UNIVERSITY OF CAPE COAST

ASSESSING THE RELEVANCE OF MICRO FINANCE CREDIT TO THE INFORMAL SMALL BUSINESSES IN JUKWA IN THE CENTRAL REGION OF GHANA

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BY

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DECLARATION

Candidate's Declaration

I hereby declare that this dissertation is the result of my own original work and that no part of it has been presented for another degree in this university or elsewhere.

Signature:……………………………….Date………………………………

Candidate's Name: Addo Gifty Mawuena

Supervisors' Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of dissertation laid down by the University of Cape Coast.

Signature:……………………………….Date………………………….

Supervisor's Name: Patrick K. Akorsu

ABSTRACT

Credit facilities continue to pose a major threat to the survival of the SME sector. Traditional banks have failed to advance credit facilities to the SMEs due to challenges with collateral securities and information. This study sought to assess the relevance of microfinance in terms of meeting credit needs and reducing poverty among the small business owners of Jukwa in the Central Region. Thirty-one (31) respondents were sampled for the study. Descriptive statistics were used for the presentation of the findings. Questionnaire was also used to collect data for the study. Analyses of the responses revealed that majority of the respondents have felt positive impact of microfinance activities. It is found that, through microfinance credit, considerable amount of business capital has been accessed either for start-up or for expansion. Family burdens among the respondents were seen to decrease owing to microfinance credit. Others also felt the positive impact as it helped them in support of their children's education. The key problem associated with microcredit, according to the respondents was the exorbitant interest rate charged by the microfinance institutions. This situation prevented many potential beneficiaries from subscribing to microfinance credit. It is recommended that the microfinance institutions lower their rates so as to attract more clients for their businesses.

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DEDICATION

To my late parents: Mr. Geoffrey Yao Addo and Mrs. Charlotte Abra Addo. My lovely husband Morgan, my siblings: Addopee, Frankie, Doris, Edem, Enyo and Fafa.

TABLE OF CONTENTS

Content **page**

LIST OF TABLES

LIST OF FIGURE

CHAPTER ONE

INTRODUCTION

Micro, Small and Medium Enterprises (MSME's) are, collectively, the largest employers in many low-income countries, yet their viability can be threatened by a lack of access to such risk-management tools as savings, insurance and credit. Their growth is often stifled by restricted access to credit, equity and payments services (McCourtie, 2015).

Microfinance involves extending small loans, savings and other basic financial services to people that do not readily have access to capital. It is a key strategy in helping people living in poverty to become financially independent, which helps them become more resilient and better able to provide for their families in times of economic difficulty. These people can be classified under MSMEs. Considering nearly half the world survives on less than $2 a day, the relevance of microfinance cannot be over-emphasized.

Background of the Study

The Small and Medium Enterprises (SME's) have not received the outermost attention it deserves. The SME's have not received the attention of policy makers for a long time, even though it has been established beyond doubt that they contribute enormously to the development of the country. This critical sector needs funding to grow to the levels that can be beneficial to the economy of Ghana. Over the years the funding needs of the small business sector have not been forthcoming. This acute lack of credit to the informal small business sector has stifled their growth and consequently reduces the development of the country at large. For a long time, this credit deficit has been dealt with through the informal financial services in the form of money lending by individuals, borrowing from relatives and friends, financial gifts from relatives and friends, as well as credit from savings and loans associations. These sources of credit cannot provide enough and sustainable funding for the informal small businesses.

The informal small business sector constitutes a critical ingredient for eradication of poverty and for that matter promoting national development, and as such, has forced governments, donors, and non-governmental organizations to promote the sector in a bid to reducing poverty and inequality (Cook, 2001). Several programs have been instituted by governments of Ghana such as the Ghana Center for Entrepreneurship, Employment and Innovation (GCEI), the Ghana Youth Employment Development Agency (GYEDA), the Youth Enterprise Support (YES) and others, with the aim of revamping the small business sector of the economy. There is also support from other local and international entities such as the West Africa Social Entrepreneurs Network (WASEN) and Hill Foundation to enhance the development of small businesses in Ghana and other African countries.

In addition to the above, Micro finance services have emerged as a sustainable, and competitive source of credit for the informal small businesses sector. Leikem (2012) believes that the micro finance approach offers a better prospect since it employs effective collateral substitute for short-term and working capital loans to micro-entrepreneurs. During the past decades, many developing countries including Ghana have seen their financial system undergo some transformation and innovation due to the emergence of micro finance institutions (MFIs).

The need for microfinance credit is necessitated by the fact that the mainstream banks do not want to grant credit to small businesses, most especially those located in the rural communities, as a result of their inability to provide collateral. Small businesses in the rural communities of the country are usually assessed to be high-risk businesses by the mainstream banks and as result, lending credit to these small businesses is always seen as a 'waste of time and effort'. Microfinance operators however are prepared for the risk associated with doing business with the informal small businesses sector. In the words of Khawari (2004), microfinance is a small-scale financial services provided to people into petty businesses in both rural and urban communities. The concentration of micro finance operation is solely on the operations of the informal business sector, which is characterized by inadequate funding and more. Micro finance institutions are primarily established to provide credit or bring financial services to 'poor and vulnerable' groups in society with the ultimate goal of improving living standards or by eradicating poverty.

Statement of the Problem

The need for microfinance as a development tool became more pronounced when it was recognized that the poor businesses and individuals are excluded from formal financial institutions and forced to depend on expensive and often exploitive informal sources of credit. Exclusion from formal institutions is a common and constant problem for the 'poor businesses and individuals' in the society. High transaction costs, information barriers, collateral issues, and more are the reasons for exclusion by the so-called commercial banks. Thus micro and small businesses lack access to credit from the formal financial institutions.

Microfinance attempts to overcome these barriers so that the poor can have reliable and affordable access to credit. However, the microfinance system in Ghana is not without problems. For example, some microfinance institutions run into the problems of liquidity and insolvency and in extreme situations run away with clients' savings or charging too high interest that rather over-burden the very people they claim they want to help.

During recent years the very purpose of the microfinance industry has come under scrutiny with critics arguing that MFIs do not go far enough. The institutions concerned do not necessarily reach the households that would benefit most from their support, because the financial services they provide, small loans in particular, do not match the most pressing needs of these poor households (Zeller, Sharman & McClafferty, 2010). High interest charged by some MFIs are exorbitant and bolting away with clients' savings and deposits is on the increase. It is against this background that this study is being undertaken to assess the poverty reducing impact of microfinance credit to the informal small businesses in Jukwa in the central region of Ghana.

Purpose of the Study

The general objective of the study is to assess the relevance of microfinance credit in poverty reduction to the informal small businesses in Jukwa in the central region of Ghana.

Objectives of the study

1. Assess whether small businesses in the Jukwa area get the needed financial service from the micro finance institutions in the country

2. Ascertain how microfinance loans impacts on poverty reduction of the beneficiaries in Jukwa.

3. Ascertain problems associated with microloans.

Research Questions

Based on the above objectives the following research questions are formulated:

1. Do small businesses and individuals get the needed financial service from the micro finance institutions in the Jukwa community?

2. What are the poverty reducing potentials of microfinance programmes?

3. What problems are associated with microloans?

Significance of the Study

The study helps reveal better practices in microfinance operations and helps microfinance institutions in reviewing their policies towards clients in order to achieve greater efficiency and offer better services. The findings also provide for policy recommendations and will contribute to knowledge.

