaluation by the microfinance institution and consider the needed statistics, credit scoring needs little time as compared to relationship lending. The records and the loan performance of the small & medium enterprises, and the statistical weight were the reasons or main basis of analyzing credit score. The credit scoring of small-medium enterprises gives them more chances to acquire credit from the institution. (Frame, Berger & Miller 2005).

### **Relationship Lending**

The lending of relationship is a type of lending that microfinance institutions use to offer credit to their customers and is based on the relationship tier between the two institutions. The microfinance institutions & small and medium enterprises relationship is based on their interaction and through that, adequate soft information which is confidential is gathered. This information is useful in analyzing the enterprise creditworthiness which is part of processes and procedures for loan/credit-granting of the microfinance subsector. The amount of loan given is influenced by the level of

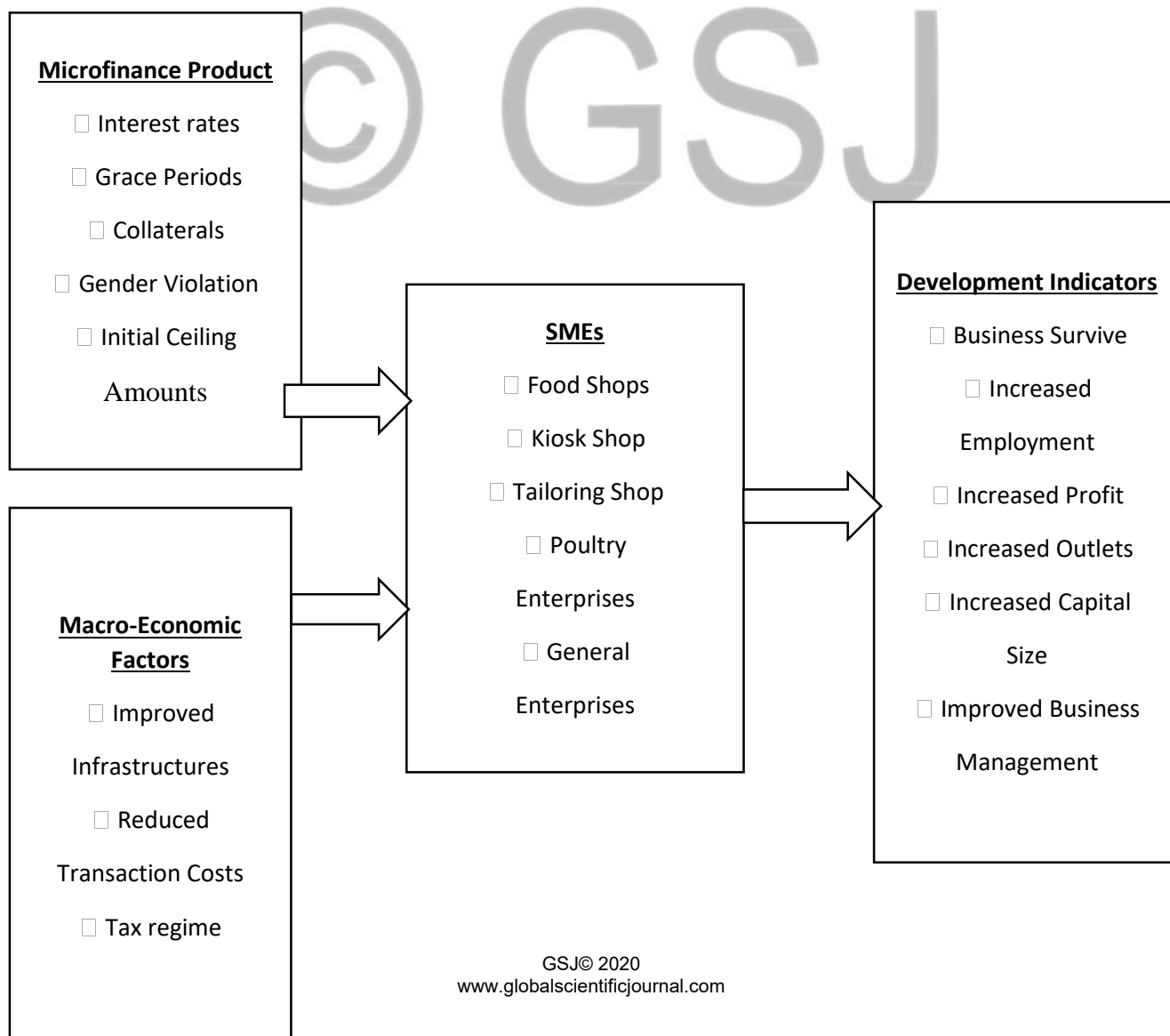
customer relationship with the bank. For small enterprises to get more loans from the microfinance, trust-based relationship with the institution is more significant than longer customers' relationship with the bank. (Hernandez-Canovas & Martine & Solano.2010). The parties involved in the processes thus the intermediaries who are the (Suppliers & customers) makes the whole procedures very expensive. Other methods of lending like the scoring of credit & the lending based asset stronger guarantee of the loan are required because the weak lending guarantee could need usage of other strategies of lending like factoring & leasing methods (Berger & Udell 2006).

Factoring is a transaction of a financial asset where the company/firm sold out its assets like Invoices/Account receivables at cheap, reduced or lower-priced called discount to the third party called the factor. The purpose of factoring is when the company needs immediate cash or an amount of money, it enables the company to raise enough capital regardless of the credit situation of the small & medium enterprises and it gives unlimited funding possibilities and opportunities that can be added to the enterprise. Leasing also refers to using property such as machines, buildings, cars for rental bases for a while. This is based on the kind of business the enterprise/entrepreneur is engaged in.

Operational type of leasing, financial leasing, and maintenance leasing are the different options for leasing available by an entrepreneur. There exist an option in leasing to return the lease item or to take a new item (Nakusera, Kadhikwa & Mushendami 2008).

## 2.4 CONCEPTUAL FRAMEWORK

### Conceptual Review on Microfinance Program Effects on SMEs



### 3. METHODOLOGY

The population of the study consists of selected MFIs in Ghana and the SME operators that deal with those microfinance institutions. However, the study target only those institutions in the regional capitals of the regions (10) in Ghana. Purposive & convenient sampling technique was used in selecting one hundred and ten (110) SMEs operators & MFIs from all the regions constituting the sampled size of the study. Out of the 115 questionnaires, 110 successful returned and the analysis was based on that number. We used primary and secondary sources of data. The former data was obtained through interviews conducted with the respondents from the two institutions. The data collecting instruments were questionnaires for microfinance institutions management and small and medium operators. The SME's operators are the microfinance credit program beneficiaries thus, the customers or clients who are the SMEs from the MFIs. The respondent's responses were summarized and illustrated into tables, frequencies, percentages, pie charts, bar charts and histograms and conclusions made on the basis and views of the responses. The latter data were also acquired from finance books, microfinance books, reputable journals, brochures, papers & internet sources. The article investigates the microfinance institutions program effects on SMEs through the credit given to them and the challenges that small & medium enterprises and microfinance institutions faced in their operations and dealings.

### 4. ANALYSIS OF THE FINDINGS

**Table 1: Respondents Gender**

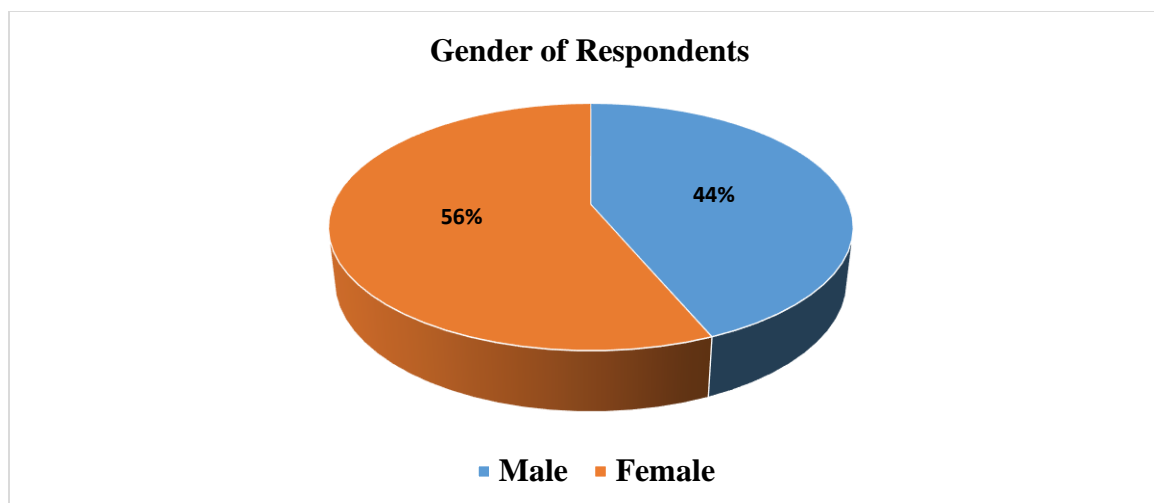
The participants were questioned about their sex to know the number of male/men workers as against the female/women workers to help in the analysis of the data according to their respective gender. The below table indicates the number of male and female respondents from the interviews conducted in Ghana.

