UNIVERSITY OF CAPE COAST

MICROFINANCE AND PERFORMANCE OF SMES IN BAWKU MUNICIPALITY

ADAM BUGLI IBRAHIM

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BY

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DECLARATION

Candidate's Declaration

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

Candidate's Signature ………………………… Date ……………………

Name: Adam Bugli Ibrahim

Supervisor's Declaration

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

Supervisor's Signature………………….. Date ……………………

Name: Dr. Otuo Serebour Agyemang

ABSTRACT

Small and medium scale enterprises (SMEs) play a substantial role in the global economy. This study sought to determine the effect of Microfinance Institutions (MFIs) on the performance of SMEs in the Bawku Municipality. Specifically, the study determined the contribution of MFIs on the entrepreneurial activities that lead to sustainable growth, finding out the challenges SMEs in the Bawku Municipality face in accessing credit from MFIs and examining the effect of penalty charges on the performance of SMEs in the Bawku Municipality. The study was conducted in the Bawku Municipality. In total, 70 SMEs were sampled purposively for the study. The data were analysed with SPSS version 23. It was found that the operations of MFIs in the Bawku Municipality positively affect the performance of SMEs. This is mostly so when they give credit to SMEs on time. However, factors like time constraint and access to collateral securities are the major challenges SMEs face in their deals with MFIs. SMEs which are not able to pay back their loans are punished mostly by selling their assets. The study therefore recommended that SMEs which have inadequate capital should take credit from MFIs and also take up credit management training from MFIs. MFI should be efficient to be able to give out credit to SMEs within the shortest possible time. This can enable SMEs to get the required funds for their operations at the time they are in need. Lastly, the Ministry of Trade and Industry should support SMEs in getting credit from MFIs by insuring the security of the credit they take from MFIs.

KEY WORDS

Bawku Municipality

Microfinance

Performance

Small and Medium Enterprises

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DEDICATION

To my late parents

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LIST OF ABBREVIATIONS

ARB	Association of Rural Banks
BoG	Bank of Ghana
CUA	Credit Union Association
FINSAP	Financial Sector Adjustment Programme
GCSCA	Ghana Co-operative Susu Collectors Association
GDP	Gross Domestic Product
GHAMFIN	Ghana Micro-Finance Institutions Network
GSS	Ghana Statistics Service
MASLOC	Microfinance and Small Loans Centre
MDAs	Ministries, Departments and Agencies
MFBs	Micro-Finance Banks
MFI	Micro-Finance Institutions
MMDAs	Metropolitan, Municipal and District Assemblies
MMSE	Micro, Small and Medium Enterprise
MoFEP	Ministry of Finance and Economic Planning
NBFI	Non-Banking Financial Institution
NBSSI	National Board for Small Scale Industries
NGOs	Non-Governmental Institutions
SME	Small and Medium Scale Enterprises
SSA	Sub-Saharan Africa
WOCCU	World Council of Credit Unions

CHAPTER ONE

INTRODUCTION

Introduction

The Chapter One is the first chapter of the dissertation. It contains the background to the study, statement of the problem, statement of the problem, purpose of the study, objectives of the study, research questions, significance of the study, and definition of terms. It also includes the delimitation, limitations as well as organisation of the study.

Background to the Study

Small and medium scale enterprises (SMEs) play a substantial role in the global economy. SMEs are considered the backbone of the private sector of both developed and developing countries (Dixit & Pandey, 2011) According to Dixit and Pandey (2011), aside from economic development, SMEs play vital roles in social, political, and cultural development. In this regard, SMEs play a pivotal role in promoting grassroots economic growth and equitable sustainable development. Kachembere (2011) argues that SMEs' development is recognised as a key factor in promoting equitable and sustainable economic development. The SME sector has the potential to promote growth in employment as well as contributing to poverty reduction among urban and rural areas in most developing countries (Choi & Schulz, 2008). Related studies, for instance, Ayyagari, Beck, and Demirguc-Kunt (2007), buttress this point that SMEs contribute immensely to job opportunities in Africa. SMEs contribute to government revenue through the payment of indirect taxes such as Value Added Tax (Kistruck, Webb, Sutter, & Ireland, 2011). In examining the contributions of SMEs to the economy, it becomes apparent that SMEs are tools for promoting equitable and sustainable economic development (Kachembere, 2011).

Nonetheless, this could be appreciated much better when microfinance institutions (MFIs) carry out their activities to meet the purpose for which they were established. The main purpose of MFIs is not just to offer credit to the productive poor but to provide non-financial services such as insurance, savings, and money transfers which commercial banks are reluctant to provide because owners of SMEs are mostly unable to meet their collateral requirements (Koomson, Annim, & Peprah, 2016). Studies indicate that microfinance services/products over time have positive effects on SMEs' performance (Afrane, 2002; Idowu, 2010; Karikar, 2011; Roodman & Morduch, 2009). Conversely, other scholars have highlighted that microfinance has had an adverse effect on SMEs especially ones owned by women (Chowdhury, 2009; Duvendack, 2011; Mayoux, 2005).

Zooming into Ghana, the private sector, dominated with SMEs, is considered as the engine of growth of the Ghanaian economy (GHAMFIN, 2013). The SMEs in Ghana can be categorized into urban and rural enterprises. Dalitso and Peter (2000) categorised the major activities within the Ghanaian SMEs sector as making soaps and detergents, weaving fabrics, designing clothing and tailoring, producing textiles and leather, village blacksmithing, firing ceramics, timber felling and mining, making bricks and cement, brewing beverages, food processing and baking, creating wooden furniture, assembling electronic products, and mechanical activities.

The SMEs sub-sector absorbs more than 60 percent of the labour force and accounts for about 92 percent of businesses in Ghana (Ghana Statistical

Service [GSS], 2012). The Ghana Statistical Service (GSS) estimates that SMEs constitute 70 percent of all industrial establishments that contribute about 70 percent of sectoral gross domestic product (GDP). This makes SMEs a very important sector of the economy. The government, realizing the socio-economic importance of SMEs, established the National Board for Small Scale Industries (NBSSI) by an Act of Parliament (Act 434) to promote the activities of SMEs aimed at reducing the unemployment rate and to boost economic growth. As part of the country's vision to promote SMEs, the Microfinance and Small Scale Loan Centre (MASLOC) was established in 2004 to assist SMEs in income generating ventures as well as reduce poverty (Abane, 2008). Evidence shows that SMEs contributed between 23% and 30% to the annual GDP of Ghana (Asiama & Osei 2007). Most of these enterprises depended on credits granted by MFIs to support their day-to-day operations.

Despite the substantial role of SMEs in sub-Saharan African (SSA) economies, they are most often denied official support, particularly credit, from institutionalized financial service organizations due to inability to meet collateral agreements as well as interest and repayment schedules. Working capital is one of the major barriers to socio-economic development and success for micro enterprise initiatives (ILO, 1998, 2003). Due to the small sizes of the business and inadequate resources especially the capital, small entrepreneurs need micro-financial services in order to start, grow, diversify, and expand their businesses. This is evident in Ghana, as SMEs generally face serious problems regarding credit acquisition and its repayment cost and methods, insurance, as well as technical education by MFIs. Due to these problems, performance (measured by change in sales, employment, return on asset, etc.) of several SMEs is affected (Peprah, 2012). It is against this background that this study sought to determine the effects of microfinance products/services to SMEs on the performance of SMEs in the Bawku Metropolis.

Statement of the Problem

Microfinance has been a major tool in addressing access to credit as well as technical shortfalls faced by SMEs in Ghana (Sulley, 2019). Despite this, it is interesting to note that most SMEs in Ghana do not survive their incubation period (Afrane &Ahiable, 201l). Access to credit should enable SMEs to improve on their performances but this is hardly the case. The majority of SMEs seem to collapse in the third year of operation (Afrane & Ahiable, 201l). The importance of SMEs to the economy cannot be overemphasized. SMEs, when vibrant, yield multiplicative effect in terms of economic growth and development in various aspects such as increased profit, an increase of business assets and business diversification, an increase of business premises which in turn create employment, etc.

Despite these significant contributions, several SMEs have barely improved over the last two decades (Anane, 2012). The slow performance of SMEs in Ghana is mainly due to access to finance, poor managerial skills, lack of training opportunities, and the high cost of inputs (Osei, 2015). SMEs within the Bawku Municipality face limited access to financial services from formal financial institutions to meet their working and investment needs (Kessy & Temu, 2009). According to Quaye (2011), MFIs are one of the cheaper sources of finance for SMEs.

Contrary to Quaye's (2011) assertion, Prah (2016) found that SMEs within the Bawku Municipality encounter challenges with the repayment amount (interest) on the loans they take. In addition, there are high transaction costs encompassing the process of obtaining information about the MFI services, the process of loan application, cost of getting transportation to make loan payments, and time spent obtaining a loan (Kessy & Temu, 2009). Due to these problems, SMEs within the Municipality barely expand their scale. Most of the SMEs within the Municipal have slow growth, low return on capital employed, and low net profit margin. The SMEs also keep a small capital size (Prah, 2016).

Due to the importance associated with MFI and SMEs, several studies have been conducted in Ghana on SMEs and MFIs. For example, Addo (2014) examined overtrading versus lack of qualified staff as a cause of failure of microfinance institutions in Ghana. Similarly, Addae-Korankye (2014) studied the causes and control of loan default/delinquency in microfinance institutions in Ghana, and Boateng, Boateng, and Bampoe (2015) also studied microfinance and poverty reduction in Ghana. Additionally, Boateng and Agyei (2013) also investigated success factors and challenges of microfinance in Ghana. Despite these numerous studies in various part of Ghana, none of such studies was conducted to determine the effect of MFI services on the performance of SMEs in the Bawku Municipality of Ghana. Although Akugri, Bagah, and Wulifan's (2015) study focused on Bawku West District, it only looked at the contributions of SMEs. Cognizant of this knowledge and empirical gap, this study is, therefore, motivated by the need to determine the effect of MFI services on the performance of SMEs in the Bawku Municipality.

Objectives of the Study

The main objective of this study is to determine the effect of MFIs on the performance of SMEs in the Bawku Municipality. Specifically, the study sought to:

1. Determine the contribution of MFIs on the entrepreneurial activities that lead to sustainable growth (increase in sales) and employment of SMEs in the Bawku Municipality.
2. Ascertain the challenges SMEs in the Bawku Municipality face in accessing credit.
3. Examine the effect of penalty charges on the performance of SMEs in the Bawku Municipality.

Research Questions

In order to respond to our objectives, the following questions are asked:

1. Does MFIs credit foster the growth of SMEs in the Bawku Municipality?
2. What are the challenges SMEs in the Bawku Municipality face when accessing microfinance credit?
3. What is the effect of penalty charges on the performance of SMEs in Bawku Municipality?

Significance of the Study

It is worth mentioning that most researchers have found this area of study very important to the development of the socio-economic activities in

Ghana. This study is centered on the activities of MFIs and their effect on the performance of small and medium size businesses in Bawku Municipality.

A study of this nature is very imperative, as it would provide the Bank of Ghana, for instance, with the needed information in designing a policy framework to enhance the performance of the SME sub-sector.

Microfinance as a whole provides the average Ghanaian a means to have access to financial services in their localities to boost their living standards in a sustainable manner in line with the Sustainable Development Goal of alleviating poverty in developing countries. The study will assist MFIs to adopt the necessary measures needed to ensure the desired performance in the Municipality

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

Scope of the Study

The study provides insight into microfinance and small business performance. The population for the study includes the clients of the selected microfinance institutions, that is, the over 20 MFIs in the Bawku Municipality. These include microfinance institutions that metamorphosed from community banks into microfinance banks (MFBs) in 2007.

Delimitation of the Study

In order for the researcher to accomplish the study, sampled SMEs from the Bawku Municipal area were used. The study involved 100 respondents who were selected purposively but with liberty to withdraw or participate freely. Moreover, the study used structured questionnaire and interview as the only way of collecting the data. For data analysis, the researcher employed both qualitative and quantitative analysis methods guided by correlation analysis.

Limitation of the Study

The research faced a number of limitations in doing this study. The methods used for this study differ from other authors in a number of ways including sample size and technique. Moreover, other limitations concern transport costs, inadequate literature sources for the study, as well as the cost of ICT facilities such as laptop, printing and photocopying services.

Organisation of the Study

The study is organized into five chapters, with each chapter further divided into sections and sub-sections. The first chapter, which is the introductory chapter, presents a background to the study, problem statement, objectives of the study, research questions, scope of the study, as well as organisation of the study. Chapter Two focuses basically on the historical perspective of microfinance in Ghana, players in the microfinance sub-sector, regulatory framework governing MFIs, and the theoretical as well as empirical literature on microfinance. Chapter Three focuses on the research design, the population of the study, sample and sampling technique, data collection procedure, as well as the data analysis. The results of the data collected for the study will be analyzed and discussed in chapter Four. Chapter Five presents the summary of findings, conclusion, policy implications, and recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter discusses the relevant literature on the effects of microcredit. The review of literature is basically structured under the following themes: theoretical literature and empirical literature. The first part looks at the meaning and scope of microfinance, theories of microfinance and performance of SMEs, and finally some critiques of microfinance. It goes further to recount some empirical works related to microfinance and SMEs performance. This gives an idea of the methods used and some relevant findings to the study. The chapter also discusses the conceptual framework guiding the study.

Definitions and Concepts of Microfinance

Microfinance is a term used to describe the provision of financial services such as savings and insurance, and issuing loans as low as $100. These services and loans are typically offered to the poor and their families to assist them in the launching and development of small businesses as well as to help them engage in other productive activities (Ocasio, 2012).

Schreiner and Colombet (2001) define microfinance as the attempt to improve access to small deposits and small loans for poor households neglected by banks. Therefore, microfinance involves the provision of financial services such as savings, loans, and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector. Microfinance is an economic development approach that involves providing financial services, through institutions, to low-income clients, where the market fails to provide appropriate services. The services provided by the MFIs include credit saving and insurance services. Many microfinance institutions also provide social intermediation services such as training and education, organizational support, health, and skills in line with their development objectives.

According to Robinson (2001), microfinance refers to small-scale financial services for both credits and deposits that are provided to people who farm or fish or herd; operate small or micro enterprise where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries in both rural and urban areas. Microfinance has also been defined as the means by which poor people convert small sums of money into large lump sums (Matin, Hulme, & Rutherford, 2002).

One of the main components of microfinance is microcredit. Especially in developing countries, microcredit enables very poor people to engage in self-employment projects that generate income, thus allowing them to improve the standard of living for themselves and their families. Micro-saving is also a microfinance service that allows impoverished individuals to safeguard money and other valuable items and even earn interest. It allows a lump sum to be enjoyed in future in exchange for a series of savings made now (Abor, 2016).