Organization of Study

This dissertation is structured in five chapters: chapter one gives a background introduction on microfinance benefits and some problems associated with microloans; statement of the problem; research objectives; significance of the study; limitation and organization of the study. Chapter two reviews the relevant literature on the subject matter. Chapter three explains the methodology employed to achieve the objectives. The presentation of findings and analysis is captured in chapter four. Chapter five presents the summary of the discussions, conclusions and recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Introduction

This chapter is presented under the following themes: the small business construct, the concept of microfinance, review of empirical studies on the impact of microfinance on the performance of small businesses, presentation of the conceptual framework, microfinance services and its impact on the poor, small and medium scale enterprises definition, role of SME's in economy, advantages of SME's, informal businesses in Ghana, microfinance and development, the micro credit theory together with formal sector business in Ghana.

The Micro, Small and Medium Enterprise (MSME) Construct

The concept of micro, small and medium scale enterprise does not lend itself to a unanimous definition. The Bolton Committee applied different definitions of the small firm to different sectors. Whereas firms in manufacturing, construction and mining were defined in terms of number of employees (in which case, 200 or less qualified the firm to be a small firm), those in the retail, services, wholesale, etc. were defined in terms of monetary turnover (in which case the range is 50,000-200,000 British Pounds to be classified as small firm). Firms in the road transport industry are classified as small if they have 5 or fewer vehicles. There have been criticisms of the Bolton definitions. These centre mainly on the apparent inconsistencies between defining characteristics based on number of employees and those based on managerial approach (Bolton Committee, (1971).

Abor and Quartey (2010) review some of the popular definitions in the literature. According to the European Commission as cited in (Abor & Quartey, 2010), the size of a business organization is easily determined to be micro, small or medium scales depending on the number of employees the business operates with. The following categorizations are therefore made:

1. 0 to 9 employees - micro enterprise

2. 10 to 99 employees - small enterprise

3. 100 to 499 employees - medium enterprise

The United Nations Industrial Development Organization (UNIDO) gives some clarified categorizations by introducing developed/industrialized and developing worlds differentiations into the equation. For industrialized countries:

1. firms with 500 or more workers - Large

2. firms with 100-499 workers - Medium

3. firms with 99 or less workers - Small On the other hand, for developing countries:

1. firms with 100 or more workers - Large

2. firms with 20-99 workers - Medium

3. firms with 5-19 workers - Small

4. firms with less than 5 workers - Micro

These definitions reveal the relative nature of the MSME construct. At least the definition of the concept differs on the lines of industrial development as can be seen above.

European Union (EU) Member States, traditionally have their own definition of what constitutes an SME, for example the traditional definition in Germany had a limit of 250 employees , while, for example, in Belgium it could have been 100. But now the EU has started to standardize the concept. Its current definition categorizes companies with fewer than 10 employees as "micro", those with fewer than 50 employees as "small", and those with fewer than 250 as "medium" By contrast, in the United States, when small business is defined by the number of employees, it often refers to those with fewer than 100 employees, while medium-sized business often refers to those with fewer than 500 employees. Canada also defines a small business as one that has fewer than 100 employees (if the business is a goods-producing business) or fewer than 50 employees (if the business is a service-based business), and a medium-sized business as fewer than 500 (Carsamer, 2009).

The Ghanaian Context of Micro, Small, and Medium Scale Enterprises

In the Ghanaian context, we have not so far defined medium enterprises clearly. What is neither small nor large is being loosely defined as medium. Further, enterprise encompasses businesses, services and industries. In the broadband of “small” the discussion extends to medium as well.

Another possible connotation for the SMEs is the small manufacturing enterprises.

The confusion about what constitutes micro, small and medium enterprises is even more pronounced in the Ghanaian context. The Ghana statistical board (GSB) considers businesses with less than ten employees as small business while those with more than ten employees are considered medium and large businesses. The definition is obviously vague as there are no proper cut-off points between micro, small, medium and large businesses. The confusion gets even more twisted as the GSB itself appears to be inconsistent with its own view. Agyei (2014) observes that the GSB in its national accounts considered companies with up to 9 employees as SMEs. This is quiet confusing.

The national board for small-scale business industry (NBSSI), on the other hand, combines the number of employees and the value of fixed assets criteria for the measurement of MSMEs. It defines a small-scale enterprise as a firm with not more than 9 workers, and has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Ghanaian cedis. This probably is an attempt to lessen the ambiguity.

As espoused by the Ghana Statistical Service (GSS), firms less than 10 employees as small-scale enterprises and their counterparts with more than 10 employees as medium and large-sized enterprises. Ironically, the GSS in its national accounts considered companies with up to 9 employees as SME's (Kayanula and Quartey, 2000).

The value of fixed assets in the firm has also been used as an alternative criterion for defining SME's. The Ghana Enterprise Development Commission (GEDC), on the other hand, uses a 10 million Ghanaian cedis upper limit definition for plant and machinery. It is important to caution that the process of valuing fixed assets poses a problem. Secondly, the continuous depreciation of the local currency as against major trading currencies often makes such definitions outdated (Kayanula and Quartey, 2000).

The problem of lack of definitive cut-off points for the groups constituting the construct MSMEs is again noticed in the study by Steel and Webster (1991). The use of the employment of 30 employees is used only as the cut-off point between small and medium enterprise but nothing is said about micro businesses. In a study by Osei, Baah-Nuakoh, and Sowa (1993) there is the distinction between micro, very small, and small, according to the number of employees. To them, micro are those employing less than 6 people, very small are those employing between 6 and 9 people, small are those employing between 10 and 29 people. Nothing is said about medium-scale businesses.

Probably the definition by the regional project on enterprise development Ghana is the most comprehensive. In their survey report, as cited in Abor and Quartey (2010), MSMEs are classified in table 1 as follows:

Table 1: Definition of MSMEs by the number of employees

Enterprise	Number of employees
Micro business	Less than 5 employees
Small business	5 to 29 employees
Medium business	30 to 99 employees
Large business	100 and more employees

Source: regional project on enterprise development Ghana, as cited in Abor and Quartey (2010).

Despite these efforts, it is still obvious there are gaps that need to be filled. National bodies mandated with MSMEs issues should work in tandem with other interested stakeholders (such as national universities) to come up with one authoritative national explanation of the MSMEs construct. The definition based on fixed asset also need regular updating as it suffers from inconsistent valuation resulting from continuous full in value of the cedi. This study adopts the definition by the regional project on enterprise development Ghana (see Table 1) in the classification of MSMEs.

Firms differ in their levels of capitalization, sales and employment. Hence, definitions that employ measures of size (number of employees, profitability, net worth, etc.) when applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to a different result since there is no single uniformly acceptable definition of a small firm (Storey, 1994).

From the above discussion both in Ghana and other parts of the world, it can be concluded that Micro and Small-Scale Enterprises has different definitions. As a result, an operational definition is important for the study. Number of the employees has been used as the most common classification of SME's. As contained in its Industrial Statistics, the Ghana Statistical Service (GSS) considers firms with less than 10 employees as Small Scale Enterprises (Kayanula and Quartey, 2000) and it is this definition that has been adopted and used in the course of the study.

Characteristics of MSMEs in Ghana

It not surprising that MSMEs in the African region share a lot of common features (Abor & Quartey, 2010; Adisa et al., 2014). This is probably due to, among other things, the closeness of cultural values and similar levels of development. This section of the review of related literature also considers stories of other African countries where there are major commonalities.

In a study by Fisher and Reuber (2000) on the characteristics of SMEs in developing countries, it is found that the major portions of MSMEs are sole proprietorships (one man business). Unpaid family members mostly support these sole proprietors. The remaining portion is made up of those making use of casual workforce and trainees or apprentices. These forms of businesses hardly have any structured salary schemes and therefore there is always the problem of commitment of staff.