Gender	Frequency	Percentages
Male	48	44
Female	62	56
Total	110	100

Source: Own Field Research September 2018.

From the respondents' responses, most of the interviewees were women with 62 frequency which consists of 56 percent of the respondents while the male respondents were 48 in number comprising 44 percent of the entire interviewed population. We observed that greater of the respondents were women which indicate that more women work in SMEs as compared to men.





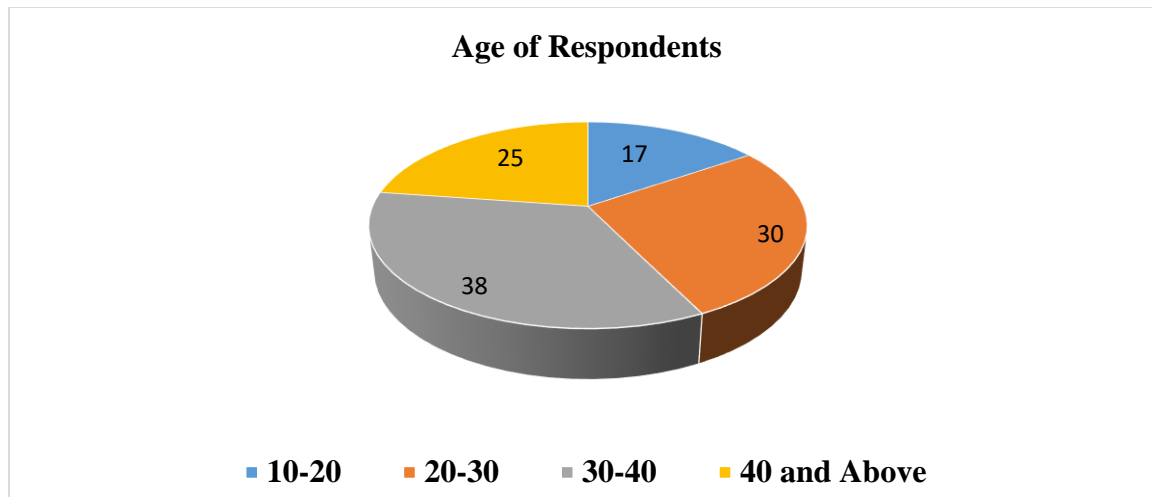
**Table 2: Age of Respondents**

The age of the participants is very important to be known in the researcher of this nature to help know the working-age group. Table 2 below shows the small and medium enterprises' age working group of the field interview conducted.

Class	Frequency	Percentage
10-20	17	15
20-30	30	27
30 -40	38	35
40 and Above	25	23
Total	110	100

Source: Own Field Research September 2018.

According to the responses, the age group 30 to 40 is the active working group with 38 individuals thus 35 percent of the total population interviewed followed by age group 20 to 30 with 30 people which are 27 percent of the number interviewed. Age group 40 years and above comprise 23 percent which is 25 of the respondents and finally the age group 10 to 20 having the least number of the working group with 17 members and 15 percent of the interviewed population.



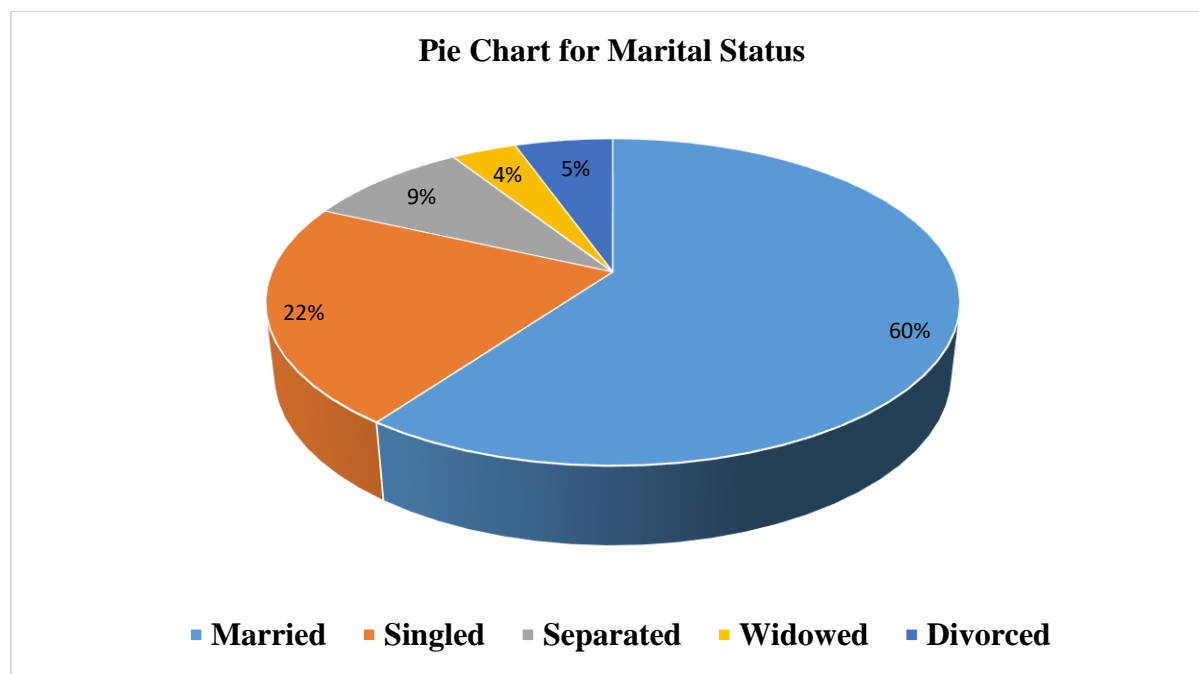
**Table 3: Marital Status**

The status of respondents was also asked and the results were presented below in table three to know the married respondents, singled respondents, widowed or separated respondents during the interviewed.

Marital Status	Frequency	Percentage
Married	66	60
Singled	24	22
Separated	10	9
Widowed	4	4
Divorced	6	5
Total	110	100

Source: Own Field Research September 2018.

The field data results indicate that married men and women are more in the small and medium enterprises interviewed, with 66 out of the one hundred and ten (110) interviewed which has 60 percent while the singled respondents followed with 24 respondents representing 22 percent of the number according to percentages. The frequency of respondents who are separated is 10 constituting 9 percent of the population while 6 have divorced which is 5 percent of the interviewed population and only 4 people were widowed indicating 4 percent of the respondent's population.



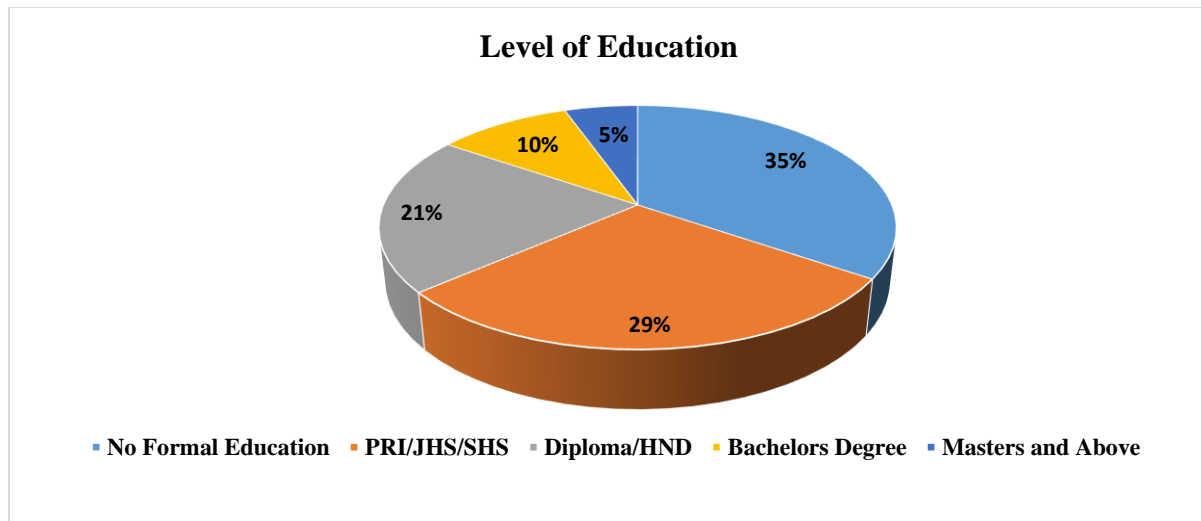
**Table 4: Educational Level**

The educational level of the participants is significant in this type of research to know the qualification of the workers those who have formal education and those without education. Since education helps to know the competency and literacy level of the participants.