Insurance is an important service in every aspect of life. It is, therefore, not surprising that micro insurance is also a component of microfinance (Nanor, 2008). It is the provision of insurance to low-income households. Poor households are especially vulnerable to risk, both in the form of natural calamities as well as more regular occurrences of illness and accidents. MFIs have played an active role in reducing or protecting against this vulnerability through providing credit for increasing income-earning opportunities and through providing savings services to build up resources that can be drawn down in cases of emergencies.

Finally, an MFI is an organisation engaged in extending micro credit loans and other financial services to poor borrowers for income-generating and self-employment activities. An MFI is usually not a part of the formal banking industry or government. It is usually referred to as a non-government organisation (Nanor, 2008).

In the literature, the terms microcredit and microfinance are often used interchangeably, but it is important to highlight the difference between them because both terms are often confused. Microcredit refers to small loans, whereas microfinance is appropriate where NGOs and MFIs supplement the loans with other financial services (savings, insurance, etc.). Therefore, microcredit is a component of microfinance in that it involves providing credit to the poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions, and payment services.

The Evolution of Microfinance in Ghana

Microfinance activities started as ‘susu’ collection in Ghana. The word ‘susu’ was coined from the Nigerian word ‘esusu’, meaning a small amount of money in naira. In the absence of banking facilities and other formal financial sources, the susu has been a major source of fund mobilization for the unbanked in Ghana, most especially rural Ghana (Buckley, 1997).

Susu is believed to have contributed largely to micro enterprises and small-scale businesses, guaranteeing the depositors of susu companies' loan and advances for their clients after some period of regular deposits normally six months. Susu evolved in Ghana some 300 years ago. A major component of finance of urban poor entrepreneurs in Ghana, particularly apprentices and artisans, has been the daily or weekly contribution of fixed amounts through susu. These savings are acceded after a period of time for purchasing tools and equipment necessary for setting various artisans up in their vocational practices.

Artisans who normally benefit from these include seamstresses, tailors, hairdressers, fitting mechanics, and carpenters. For many petty traders, market women, apprentices, and artisans, susu is believed to have been a trusted, reliable, and friendlier means of getting started and also for sustenance as well as growth of their businesses. Susu, in some cases, is believed to be the sole source of getting established for livelihood. The financial sector reforms that started in 1987 posed challenges to the role of these poor enterprises, as they got integrated into the Financial Sector Adjustment Programme (FINSAP). It was then obvious that while SMEs enjoyed considerable goodwill among informal lenders, the informal market conditions were generally not suited to the type of finance required by a large number of the poor people((Asiama & Osei, 2007).

The above combined activities of these MFIs actors did not change the living conditions of the poor. Because of this, the government decided to establish the Agricultural Development Bank in 1965 to provide financial assistance to farmers and fishermen. It is interesting to note that at least and to some extent, all these rural banks are into microfinance. The Bank of Ghana supervises the activities of these rural banks and some power has now been given to the Association of Rural Banks (ARB) Apex Bank to coordinate the activities of all rural banks and report to the Banking Supervision Department of the BoG. Microfinance has been with Ghanaians for some time now and is, therefore, not to be seen as a new concept in the country. It has always been a common practice for people to save or borrow small money from individuals, friends, and relatives within the context of self-help in order to engage in small retail business or farming ventures (Asiama & Osei, 2007).

Regulatory Framework for Microfinance Operations in Ghana

Governments, particularly in Africa, have made remarkable efforts and instituted policies to boost the growth of SMEs. For instance, the government of Nigeria prohibits the importation of fully manufactured products from China and this policy has forced SMEs and other companies established in Nigeria to contribute to job creation and technology transfer (Consultancy Africa Intelligence, 2011). Similarly, the Moroccan government has fully exempted owners of SMEs set up in free zones from paying corporate taxes and income tax for the first five years of operation and applies a minimum corporate tax for the next ten years. In addition, Morocco has two state-owned banks strategically established to offer micro loans and industrial modernisation programs to SMEs (United Nation Economic Commission for Africa, 2008).

Ghana's financial system can be broadly divided into three categories: formal, semi-formal and informal. The formal institutions are incorporated under the Companies Code 1963 and licensed by the Bank of Ghana (BoG) under the Banking Law, 1989, or the Financial Institutions (Non-Banking) Law, 1993 (Boateng, n.d.). Commercial banks and rural banks are incorporated under Banking Law, while the savings and loans companies and credit unions are incorporated under the Non-Banking Financial Institution (NBFI) law. The credit unions, however, are not regulated by the BOG, but by the Credit Union Association (CUA) which acts as a self-regulatory apex body.

Bank of Ghana (BoG)

The Bank of Ghana has a history of promoting the financing of micro, small and medium enterprises (MMSEs) (GHAN, 2007). In 1969, it started the Credit Guarantee for Small Borrower scheme which was administered through Development Finance Department of the Bank. It has supported a lot of microfinance programmes. It also participated in the Rural Financial Service Project.

BOG, the central bank of Ghana, regulates the banking and non-banking financial sub-sectors. The legal framework governing the central bank (that is the Bank of Ghana Act, 2002) was revised, giving enhanced autonomy to BoG in framing monetary policy, regulation and supervision of banking and non-banking financial institutions. The Banking Law, 2004 governs all banking companies in Ghana. The Financial Institutions (Non-Banking) Law, 1993 and the rules framed under the Act are applicable to savings and loan companies. Ghana has so far not setup a separate framework to cater for the regulatory requirements of the micro-finance sector.

BoG has laid down exposure norms for banks as per best practices in banking. The current stipulations on group and individual exposure etc. are listed below:

I. To any one group or individual not more than 25% of the net worth of the institution;

II. Unsecured Credit should not be more than 10% of net worth of the institution;

III. Loans to Director and employee credits have a ceiling;

IV. Investment in immovable property other than for own business is not permitted

Apex Rural Bank

Currently the Apex Bank looks after the clearing and settlement needs, and specie and treasury management needs of the rural banks. It is also responsible for training rural bank officials, improving the MIS system of rural banks and for developing a standard reporting system. The Apex Bank may eventually emerge as a sub regulator/supervisor of the rural banking system under the purview of the BoG.

Credit Union Association

The Credit Union Association (CUA) serves as a self-regulatory apex body for the credit unions. The Department of Cooperatives has laid down eligibility norms for full registration of a new credit union. CUA applies prudential norms that are similar to the operating and financial standards of the World Council of Credit Unions (WOCCU). BoG has desisted from extending its regulatory jurisdiction authorized by the 1993 NBFI Law to the Credit Unions. A new Credit Union law is proposed, which is expected to streamline the delegation of specific supervisory functions to CUA. CUA will then report to a supervisory board with BOG rather than to the Department of Cooperatives as at present. CUA enforces its regulations by downgrading status of CUs which default in meeting its requirements. The Ghana Co-operative Susu Collectors Association (GCSCA) imposes a number of regulatory barriers to entry as well as providing services to its members.

Ghana Microfinance Institutions Network (GHAMFIN)

Ghana Microfinance Institutions Network evolved from a research program sponsored by the World Bank designed to strengthen micro-finance institutions and to contribute to a mechanism for supporting sustainable grassroot institutions that provide financial services to the poor. GHAMFIN's main objective is to support and facilitate processes that help in addressing the constraints faced by its members. These constraints have been identified by various studies of the Ghanaian microfinance sector and include lack of access to on-lending funds, poor MFI staff skills, inappropriate financial technologies and inadequate operational strategies, poor MIS, absence of performance standards, codes of conduct, conflict resolution mechanisms and so on. These constraints affect Ghana, since the microfinance sector in this country is still young. Hence, the capacity-building of Ghanaian MFIs presents a major task, high on GHAMFIN's agenda.

GHAMFIN is establishing performance indicators and putting in place reporting structures for the members in line with CGAP and MIX standards. GHAMFIN organises seminars, workshops, and conferences aimed at sharing experiences and evolving best practices in the industry. It works very closely with the Government, donors, regional networks, and service providers.

GHAMFIN is likely to emerge as a self-regulatory organisation with reporting and disclosure requirements for its members ranging from *Susu* collectors to the rural banks. In the brief span, GHAMFIN has emerged a key facilitator in the Ghanaian microfinance sector.

Other Government Monitoring Bodies

Microfinance and Small Loans Center (MASLOC) under the policy framework is to be established in every region. It is expected to institute reforms and development measures that would strengthen microfinance operation as an effective and viable strategy for poverty reduction. MASLOC is also expected to advocate and advise Government on policies that would enhance development of a decentralized microfinance system which is integrated with or linked to the formal financial system, so as to enhance sustainable growth.

Ministry of Finance and Economic Planning (MoFEP), whose main function is to implement government fiscal policies under the GHAMP, is expected to create an enabling macroeconomic and financial policy environment for accelerated development of the microfinance sub-sector. MoFEP is expected to establish linkages with relevant MDAs and other relevant bodies to monitor and evaluate all aspects of the sub-sector. Under the provisions of the GHAMP, MoFEP is also expected to harmonize and coordinate technical assistance and financial resources from development partners.

There are over 500 microfinance institutions in Ghana. A list of some of the major microfinance institutions in Ghana is presented below:

1. Sinapi Aba Trust
2. Opportunity International
3. KROBODAN
4. Technoserve
5. Christian Mother Association
6. Freedom from Hunger
7. Action Aid Ghana
8. Catholic Relief Services
9. Enowid
10. Plan International Ghana
11. Adra-Ghana Microfinance Project
12. Kraban Foundation
13. Rural and Community Banks (RCBs)
14. Social Investment Fund- Government

Out of these MFIs listed above, the last two operate in all the ten regions of country.

Theories and Approaches to Microfinance

Supply-Leading Finance Theory

Supply-leading finance is the provision of loans in advance of the demand for credit for the purpose of inducing economic growth (Robinson, 2001). Robinson (2001) and Meagher (2002) defined supply leading finance as the creation of financial institutions and instruments in advance of demand for them in an effort to stimulate growth. Thus, this strategy seeks to make the allocation of capital more efficient and to provide motivation for growth through the financial system. The strategy is more pertinent to seasonal economic activities such as farming. The assumption of the supply-leading finance theorists is that economic growth in rural areas could be encouraged through the financial system. Therefore, financial incentives for the adoption of new agricultural technologies, often in the form of subsidized credit, were provided to farmers in advance of the demand for them. This was done based on their belief that the savings of most of the farmers were not enough for the inputs they required and could not pay the commercial cost of credit. Farmers need much more capital than they can afford to save (Robinson, 2001). According to Vogel (1995) cited in Ekpete and Iwedi (2017), savings was the “forgotten half of rural finance”, because of the assumption that there were little or no savings to be mobilized in the rural areas of developing countries.

The Financial System Approach

This approach places more emphasis on large-scale outreach to borrowers who can repay micro-loans from household and enterprise income streams (that is, the economically active poor). It focuses on institutional self-sufficiency because, given the scale of the demand for microfinance worldwide, this is the only promising means of meeting widespread client demand for convenient, appropriate financial services. The approach seeks to deal with commercial financial intermediation among poor borrowers and savers. These intermediaries not only grant loans and voluntary savings services to the economically active poor, but also offer easy access to credit at a reasonable cost. Their loan portfolios are financed by savings, commercial debt, and for-profit investment in varying combinations. These institutions have been able to attain wide outreach profitably, and they represent a globally affordable model. However, commercial microfinance may not be suitable for the extremely poor who are badly malnourished, ill, and without skill or employment opportunities, as these starving borrowers will use their loans to feed themselves or their children.

The Poverty Lending Approach

This approach emphasizes poverty reduction through credit and other non-financial services (such as skills training, and the teaching of literacy and numeric, health, nutrition, family planning and the like) provided by institutions that are funded by donors and government subsidies and other concessionary funds. Thus, the emphasis is on micro-credit and not microfinance. Savings is an insignificant part of the poverty lending approach except for the obligatory savings required as a condition for receiving a loan. Some institutions using this approach provide micro-credit to poor borrowers at low cost. Since the interest rates on these loans are too low, these institutions, more often than not, cannot cover all their costs.

As a result, these institutions are not sustainable. The institutions cannot meet or quench the ‘thirst’ of the poor for financial services. Rhyne (1998) points out, “Everyone involved in microfinance shares a basic goal; to provide credit and savings services to thousands or millions of poor people in a sustainable way.” By this, she is indicating that the debate is not just about the goals but the means, and that the means can limit the goals that can be achieved. Having considered the two approaches above, it is clear that each of them have a different point of focus. While the financial system approach focuses on the institutions financial self-sufficiency, the poverty lending approach focuses on provision of financial services funded by donor and government support as well as concessionary funds. Thus, savings is not a requirement for loan application, but the financial system approach insists on savings.

'Institutionist' Approach (or financial market approach) **verses 'Welfarist' Approach** (also called the direct credit approach).

With regard to the best way of helping the poor through access to financial services, there are two approaches: the Institutionist and the Welfarist approaches. Morduch (1998) terms this division as microfinance schism.

The Institutionist School: The principal aim of microfinance, according to the Institutionist, is financial deepening (i.e., the setting up of a separate system of "sustainable" financial intermediation for the poor who are either neglected or are underserved by the formal financial system). The activists of this school of thought emphasized more on the achievement of financial self-sufficiency, breadth of outreach (numbers of clients), depth of outreach (levels of poverty reached), and positive client impact. The interest of the approach is that the institutions refrain from all kinds of subsidies, as they insist on financial self-sufficiency.

The Welfarist School**:** To the welfarists school, self-employment of the poorer of the economically active poor, especially women, are their prime objective. Their interests lie in the "family" and they lay more emphasis on the depth of outreach (the levels of poverty reached). The welfarists are more concerned with the use of financial services to minimize the effects of acute poverty among individual participants as well as communities. The focus of this school of thought is on the abrupt improvement in the well-being of participants. Though there are significant lines of differences between the two schools of thought, they have some similarities as well. In as much as the two approaches seek to solve the problem of financial needs of the poor, microfinance activities should aim at achieving the objectives of the two approaches.

Entrepreneurship and Rural Development Theory

The theory of rural development through entrepreneurship posits that a high level of informal entrepreneurship transforms rural economies from poverty stricken to wealth creation.

According to Cervelló-Royo, Moya-Clemente, and Ribes-Giner (2015), microcredit is attractive to rural people for two main reasons. These are utilization of microcredit to exploit business opportunities (opportunity-driven financing) and for household survival (survival-driven financing). Survival-driven clients usually invest loan in businesses that are over-exploited. Such ventures yield marginal returns but provide fast returns on investments while opportunity-driven clients invest in viable new enterprises. Investment in either survival or opportunity-driven enterprises, to a large extent, depends on the amount of capital, socioeconomic status and/or entrepreneurial capabilities.