Another characteristic feature of MSMEs in Ghana and most African countries is that they are almost 100% labor-centric. The use of machinery and computers is almost entirely absent. This is probably due to what Adisa et al.

(2014) finds in their study in Nigeria. They notice that majority of the people going into MSMEs are those not finding jobs from the established businesses and institutions. Their going into business can therefore be said to be not motivated by pure entrepreneurial spirit. Part of this problem could also be attributed to what most studies have found to be another characteristic of MSMEs in most developing countries: lack of or inadequate managerial skills. Abor and Quartey (2010) believe that this problem is due to the fact that generally the supply of management and other business skills in most African economies, including Ghana, is inadequate. MSMEs lack the capacity to compete with larger, more established firms for the short supply of skills. Due to challenges such as lack of access to funding MSMEs are not able to attract let alone maintain workforce of qualified business skills.

MSMEs in Ghana can be grouped in two main categories: 'organized' and 'unorganized' (Abor & Quartey, 2010). The unorganized businesses operate in open spaces mostly along the street and in homes. Most of them operate table tops, temporary wooden structures and even on the ground. These are not generally registered and do not operate from any registered office and in most cases do not engage any salaries workforce. These basically form the micro component. The main activities include selling of foodstuffs in small quantities, repairs of home appliances, sewing, and retailing of general consumables in small quantities. The organized ones mostly have registered offices and employ some salaried workers (Kayanula & Quartey, 2000).

The researcher defines informal small businesses as the category of those unregistered business owners who sell on the ground, operate table tops in open spaces, sell in metal containers and wooden structures, and normally would not employ more than two people to help them in their operations. These are mostly females and most of the businesses are operated from their homes therefore not necessarily captured in national statistics.

MSME's Development in Ghana

Kayanula and Quartey (2000) identifies that small scale enterprise promotion in Ghana was also not impressive in the 1960s. Dr. Nkrumah (President of the First Republic) in his modernization efforts emphasized state participation but did not encourage the domestic indigenous sector. The government of the Gold Coast, an arm of the British government pursued an economic policy that trained the rising middle class to manage the property of the European merchants and businessmen.

According to Kayanula and Quartey (2000) the local entrepreneurship was seen as a potential political threat. As the economy declined in the 1980s, large-scale manufacturing employment stagnated and this forced many formal sector employees into secondary self-employment in an attempt to earn a living. In order to solve related problems in self-employment businesses, governments have put in place measures to promote the growth of SME's in Ghana by establishing organisations to support the activities of SME's.

In 1981, National Board for Small Scale Industries (NBSSI) was established as an apex body for the development of small-scale industries in Ghana under Act 434. The government merged the Ghanaian Enterprises Development 31 Commission (GECD) in 1991 and the Cottage Industries in 1994 with the Board of NBSSI in order to create a single dynamic integrated organization capitalized and capable of responding to the needs of the SME sector.

The Ghana Appropriate Technology Industrial Service (GRATIS) was also established in 1987 to supervise the operations of Intermediate Technology Transfer Units (ITTUs) in the country. GRATIS aims at upgrading small scale industries at the grass root level.

The government in attempt to the response of the private sector in 1982 to economic reforms undertook a number of measures. According to Kayanula and Quartey (2000), prominent among them is the setting up of the Private Sector Advisory Group and the abolition of the Manufacturing Industries Act, 1971 (Act 356) which repealed a number of price control laws, and the Investment Code of 1985 (PNDC Law 116) which seeks to promote joint ventures between foreign and local investors. In addition to the above, a Legislative Instrument on Immigrant Quota which grants automatic immigrant quota for investors was enacted. Government also provided equipment leasing, an alternative and flexible source of long term financing of plant and equipment for enterprises that cannot afford their own (Kayanula & Quartey, 2000),

In 1997, government proposed the establishment of an Export Development and Investment Fund (EDIF), operational under the Exim Guarantee Company Scheme of the Bank of Ghana. This was in aid of industrial and export services within the first quarter of 1998. To further improve the industrial sector, according to the 1998 Budget Statement, specific attention was given to the following industries for support in accessing the EDIF for rehabilitation and retooling: Textiles/Garments; Wood and Wood Processing; Food and Food Processing and Packaging (Kayanula & Quartey, 2000).

The Ministry for Private sector Development was established in 2001 to co-ordinate and harmonizes all inter-sectoral effort which aimed at the development of the private sector as the engine of growth and poverty reduction. The Ministry of Private Sector Development (MPSD) was charged with the responsibility to facilitate basic courses for the informal sector to awaken individuals and enterprises of the sector to the potential benefits of basic disciplines such as bookkeeping, banking and other entrepreneurship skills. The Ministry made progress towards relieving Small and Medium-Scale Enterprises (SME's) of one of their major problems, which is access to affordable long-term funds. To boost the country's export trade, an Export Development and Investment Fund (EDIF), has been set up by the government to be given out on very liberal terms. The funds are administered by eleven (11) designated financial institutions. Furthermore, other schemes such as the Government Loan Guarantee, African Development Foundation, Italian Credit facility, etc was set up by the government. These schemes did not only solve the perennial problem of SME's inability to provide collaterals demanded by banks, but also ensured an increased flow of capital to the private sector for innovation, technology development and adoption and development of new products and services for productivity enhancing investment activities (Kayanula & Quartey, 2000),

The President's Special Initiative (PSI) was launched in 2002, aimed at supporting the production of cassava as well as textiles and garments for export. The (PSI) has been launched in five (5) areas of activity. They are accelerated export development for garment and textiles, salt mining, cotton production, oil palm production, cassava starch production and distance learning. These initiatives are intended to spearhead the expansion and deepening of the economy; create jobs and reduce poverty through agribusiness and export in Ghana. It is also intended to develop a critical mass of high growth oriented internationally competitive exporting firms in the said sectors, targeting the American and

European consumers markets. Currently, there is an ongoing Rural Enterprise Development Programme in which every district in Ghana is to identify three (3) enterprise projects for development (Kayanula & Quartey, 2000).

Empirical Review of the General Impediments to MSMEs development

Despite the potential role of MSMEs to accelerated growth and job creation in developing countries, a number of bottlenecks affect their ability to realize their full potential. Many studies conducted highlight the issue of access to funds as one of the key problems. In other quarters, lack of managerial skills, equipment and technology, regulatory issues, and access to international markets are also spot-lighted (Abanis, Sunday, Burani, & Eliabu, 2013; Brink et al., 2003). Even though majority of studies results reveal funding as the key problem, it is more likely that the lack of managerial know-how is the most significant constraints on MSMEs growth and survival. The key challenge for MSMEs in this area is their competition with larger companies for the already limited supply of skilled labour. Even though MSMEs tend to attract motivated managers, they can hardly compete with larger firms. Another thing that can go against MSMEs in this area is the fact that management consultants do not normally design their programs with MSMEs in mind. They might perceive that MSMEs do not have the money or are not willing to pay for their services. For this and many other reasons, though there are a good number of institutions providing training and advisory services, there is still a skills gap in the MSME sector as a whole (Kayanula & Quartey, 2000). Besides the lack of funds for management and other business services, others too do not see the need to upgrade their skills due to lack of interest or complacency.

In the area of access to technology, MSMEs often have difficulties in gaining access to appropriate technologies and information on available techniques (Aryeetey et al., 1994). In most cases, SMEs utilize foreign technology with a scarce percentage of shared ownership or leasing. They usually acquire foreign licenses, because local patents are difficult to obtain. Other issue with technology is the lack of commitment to learn new and improved productivity technologies. In most cases the issue has to do with attitude towards the use of technology and also the urge to learn new technologies. In most businesses in Ghana it is a common feature to not invest in technology even where the technology is readily available for almost free.