Educational Level	Frequencies	Percentages
No/Lack Formal Education	38	35
PRI/ JHS / SHS	32	29
Diploma / HND	23	21
Bachelor's Degree	11	10
Masters and Above	6	5
Total	110	100

Source: Own Field Research September 2018.

From participants' responses, the number of respondents without a formal education is more than those with formal education. 38 of the respondents said they had no formal education comprising 35 percent of the respondents interviewed while 32 individuals indicated that they have PRI/JHS/SHS which is 29 of the percentage. The respondent with Diploma's Degree or Higher National Diploma Degree are 23 in number consisting of 21 percent of the population interviewed and 11 had Bachelor's Degree indicating 10 percent of the selected number and 6 people had Masters and other Degrees comprising 5 percent of the sampled population interviewed.

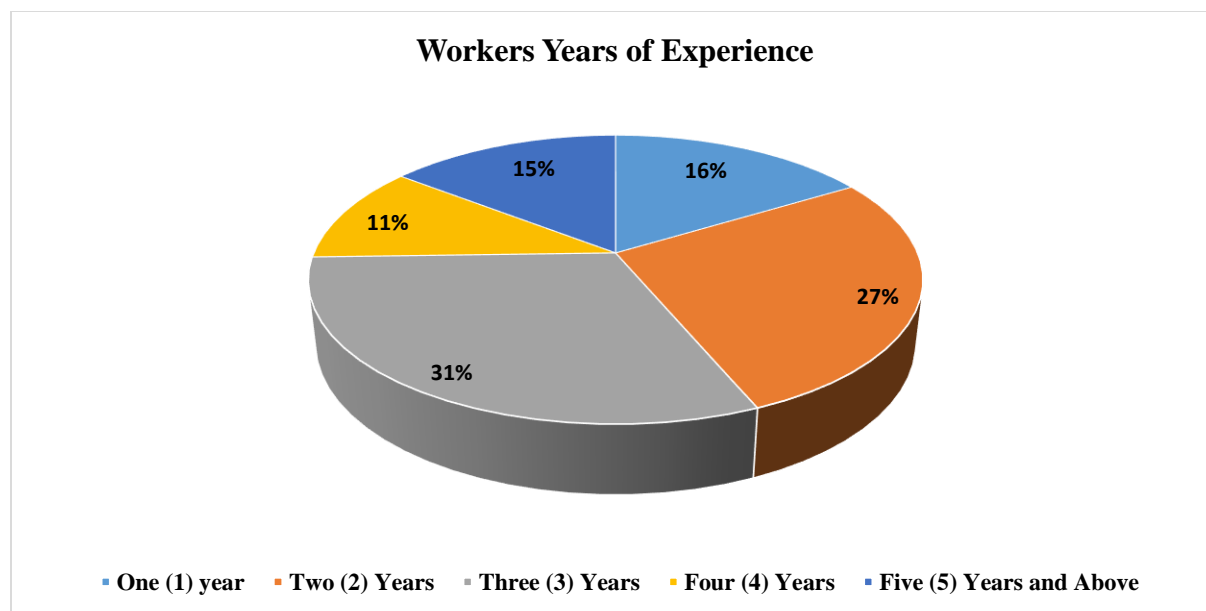


**Table 5: Workers Years of Experience**

It is assumed that the more the experience of working years a respondent obtained, the more he or she can contribute immensely for the institution because they can handle customers well and also deal with different levels of risks in the company. Also, their understanding of issues is far greater than a worker with fewer years of working experience. Table 5 below shows the working experiences of the respondent in several years.

Number of Years	Frequency	Percentage
One (1) Year	18	16
Two (2) Years	30	27
Three (3) Years	34	31
Four (4) Years	12	11
Five (5) Years & more	16	15
Total	110	100

Source: Own Field Research September 2018.



Of the total percentage interviewed, 16 percent had One (1) Year working experience while 27 percent had two (2) years working experience. The respondents who had three (3) years of working experience are 31 percent with 11 percent having four (4) years' experience. 15 percent of the respondents have five (5) Years and above

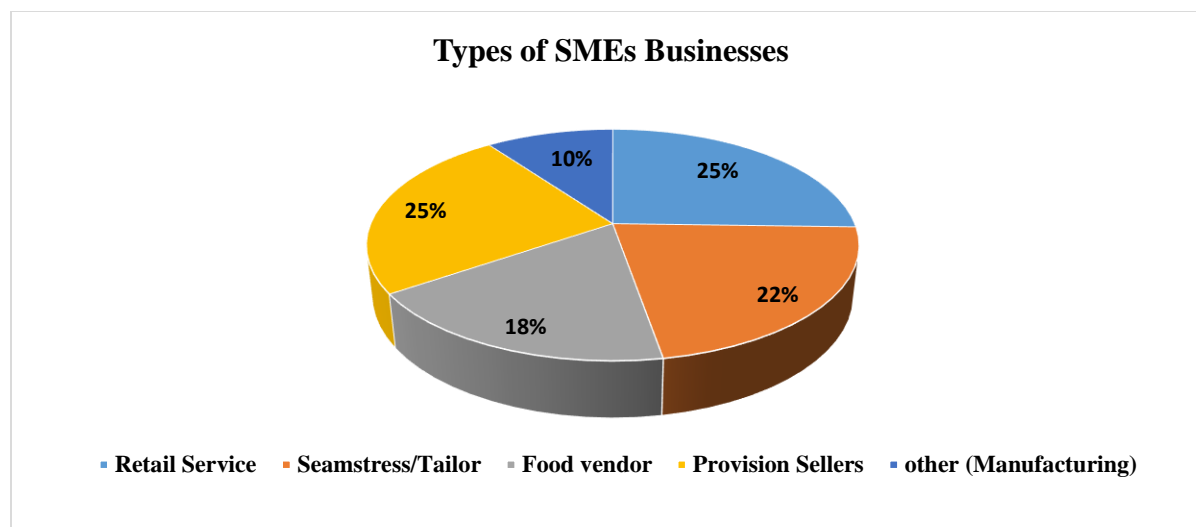
**Table 6: Types of Small and Medium Enterprises Businesses**

The small and medium enterprises is of different types. Knowing category of each respondent business is very important for this article to help in the analysis.

Types of Businesses	Frequency	Percentage
Retail services	28	25
Seamstress / Tailor	24	22
Food vendor	20	18
Provision Sellers	27	25
Other (Manufacturing)	11	10
Total	110	100

Source: Own Field Research September 2018.

From the findings, there are different types of businesses that deal with microfinance institutions. Some of the mentioned businesses are, Retail services 28 (25 percent), Seamstress / Tailor 24 (22 percent), Food vendor 20 (18 percent), Provision Sellers 27 (25 percent) and other types of businesses like (Manufacturing) 11 (10 percent). The total respondents interviewed are 110 individuals in the various institutions.