The critical push factors for opportunity-driven entrepreneurship are infrastructural facilities like roads and markets for goods and services. In theory, micro-sole-proprietorship decreases as the rural economies increases with wealthier enterprises providing employment opportunities. Households employed by the informal sector due to lack of income alternatives may earn more income from wage employment offered by small or medium enterprise compared to easing liquidity constraints through microfinance. The jobless would then be employed in the wealthier enterprises. This leads to rural growth and poverty reduction. The argument, therefore, is for microfinance institutions to provide adequate funds for growth-oriented clients for investment in opportunity-driven enterprises. Microcredit clients also need to exhibit entrepreneurial and managerial skills. In addition, push factors including market niches and good road networks would propel employment generation, growth, and poverty reduction. Relating this to the current study, most of the SMEs in the Bawku Municipality were instituted to serve as employment for the people in the Municipality. In view of this, it has either directly or indirectly reduced unemployment, poverty and even some social vices.

Performance Dimension, Measures, and Indicators in SMEs

The performance measures of SMEs vary widely. Murphy, Trailer, and Hill (1996) reviewed the performance dimensions and measures used in the literature and then examined the relationship between performance variables. Following the 1996 research, this study reviewed thirty-five published papers (from year 1997 to 2006) focusing on empirical study of SME performance. Most of these papers were published in the *Journal of Business Venturing*.

The criterion for selecting the papers was three-fold: (a) the study should be empirical research, (b) the study should include firm performance as a dependent variable (with the word of 'performance' in the document title), and (c) the sample should be composed of new ventures or SMEs. Such a selection is based on the considerations that (a) the authors of the paper reviewed had checked much document on how to measure an SMEs' performance when they studied the correlativity between SMEs' performance and the independent variables, (b) the indicators used in these studies come from empirical data, and (c) comprehensive performance measurement dimensions can be captured through reviewing pervious empirical studies.

Growth and profitability were found to be the two performance dimensions most frequently used in the empirical research. The study used change in sales of SMEs in the Bawku Municipality as a measure of performance.

Challenges of the Microfinance Industry in Ghana

The liberalization of Ghana's financial sector in the 1990s opened competition and increased quality services into the microfinance industry. Nonetheless, the sector has been confronted with challenges such as lack of regulatory mechanisms, staffing, funding, credit delivery and management, data/information and dissemination, coordination, loan misapplication and repayment difficulties. The microfinance sub-sector had operated without specific policy guidelines and goals despite government interest and involvement in the industry. The sector has, as a result, witnessed slow growth, lack of direction, fragmentation, and uncoordinated activities. Lack of regulatory mechanisms had allowed some MFIs to offer products with deceptive charges and/or products which are easy to obtain without any consideration for risk factors. In consequence, clients have been confronted with indebtedness as well as borrowing from one lender to pay another. Undefined organisational and institutional hierarchies have also given way to overlapping responsibilities among the MFIs.

Many MFIs in Ghana have no experienced personnel capable of developing innovative financial products to suit client needs. For instance, human resource capacities in several MFIs are inadequate for effective operations while microfinance Apex bodies apparently lack adequate cadre of in-house trainers and/or facilitators, as well as in-house monitoring and evaluation units to consistently measure progress of activities within the industry. Random and incoherent training programmes also hamper effective achievements within the sub-sector.

Funding for the sub-sector has been the institutions themselves, government, and development partners. This notwithstanding, available funds for the industry have not been adequate. Besides, microfinance funds from development partners come with a condition that distorts commercial microfinance and encourages "social lending" or subsidized loans to the detriment of savings mobilization from clients. Government revolving funds face political pressure in loan disbursement. Such funds had often been disbursed without knowledge about borrowers' working environment resulting in poor loan recovery and unsustainability of the fund. As a solution to the funding constraints, there is the need for a central microfinance fund to which MFIs can apply for on-lending and/or capacity building to gradually wean out foreign donors from the microfinance industry in Ghana.

The industry lacks specified strategies for credit delivery and, therefore, is unable to fully meet varying demands of different categories of clients including vulnerable groups such as disabled women and the youth. There is also no framework for categorizing and upgrading newly emerging MFIs in accordance with their operational capacities and capabilities. Reliable information about operations and clients' data is lacking while at the national level, approaches for data and information gathering and dissemination are not only unstandardized but also weak. This makes it difficult to monitor progress of the sector from a central point. The sector also lacks well-defined reporting system for both the government and development partners with regard to interventions and performance records. Adequate database for decision-making and planning is also lacking.

According to GHAMFIN, there is neither a formal body that is responsible for coordinating all activities associated with microfinance, nor is there a forum for dialogue among stakeholders on policy and programme issues. As a result, fragmentation, duplication, and inadequate collaboration exist between and among Ministries, Departments and Agencies (MDAs), Metropolitan, Municipal and District Assemblies (MMDAs), development partners, service providers, practitioners, and clients. In this regard, there is the need to strengthen GHAMFIN to ensure the transfer of best practices and standards for the industry.

Loan misapplication and its consequences for loan repayment had also been recognized as a challenge for the microfinance sector. There are delays in funds release to borrowers, resulting in loan diversion and repayment challenges. This calls for MFIs to monitor and track the cash flow cycles of their clients. Loan officers need to make sure that loans are used for the purposes for which they were given to avoid loan fungibility and default.

The issue of mission drift in microfinance is another challenge that is facing the microfinance sector in Ghana. Many investments in the sector are skewed towards maximizing profit without adequate consideration to social returns. Value adding services to clients which are valuable tools in aiding people out of poverty, such as training and improving awareness on health care, have been neglected by many MFIs. The lack of product diversification has also led to the sector's over-reliance on micro-loans which cannot move borrowers out of sole proprietorship. With field data gathered from microcredit clients in the Bawku Metropolis, this thesis investigates whether microcredit creates paid jobs for the jobless in the Bawku Metropolis.

Empirical Literature Review

Contribution of MFIs on the Entrepreneurial Activities Leading to Sustainable Growth

Nearly three billion poor people around the world do not have access to basic financial services (Abed, 2000). Kato and Charoenrat (2018) conducted a study in Thailand on the contribution of MFI and SME to the economic development. They found that the MFI provided economic support to people in the form of loans and other business opportunities. These made people to easily access credit facilities to support their businesses. Similarly, in India, Calis et al. (2017) conducted a study on the importance of micro-finance institutions. They found that microfinance helps reduce the negative effects of extreme weather-related shocks such as post-harvest losses.

Latifee (2003) in his study on Grameen Banks clients mentioned that participation in microcredit program reduced unemployment rate among clients and made a positive contribution to their standard of living. A study conducted by Dunn and Arbuckle (2001) in Peru found on average nine days of extra employment per months, where approximately 40,000 clients have over 4.3 million workdays per year, or the equivalent of 17,414 full-time jobs, of which 6,259 are paid positions for non-household members. Dunn (2005), who conducted an impact study in Bosnia and Herzegovina, also found a positive impact of microcredit on respondents and their household's income, employment, business investment, business registration, and post-war transition. Manning (n.d.), in his study conducted in India, noted a significant increase in borrowers' household income (11.4%). Asset position was 9.75 percent higher than non-participants and savings increased by 42.53 percent. This study also found an increase in annual employment days among the clients.

In Indonesia, Nurfadilah, Samidi, and Subagja (2018) did a study on an importance-performance analysis approach. The survey was carried out to acquire data from 126 respondents. Descriptive statistics and importance performance analysis (IPA) were used to analyze the data. The finding show that attributes plotted in quadrant "keep up the good work" are providing prompt service and helpful response to customer requests, ability in providing services to the customer as needed, prompt service on financial counselling, ability of staff in giving proper explanation to the customer, ability to keep the transaction process secure, and Sharia compliance banking products. Meanwhile, the attributes plotted in quadrant "concentrate here" are accessible of location of ATM, easy to access the location, ability to navigate customer to find what they intend, ability to maintain accuracy of bank statement, and ability in providing after sale services.

In Egypt, Nisser and Ayedh (2017) conducted a study to assess the importance of micro-finance institutions. The study showed that the microfinance institutions empowered women economically to be able to take up major business activities.

Relatedly, in Georgia, Chelidze, Gelitashvili, and Abutidze (2018) did a study to demonstrate the role and modern condition of microfinance institutions in the financial system of Georgia. The results showed that it is important to take more active steps from the state and supervisory organisations for development of microfinance institutions, in order not to reduce their role and importance, because of domination of commercial banks in the country. It should be noted that the National Bank of Georgia continues to work on the legislative framework aimed at improving the regulatory base in terms of accountability of microfinance institutions and interests of their customers.

In India, Pankaj, Farhad, and Rzgar (2019) noted that in a country like India, 70 percent of the population live in rural areas while the rest of the population i.e. 30 percent reside in urban areas and 60 percent approx. depend on agriculture (according to the World Bank reports. Non-government organizations are playing crucial roles in the economic development of India. The purpose of the research was to identify how microfinance is made available in the rural areas for needy people and also how the microfinance institutions can check or reduce the poverty with the help of providing microfinance. For critical analysis of the research, data was collected through secondary available sources and comparative analysis was done. They found that micro-finance institutions have helped reduce poverty in India.

In a related recent study in India, Vaish (2020) showed that microfinance allows the poor to get loans and needs to save, invest, and create a sustainable lifestyle of financial independence and growth. These loans are used productively by the poor to create their own businesses, grow their assets, and address poverty all at once. Microfinance is gathering momentum to become an important force in India. Significant progress has been made over the past two decades in developing technologies to provide financial services to the poor in a sustainable way. This loan empowers the poor to start their own businesses, grow their money, and achieve long-term financial independence. Microfinance is one of the effective ways for poverty alleviation, economic growth, and development in emerging countries.

In addition, Pérez Rosa (2017) conducted a study to assess the relevance of micro finance on social and economic development. Microcredit is linked to the expression "responsible productive finance" and it is part of the social inclusion framework. The paper also shows some main improvements and risks such as the concept of over indebtedness of low-income people or the lack of impact valuation.

Panel and Cross-Sectional Studies

The cross-country study started by Goldsmith (1969), which shows a graphically positive association between microloans and employment, has subsequently been followed by several cross-country studies. These added more countries and more variables for microloans and employment that were observed over longer periods. Studies with disaggregated data across industry and firm levels were also conducted. All these studies, while finding a positive association between microloans and employment, do not conclude on whether microloans eventually lead to employment.

Additionally, Manning (n.d.) and Driffill (2003) claim that when dummy variables controlling for some subset of countries either according to the continent they belong to or their extraordinary growth performances are included in the analysis, the effect of microloans on employment disappears. Empirical evidence indicates that different causal patterns between financial development and economic growth are observed for both individual and cross-country studies and empirical results are sensitive to the type of the estimator used, the sample periods, and country sub-groups covered.

Many studies have shown the effectiveness of microfinance in influencing the growth of MSEs, particularly in the developing countries and poor countries. Among these, Nader and Yasmine (2008) studied the effect of microfinance on program participants in Cairo, Egypt. She used a sample of 100 women comprising 50 women as microfinance participants (have participated in microfinance for more than three years) and another 50 women who just joined the program as a control group. Data analysis used correlation and regression methods. The regression method employed income, assets, children’s schooling, health, and harmony index as the dependent variables. Meanwhile, microfinance was the independent variable and control variables were age, education, marital status, and number of children. The results confirm the findings reported in previous studies that there exists a strong relationship between microfinance and children’s schooling, income, and assets but fail to confirm the effect of microfinance in improving health level and family harmony.

Copestake, Bhalotra and Johnson (2001) estimated rural Zambia microcredit program impact on business performance and quality of life indicator (wellbeing) in Zambia. The three study objetives were a) to identify the characteristics of borrowers in terms of gender, relative poverty and age of business and estimate the program depth outreach; b) identify and estimate the direct impact of the loan on borrowers, their business and their households; c) identify the indirect impact of the microfinance program. The findings of the study are that overall, the microfinance program has a positive impact on participants' income, household lives, and enterprises.

The European Commission (2003) states that even though microfinance impact on employment level is small, the conducive industrial environment is supportive to future employment level. The study found that microcredit finance in European industry targeted one or two worker recruitment including the owner himself. The main economic sectors targeted are consumer services sector, business-to-business services, retail trade, and crafts sector.

The European Commission (2003) further states that in Slovenia, a trial microfinance scheme at the national level was introduced in 1996 by the Small Business Development Centre and National Unemployment Office, with the main objective to increase new employment opportunities in the country. This scheme was introduced in five regions where the participants were given financial resources at two percent interest rate per annum with six months' repayment period. This scheme received high demand among the population. At the end of the project, about 548 new jobs were created.

A study by McKernan (2002) used primary data of participants and non-participants of Grammen Bank to analyze the effect of credit and non-credit on productivity. Credit means the given capital loan and non-credit is services other than the capital loan. Total effect was measured using profit estimation equation and non-credit effect was measured using conditional profit on productive capital equation. Productive capital and participation in the program were the endogenous variables. The findings indicate that there exists a significant positive effect of participation and non-credit on self-employment profit.

Karnani (2007) agrees with most studies which found microfinance delivers many benefits but says that for growth purposes, the amount is limited. He states that with scant capital, little skills and without economic skills, a business has low productivity and this will not bring the business owner out of poverty. According to the author, creating stable job opportunities with reasonable wage rates is the best way to bring them out of poverty. Therefore, he asserts that governments must provide effective public services and this is a critical factor to improve the productivity and capability of poor workers.

Inchauste and Kitagawa (2007) used primary data and discovered that there is no significant relationship between credit and micro-enterprise productivity when all formal and informal micro-industry resources are aggregated. In contrast, formal micro-enterprises show there exists a significant positive relationship with credit usage but informal micro-enterprises show an insignificant relationship with credit usage. This also shows there exists a relationship between credit usage and firm performance, depending on firm heterogeneity, financial resources, and the location of a firm's operations.

A study by Lapar (1994) estimated the effect of credit on productivity and growth of Rural Non-farm Enterprise Sector (RNEs). Endogenous variables were included in the regression model to estimate the samples heterogeneity. The credit variable included in output supply estimation function was able to differentiate actual credit effect on the productivity of credit receivers and non-receivers. The findings indicate that credit receivers have higher productivity, compared to non-receivers. The credit factor also had a significant effect on latent productivity. Indirectly, output also increases as a result of credit usage. Other factors which contribute to output (positively) are family workers, paid workers, total assets, working capital, and year of operation.