Abor and Quartey (2010) identify regulatory constraints to also pose serious challenges to MSMEs development. The assert that although wide-ranging structural reforms in the country have led to some improvements, prospects for enterprise development still remain to be addressed at the firm-level. The high start-up costs for firms, including licensing and registration requirements actually impose excessive and unnecessary costs to MSMEs, contend Abor and Quartey (2010). In some situations, too the high cost of settling legal claims (probably due to corruption), and the excessive delays in court proceedings all adversely affect MSMEs operations. The World Bank *Doing Business* Report (2006) indicates that it takes not less than 127 days to deal with licensing issues and there are 16 procedures involved in licensing a business in Ghana. The situation is even worse in South Africa (176 days) and there are 18 procedures involved in dealing with licensing issues.

Another notable problem that MSMEs face is the fierce competition from not only large local firms but most importantly from foreigners. In some time past, MSMEs were insulated from international competition. The current situation is that many SMEs are now faced with greater external competition and the need to expand market share. However, their limited international marketing experience, poor quality control and proper packaging, little access to international partners, among other things, continue to impede MSMEs' expansion into international markets (Aryeetey, 1998).

The Private Sector Development in Ghana

Private sector development is said to be critical for employment creation, growth and development of Africa (Kurokawa et al 2008). The development of micro, small and medium enterprises (MSMEs) is acknowledged as a key condition in promoting equitable and sustainable economic development in Ghana and Africa as a whole. The private sector has a great potential to provide for growth in employment in terms of economic development and contribute towards reducing poverty among urban cities in most developing countries. In Ghana, the key strategy the government has adopted for increasing employment and production is to take measures to improve the capacity of the private sector as a means of accelerating the growth of small and medium scale manufacturing industries.

Another current happening is that most entrepreneurs are stuck at mainly the micro level. It is interesting to note that less than 5 percent of large businesses are Ghanaian owned. According to World Bank estimates, most businesses in Ghana, which account for 70% of employment in the country, fall within the categories of “micro”, “small” and “medium” entrepreneurs. Small enterprises in Ghana are said to be a characteristic feature of the production landscape and have been noted to provide about 85% of manufacturing employment of Ghana (Aryeetey, 2001).

SME's are also believed to contribute about 70% to Ghana's GDP and account for about 92% of businesses in Ghana. SME's therefore having a crucial role to play in stimulating growth, generating employment and contributing to poverty alleviation, given their economic weight in African countries. SME's forms a huge chunk of businesses in both the formal and the informal sector. Whilst SME's in developed countries make a significant contribution to GDP and national employment, there is not sufficient data to say the same about SME's in Ghana (Culkin & Smith, 2000).

SME's in Ghana tend to have few employees who tend also to be mostly relatives of the owner hence there is often lack of separation between ownership and control. Also since SME's do not traditionally rely on public funds there is lack of accountability and no regulations to comply with (Abor & Adjasi, 2007). Mostly, the owner managers of these SME's are hampered by lack of managerial competencies (Gockel and Akoena, 2002).

Looking at the immense contribution of the SME's to the development of the economy, it would be advisable that the government pays more attention to the development of the SME's so that they can contribute much more to the development of the economy.

Informal Businesses in Ghana

Farrel et al (2000) stated that "currently there are two approaches to defining informal sector activity; the definitional and behavioral". According to the definitional approach, 'informal sector is economic activity unrecorded in the official statistics such as the gross domestic product and or the national income accounts''.

Behavioural approach on the other hand maintains that informal sector is based on whether or not activity complies with the established judicial regulatory and institutional framework (Farrel et al 2000).

The origin of informal sector in Ghana's economy can be traced back to the very beginnings of colonial capitalism in the Gold Coast. Even at such an early stage an essential feature of labour in the informal sector was its heterogeneous character that provided for varieties of peasant proprietors and agricultural labourers distribution agents, buyers, transport owners and employees, porters, repairers, etc. (Ninsin, 1991; Adu-Amankwah, 1999).

Over the years, instead of disappearing as the modern economy expanded, the informal sector has actually grown in the rural and urban arrears of Ghana. The size of Ghana's informal sector is placed at 80 percent of the total labour force (Hormeku, 1998). The inability to provide employment for the emerging labour force has created a large pool of unemployed persons who have naturally gravitated towards the informal sector. According to Ewuah-Nyamekye (2009), the size of the informal sector employment in the 1980s was twice that of the formal sector.

The informal sector in Ghana is made up of proprietary of micro and small scale enterprises. It consists of producers, wholesalers, retailers and consumers. There are also intermediary service providers along the value chain such as suppliers of raw materials to manufactures and contractual basis.

Informal sector workers are largely self-employed persons such as farmers, traders, food processors, artisans and craft workers to mention but a few. The sector consists of varied activities. In rural Ghana, informal sector work mainly involves agriculture (75%) (GSS, 2008) fishing and fish processing and Agro-based processing. In contrast more urban workers (43%) are engaged in non-agricultural activities.

A significant number of informal sector workers in Ghana are trapped in poverty as they do not earn enough to lift themselves and their families out of poverty. Linked to the high prevalence of poverty among Informal economy operators is the lack of access to productive resources, especially capital.

The Microfinance Construct

The term microfinance covers the provision of financial services as a whole to the 'poor' individual and small businesses. This includes microcredit, and micro insurance and savings. Features of microcredit include, little amount of loans which have a short term duration and frequent installment payments made up of amortized principal and interest (Murray & Boros, 2002). To Ledgerwood (1999) microfinance is the provision of financial services to low-income clients including small traders, street vendors, small farmers, service providers (such as hairdressers, and drivers), artisans and small producers.

Microfinance provides a variety of financial services which targets low-income clients in particular. Since the clients of microfinance institutions have lower incomes and often have limited access to other financial services, there is relative flexibility in terms of the repayment plans, and there are in most cases no requirements for the provision of collateral. Comparatively, microfinance products tend to be for smaller monetary amounts than traditional financial services. These services include loans, savings, insurance and remittances.

The view of Otero (1999) is however that microfinance is not just about providing capital to the 'poor' to combat poverty on an individual level, it also has a lot of role at an institutional level. It seeks to offer to institutions, predominantly small businesses, which are continuously ignored by the formal banking sector.

Littlefield and Rosenbergy (2004) argue that the 'poor' individuals and businesses are generally excluded from the financial services sector of the economy so microfinance institutions have emerged to address this menace. By addressing this gab in the market in a financially sustainable manner, microfinance institutions can become part of formal financial system of a country and so can access capital markets to fund their lending portfolios, allowing them to dramatically increase the number of 'poor individuals and businesses they can reach Otero, (1991).

More recently, commentators such as Littlefield Mursuch and Hashemi (2003), Simanowitz and Brody (2004) and the IMF (2005) have commented on the critical role of micro-credit in achieving the millennium development goals. Microcredit is critical among development interventions: It can deliver social benefits on an on-going permanent basis and on a large scale.

According to Simanowitz and Brody (2004), microcredit is a key strategy in the millennium development goals and in building global financial systems that meet the needs of the most 'poor' businesses and individuals.

. Studies have shown that microfinance plays three broad roles in development of people and nations as a whole:

It helps very poor households meet basic needs and protects against risks.

It is associated with improvements in household economic welfare.

It helps to empower women and other minority groups by supporting their economic participation and thereby promoting gender equality.

The extant literature suggests that micro-finance creates access to productive capital for the 'poor', enabling people to move out of poverty. By providing capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society (Otero, 1999).