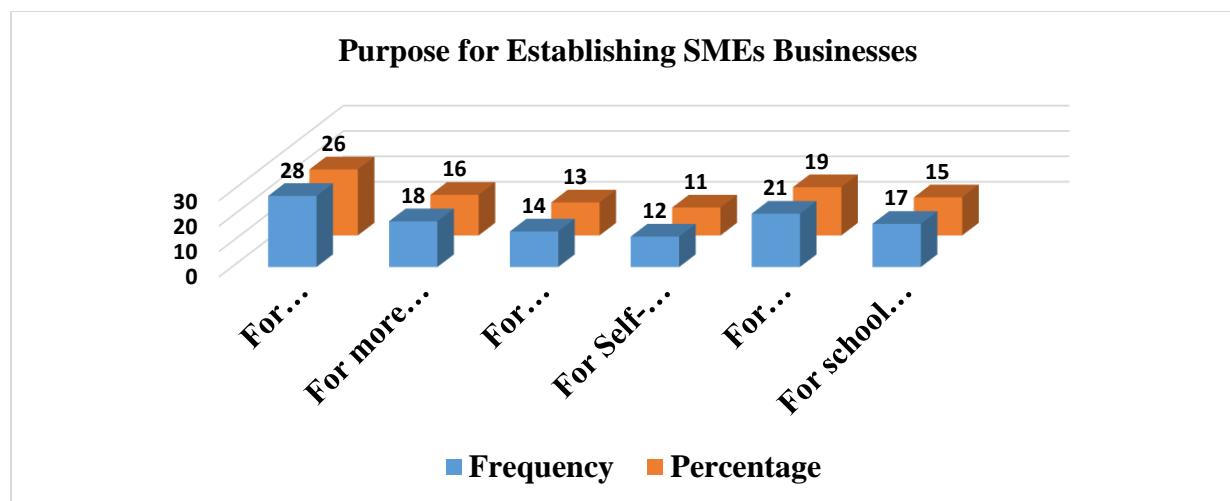
**Table 7: Purpose of Establishing SME Businesses**

When establishing a business, a lot of objectives are considered. Due to this reason, the small and medium enterprises respondents were asked purpose/objectives of the enterprise establishment and the below table illustrates their various responses from the field interviewed.

Purpose of SMEs	Frequency	Percentage
For income to support family	28	26
For more youth to get employment opportunities	18	16
For better living standard and condition	14	13
For self-employment	12	11
For development & growth of Economy of Ghana	21	19
For school fees payment	17	15

Source: Primary Data September 2018.

When the participants were asked about the objectives of their SMEs, different responses were given as indicated in the table above. 28 respondents mentioned income to support the family as their objective of establishing small and medium enterprises while 18 said they create SMEs for the youth to get more employment opportunities. According to 14 of the respondents, they do SMEs to better their living standards and conditions and 12 individuals made mention of doing the business for self-employment. 21 and 17 respondents explained that they participated in SMEs due to the development and growth of the Ghanaian Economy, and school fees payment.



**Table 8: Objective of SMEs Working with MFIs**

There is always an objective when banking with any financial institution. The small and medium enterprise respondents were interviewed on why they choose to do business with the microfinance institutions and the following tables indicate their different answers.

Objectives of SMEs with MFIs	Frequency	Percentage
For securement of credits or loans	32	29
To expand business with the credits	9	8
For funds savings / deposits	11	10
For businesses advice from MFIs	12	11
For better training and capacity building	8	7
For short term investments with income gained	38	35

Source: Primary Data September 2018.

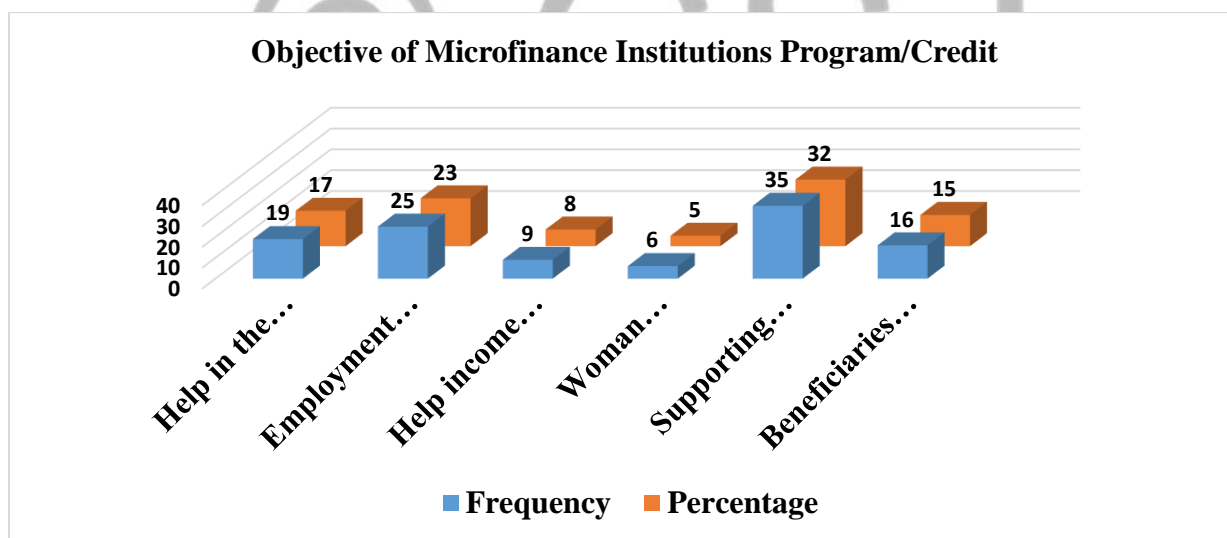
The field survey responses indicated the following as the respondent's responses to the objectives of their working with the microfinance institution. 29 percent said for securement of credits/loans to run their businesses and 8 percent explained to get funds to expand their businesses. 10 percent and 11 percent mentioned that microfinance helps them to Save funds and receive business advice externally respectively. 7 percent were of the view that to get better training and capacity building from the institution while 35 percent said to do investments with the income gained from the enterprises.

**Table 9: Objective of Microfinance Institutions Program/Credit**

From the interview, the respondents were asked their opinion on why microfinance institutions were established and the reasons why they choose to work with MFIs instead of other institutions. The below table 9 indicates responses of small and medium enterprises beneficiaries on what they think is the objective of Microfinance Institutions.

Objectives of MFIs Credit	Frequency	Percentage
Help in the alleviation of poverty among the low income individuals	19	17
Employment creation for the active rural poor people	25	23
Help in income generating activities for the poor	9	8
Women empowerment through microfinance program	6	5
Supporting SMEs with credits and the active working poor.	35	32
Beneficiaries of loans receive training on loan usage from MFIs.	16	15

Source: Primary Data September 2018.



From the findings, 19 (17 percent) said Microfinance institutions help the poor to alleviate poverty while 25 (23 percent) answer that MFIs create employment for the rural poor. The institution also helps in income-generating activities indicated by 9 (8 percent) of the respondent and 6 (5 percent) concludes that MFIs empowered women. 35 (32 percent) pointed out that MFIs issued loans/credit to SMEs businesses and active working poor and finally 16 (15 percent) said MFIs train their loan beneficiaries/customers on loan usage and management.

**Table 10: The Services MFIs Rendered to SMEs**

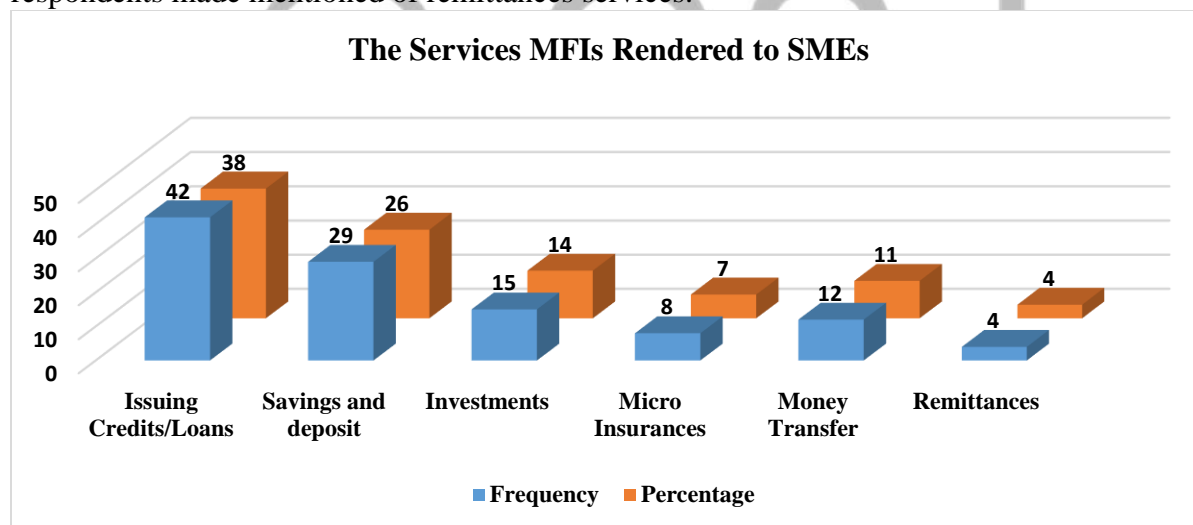


Microfinance institutions in Ghana offered a variety of services to SMEs. The respondents were asked what kind of services is rendered to them and their responses were elaborated in the below table.