Barnes and Carolyn (2001) suggested that microfinance has a positive impact on work hours through an increase in work hours but does not have an impact on workers' recruitment in household enterprises. The study by Koenig, Ahmed, Hossain, and Mozumder (2003) found that credit finance in the Philippines has an increasing effect on work hours in credit-assisted activities but a decreasing effect on other economic activities.

Khan, Jan, Mehmood, and Ali (2007) analysed the effect of microfinance program of the Rural Sarhad Support Programme (SRSP) on livestock enterprises development in six villages in the Abbottabad region, Pakistan. The study was carried out in April 2006. From the survey, it was found that SRSP channelled credit to 60 households as pioneering participants for livestock enterprises development. The findings show that 33 percent of the microfinance participants succeeded in increasing their income and this had a positive effect on consumption and education of children in the households. This study suggested steps, such as provisions of credit to potential borrowers, training services, to the people in the community to develop livestock enterprises, and supervision of credit usage.

Time Series Studies

The time series approach addresses the issue of non-applicability of the findings directly to specific countries by conducting the causality test for each country, thereby allowing individual countries to exhibit their own patterns of causality (Harris, 2012). Numerous studies have adopted this approach but the findings on the direction of causality are mixed, depending upon the country and the proxies used to measure microcredit and employment. Jung (2008) used more standard indicators of output and microloans and conducted causality tests using level vector auto regressions (VAR) for 56 developed and developing countries. He found uni-directional causality from microloans to employment for the developing countries and the reverse causality from employment to microloans in developed countries. However, the inference in a level VAR framework is problematic, because the variables have not been tested for stationarity and co-integration (Sims, Stock & Watson, as cited in Neaime, 2016).

Challenges SMEs Face in Accessing Credit

Agbenyo (2016) conducted a study on challenges facing small and medium scale enterprises (SMEs) in accessing credit in Ghana. The study revealed that all 100 respondents said they are required by the MFIs to provide some sort of security before loans are granted. The challenges affect their operations in the area of reduction in profits, increase in operational costs, delays in operation, etc. The researcher suggested that there should be collaboration between the SMEs and the microfinance firms, where the MFIs will provide a soft loan to these firms to help them increase their operations. Again, the researcher suggested that the MFIs should focus on the nature of the business and the ease of recording cash inflows than the security requirement. This will help those who cannot provide security to also have access to loans to expand their businesses.

Another study by Akugri, Bagah, and Wulifan (2015) in Zebilla on the contributions of small and medium scale enterprises to economic growth revealed that SMEs do not play significant roles in employing youth in the district though most SMEs rely on free family labour to minimize cost. Some infrastructural development like roads constructions could not be associated with the presence of SMEs. Fifteen percent (15%) of respondents attributed SMEs presence to housing and electricity extension to selected areas. Onion cultivation dominated other crops production in the area and generated appreciable profits. Limited access to credit, infrastructural development deficits such as decent roads, onions storage facilities, and irrigation dams for all year round cultivation were among key challenges outlined as hindering SMEs development in the area. It is recommended that entrepreneurs should be encouraged to form cooperatives to enable them to access bank credits since most financial institutions hold the view that, group lending minimizes the risk of loan default. Also, occasional capacity training sessions should be organized for SMEs on basic records keeping and entrepreneurial management skills.

Asare (2014) noted that, despite the fact that there are numerous challenges affecting this sector, the most pertaining ones include the lack of credit schemes and facilities, low capacity of research and development in technology, globalization, and inadequate managerial knowledge and skills. It was concluded that to curb this situation, there should be collaboration among stakeholders such as government and financial institutions to provide credit facilities that are flexible to access and repay.

Appiah, Possumah, Ahmat, and Sanusi (2018) conducted a study on applicability of theory of constraint in predicting Ghanaian SMEs investment decisions. The study investigated dimensions of SME's constraints and decisions to invest in the Ghanaian oil and gas sector. Using a binominal regression model, they analyzed primary data from 497 local SMEs. The study found that SMEs with inadequate capital had high level of competition, had high corruption perception, lacked policy awareness, lacked adequate external credit facilities, had inadequate information, lacked managerial capabilities, lacked technological capabilities were less likely to invest in the Ghanaian oil and gas sector. Per contra, inadequate human resources capabilities, inadequate entrepreneur characteristics exerted no significant influence on SMEs decisions to invest in the Ghanaian oil and gas sector.

Baporikar, Nambira, and Gomxos (2016) conducted a study to explore factors hindering SMEs' growth in Khomas region in Nambia. The methodology they adopted was qualitative approach with a case study research design including in-depth interviews and deep observations. Findings indicate that these SMEs experience stealing, security problems, and fights from the customers, which hinder business growth. In addition, though they understand the importance of technology in boosting business growth, they are not able to keep the pace with changing technology, which impacts their business development. It was further found that access to finance, appropriate marketing strategies, lack of skilled manpower, and poor customer service also hinder their business growth. The special aspect of case study design is that it defines the delimitation of the research study and may find it necessary to adjust the boundaries that in any case have initially been determined arbitrarily. Being a case approach, it may be difficult to generalize for all kinds of SMEs.

Prominent among these are limited management and entrepreneurial skill of the owners/ managers, marketing problems due to quality of the products and poor market research, lack of adequate infrastructure and modern technology and lack of adequate access to credit.

SSEs produce largely for the domestic market although there are few of their products for export markets. Those producing for export are unable to identify the specific buyers in the export trade. In China, SMEs are also suffering from finance gap. Because SMEs' financing mainly rely on bank source, this study will focus on the issues about SMEs' borrowing ability from bank. Aryeetey et al. (1996) indicated that most of the small business enterprises' operators have little formal education in managing their business. The background of the owners/mangers, therefore, places a limitation on their managerial capabilities. This problem has affected the scope of their operation and therefore they are not able to take full advantage of emerging opportunities (Steel, 1996). In certain situations, managerial incompetence has led to operational inefficiencies resulting in poor performance (Pappoe, 1992).

In Sri Lanka, Nashath and Nairoos (2018) did a study on the challenges of Islamic microfinance in Sri Lanka. The main objective of the study was to empirically analyze the challenges of Islamic Microfinance in Sri Lanka. Thus, Islamic Microfinance of Sri Lanka also faces remarkable challenges while growing fast in the nation. The findings indicate that there is a significant positive relationship between selected challenges in Islamic Microfinance from the sample point of view. The study recommends that Islamic Microfinance staff working in market needs adequate training. They also need to motivate the staff, use the latest technological systems and government must invest in supportive financial infrastructure. This research reveals that staffs at Commercial Credit have perceptions that the selected challenges are impacted on practices of Commercial Credit.

Small scale enterprises (SSEs) produce largely for the domestic market although there are few of their products for export markets. Those producing for export are unable to identify the specific buyers in the export trade. This creates the problem of unfair competition from outside producers as well as dumping of goods from the developed countries (Agbenyo, 2016).

Micro enterprises and small business may be affected negatively by government policies through excessive regulations, prohibitive levels of taxation, inadequate government protection against cheap imported products, laxity about black markets (which results in unfair competition for the micro business sector), harassment by government officials for operating businesses on the streets, and inadequate services and high user fee in public market structure. Many of these regulations work effectively to encourage micro enterprises to remain outside the legal or formal mainstream (Olu, 2009).

In Ghana, initial capital is a blockade to entering most industrial activities. For example, Goze (2019) stated that few small firms start their projects with their own capital (personal savings) and with assistance from families and close associates. Parker et al. (2015) said that credit constraints pertaining to working capital and raw materials were cited by small business enterprises in Ghana. Aryeetey et al. (2016) in their study of informal finance to SMEs in Ghana said that thirty-eight percent of the SSEs interviewed said that loan as a limitation. It was deduced that SMEs have inadequate way to funds markets. This is so due to the notion of high risk, information barricade plus high costs of intermediation for micro firms.

Micro enterprises and small business may be affected negatively by government policies through excessive regulations, prohibitive levels of taxation, inadequate government protection against cheap imported products, laxity about black markets (which results in unfair competition for the micro business sector), harassment by government officials for operating businesses on the streets, and inadequate services and high user fee in public market structure. Many of these regulations work effectively to encourage micro enterprises to remain outside the legal or formal mainstream (Olu, 2009).

Allotey (2008) observed that inadequate credit supervision and monitoring have often led to the decline of funds as account for low loan recovery rates. Due to lack of security, most small business entrepreneurs are not prepared to acquire bank loans, because they cannot meet their requirements. Many small-scale businessmen lack collateral security such as land, house, etc., which makes it difficult for them to have access to bank loans.

Effect of Penalty Charges on the Performance of SMEs

Several studies across the globe have focused on the effect of penalty charges on the performance of SMEs. For example, Swistak (2016) indicated that taxation of SMEs poses different challenges from larger businesses. There are several reasons why the size and structure of businesses matter in tax compliance. SMEs in many cases are sole proprietors or owner-operated incorporated companies and may lack the capacity properly to fulfill their tax obligations, even more so if these are onerous (EEngstom et al., 2006; vans et al., 2005). Not many small entrepreneurs can or want to afford professional tax services and, instead, they rely on themselves. However, the low awareness of tax obligations, coupled with relatively slower adjustment to tax law changes, commonly leads to mistakes and delays in tax calculations, reporting and payment. The vulnerability of small businesses to changes in market conditions further increases the risk of involuntary non-compliance. Any exposure to trade shocks (e.g. a temporary ban on exports) or backlog of payments for supplied goods and services (e.g. delays in payments by a general contractor to its subcontractors) may easily result in a temporary cash flow-insolvency (Kitching, 2011; Ogawa et al., 2012). Since small businesses, unlike large companies, have also limited options in securing additional funding (e.g. accessing bank credit), they may be unable to pay their taxes promptly (Ayadi & Gadi, 2013; Darvas, 2013; Ozturk & Mrkaic, 2014). The risk of voluntary non-compliance is also higher in the case of small businesses (Cowell, 2003; Crocker & Slemrod, 2005; Slemrod, 2004).

Many SMEs, even if incorporated, are managed by the owners. Unlike professional managers or accountants in large companies, they do business using their own capital and have different interests in its use. Their personal risk-aversion may be lower as any gains arising from tax evasion directly accrue to business manager-owners. For this reason, they are more sensitive to changes in the financial situation, unfair treatment by tax administration, or simply tempted by existing opportunities. Unquestionably, there are more opportunities for small businesses to be non-compliant than for larger ones – they can use cash transactions, disguise their private consumption as business inputs, or hide actual wage payments (Cowell, 2003; Engstom et al., 2006). By doing so, they manipulate their sales, margins, profits, and even taxable wages paid to their employees. More importantly, it is easier for them not to be formalized at all. Specific tax concessions available for small businesses offer further avenues for tax abuse, e.g. hiding below the eligibility threshold in a presumptive tax (OECD, 2009). Apart from penalties associated with non-compliance, there are other risks that have an impact on small businesses. Unlike large enterprises, they are prone to abusive actions enforced by tax administration (e.g. excessive audits, lengthy and impeded tax procedures, unjustified certification requirements, corruption). Such actions, although not strictly classifiable as tax penalties, may be seen as penalizing in a broader sense and discourage compliance (McClellan, 2013).

Also, deterrence does matter. Not all taxpayers respond to this element in quite the same way. Recent OECD research (2010, 2012) found that tax penalties have greater deterrence impact on taxpayers who assess risk and severity of penalties as high are not driven by a moral obligation to comply, perceive the high social cost of non-compliance, and notice that non-compliant taxpayers are being caught and punished. This underscores the fact that understanding personal characteristics of taxpayers and behavior patterns is a key challenge. It also calls for a strong and trustworthy tax administration that undertakes effective actions to create a sense of unavoidability and fairness of tax penalties. If taxpayers see that those who are non-compliant are not punished, it harms their morale. It is then important to penalize non-compliant behavior not only to deter and motivate a given taxpayer but also to convey a message to the general public that such behavior is not acceptable. The effectiveness of revenue bodies in this domain builds trust and creates a very important social norm, i.e. paying taxes is the right thing to do (Savitri, 2016).

Tax penalties may drive not only tax compliance of registered businesses but also be a barrier to business formalization. Naturally, there are other reasons for businesses to operate in the informal sector. Burdensome regulations, multiple and high taxes, labor law requirements, bureaucracy, corruption, etc. are traditionally cited as primary hurdles. Tax penalties just further add to this list. The impact of tax penalties on business formalization is not uniform. Penalties may be seen at two extremes – as a barrier to formality or an invitation to informality. Tax penalties become a barrier if they are widespread, severe or abused by tax ad ministration. The number of tax obligations itself translates into higher risk of non- compliance and associated punishment. If this is coupled with a heavy reliance on penalties in tax enforcement actions, a dire disincentive is created for business formalization. It becomes even bigger if penalties are unrelated to actual infringements or are used for purposes of corruption. Small businesses may choose to stay in the shadow to avoid any obligations and potential contact with the authorities. If they risk anything, it is the possibility of being detected and punished – but only once.

Forms of Tax Penalties

The most commonly used form of tax penalties is fines. They are administered by revenue bodies, without courts' intermediation, whenever a case of non-compliance is discovered (Belas, Gavurova, Machova, & Mikolas, 2020). They may be set forth in laws as fixed amounts or, less often, imposed in relation to taxpayer's income, profits, turnover, value of business assets, or any other easily observable factor. Seldom are they related to actual tax diminution (Zimon, Sobolewski, & Lew, 2020). First, not every example of non-compliance results in understated tax payment, e.g. lack or delayed notifications, deficiencies in tax accounts. Second, fines are typically administered immediately after non-compliance is detected, without unnecessary delay. It would require a thorough examination of every case for a tax administration to determine the amount of tax not paid as a consequence of non-compliance (Cicea, Popa, Marinescu, & Cătălina Ștefan, 2019).

Conceptual Framework

The researcher conceptualized in the study relationship between growth of SMEs and MFI services. In the framework, the contribution of SMEs was the dependent variable and it was indicated by increase in sales and employment (see Figure 1). From the literature reviewed, it was found that various factors were servicing as challenges to the smooth operation and running of micro-credit services. The mandatory depository regulation set by central bank for MFI in short-run on the loan amount given to MSE and in long-run growth of MSE was affected. The penalties that are sometimes imposed on the SMEs affect their smooth running, which in effect militates against the successful implementation of the objectives of the SMEs.