Impact of Microfinance on Businesses

Microfinance which is the supply of small financial services to people (unbanked people) falls under the informal financial sector. Microfinance has been described as a powerful tool against development in Ghana and the world at large. It is established to solve critical economic problems of about 90% of the inhabitants of this country. It is established that over 90% of the people in Africa of which Ghana is no exception do not have access to bank account and banking facility (Barclays Bank 2007). It also established that only 1% of the same people ever received a formal bank loan.

The need for credit is more or less a prerequisite for any meaningful development to take place in a rural setting. Capital for acquiring productive assets is essential for success and this need to be provided by the microfinance institutions at affordable costs. It is said that where a man used to "earn his bread by the sweat of his brow" he now earns a living by the use of capital (Murray 1967).

Another study that found evidence of positive impact of microfinance on business profit and household income is that of Copestake, Bhalotra and Johnson (2000). They report of higher average growth in profits and household incomes, but such growths were associated with those who obtained a second or more loans. Nanor (2008) also investigates the impact of microfinance on four districts in Ghana and found evidence of a positive impact of microfinance on household income and business profits of clients, in two out of four districts surveyed but found no significant impact in the other two districts. He said the small loan sizes were insignificant to cause a real change in incomes and profits of beneficiaries.

Effa and Henrry (2005) report that rural women who participated in MFIs programme gained an increase in income and savings compared to those who did not.

Burden of Micro Finance Loans

While acknowledging the role that microcredit can play in poverty alleviation programmes for instance, Hulme and Mosley (1996) concluded from their research on microcredit that most contemporary schemes are less effective than they might be. The authors contended that microcredit is not a panacea for poverty alleviation in that in some cases, the poor people have been made worse-off and for that matter people who have borrowed before are not interested in taking microloans.

A new study says lending by MF organizations is pushing the poor deeper into the poverty. The social costs at which the repayments are made are too high. In Uganda, interest rates ranges between 24% to 36% which are high. The interest of 2% to 3% per month is on the high side, limiting the outreach of MFIs. Only 2m out of 10m who need financial services from these institutions are served Kiiru (2007) said in her paper titled microcredit and accountability to the poor.

In Ghana, micro financial companies have been urged not to charge high, unsustainable interest rates. These rates which have been described as worrying could affect the quantum of deposits of the companies. The central bank was not interested in promulgating a legislation to fix interest rates in the financial sector; the high interest rates charged by some microfinance companies (MFCS) could compel it to do so to fix interest rates on their loans.

Suicidal interest rates actually led to death in parts of the world. Interest rates up to 40% and forced loan recovery practices were intimidating the poor (India's National Crime Records Bureau, 2010). The rural suicide cast a dark shadow on the fledging microfinance sector.

During recent years the very purpose of the MFI industry has come under scrutiny with critics arguing that MFIs do not go far enough. The institutions concerned do not necessarily reach the households that would benefit most from their support, because the financial services they provide, small loans in particular do not match the most pressing need of these poor households (Murdoch 2000).

Industrialization progressed only slowly and unemployment kept a large part of the population in poverty (Wen, 1992). There are several reported cases of microfinance companies swindling with the savings of their customers in the country which is becoming a source of worry. The Ghana News Agency (2014) reports that the Lord Winners MFC with its headquarters at Suame in Kumasi with branches across Ashanti, Eastern, Greater Accra and western regions swindles over 5000customers of their deposits running into thousands of cedis. Examples of affected clients are Mr. Blankson Donkor who had a credit of sixty one thousand, two hundred cedis (GH¢61,200.00) and Mr. Ernest Ababio Duah also with an amount of six thousand cedis (GH¢6,000.00) in their passbooks respectively. Clients with huge deposits with those (MFCs) could not get a refund as the owners could not be traced or even when traced could not raise funds to pay the affected clients.

Regrettably, a notion is being created in the minds of many people that some microfinance institutions are purposely established with the aim of duping unsuspecting members of the society. As a result, there is low confidence in people as far as activities of MFCs are concerned. In a recent survey of microfinance borrowers in Ghana it is found that more than one-third of the users of these funds said that the challenge they had to deal with is struggling to repay the loans (Shicks 2011).

Experiences form Malawi, Zambia and Nicaragua; have called for the need for microcredit providers to be customer focused in order to offer them with products that will enhance their wellbeing instead of only considering the returns they make on their investments (Datar, Epstein and Yutlas, 2008). This credit accessed by clients has been found to create frustration and tension among household members and in women's groups (Rahman, 1999, Kabeer, 2001). In order to repay these loans some women have to work extra with the labor intensive nature of activities related with micro businesses.

Perceived Benefits of Microfinance on Clients/Beneficiaries

A number of researches have been conducted on Microfinance institutions. Notwithstanding the contributions of microfinance to positively impact the lives of the beneficiaries and their dependent, studies at the extreme argued that microfinance has beneficial economic and social impacts (Otero & Rhyne 1995; Schuler, Hasheni & Riley (1997). Mosley and Hulme (1998) took the position that microfinance has beneficial impacts. The 2015 Annual Microfinance conference focus on sharing experiences at the global, national and regional levels and advancing strategies for the post 2015 which is most appropriate and an important contribution of the academia to the growth and the development agenda for the African sub-region.

Microfinance activities have been beneficial economically to the growth of many small and medium enterprises (SMEs) and its social impacts elsewhere cannot be over emphasized. The MFIs provide different services to a client, most commonly in the form of loan. These services lead to the client modifying his/her micro enterprises activities which in turn lead to increased or decreased micro enterprise income. The change in micro enterprise income causes changes in household income which in turn leads to greater or lesser household economic security. The modified level of household economic security leads to change in the modernity and mortality rate of household members, in educational and skill levels and in future economic and social opportunities (Sebsstadet et al. 1995). An increase in the income of beneficiaries had positive effects with improvement in the living conditions.

According to Lalitha (2008) Microfinance services have had a positive impact on specific socio-economic variables such as children's schooling, household nutrition status and women's empowerment. Microfinance Institutions (MFI's) have brought the poor, particularly poor women, into the formal financial system and enabled them to access credit and accumulate small savings in financial assets, reducing their household poverty.

However, the poorest of the poor are yet to benefit from microfinance programs, though the general perception is that the poorest of the poor need more than loan to survive in a start-up business. To increase the overall impact of microfinance on poverty reduction, it is essential to extend a wide range of services on a continuing basis to the poor who are still excluded from the benefits of microfinance.

Providing microfinance services efficiently to this excluded segment remains a major challenge. Most of the attention so far has been on women. Microfinance institutions find financing the credit needs of poor women as less risky than financing men. Women are naturally flexible in engaging in diverse trades in and out of season which positively impacts on their repayment rate unlike men.

Most microfinance services also go beyond credit facilitation and extend to skills development and empowerment of the individual as a whole.

Role of SMES in Economy

Due to fast developing modern technologies and production scales, the small and medium enterprises have become very critical for economic growth. This sector is now very important for those nations whose desire is to be prosperous as it is the starting point of industrial development. Large Scale Enterprises (LSEs) of today were SMEs in the past and SMEs of today would be LSEs of tomorrow.

Advantages of SMES

The advantages of SMEs in an economy be it labour intensive or otherwise, are manifold. Therefore, the development of small and medium industries in any country has dynamic growth of a country. It has a number of advantages over large scale industries. Some of these are mentioned below; it generates more jobs per unit of capital and is more capital efficient; it is also strongly integrated into the domestic economy, small industries use a high percentage of local raw materials. Most of local consumable products are produced by small scale industries. It taps the resources at the grass root levels. The promotion of small and medium industries induces rapid growth of large scale manufacturing in the long run and the small business are remarkably flexible because they are operated near the customer, thus it has the ability to adapt according to the ever changing needs of the customer.