Services Rendered to SMEs	Frequency	Percentage
Issuing Credits / Loans	42	38
Savings and Deposits	29	26
Investments	15	14
Micro Insurances	8	7
Money Transfer	12	11
Remittances	4	4

Source: Primary Data September 2018.

The field survey findings illustrated that 42 respondents mentioned the services microfinance institutions rendered to them as issuing Credits / Loans to do businesses with and 29 of the respondents said MFIs help them to make Savings and Deposits. 15 other respondents mentioned that they were offered investment opportunities. 8 of the beneficiaries said MFIs help them with micro insurances and 12 people mentioned money transfer offered to them. Only 4 respondents made mentioned of remittances services.



**Table 11: Training and Advisory Services to SMEs**

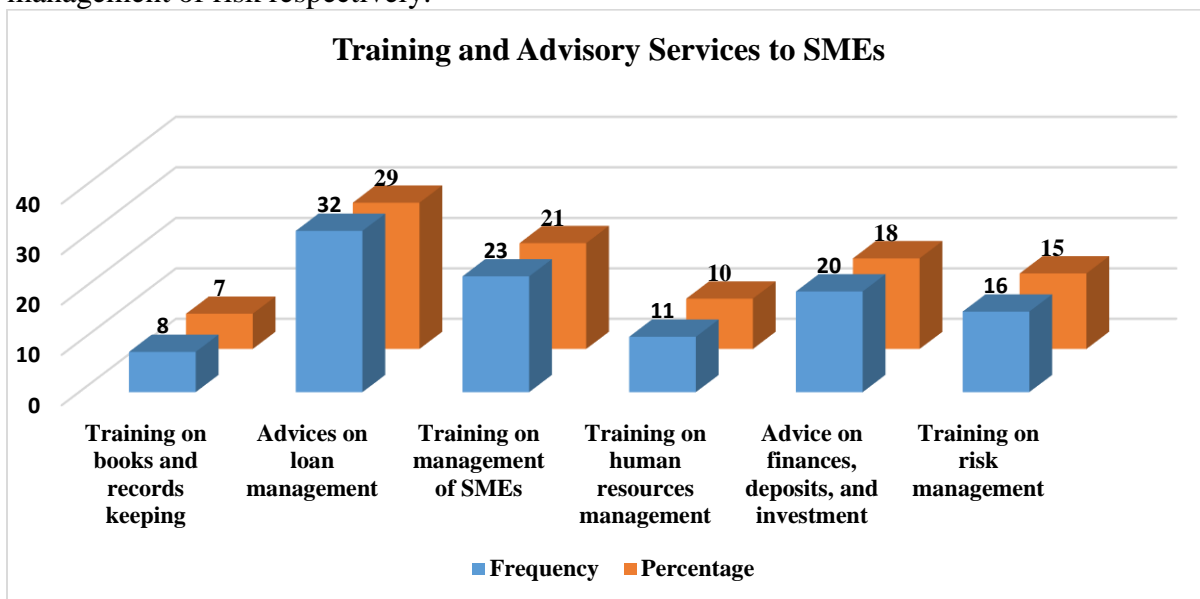
The respondents were asked the kind of advice and training they received from microfinance institutions as part of the other services rendered to them and they mentioned the services in the following table.

Training/Advisory to SMEs	Frequency	Percentage
Training on books and records keeping	8	7
Advices on loan management	32	29

Training on management of SMEs	23	21
Training on human resources management	11	10
Advice on finances, deposits, and investment	20	18
Training on risk management	16	15

Source: Primary Data September 2018.

From the findings, 7 percent mentioned books and records keeping as other services rendered to them by MFIs while 29 percent said loan management advice. Again, 21 percent made mention of training on SME management and 10 percent said training on human resources was offered to them. 18 percent and 15 percent mention advice on finances, deposits, investments, and management of risk respectively.



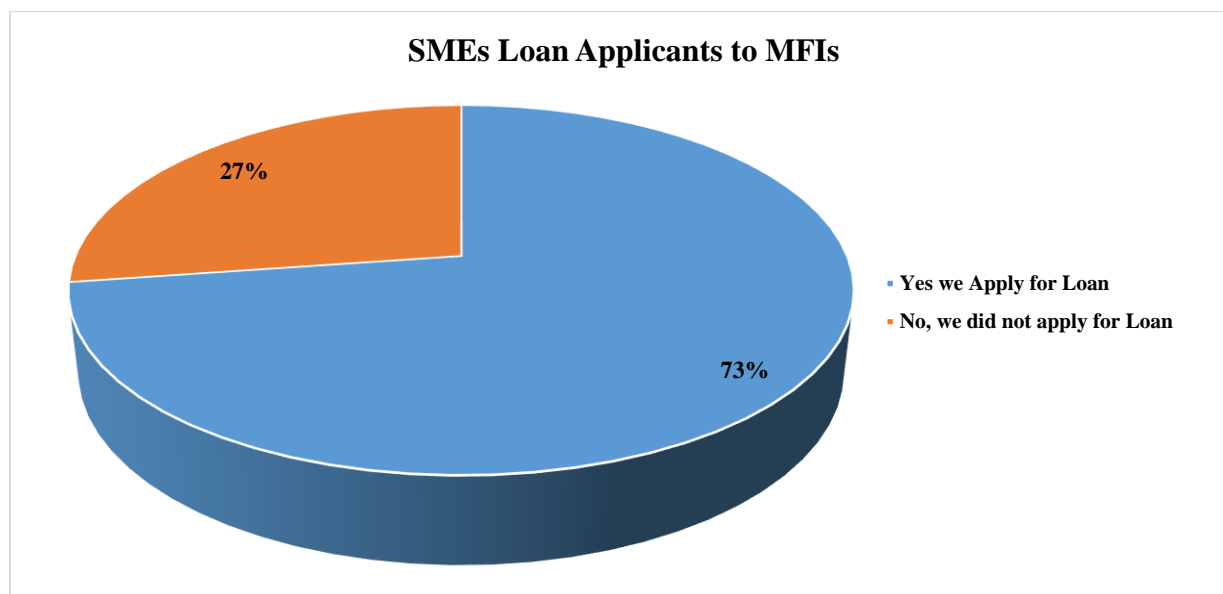
**Table 12: SMEs Number of Loan Applicants to MFIs**

The table below indicated the number of respondents who applied for credit/loan from microfinance institutions and respondents who did not apply for credit/loan from the MFIs. The statistics are showed below.

Loan application	Frequency	Percentage
Yes we Apply for Loan	80	73
No, we did not apply for Loan	30	27
Total	110	100

Source: Own Field Research September 2018.

Based on total respondents, 80 of them said they are loan beneficiaries from the MFIs and 30 of the respondents said they are not beneficiaries.



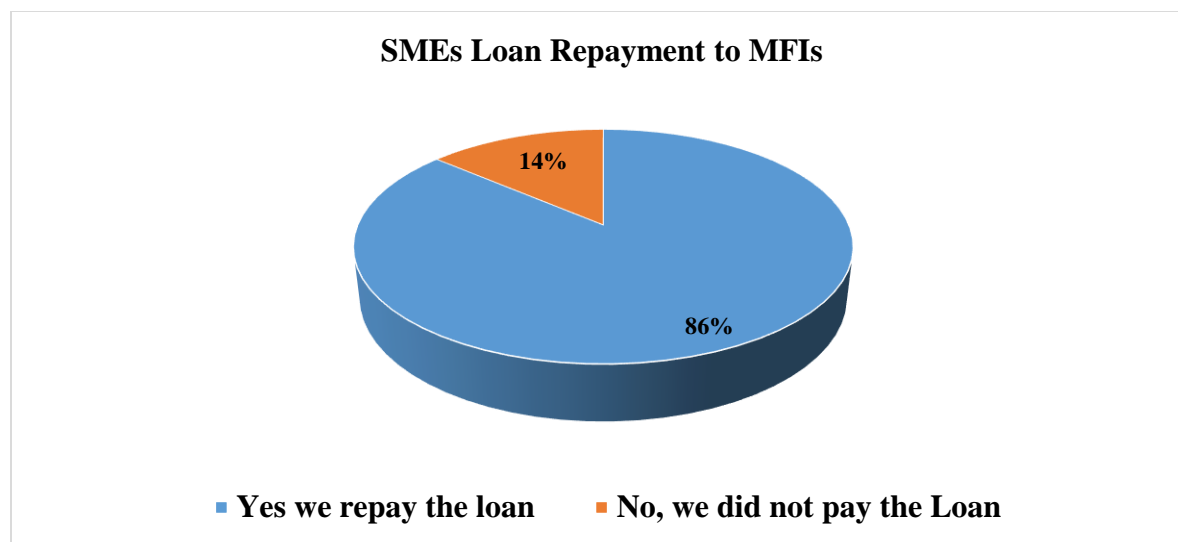
**Table 13: SMEs Loan Repayment to MFIs**

The beneficiaries of the Loans from microfinance institutions were asked if they paid the loan given to them by the microfinance institutions that are both the principal amount with the interest rate charged on time or they defaulted and the below shows their responses.