SMEs' performance can be understood from a quantitative perspective: efficiency, financial results, level of production, number of customers (Anggadwita & Mustafid, 2014), market share, profitability, productivity, dynamics of revenues, costs and liquidity (Gupta & Batra, 2016; Zimon, 2018), etc. and also from a qualitative perspective: goals achievement, leadership style, employee behaviour (Anggadwita & Mustafid, 2014), customer satisfaction (Alpkan, Yilmaz, & Kaya, 2007), product and process innovation, organisational and marketing innovation (Sheehan, 2013), etc. Gopang, Nebhwani, Khatri, and Marri (2017), in their work, considered a series of 14 indicators to describe SMEs performance: reputation, productivity, employee satisfaction, profits, sales, prompt order delivery, sufficient working capital, effectiveness in operations of production, product quality, achievement of targets, number of clients, easiness in supervision, reduction in product cost and product diversification.

It is not only the study of performance features that is important. It is also relevant to mention research that focused on the factors that influence the performance of SMEs. To survive and succeed in a potentially austere environment, firms must effectively deploy and combine their physical, human, and organisational assets. Thus, they will develop long-term competitive advantages and, in turn, achieve superior performance (Lonial & Carter, 2015). However, due to their limited resources, SMEs need to identify and exploit other means to be able to enhance their competitiveness and performance.

In general, various factors of the internal environment, which potentially influence the performance of SMEs, are mentioned in the literature. Of these, particular attention is paid to firm age and size (Arend, 2014), human resources and human resource practices (Sheehan, 2013), entrepreneurial networks (Bratkovič Kregar & Antončič, 2016), occupational health and safety measures (Gopang et al., 2017), product, process, organisational, marketing innovation (Altuntas, Cinar, & Kaynak, 2018), sustainable leadership (Suriyankietkaew & Avery, 2016), planning and strategy (Leitner & Güldenberg, 2010), organisational orientations (market, entrepreneurial, and learning orientations) (Lomberg, Urbig, Stöckmann, Marino, & Dickson, 2017), internationalisation, export (Altuntas et al., 2018), market orientation, planning flexibility (Alpkan et al., 2007), ownership and family involvement (Lien & Li, 2017), intellectual capital (Gomezelj Omerzel & Smolčić Jurdana, 2016).

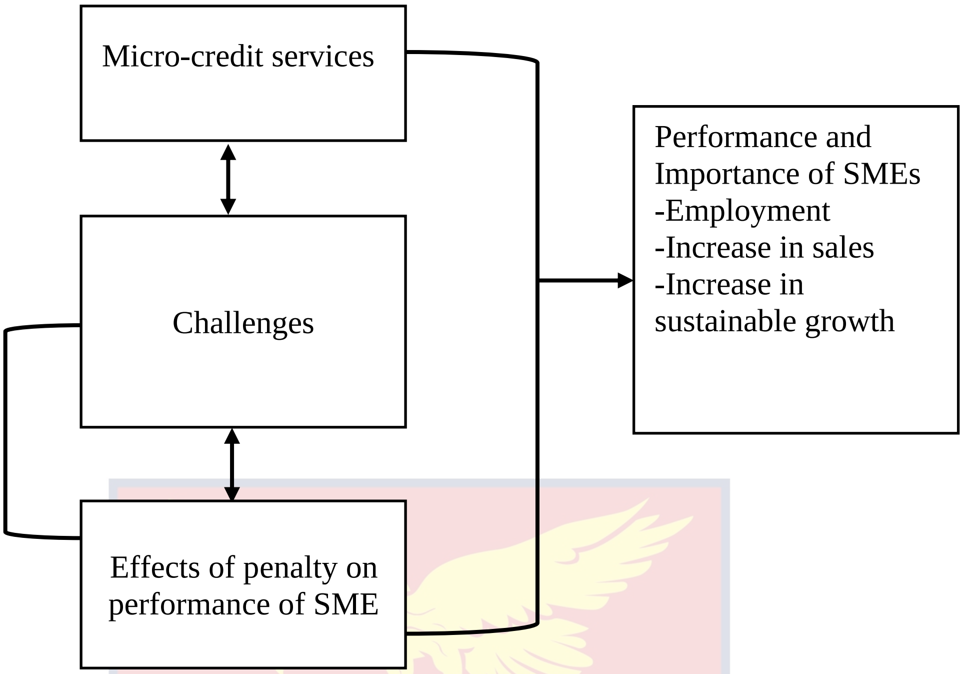

Figure 1: **Conceptual framework**
Source: Leitner and Güldenberg (2010)

Chapter Summary

The Chapter Two discussed the relevant literature on the effects of microcredit. It was under the following themes: theoretical literature and empirical literature. The theoretical review looked at the meaning and scope of microfinance, theories of microfinance and performance of SMEs, and finally some critiques of microfinance. The chapter went further to recount some empirical works related to microfinance and SMEs performance. The chapter also discussed the conceptual framework guiding the study. From the review, it was found that most of the studies are quantitative in nature and none of such studies have been conducted in the Bawku Municipality.

CHAPTER THREE

METHODS

Introduction

This chapter describes the various methods or procedures used for the study. The chapter focused specifically on the study design, population of the study, sample and sampling technique, data collection procedure and instruments, data analysis, and ethical consideration.

Research Design

The study was guided by the quantitative research design. Specifically, the descriptive cross-sectional study design was used. According to Setia (2016), cross-sectional study design is a type of observational study design whereby the investigator does not alter the exposure status. The investigator measures the outcome of the study within a given shortest possible time. The data for this study was collected within a short time and the analysis was also done within the short time. In this regard, the study participants were approached once during the data collection but not followed for a longer period of time (Creswell & Poth, 2017).

The cross-sectional study design has some advantages. It is relatively faster and inexpensive to conduct, particularly when compared with cohort studies (prospective). They are often based on a questionnaire survey. There is usually no loss to follow-up because participants are interviewed only once. Cross-sectional studies are conducted either before planning a cohort study or a baseline in a cohort study. These types of designs can give information about an existing phenomenon; this information can be further used to design a cohort study, which can subsequently be useful for planning, monitoring, and evaluation.

Nonetheless, there are some limitations associated with this study design. It may be prone to non-response bias if participants who consent to take part in the study differ from those who do not, resulting in a sample that is not representative of the population. These studies are also prone to recall biases when the outcome of interest is measured retrospectively. Also, because data on each participant are recorded only once, it would be difficult to infer the temporal association between an independent variable and an outcome variable. Therefore, only an association, and not causation, can be inferred from a cross-sectional study (Sedgwick, 2014).

Population of the Study

The population of the study comprised all SMES in the Bawku Municipality. The total population for the study area number more than 80 SMEs. Since it is costly, tiring, and time-consuming to gather information from all these SMEs in the study area, a sample was taken for the study.

Sampling Procedure and Sample Size

A sample consists of a carefully selected subset of the units that comprise the population. It is part of a larger population. It is usually selected to be representative of that population. Those included in the sample are chosen as a cross-section of the larger group (Gravetter & Forzano, 2016). A sample size determination technique by Krejcie and Morgan (1970) was used to calculate the sample size (Arya, Antonisamy & Kumar, 2012), where:

s = required sample size.

X^2 = the table value of chi-square for 1 degree of freedom at the desired confidence level.

(3.841).

N = the population size=85

P = the population proportion (assumed to be 0.50 since this would provide the maximum

sample size).

d = the degree of accuracy expressed as a proportion (0.05)

$$s = \frac{X^2NP(1-P)}{d^2(N-1)+X^2P(1-P)}$$

$$s = \frac{3.84^2 85(0.5)(1-0.5)}{0.05^2(85-1)+3.84^2(85)(0.5)}$$

S=70. Therefore, the required sample size was 70 respondents.

From this, a sample size of 70 respondents was used for the study.

After obtaining the sample size, purposive sampling was used to sample respondents for the study. Using this sampling technique, the researcher sampled respondents based on selecting respondents who fit the inclusion criteria, their availability at the time of data collection, and readiness on the part of the respondents to take part in the study. One strength of this technique is that it allows the researcher to observe, approach the right respondents, and obtain first-hand information. Thus, the researcher avoids guess answers or bias responses.

Data Collection Procedure

A letter of introduction was taken from the School of Business Studies, University of Cape Coast, introducing the researcher to the authorities of the SMEs in which the study was conducted. The instrument used for data collection was questionnaire. Each questionnaire was made up of thirty (30) questions. These questions were categorized into four (4) sections. Section A took data on the demographics of the SMEs. Sections B captured questions on the contribution of MFIs in the operations of SMEs while Section C looked at the challenges SMEs face in accessing credits. The last section, D, quizzed the SMEs on the rate of utilization of credits secured from MFIs (impact of MFI credits on SMEs performance).

Data was collected within ten working days. The researcher visited the areas twice to obtain the needed data. On both days, the researcher visited the SMEs between the hours of 8am and 5pm because that was the time all respondents were present at post. Before administering the study instruments, the researchers made it known to the respondents that any information they provided was confidential and was going to be used for academic purposes only. Thus, any data that could have potentially made it easy to identify a respondent of the study were not collected.

Data Collection Instrument

A questionnaire was chosen as the data collection instrument. The questionnaire had close-ended questions and respondents were asked to tick the appropriate answer. Some of the questions were open-ended which offered respondents the opportunity to express their views freely. The questionnaires were divided into various sections to capture the critical areas spelt out in the objectives for the study. Section A contained the demographic and firm characteristics. Section B contained questions on the contribution of MFIs in the operation of SMEs. Section C looked at the challenges faced in accessing credits. Section D also captured information on the rate of utilisation of credits by SMEs. The questions were thoroughly explained to the respondents after copies of the questionnaire were handed to them. The purpose was to help the respondents understand the relevance of the research and provide their independent views on the questionnaire items given them.

To have a valid and a reliable data, the researcher ensured that the questionnaires were well-prepared, which allowed error minimization. A total of seventy (70) questionnaires were sent out and distributed to the SMEs. This was done to ensure that even if some of the respondents do not answer the questionnaires, the required sample size will still be attained. The researcher also undertook direct observation of work processes and procedures within the institution.

Data Analysis

After gathering all the completed interview schedule and questionnaire from the respondents which were numbered and coded, were entered into the Statistical Product for Service Solutions (SPSS) software version 21 for Microsoft Windows. The analysis and presentation were done using descriptive statistics; percentages and frequency distribution generated through SPSS software version 23 as well as an estimation using STATA version 13. Specifically, the objectives were analysed as follows: Objective one: to Determine the contribution of MFIs on the entrepreneurial activities that lead to sustainable growth (increase in sales) and employment of SMEs in the Bawku Municipality. This objective was analysed with descriptive statistics. Specifically, this was analysed by employing frequencies and percentages. The second objective that sought to ascertain the challenges Small and Medium Scale Enterprises (SMEs) in the Bawku Municipality face in accessing credit was also analysed by employing descriptive statistics, frequencies and percentages. The last objective that sought to examine the effect of penalty charges on the performance of SMEs in the Bawku Municipality was analysed by employing both descriptive and chi-square test.

Ethical Consideration

The researcher considers the research values of voluntary participation, anonymity and protection of respondents from any possible harm that can arise from participating in the study. Respondents who were used in this study participated voluntarily and were not by any means forced to join in the collection of data. Respondents were assured that data collected will be used purposely for the study and not for commercial purposes or whatsoever after they had given their consent. Anything that could have identified a respondent with a particular response was thus avoided.

Chapter Summary

This chapter basically presented the study design, population of the study, sample and sampling technique, data collection procedure and instruments, data analysis and ethical consideration.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

The general objective of the study is to assess the relevance of microfinance credit to the informal small businesses in Bawku in the Upper East Region of Ghana. This chapter aims at presenting the results obtained from the study. The chapter starts by describing the characteristics of the SMEs used for the study. Next to that section are presentation of results that addresses each of the three research questions.

Background Characteristics of Respondents

With a response rate of 100%, from Figure 1, observations from 70 SMEs were used for the study. Most (26) of the SMEs used for the study are within the manufacturing industry. SMEs under the commerce and service sectors are 23 and 19 respectively. The remaining 2 of the 70 SMEs involved in the study are under other industries apart from the manufacturing, commerce, and service industries.

Table 1: Firm characteristics

Variable	**Frequency (n)**	**Percentage(%)**
Distribution of SMEs Across Business Lines		
Manufacturing	20	28.8
Commerce	23	32.9
Services	19	27.1
Others	2	2.9
Distribution of SMEs per Number of employees across business line		
Manufacturing		
Less than 6	16	22.9
6-9	6	8.6
10-29	2	2.9
30-39	2	2.9
Commerce		
Less than 6	10	14.3
6-9	2	2.9
10-29	6	8.6
30-39	2	2.9
No response	3	
Services		
Less than 6	10	14.3
6-9	4	5.7
10-29	2	2.9
30-39	3	4.3
Others		
10-29	1	1.4
No response	1	1.4
Distribution of SMEs per Motive of Operation across business line		
Manufacturing		
Making profit	9	12.9
Supporting my household	2	2.9
Establishing myself	6	8.6
No response	9	12.9
Commerce		
Making profit	5	7.1
Supporting my household	3	4.3
Establishing myself	5	7.1
No response	10	14.3
Services		
Making profit	7	10.0
Supporting my household	8	11.4
Establishing myself	4	5.7
Others		
Supporting my household	1	1.4
Non-response	1	1.4

Table 1 Continued

Level of Financial Adequacy Across Source of Funding		
Self		
Adequate capital	19	27.1
Inadequate capital	18	25.7
Friends		
Adequate capital	6	8.6
Inadequate capital	2	2.9
Partners		
Adequate capital	6	8.6
Inadequate capital	5	7.1
Loans from banks		
Adequate capital	7	10.0
Inadequate capital	3	4.3
Others		
Inadequate capital	2	2.9

Firm Characteristics

With the distribution of SMEs across business lines, it was observed that among the study sample, a greater portion (36) employs less than six (6) people. Sixteen (16) of these SMEs are into manufacturing (see Figure 3). Under commerce and service sectors, 10 SMEs each have less than six employees. Twelve (12) out of the 70 SMEs have six-to-nine employees. Two (2) SMEs each in the commerce and service sectors employs six-to-nine people, six (6) SMEs that are into manufacturing employ the same number of employees. Two (2), six (6), two (2) and one (1) of the manufacturing, commerce, service and other sectors respectively have 10 to 29 employees. Only seven (7) employ 30 to 39 people. Out of these, two (2) each are into manufacturing and commerce. The three (3) remaining are under the service sector. Three (3) and one (1) of SMEs under the commerce and other services did not indicate the number of people they employ.

With the distribution of SMEs per their motive for operating across SMEs' business line, from the study, entrepreneurs go into operations with one of the following three reasons: to make profit, to support their household, or to establish themselves. It is evident from Figure 3 that out of the 26 SMEs in the manufacturing sectors, two nine (9), two (2), and six (6) go into business with profit motive, household support motive and self-establishment motive respectively. The motive for which nine (9) manufacturing SMEs went into operations was not declared. Majority (10) of the SMEs that are into commerce also failed to give the motive for which they went into operations. Three entrepreneurs under the manufacturing sector reported their aim of operating is to be able to support their households. Five (5) SMEs went into business to make profit and another five (5) went into business with the aim of establishing themselves.