Microfinance and Development

The purpose of microfinance according to Otero (1999) is not just about providing to the poor to combat poverty on an individual level, it also has a role at the institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector. Littlefield and Rosenberg (2004) argue that the poor are generally excluded from the financial services sector of the economy so MFIs have emerged to address this market failure.

By this intervention, by addressing this issue in a financially sustainable manner, an MFI can become part of a country in order to access capital market to fund their lending portfolio, allowing them to dramatically increase the number of poor people they can reach (Otero, 1999). More recently, commentators such as IMF (2005) has commented on the critical role of micro-credit in achieving the Millennium Development Goals.

Characteristics of Informal Credit Markets

These characteristics deal with credit facilities in the urban informal sector.

(a) Easy accessibility

Indeed, some if not most, of the informal sector businesses thrive on granting credit to their clients, informal sector goods and services are primarily patronized by the poor class. Credit therefore, is an inevitable practice for success in the informal sector (Barwa, 1995).

(b) Availability in very small and for short terms

The credit is granted on very small scale as the informal sector businesses are not big to grant large credit. Hence the credit is usually for relatively short term (Barwa, 1995). Compared to the formal sector procedures in granting credit such as credit worthiness assessment on the contrary, in the informal sector credit is usually granted to people known to the operators hence no need to critically assess the individuals being granted credit (Barwa, 1995).

The Micro Credit Theory

The micro credit theory has been derived from the economic theory that forms the foundation of the credit business in non-communist society (Ngugi & Kerongo, 2014). The Micro Credit Theory was first conceived by Adam Smith (1937) in the eighteenth century that self-seeking individuals are always eager to empty their labour, capital and skills to their best interests, which eventually add up to the benefit of the entire society due to the work of the "invisible hand". Smith's Micro Credit Theory was later popularized by Karl Marx who went ahead to describe the principle of material prosperity of the non-communist society.

Yunus (1994) advanced on the Micro Credit Theory and came out with the psychological component of the theory known as "the social consciousness driven capitalism". The theory argues that species of profit making private venture can be conceived that cares about the welfare of its customers. The psychological aspect of this theory looked on their clients. By so, the clients were considered to be associated with the profit of firms. In other words, it is possible to develop capitalist enterprises that maximize private profits subject to welfare considerations of their customers.

The theory as advanced by Yunus (1994) looks at the impact of the micro firms as their profitability is highly skewed to the welfare of their clients. The theory can be conceptualized to this study as the study looks at the micro credit facilities and the small and medium private enterprises. Financial institutions must consider the welfare of the small medium scale enterprises in order to ensure their sustainability and growth. The impact of these microfinance credit facilities depends to a large extent on the welfare considerations of these SMEs. This means that the growth of the SME attributable to the micro finance credit facilities depends on the consciousness of the welfare of these SMEs where this social consciousness is not carefully diagnosed, the growth of the SMEs attributable by micro credit facilities would be impeded.

Formal Sector Business In Ghana

The formal sector simply means employment in the government sector. Employment levels in the formal sector have registered a steep decline over the years, Dr. Augustine Fritz Gockel, an economist and a lecturer at the University of Ghana said on 4th August, 2005. He attributed the downturn to public sector reforms such as retrenchment and downsizing policies, privatization and consequential exit initiatives and economic growth points were not based on traditional sources of labour.

Dr. Gockel quoted the Ghana statistical Survey (GSS) as saying the formal public sector employment, which was as high as 333,000 in 1960, declined to 186,000 in 1991.

He said the loss in formal sector jobs coupled with high growth rates in the economically active population suggested a burgeoning informal sector estimated at about 90 percent of the total labour. The reforms, however, had a consequential effect on the economy since huge sums of money were used to compensate workers, who were laid off.

Dr. Gockel said as governments and enterprises were not able to pay the loans contracted to settle retrenched workers “what was a real sector crisis only became a financial sector crisis. “By 1990, non-performing loans and other government guaranteed obligations to state-owned enterprises were 431.4 billion cedis; while the non-performing loans of the private sector were 421.9 billion cedis,” he said.

The financial crisis further limited the ability of firms to increase output and therefore incomes and employment until the international community came out with intervention to redeem the situation.

Proposed Conceptual Framework

This study examines effect of microfinance credit to rural small businesses and individuals on poverty reduction. It examines whether microfinance institutions are meeting their intended purpose of meeting the credit demands of the 'poor' rural communities. According to the literature, small businesses and individuals in the rural communities will benefit from reduced poverty through the activities of microfinance institutions (Littlefield, 2014). Based on the above the proposed framework for the study is as shown in Figure 1:

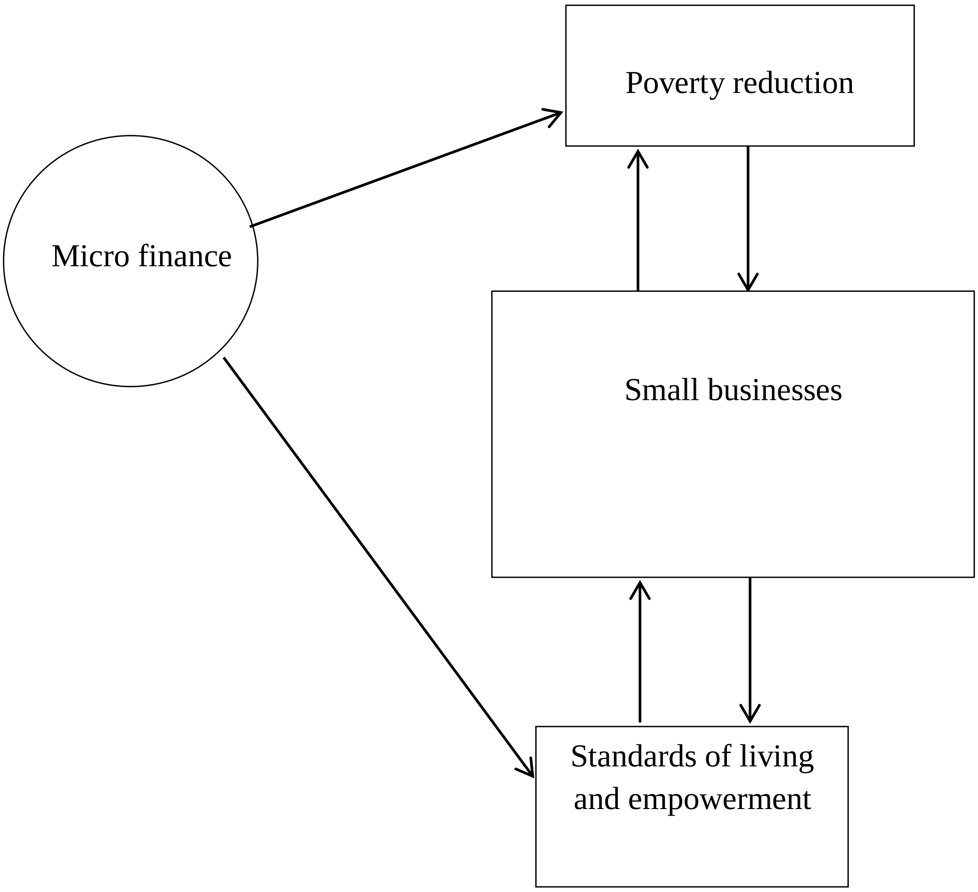

Figure 1: Proposed conceptual framework

The framework simply indicates that microfinance has the potential for poverty reduction which ultimately improves standard of living. The aim of this study is to investigate the poverty-reducing potential of microfinance activities.