Loan Repayment	Frequency	Percentage
Yes we repay the loan	69	86
No, we did not pay the Loan	11	14
Total	80	100

Source: Own Field Research September 2018.

The findings indicated 86 percent of the respondents repay the loan given to them while 14 percent defaulted from the loan repayment. This indicated that the repayment rate is far higher than the default rate. More so, the credit defaulter was among those who collapse the Microfinance Institutions.



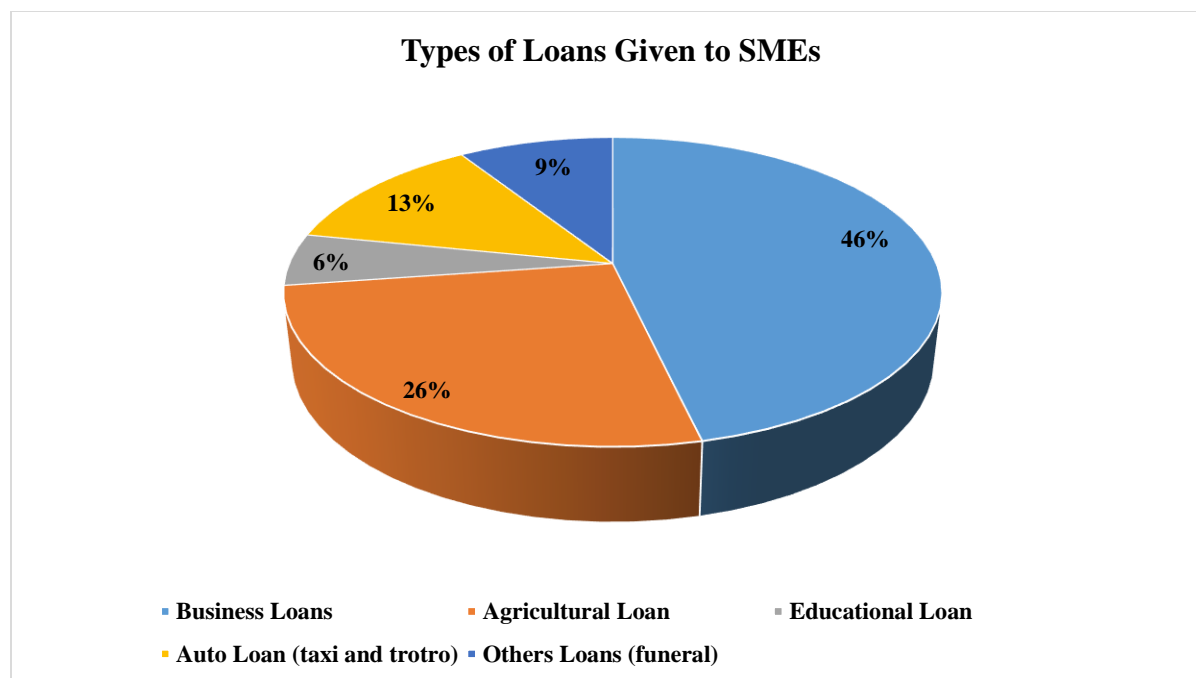
**Table 14: Types of Loans Given to SMEs**

Different kinds of the loan were given to small and medium enterprises from microfinance program such as a loan for businesses, for agricultural purposes, for educational purposes, to buy buses for commercial businesses. The following table demonstrated the kind of loans each respondent was offered and their numbers.

Credit / Loan Type	Frequency	Percentage
Business Loans	50	46
Agricultural Loan	29	26
Educational Loan	7	6
Auto Loan (taxi and trotro)	14	13
Others Loans (funeral)	10	9

Source: Own Field Research September 2018

According to the field survey responses, 50 (46 percent) said they were offered loans for Business purposes while 29 (26 percent) of the respondents said their loans were for Agricultural purposes. 7 (6 percent) had loans from the institution for their children's educational expenses and 14 (13 percent) received the loans from MFIs as Auto Loan (loans to buy buses, taxies, for commercial purposes) and 10 (9 percent) mentioned loans given to them for other purposes such as funerals and the rest).



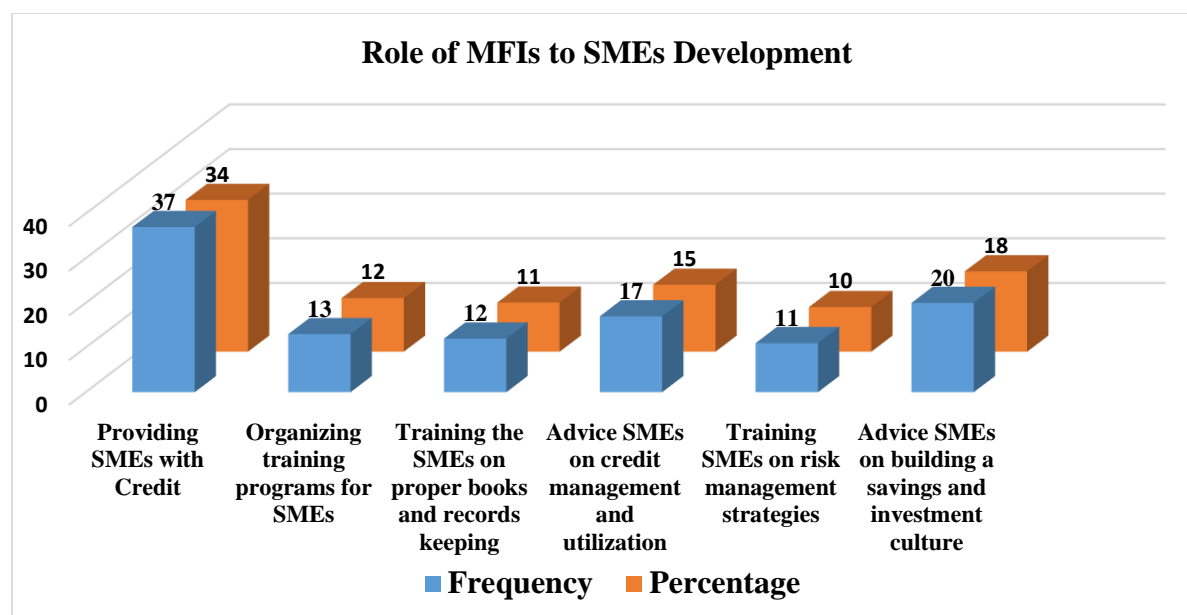
**Table 15: Role of MFIs to SMEs Development**

Microfinance institutions play a vital role in small and medium enterprises development in Ghana. The following points in the table below are some of the institution's contributions to small and medium enterprises development as indicated by the respondents.

MFIs Contributions to SMEs	Frequency	Percentage
Providing SMEs with Credit	37	34
Organizing training programs for SMEs	13	12
Training the SMEs on proper books and records keeping	12	11
Advice SMEs on credit management and utilization	17	15
Training SMEs on risk management strategies	11	10
Advice SMEs on building a savings and investment culture	20	18

Source: Field Data September 2018.

From the analysis, the following were the respondents answers on contributions of MFIs to SMEs development in Ghana; Providing SMEs with Credit (34 percent respondents), Organizing training programs for SMEs (12 percent respondents), Training SMEs on proper books and records keeping (11 percent respondents), Advice SMEs on credit management and utilization (15 percent respondents), training SMEs on risk management strategies (10 percent respondents), Advice SMEs on building a savings and investment culture (18 percent respondents).