In relation to the Distribution of SMEs per Motive of Operation across business line, among the study sample, it was found that most (37) SMEs are self-financed, as shown on Figure 4. Eight (8), eleven (11), ten (10) and two (2) of the SMEs are financed by friends, partners, loans from banks, and other sources of funds respectively. A greater proportion of the SMEs (38) employed for the study reported they have adequate capital for their operations. Capital adequacy is independent of the source of funding of the SME.

In terms of the level of financial adequacy across source of funding, a greater number of SMEs that are financed either by friends or from bank loans have adequate capital than SMEs financed from other sources. A little greater than 50 percent of SMEs that are self-financed reported they have adequate capital. Similarly, 54 percent of SMEs that are financed by partners have adequate capital for their operations.

Contribution of MFIs to SME Operations

The first objective of the study sought to determine the contributions of SMEs. To achieve this objective several, questions were asked and the responses are presented in tables and charts. This section gives details of how the services provided by MFIs impact on the operations of SMEs in the Bawku Municipality. Figure 2 shows report on capital adequacy of SMEs and their knowledge of MFI operations. From the figure, 84.06 percent of SMEs in the Bawku Municipality know about the operations of MFIs. A greater portion (58.59 %) of SMEs which know about the operations of MFIs have adequate capital. Out of the number of SMEs who know of the operations of SMEs, 79.31 percent have ever benefited from MFIs (see Figure 3).

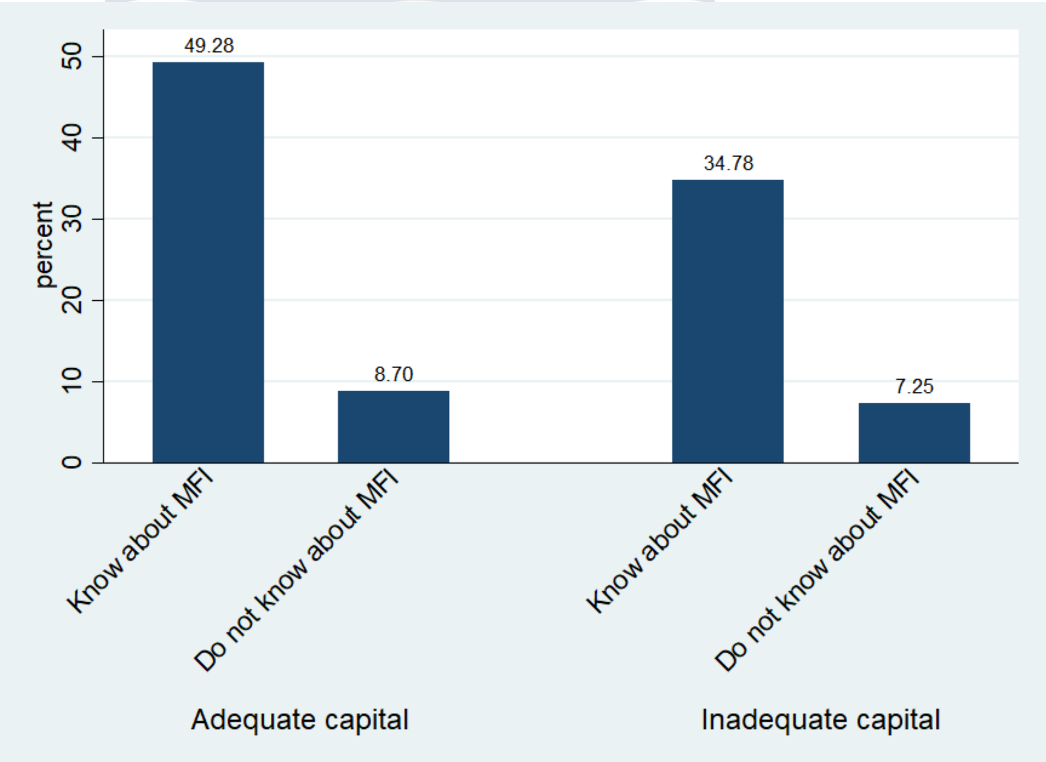

Figure 2: **Distribution of SMEs by Knowledge of MFI Across SMEs' Level of Financial Capacity**

Source: Field survey (2019)

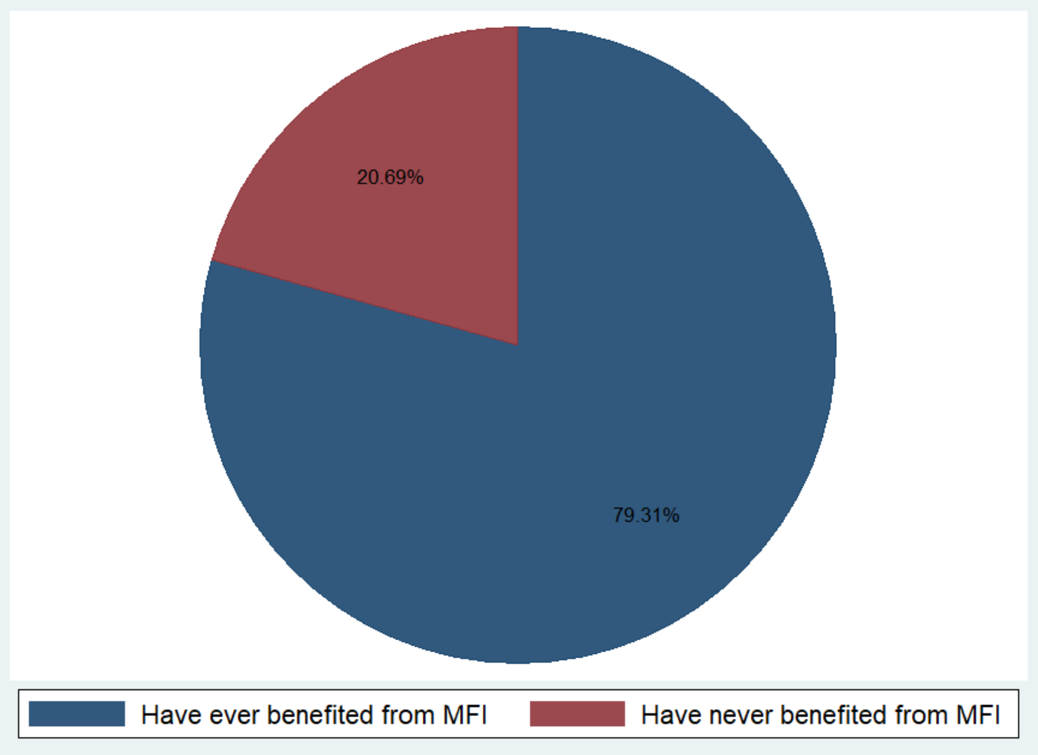

***Figure 3*: Benefited from MFI**
Source: Field survey (2019)

When inquired from SMEs which have ever benefited from MFIs the kind of service they have acquired from these MFIs, it was revealed that 46.94 percent and 53.06 percent of these SMEs have financial or management training and credit from MFIs respectively. This is shown on Figure 3. That is, a little more than half of SMEs (53.06%) which have benefited from the operations of MFIs benefited in the form of credit acquisition from MFIs.

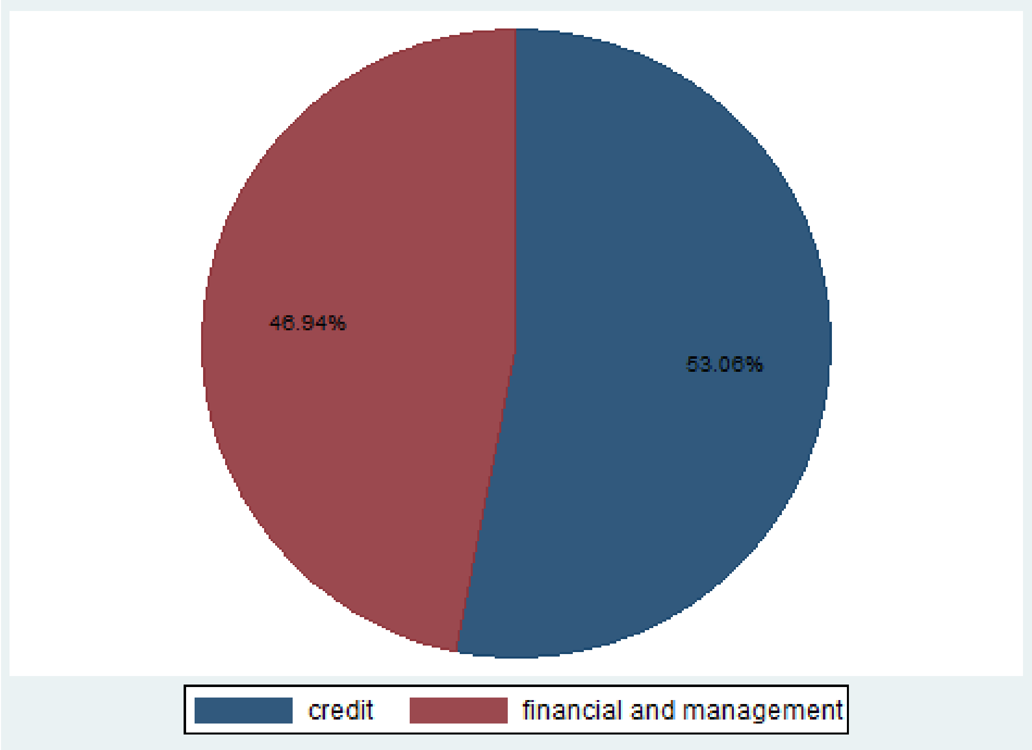

***Figure 4*: Services SMEs Acquire from MFIs**
Source: Field survey (2019)

The study enquired from SMEs which had ever applied for credit from MFIs the type of credit they usually apply for and the percentage of credit that MFIs grant them. As presented on Figure 4, it was revealed that five (5), thirteen (13), and five (5) of the SMEs usually applied for medium-term and long-term loans respectively. Among SMEs which applied for short-term loans, only one was given less than 50 percent of the loan amount applied for. Two (2) of the SMEs were given 50 to 74 percent of the amount and another two (2) were given 75 t0 99 percent of the loan. In the case of SMEs which applied for medium-term loans, two (2), six (6), and five (5) were given 75 to 99, 50 to 74, and less than 50 percent of the loan amount applied for. All (5) SMEs which applied for long-term loans were given exactly what they applied for.

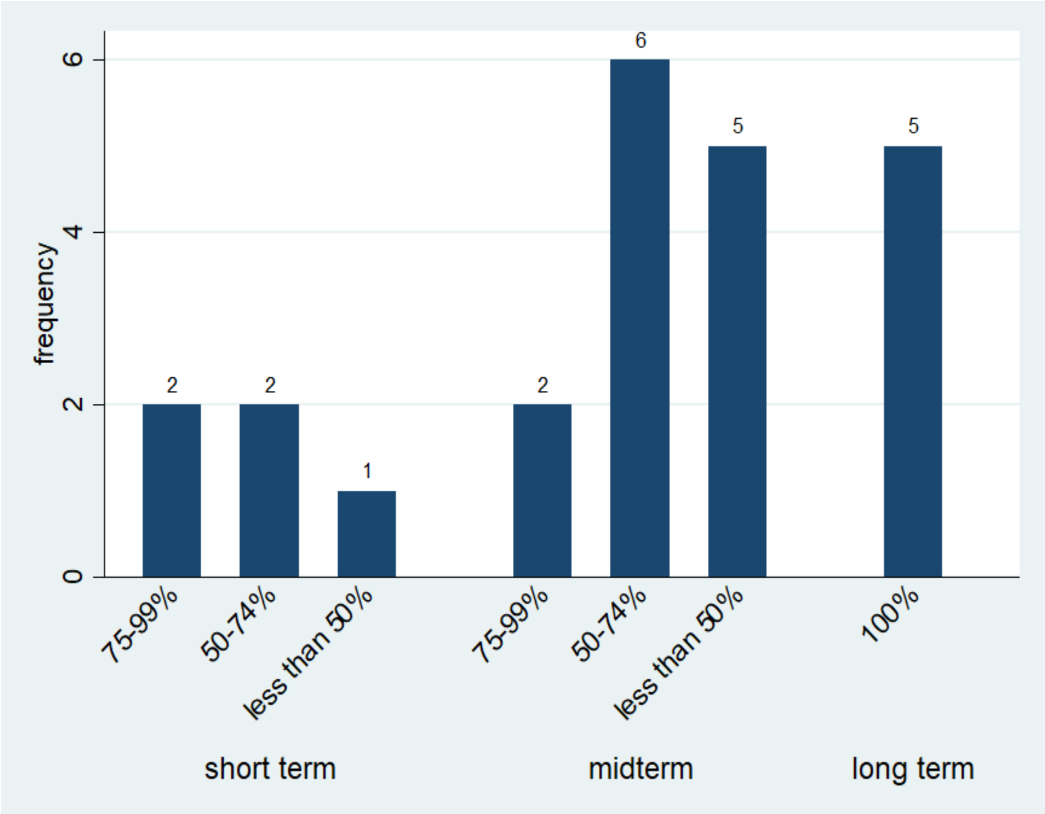

***Figure 5*: Type of Loan and Percentage Granted**
Source: Field survey (2019)

To determine the contribution MFI makes to SMEs in the Bawku Municipality, a chi-square test was conducted to find the association between some entrepreneurial decisions and their impact on SME operations. It can be seen on Table 2 that there is a positive association between firms' decision to acquire products of MFI and its operations. Differences in total sum across the categories of various phenomena are due to non-responses to some questions. SMEs that have ever benefited from at least one product of MFI gain positively in their operations. That is, if a firm in the Bawku Municipality decides to purchase or acquire any of the products of MFI, it will gain improvement in its operations. The table also shows that if the benefit acquired from MFI is in the form of credit, its impact on the operation of the SME will be significantly positive. This is not same for SMEs which acquire financial and management training and other products of MFIs in the Municipality. It is found that SMEs which, via their dealings with MFI, have gained enhancement in their managerial skill, financial management skill, and overall business knowledge tend to perform positively than others. Table 2 also shows that SMEs which have ever applied for credit from MFIs in the Municipality gain positively in their operations. This is more so if a greater percentage of the loan is granted. That is, a greater proportion of SMEs which got 50 to 74 percent of the grant amount they applied for gained positively in their operations than SMEs which had less than 50 percent of the loan amount they applied for granted. Similarly, greater proportion of SMEs which got 75 to 79 percent of the grant amount they applied for gained positively in their operations than SMEs which were granted a lesser percentage of the loan amount they applied for. However, there is no difference in operations of SMEs which were granted all the loan amounts they apply for.