CHAPTER THREE

RESEARCH METHOD

Introduction

This chapter deals with the procedures through which data were collected and gathered in order to study and analyse the gathered data for this research work. The chapter again considers specific matters such as the study areas, research design, target population, sampling procedures, research instrument, data processing and analysis procedures.

Approach to Research

The two main approaches to conducting research are quantitative and qualitative (Neville, 2007; Yates, 2004). The choice of the approach to be adopted for a particular study will largely depend on the purpose of that study, the variables involved and the level of measurement of those variables (Bhattacherjee, 2012). This study adopts the quantitative approach to research. Quantitative research is explaining phenomena by collecting numerical data that are analysed using mathematically based methods (in particular statistics)' (Aliaga & Gunderson, 2002). The choice of this approach is necessitated by the nature of the data to be analysed, and the statistical method to be employed. The data collected through the questionnaire are measured on the interval scale (four point Likert scale). Univariate analysis (frequency distribution, central tendency, dispersion, etc.) are conducted on these numeric data to provide answers to the research questions.

Study Design

The survey and descriptive study designs are used for this study. Survey is the collection of data from a population usually by means of questionnaire and/or interview. Descriptive research design is chosen because it observes, describes and document aspect of situations as they occur naturally. In respect of this particular study, these two designs are used to provide a clear description of the services provided by micro finance institutions.

Study Area

Twifo Hemang is the district capital of the Jukwa communities in the Central Region of Ghana. Hemang is located between Cape Coast and Twifo Praso (by road). Jukwa is in the Twifo Hemang Lower Denkyira Metropolis. The major occupation of the people in the area is fishing and farming. Petty trading is also common in the area. The establishment of the market at Jukwa and other ventures has promoted the living standard thereby reducing poverty of the people. Tuesdays and Fridays are the market days at Jukwa. The community has had many microfinance institutions over the years that provide microfinance to the people.

The study is confined to the Jukwa area. The choice of the study area is based on issues such as convenience and necessity. By necessity I mean the Jukwa area is fraught with a lot of small businesses and individuals, whose business activities are more or less financed by microfinance institutions. No study has ever been conducted at the Jukwa area about whether the services of the microfinance institutions have been assistive to them, hence this study.

Study Population and Sample

Target population for this study is the small businesses and microfinance institutions in Jukwa at Twifo Hemang Lower Denkyira Metropolis. The sample for the study comprises all active clients of selected microfinance institutions in Jukwa who have been in operation for at least a year. Officials of microfinance institutions are included to provide in-depth information about their operations. This sample is purposively determined. This means that the selection of the study units is largely non-probabilistic. This means that we lack the tools offered by the theory of probability to test the representativeness of the sample. It must be noted that this method of sampling does not strictly imply that the sample is non-representative. In fact this method may yield a highly representative sample (when the sample size is large), only that we lack the means to test this fact (Keller & Warrack, 2003; & Stephens, 2008).

Data Collection Instrument

Questionnaire is the major instrument used in the study. The questions are largely closed-ended. The questionnaire is used due to its power to collect accurate responses which facilitates easy analysis.

Method of Data Analysis

This study employs the services of Statistical Package for the Social Sciences (SPSS) version 20 and Microsoft Office 2010 in the analysis of data. The statistical techniques used are the descriptive statistics including means, median, mode, percentages, charts as well as Pearson product-moment correlation.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter presents the results and discussion of the findings. The demographic characteristics of the respondents are presented followed by results and discussions of the findings based on the research questions.

Demographic Statistics

There are thirty-one (31) respondents categorized as twenty (20) males and eleven (11) females from whom responses are solicited. Majority of these respondents have been in business for over five (5) years. These and other demographic statistics are presented in Tables 2 through 9. The years of service statistic gives the assurance that quite a good number of the respondents have had an experience in the industry for more than two years, a good time to understand the operations of the sector well. All other things being equal, this will positively affect the quality of the responses provided. Also majority of the respondents have had at least one year of education (see Table 4), which has a positive influence on the responses provided.

The number of family members' variable is measured in Table 5. This variable helps in ascertaining the magnitude of family burden on the responding families. In Table 9 it is further measured whether micro finance credit plays any role in lessening the family burden.

Table 2: Sex Distribution of Respondent

		Frequency	Percent	Valid percent	Cumulative percent
Valid	Male	20	65%	65%	65
	Female	11	35%	35%	100
	Total	31	100.0	100.0	

Source: Field work (2018)

Table 3: Age distribution of respondent

		Frequency	Percent	Valid percent	Cumulative percent
Valid	Less than 25 years	5	16.12	1.12	16.12
	25 to 40 years	11	35.48	35.48	51.6
	Above 40 years	15	48.38	48.38	100.0
	Total	31	100.0	100.0	

Source: Field work (2018)

Table 4: Educational Experience

		Frequency	Percent	Valid percent	Cumulative percent
Valid	1 -5yrs of education	20	64.52	64.52	64.52
	6-10yrs of education	11	35.48	35.48	100
	More than 10yrs of education	31	100.0	100.0	
	Total	31	100.0	100.0	

Table 5: Number of Family Members

		Frequency	Percent	Valid percent	Cumulative percent
Valid	< 2	2	6.45	6.455	6.455
	3 to 5	8	25.81	25.81	32.26
	> 5	21	67.74	67.74	
	Total	31	100.0	100.0	

Source: Field work (2018)

Reduced Family Burden

It can be found from Table 5 that majority of the respondents have a higher family burden (more than 5 dependents). All other things being equal, larger family size means more responsibilities and therefore financial stress. If micro finance credit has any positive effect in the lives of people, then the burden associated with larger family size will be reduced, at least. This assertion is confirmed by Table 9, which measures whether microfinance has any relevance in the lives of its patronizers.

Table 6: Source of Initial Capital

		Frequency	Percent	Valid percent	Cumulative percent
Valid	Personal Savings	8	25.81	25.81	25.81
	Friends or Relatives	3	9.68	9.68	35.49
	Loan from MFIs	20	64.52	64.52	100
	Other Sources	0	0	0	100
	Total	31	100.0	100.0	

Source: Field work (2018)

Poverty Reducing Potential of Microcredit

As a measure of objective number 2, poverty reducing potential of microfinance, the sources of financing variable is measured. From Table 6, it is seen that majority of the respondents use microfinance credit as the main means of financing their business operations. Approximately Sixty-five percent (65%) of the respondents resort to microfinance credit as either a means for starting up or expanding an existing business. This, even though is not a direct measure of poverty-reducing potential of microfinance credit, it can be inferred that the opportunities generated by these businesses indirectly reduces the poverty of the people.

Table 7: Amount of Loan Received from MFIs

		Frequency	Percent	Valid percent	Cumulative percent
Valid	Less than GH¢1,000	5	16.13	16.13	16.13
	Between GH¢1,000 and GH¢5,000	11	35.48	35.48	51.61
	More than GH¢5,000	15	48.39	48.39	100
	Total	31	100.0	100.0	

Source: Field work (2018)

Provision of Capital

Closely linked with this is the amount of capital that microfinance credit provides to the people. From Table 6, the contribution of micro finance credit is assessed through the amount of money the respondents have benefitted from MFIs.

Encouragingly, majority of the respondents have received in excess of GHS5, 000. It would have been very difficult, if not impossible, to raise these moneys from the traditional banks. However, due to lower requirements by MFI, a lot of people are able to access funds for their usage. This is confirmed by responses on item 11 of the effect of micro finance scale (see Table 9)

Table 8: Main source of finance for business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Retained earning	5	16.67	16.67	16.67
	Friends, relatives	11	35.48	35.48	52.15
	MFI loan	15	48.39	48.39	100.0
	Total	31	100.0	100.0	

Source: Field work (2018)

In support of the above two findings, respondents were asked for their main source(s) of finance for their businesses. Table 8 provides the responses of the individuals and businesses surveyed. Majority (48%) of the respondents have their businesses funded by microfinance loans. This confirms the results of the two preceding variable.