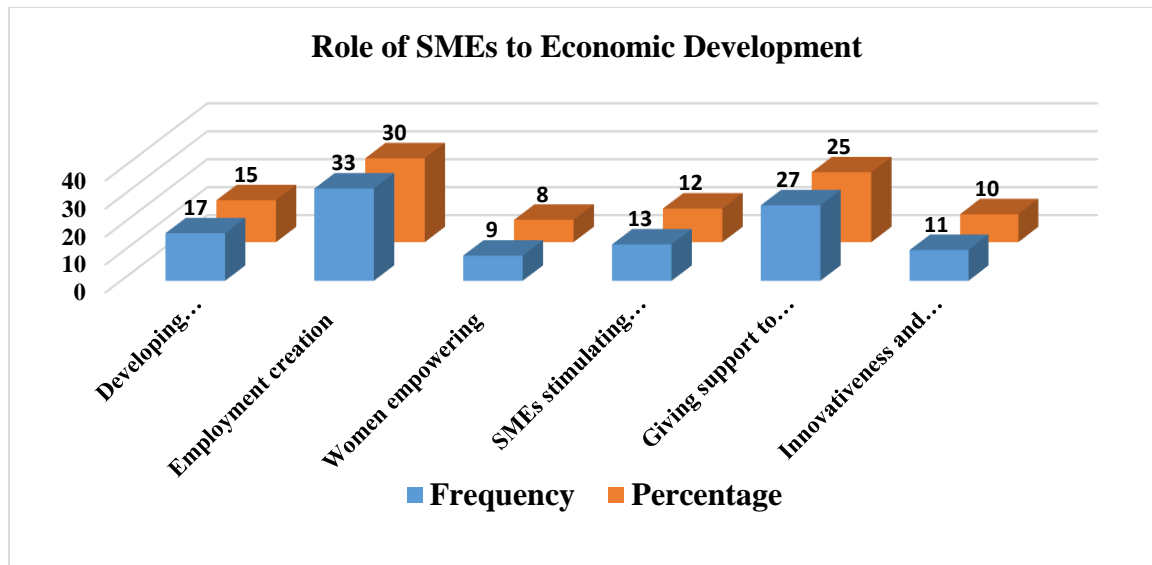
**Table 16: Small and Medium Enterprises Role to Economic Development**

The Ghana economy has benefited from the SMEs' operation mentioned by the respondents during the interview. Some of the findings are illustrated in the table below.

Roles of SMEs	Frequency	Percentage
Developing knowledge and skills.	17	15
Employment creation	33	30
Women empowering	9	8
SMEs stimulating competition	13	12
Giving support to large companies	27	25
Innovativeness and flexibility	11	10

Source: Field Data September 2018.

From the findings, the following are the responses of the respondent on SMEs' role to Ghana's economic development: developing knowledge and skills, employment creation, women empowering, SMEs stimulating competition, giving support to large companies, innovativeness and flexibility encouragement.



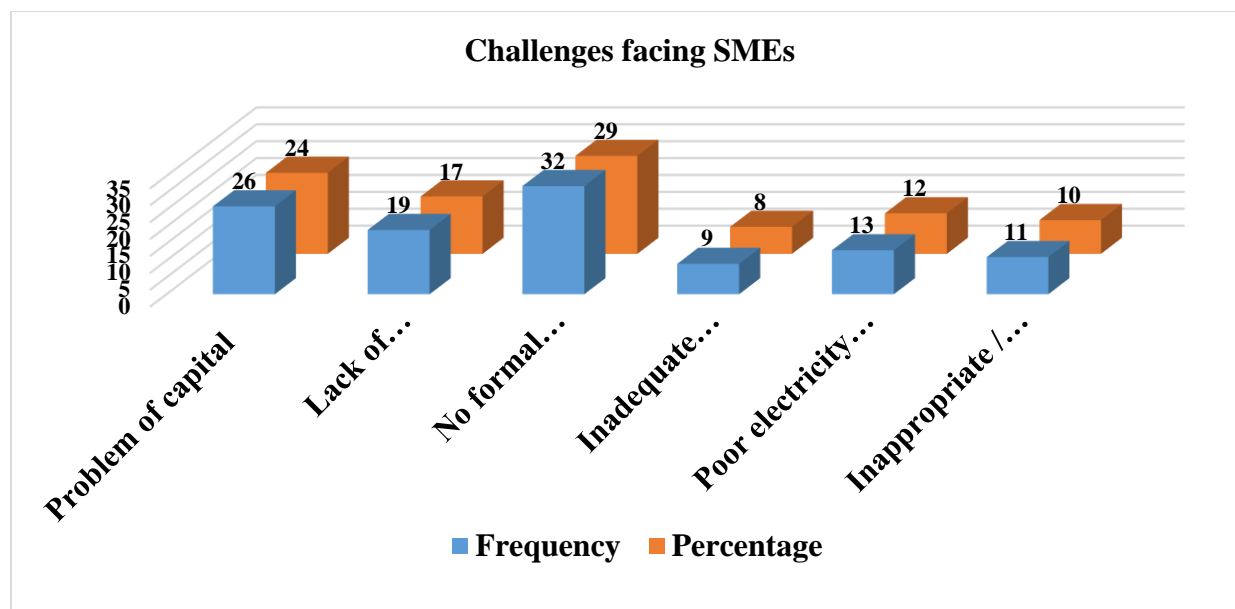
**Table 17: SMEs Challenges in Ghana**

The small and medium enterprises like any other enterprise in Ghana is not without challenges. The table below indicates the challenges that the institutions faced according to the respondents during the field survey interviews.

Challenges facing SMEs	Frequency	Percentage
Problem of capital	26	24
Lack of managerial skills	19	17
No formal education /lower level of education	32	29
Inadequate marketing skills	9	8
Poor electricity system / issues	13	12
Inappropriate / poor books and records keeping	11	10

Source: Field Data September 2018.

From the fieldwork findings, the respondents mentioned the above us the challenges that the SMEs faced in their operations: problem of capital (24 percent), lack of managerial skills (17 percent), no formal education / lower level of education (29 percent), inadequate marketing skills (8 percent), poor electricity system / issues (12 percent), and inappropriate / poor books and records keeping (10 percent).



**Table 18: Challenges Facing Microfinance Institutions**

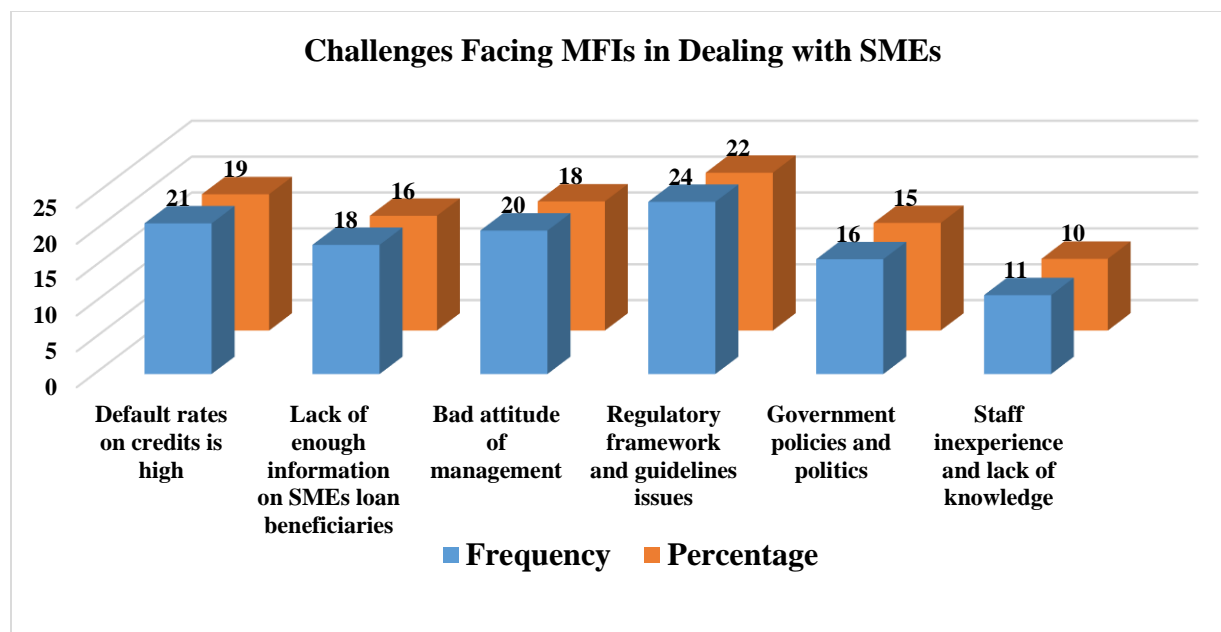
The below challenges were gathered from the field interviews conducted by the researcher. The small and medium enterprises operators and microfinance institutions mentioned them as some of the institutions challenges in dealing with the SMEs who are customers of MFIs in the country.