Table 2: Impact of MFI on SME Operations

	Impact on SME Operations				P-Value	Total
	Do not know n (%)	Negative n (%)	Unchanged n (%)	Positive n (%)		
Have you ever benefited from MFI						
Yes	12 (25.53)	4 (8.51)	7 (14.89)	24 (51.06)	0.041	47
No	4 (23.53)	0 (0.00)	8 (47.06)	5 (29.41)		17
Which product of MFI have you benefited from						
Credit	4 (12.50)	3 (9.38)	2 (6.25)	23 (71.88)	0.000	32
Financial and management training	12 (42.86)	1 (3.57)	9 (32.14)	6 (21.43)		28
Others	0 (0.00)	0 (0.00)	4 (100.00)	0 (0.00)		4
Has the availability of MFI contributed to the enhancement of your managerial skill, financial management skill and overall business knowledge						
Yes	7 (17.95)	4 (10.26)	4 (10.26)	24 (61.54)	0.000	39
No	9 (36.00)	0 (0.00)	11 (44.00)	5 (20.00)		25

Table 2 continued

	Impact on SME Operations				P-Value	Total
	Do not know n (%)	**Negative n (%)**	**Unchanged n (%)**	**Positive n (%)**		
Have you ever applied for credit for your facility from MFI						
Yes	11 (30.56)	3 (8.33)	5 (13.89)	17 (47.22)	0.008	36
No	3 (23.08)	0 (0.00)	8 (61.54)	2 (15.38)		13
What percentage of loan applied was granted						
100%	0 (0.00)	4 (33.33)	3 (25.00)	5 (41.67)	0.029	12
75-79%	2 (28.57)	0 (0.00)	0 (0.00)	5 (71.43)		7
50-74%	2 (15.38)	0 (0.00)	2 (15.38)	9 (69.23)		13
Less than 50%	4 (44.44)	0 (0.00)	1 (11.11)	4 (44.44)		9
How long does it take to access credit from MFI						
Less than a week	0 (0.00)	0 (0.00)	1 (50.00)	1 (50.00)	0.035	2
1-2 weeks	10 (52.63)	0 (0.00)	3 (15.79)	6 (31.58)		19
3-4 weeks	3 (42.86)	0 (0.00)	0 (0.00)	4 (57.14)		7
Above 4 weeks	1 (4.55)	3 (13.64)	2 (31.82)	11 (50.00)		22

Table 2 continued

	Impact on SME Operations				P-Value	Total
	Do not know n (%)	**Negative n (%)**	**Unchanged n (%)**	**Positive n (%)**		
How many MFIs do you work with						
None	1 (5.56)	0 (0.00)	11 (61.11)	6 (33.33)	0.007	18
One	5 (50.00)	0 (0.00)	1 (10.00)	4 (40.00)		10
Two	7 (31.82)	3 (13.64)	1 (4.55)	11 (50.00)		22
Three	2 (16.67)	1 (8.33)	2 (16.67)	7 (58.33)		12
Four	1 (50.00)	0 (0.00)	0 (0.00)	1 (50.00)		2
Do you access more credit from MFI than the traditional banks						
Yes	11 (30.56)	0 (0.00)	3 (8.33)	22 (61.11)	0.000	36
No	3 (18.75)	0 (0.00)	12 (75.00)	1 (6.25)		16

Source: Field survey (2019)

It was found that there is no clear association between length of time for accessing credit and SME performance. That is, whether it takes an SME one-to-two weeks or more than four weeks to access credit from MFI, it does not impact on its performance. Contrary to this is the association between the number of MFIs an SMEs was associated with and business operations. SMEs which worked with relatively greater number of MFIs are found to gain positive impact on their operations. It is clear on Table 2 that SMEs which access credit from MFIs more than they access greater from the traditional banks turn to be better off in their operations.

Challenges Small and Medium Scale Enterprises (SMEs) Face in Accessing Credit from MFIs

Under this section, the study presents the challenges SMEs in the Bawku Municipality face in accessing credit from MFIs. Responses on questions on the major challenges, collateral, and penalty payment in cases of inability to pay credit are used to determine these problems.

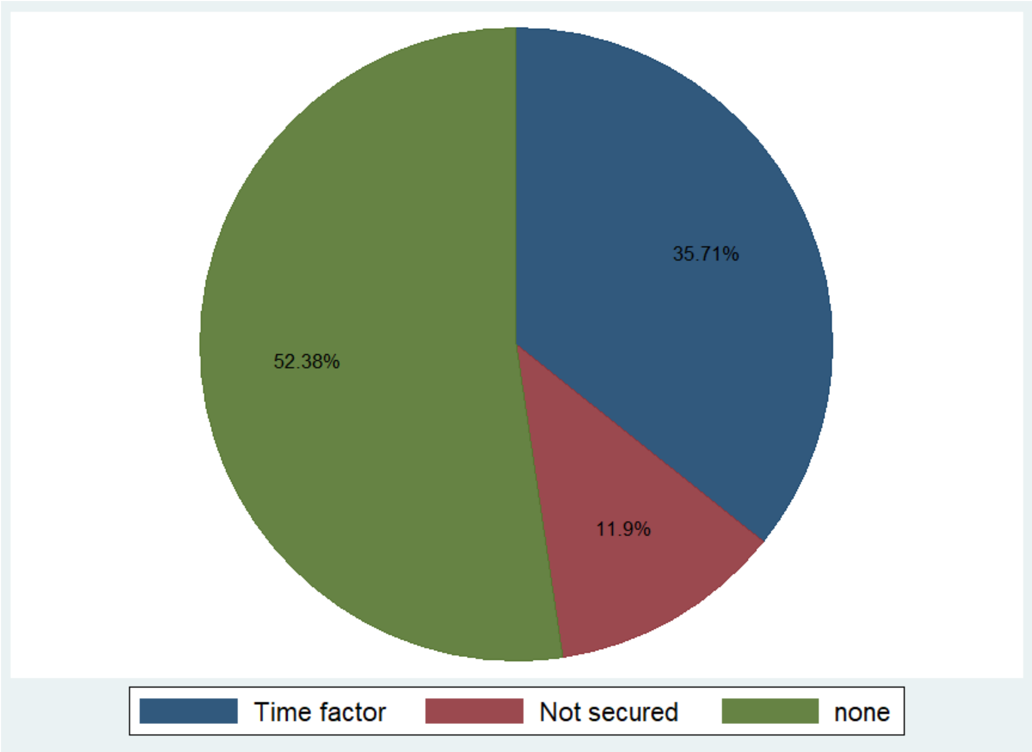

***Figure 6*: Major Challenge in Assessing Loan from MFI**
Source: Field survey (2019)

The respondents were asked to indicate the major challenges they face in assessing loan from MFI. The study findings revealed that a majority of the respondents (52.38%) noted that their enterprises faces no challenge, 35.71 percent indicated it takes too long a time to be able to get a loan from an MFI, 11.9 percent mentioned their major challenge is that loans taken from MFIs are not secured (see Figure 6).

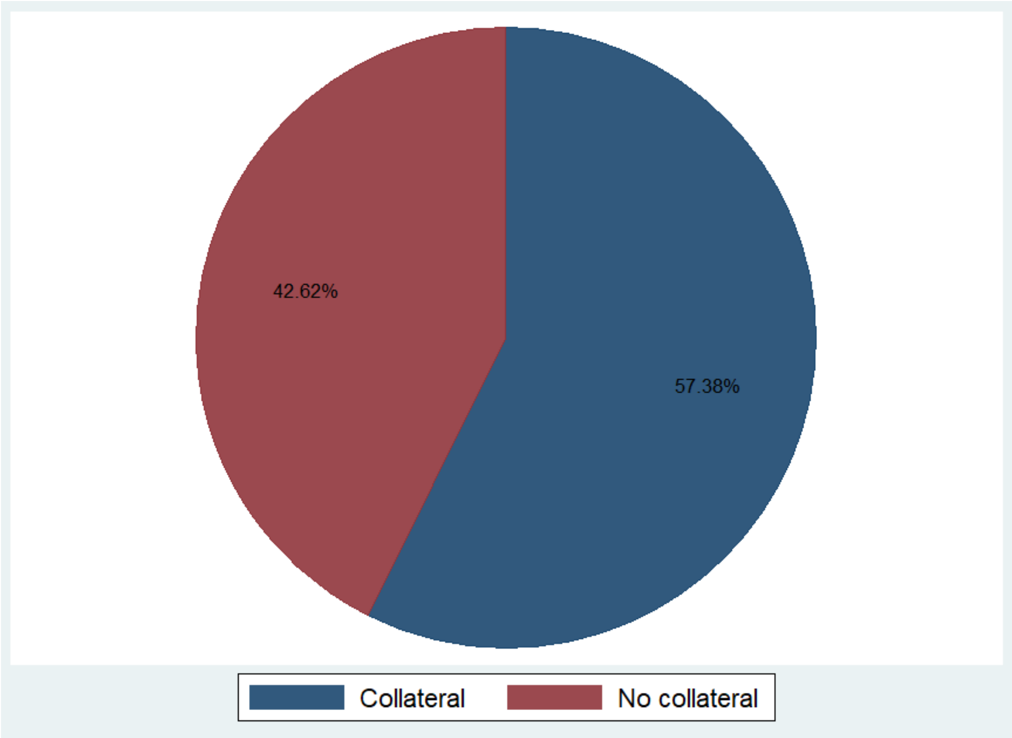

***Figure 7*: Collateral requirement**
Source: Field survey (2019)

The survey also aimed at determining whether or not SMEs are made to provide collaterals as securities as at the time they took credit from MFIs. A majority (57.38%) of the SMEs which had ever taken credits from MFIs indicated that MFIs took collaterals as requirement for giving them loans. The remaining 42.62% did not provide collateral at the event of loan application (Figure 7).

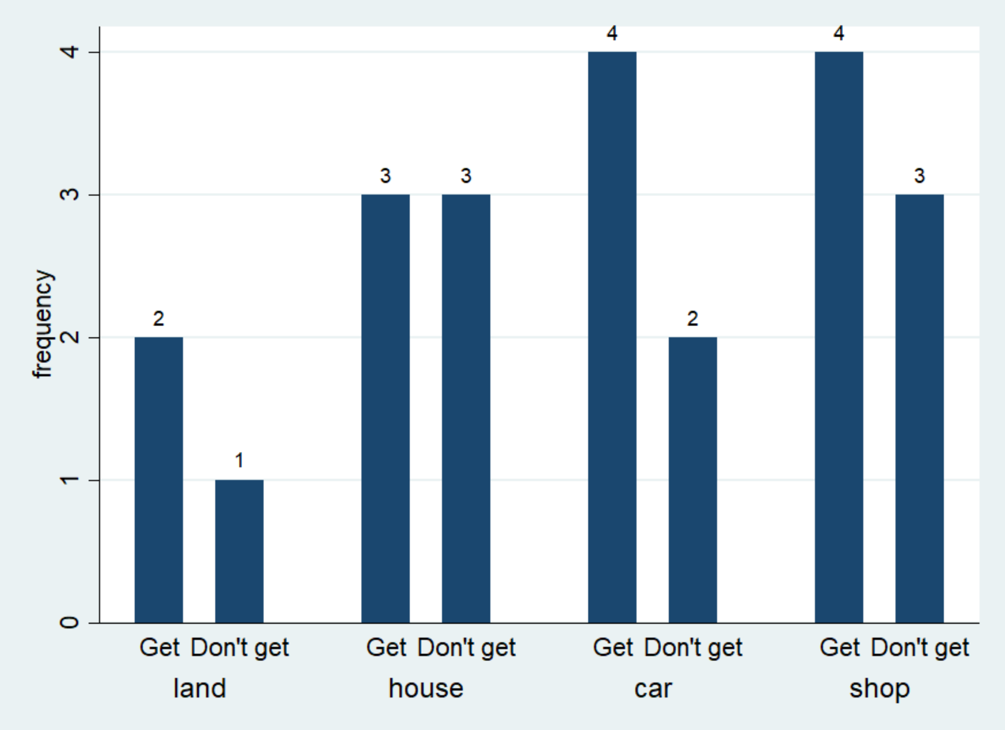

***Figure 8*: Type of collateral and ability to get always**
Source: Field survey (2019)

Figure 8 presents the type of collateral MFIs required from SMEs and the number of SMEs which were able to provide the collateral. It is evident from the figure that out of the 22 SMEs which reported MFIs required them to provide collateral when taking credit, three (3), six (6), six (6) and seven (7) indicated land, house, car and shop as the collaterals required. Two (2) out of the three (3) SMEs which were required to provide lands as collateral were able to get the collateral. Exactly half (50%) of SMEs which were required to give out houses as collateral got them while two (2) of every three (3) SMEs which needed to provide cars as collateral were able to provide the car. In the case of SMEs which were required to give out their shops as collateral, four (4) out of the seven (7) were able to do that.

Effect of Penalty Charges on the Performance of SMEs

This section concentrates on describing SMEs in Bawku Municipality which are not able to pay back loans taken from MFIs on agreed timelines and the penalty charges MFIs take from them. It goes further to give details on the effect of these penalties on the performance of SMEs.