Table 9: The effect of micro finance credit

	Mean	Std. Deviation	
	Statistic	std. Error	Statistic
The rate of interest of micro credit is reasonable	2.02	.118	.758
The procedure of obtaining loans from MFIs is easier than conventional banking	3.15	.102	.654
As a result of Micro Finance credit, my income has increased	2.80	.112	.715
As a result of Micro Finance credit, my savings has increased	2.85	.130	.835
As a result of Micro Finance credit, I have better access to education	3.22	.074	.475
As a result of Micro Finance credit, I have better access to healthcare	3.10	.098	.626
As a result of Micro Finance credit, there is better financial situation of the family	3.15	.096	.615
As a result of Micro Finance credit, role in decision making process has increased in society. I have an increased recognition in society	2.60	.121	.714
Operational assistance received from MFIs. Has been helpful in running my business	3.20	.093	.464
Employment opportunities have increased due to better education by the help of Micro Finance	2.40	.122	.600
There has been an improvement in the living standard of the Family as a result of Micro Finance credit	3.50	.098	.543

Source: Field work (2018)

The Impact of Microfinance Credit

From Table 9, it is clear that MFIs are making positive impacts in the lives of people in the Jukwa area. The mean scores, together with the standard error and standard deviation, of the individual items of the scale show that on the average, all the respondents see micro finance as beneficial to them. The mean scores of more than 2 indicated that all the items are rated as either 'strongly agree' of 'agree' which means that micro finance helps the respondents to achieve the various items in the scale, such as increasing the incomes, better healthcare, improved operational efficiency, improved living standard for families of beneficiaries

CHAPTER FIVE

SUMMARIES, CONCLUSIONS AND RECOMMENDATIONS

Introduction

The concluding chapter of this study begins with a summary of the objectives of the study, its methodology and data analyses techniques. It proceeds with a summary of the key findings pertaining to each objective and the conclusions drawn from them. Conclusions drawn and recommendations made are reported for the consideration by the businesses concerned and policy makers at large. The chapter ends with some suggestions for further research.

Summary

The overall objective of the study is to assess the contribution of microfinance in the lives of the people and small businesses of the Jukwa area in terms of how it helps solve the poverty problem. Two research questions are posed in achieving the three sub-objectives of the study (see chapter one). Descriptive study design, specifically the survey design is used. Questionnaire is the data collection instrument used to collect data from thirty-one respondents. The respondents comprise individuals and small business owners of the Jukwa area. Descriptive statistics is employed in the analysis of the data, using SPSS and MS Excel.

The first sub-objective of the study is to assess whether small businesses get the needed financial service from the micro finance institutions in the Jukwa area. It is found out that, majority of the respondents (65%) have their initial business capital form MFIs. This is coupled with the fact that the MFIs credit to its clients has been very good amounts in excess of GHS 5,000. It is argued that it is difficult for this same people to raise the same amount from the traditional financial systems. Tables 6 and 7 provide these statistics. It must also be noted that this support that is provided by the microfinance institutions go to reduce the financial burden/family burden of these beneficiaries.

The second sub-objective is to ascertain the poverty reducing potential of the microfinance programmes to clients. In table 9, the scale is to measure directly whether microfinance credit has any poverty-reducing effect or not. In support of the findings above, the average mean score of the eleven items of the scale is above 3, indicating that majority of the respondents believe that the support form microfinance institutions in terms of credit and advice, helps to reduce the personal financial and family burden of the beneficiaries.

The third objective, is to measure the problems associated with microloans. From the analysis of data, the overriding problem with micro finance loans has been the high rate of interest. Typically, interest rate for microfinance loans is 50% to 60% per annum. This is very expensive when compared to the rate offered by the commercial banks. The most notable explanation given the management of MFIs is the higher risk associated with loaning money to the informal sector of the economy.

Conclusion

The following conclusions are drawn based on the findings of the study. From chapter four above, it can be found that the overall contribution of microfinance to the people of Jukwa is very positive. Many people in the area have their start-up funding provided by microfinance institutions. The sums of money provided by the MFIs in most cases exceed GH 5,000. In addition to these it is found that many already existing businesses are supported by MFIs through microloans.

In terms of the poverty-reducing effect of majority of the respondents believe that the activities of microfinance institutions through micro credit and financial advice help them in many ways in reducing poverty and other forms of hardships.

It can therefore be concluded that overall the activities of microfinance institutions have been very beneficial in the lives of the people of Jukwa in terms of reducing poverty levels.

Recommendations

It is recommended to microfinance operators to intensify operations in the rural areas of the Jukwa area and all rural areas of the country. The attainment of the millennium development goals is hugely hinged on the alleviation of poverty in the rural communities of the country.

It is further recommended to the general rural communities to subscribe to the services of microfinance for starting up businesses and the expansion of businesses. To help the rural communities do this, microfinance institutions are advised to reduce their rate of interest on loans given to rural small businesses.

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APPENDICES

QUESTIONNAIRE

I am studying a Master Program at the University of Cape Coast, School of Business. I have designed the following questionnaire for the study of ***the relevance of microfinance credit to the informal small businesses in Jukwa in the central region of Ghana.*** The responses you provide to aid this study are purely for academic purposes and will be treated with the utmost confidentiality.

I would highly appreciate if you fill this two-page questionnaire. It will take approximately 10-15 minutes. We expect your kind cooperation in this respect.

1. What is your gender?

   Female [ ]

   Male [ ]

2. What is your age?

   Less than 25 years [ ]

   25 to 40 years [ ]

   Above 40 years [ ]

3. Do you have any educational experience?

   Not at all [ ]

   1 - 5 years of education [ ]

   6 - 10 years of education [ ]

   More than 10 years of education [ ]

4. How many family members do you have?

5. Did you have any business experience before entering this program?

6. What was the source of your initial capital?

   Personal savings [ ]

   Friends and relatives [ ]

   Loans from MFIs [ ]

   Other [ ]

7. What amount of loan have you received as a help from any of the MFIs in Jukwa (Amount in GH¢)?

   Less than GH¢1,000 [ ]

   Between GH¢1,000 and GH¢5,000 [ ]

   More than GH¢5,000 [ ]

8. What has been the main source of funding for the expansion of your business?

   Retained earnings [ ]

   MFI loan [ ]

   Friends and relatives [ ]

   Other [ ]

The numbers of following table indicates the degree of satisfaction or agreement level (on a scale of 1-4) of the household or a person after he or she has received loan from a microfinance institution. Please circle the number, which accurately reflects your opinion.

		Assessment of relevance of MFI credit SD 1	D 2	A 3	SA 4
1.	The rate of interest of micro credit is reasonable				
2.	The procedure of obtaining loans from MFIs is easier than conventional banking				
3.	As a result Micro Finance credit, my income has increased				
4.	As a result Micro Finance credit, my savings has increased				
5.	As a result Micro Finance credit, I have better access to education				
6.	As a result Micro Finance credit, I have better access to healthcare				
7.	As a result Micro Finance credit, there is better financial situation of the family				
8.	As a result, Micro Finance credit, role in decision making process has increased. I have an increased recognition in society				
9.	Operational assistance received from MFIs Has been helpful in running my business				
10.	Employment opportunities have increased due to better education by the help of Micro Finance				
11.	There has been an improvement in the living standard of the Family as a result of Micro Finance credit				