Challenges Facing MFIs	Frequency	Percentage
Default rates on credits is high	21	19
Lack of enough information on SMEs loan beneficiaries	18	16
Bad attitude of management	20	18
Regulatory framework and guidelines issues	24	22
Government policies and politics	16	15
Staff inexperience and lack of knowledge	11	10

Source: Field Data September 2018.

From the research findings, the respondents answered the following as the challenges that the microfinance institutions faced. default rates on credits is high (21) respondents, Lack of enough information on SMEs loan beneficiaries (18) respondents, Bad attitude of management (20) respondents, Regulatory framework and guidelines issues (24) respondents, Government policies and politics (16) respondent, and (11) respondents staff inexperience and lack of knowledge.





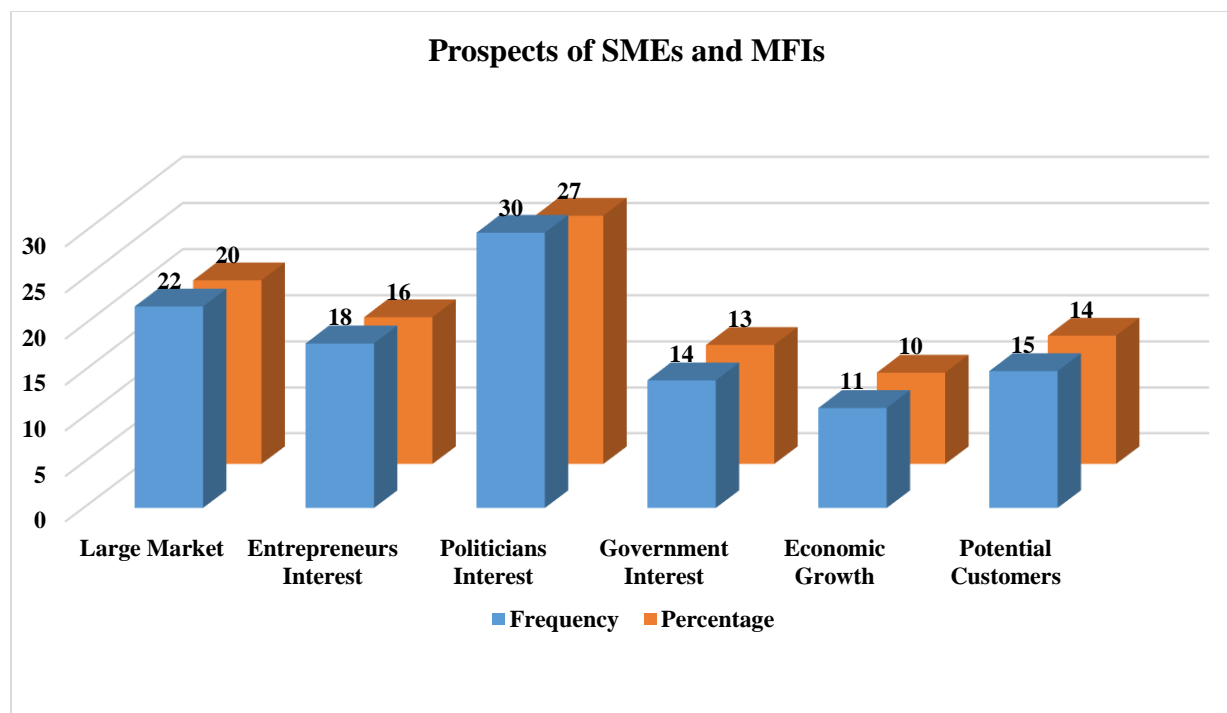
**Table 19: Prospects of SMEs and MFIs**

According to the respondent from the field survey, despite the challenges faced by the MFIs and SMEs in their operations, yet still the institutions have the following opportunities or prospects to capitalize on in the country.

Prospects of SMEs and MFIs	Frequency	Percentage
Large Market	22	20
Entrepreneurs Interest	18	16
Politicians Interest	30	27
Government Interest	14	13
Economic Growth	11	10
Potential Customers	15	14

Source: Field Data September 2018.

The field survey indicated that 22 (20 percent) of respondents mentioned a large market size as a prospect while 18 (16 percent) of respondents said entrepreneurs interest. Furthermore, 30 (27 percent) of respondents indicated in their responses that politicians' interest is an opportunity to the institutions and 14 (13 percent) of respondents mentioned Government interest. Finally, 11 (10 percent) of respondents pointed out economic growth as the prospects of both the SMEs and MFIs while 16 (14 percent) of respondents indicated potential customers as an opportunity.



## 5. DISCUSSIONS OF THE FINDINGS

The small and medium enterprises played a significant role in the Ghanaian Economic development as most of the respondents indicated in their responses. According to their feedback on the question of small and medium enterprises role, the concluded that small and medium enterprises contribution to the Ghanaian economy to include: Skills and knowledge developing, creation of employment, empowerment of women, stimulating competition, support to large companies, Innovativeness and flexibility within the country.

The development of the small and medium enterprises is again regarded as significant for the attainment of broader aims and objectives including poverty alleviation, income-generating activities, employment creation to low-income individuals, improvement in the lives and situations of the vulnerable and the disadvantaged.

Though the small and medium enterprises cannot be matched to larger companies in terms of resources, capital, technology staff, yet still they are known as the Jobs providers, assisting the bigger companies with raw materials and other resources, brings about competition in their field, introduce innovativeness and flexibility and help in the production of goods and services effectively and efficiently.

Furthermore, small and medium enterprises help in assisting and increasing the nation's wealth through full utilization and maximization of a country's human resource capabilities and developing an economic structure that will be sustained for a long period.

From point of view of Ghanaians, the impact or contribution of small and medium enterprises to the Ghanaian economy can be elaborated on their quality goods & services offered, employment creation, generation of income, reducing poverty, increasing conditions, standard & welfare of living of low-income and poor, and increase in exports of small and medium enterprises manufactured products in Ghana.

## 6. RECOMMENDATIONS

The government should increase its efforts by encouraging more microfinance institution to continuously support the operations of small and medium enterprises in the country. Microfinance should expand their repayment period or loan collection period of their client's asset loans, and make good use of disbursement strategy of collective group-based loans since that will help minimize the default rate of customers in payment of their debt and also minimize the level of the portfolio at risk. Also, Services such as training on credit maximization should be given to the clients by the microfinance institutions.

To promote the survival, growth & profitability of the small and medium enterprises, owners should comply, and implement the advice and orders given to them by the microfinance institutions management. Again, the financial reports and records of the SMEs should be properly kept. Both manual and computer base to prevent unforeseen circumstances and to be able to measure their growth using ratios and other measurements. Experienced, skilled and qualified human resources should be employed by the small and medium enterprises to help manage the institutions successfully.

Microfinance institutions should give loans with a moderate interest rate to SMEs to enable them to repay the credit without any default and able to also raise their needed capital. Again the terms of the repayment of the credit/loan given to the enterprise should be made flexible such that it will be easier for the institutions to pay to the microfinance institutions at the scheduled time. Furthermore, due to unforeseen issues and risks, microfinance institutions should try and initiate to come up with an insurance scheme for small and medium enterprises to cover some losses in case of risk.

The researcher again recommends that microfinance institutions should give short term and medium-term loans to small and medium enterprises to enable them to do businesses, expand existing enterprises, and other needs of the beneficiaries to be fulfilled. Also, the savings and small deposits of the small and medium enterprises should be given the interest to help boost the customers' savings culture with the microfinance institutions. There should be proper regulations, monitoring, and supervision of small and medium enterprises by microfinance management to ensure loans granted are been used for the right and intended purposes to avoid defaults.

The article recommends the government to provide small and medium enterprises operators with funds or capital with a minimum rate of interest or a reduced borrowing cost so that they can have an alternative for borrowings and that the government should establish a bank that will solely deal with SMEs in Ghana. This will help in the Bank designing well-tailored products/services that will suit the demands of the small and medium enterprises customers and to prevent them from the challenges they faced when looking for support from Banks and other financial institutions. The above when taken into consideration, would help improve the performance of microfinance institutions & other banks in financing SMEs in Ghana.

### 6.1 POLICY IMPLICATIONS

The researcher attested that loans are very important for small & medium enterprises development. Some of the constraints in promoting small and medium enterprises development like macroeconomic factors must be given proper attention and managed carefully. Again, a vibrant business environment should be created for the microfinance institutions to be able to continue offering credit services to small and medium enterprises. Financial constraints should be removed to make the condition of credit policy favorable which will lead to small and medium enterprises (SMEs) development in Ghana.

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