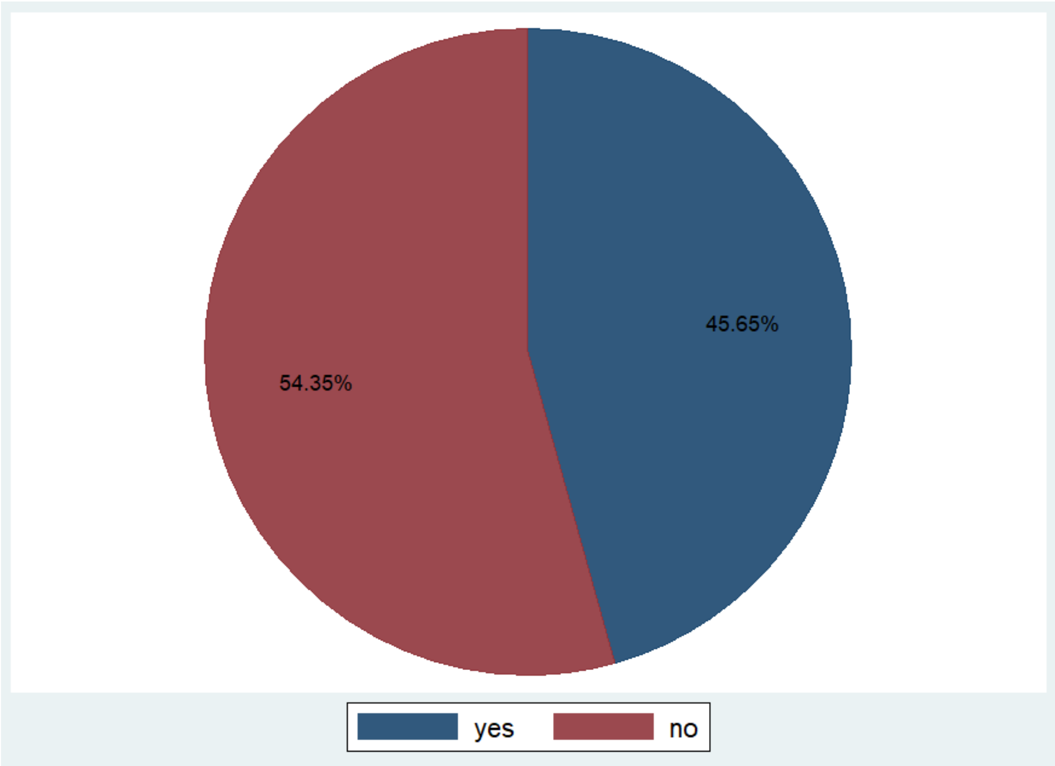

Figure 9: **Loans in arrears**
Source: Field survey (2019)

The owners or managers of SMEs which have taken loans were asked to indicate whether payment of loan was in arrears or not. Though a majority of these SMEs (54.35%) said they have no arrears to pay, the proportion of SMEs who have loan in arrears is still quite substantial (45.65%). This implies most of the SMEs in the Bawku Municipality which had taken loan as at the time of data collection have repaid the entire sum of the loan.

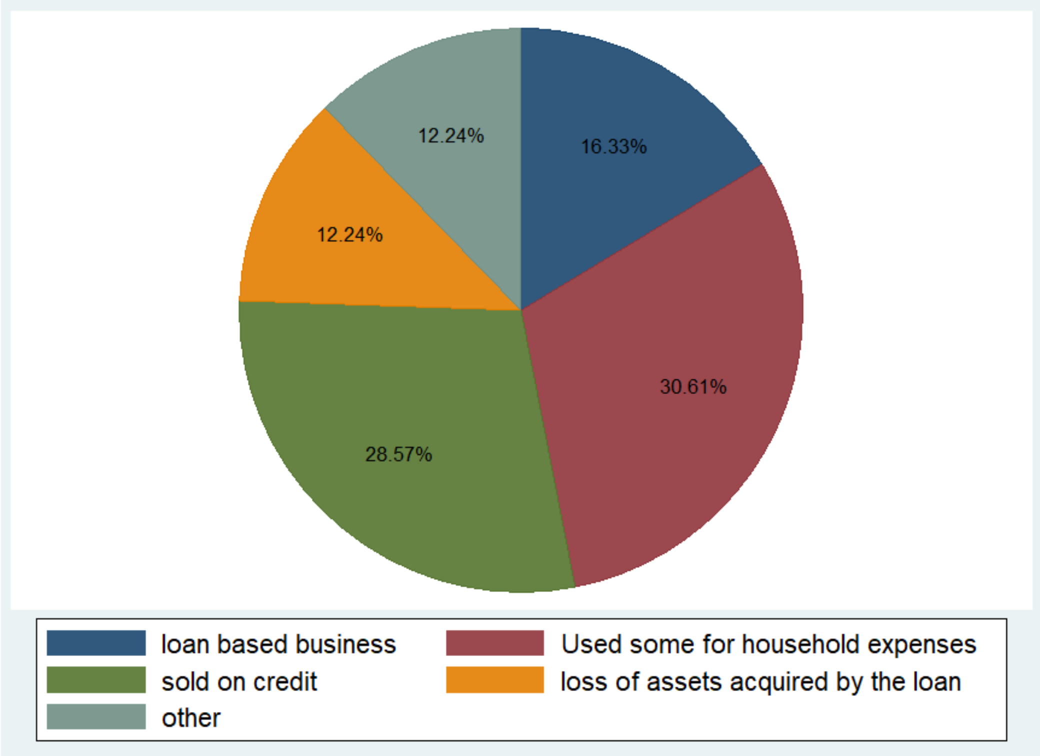

***Figure 10*: Reasons why loan was in arrears**
Source: Field survey (2019)

SMEs which had loans in arrears were asked to indicate why they had not been able to pay back the loans taken from MFIs at agreed timelines. The results as shown on Figure 10 indicate that majority (30.61%) of the SMEs have loans in arrears because the owner used some of the loan amount to pay household expenses. Another set of the SMEs which had arrears to pay (28.57%) reported it was the case because some of the products of the SMEs were sold on credit and those sales were yet to be paid while 16.33 percent mentioned their business was a loan-based business and thus if all the loan amount was paid, the business will not be able to run. From Figure 10, a 12.24 percent of the respondents indicated they had not been able to pay back the loan because the assets that were acquired with the loan were lost. The remaining 12.24 percent gave other reasons for not being able to pay back the loan.

The study went further to enquire whether SMEs which had loans in arrears were required to sell some assets to pay back the loan as a penalty. A greater proportion (51.72%) of these respondents reported they were required to sell assets to repay the loan (see Figure 11).

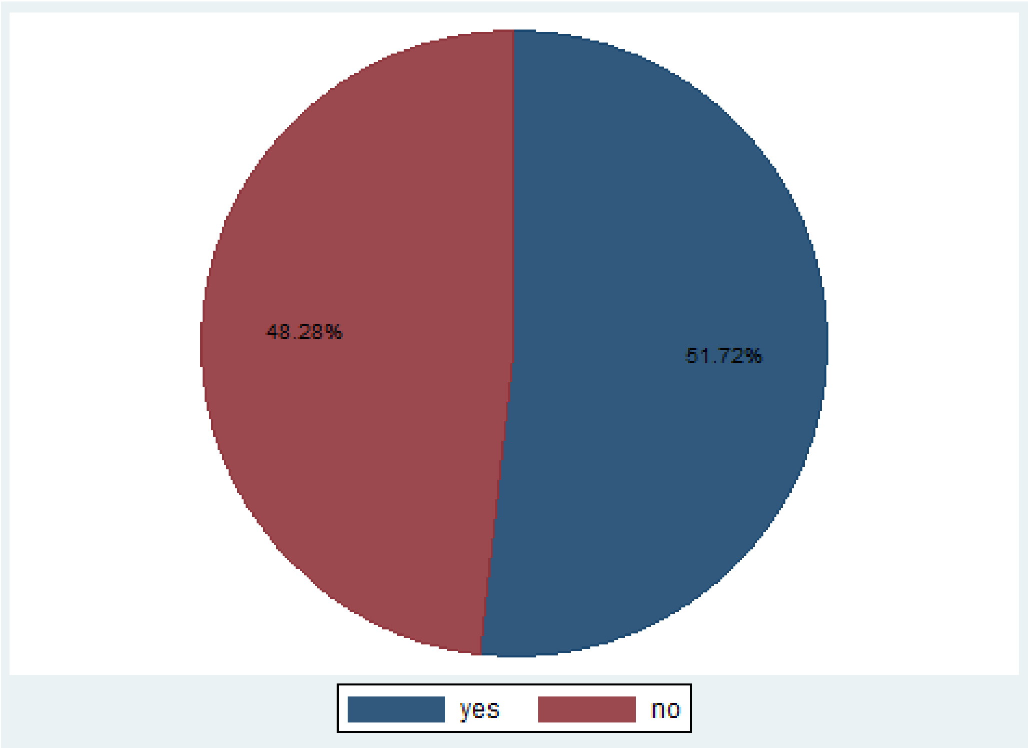

Figure 11: **Sale of asset required to pay loan**
Source: Field survey (2019)

The respondents were asked to indicate the asset they sold as penalty to offset the loan. The results as shown on Figure 15 revealed that majority of respondents (37.74%) were made to sell their houses, 26.42 percent were made to sell their farm produce, 18.87 percent of the SME owners were asked to sell their lands, 9.43 percent sold electronic gadgets and other assets. While another set of SMEs owners (5.66%) were made to sell animals, the remaining 1.89 percent sold their clothing to pay the arrears (see Figure 15).

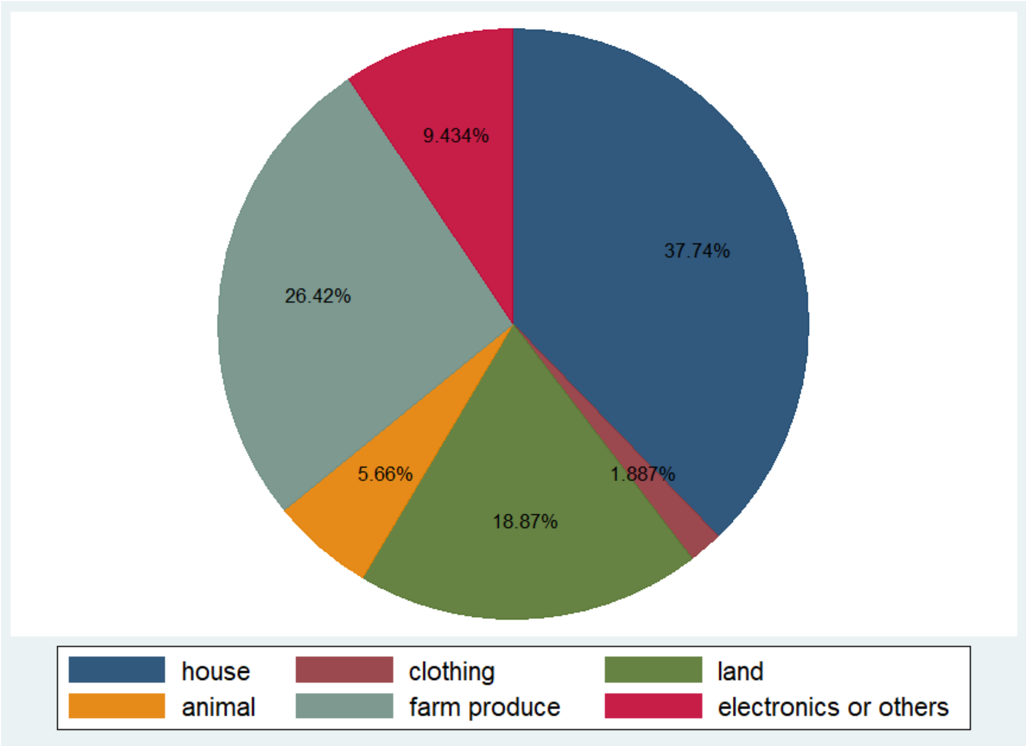

***Figure 12*: Asset sold to as penalty to pay arrears**
Source: Field survey (2019)

The study went further to determine the extent to which penalties on loan arrears has affected the performance of SMEs in the Metropolis. All the respondents which had ever faced penalties from MFIs due to arrears on loans reported penalty charges has in one way or the other affected their operations. The effect, however, differs from SME to SME. Figure 12 presents the distribution of the extent to which penalties from MFIs have affected the operations of SMEs.

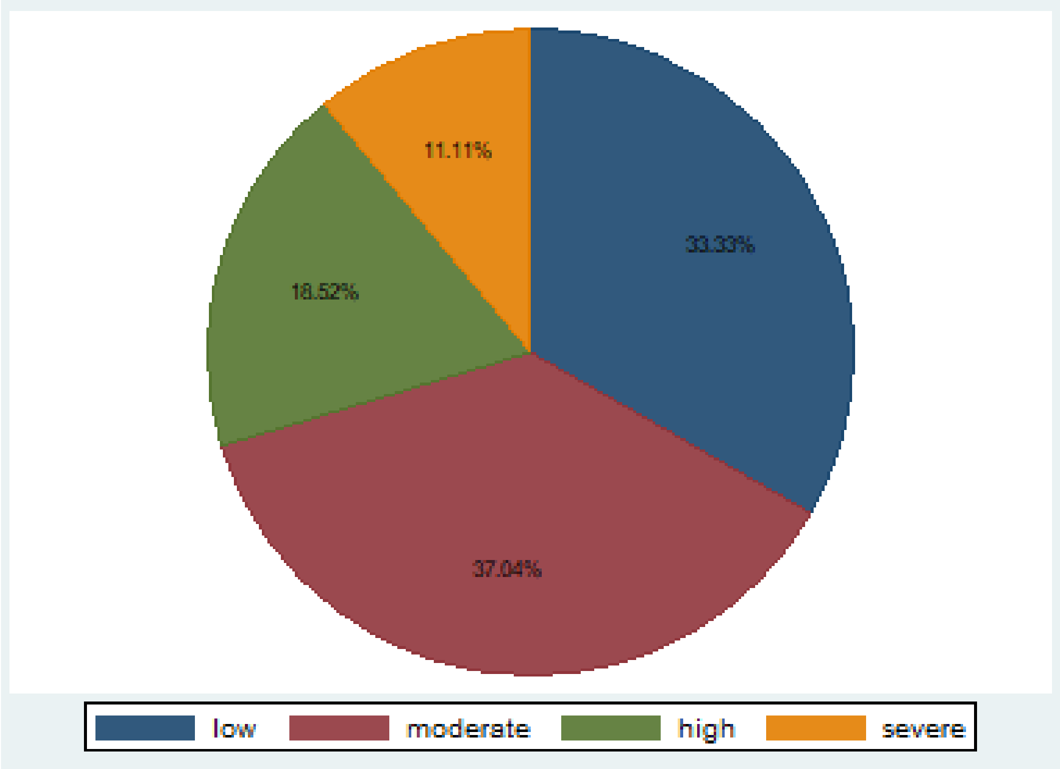

Figure 13: **Extent penalty affect performance**
Source: Field survey (2019)

Majority of the respondents (37.04%) indicated the effect of penalties due to arrears on loans moderately affected their performance. Following this group are SMEs (33.33%) which reported penalties had low impact on their performance. 18.52 percent of the SMEs indicated the effect is high while another 11.11 percent mentioned the effect is severe.

Discussion

This section of the thesis discusses the findings of the study in light of previous evidence.

The Contribution of MFIs on SMEs Operations

It was found from the study that most SMEs have adequate capital, know of MFIs, and have ever benefited from MFI. In addition, a greater number of SMEs benefit from credit from MFI, and most loans SMEs take from MFIs are medium-term loans. The study also showed that the higher the period for paying back loans from MFI, the greater the percentage of the loan being granted. It was also found that there is a positive association between SMEs decision to acquire products of MFI and SMEs' performance. If the benefit acquired from MFI is in the form of credit, its impact on the operation of the SME will be significantly positive. This is not same for SMEs which acquire financial and management training and other products of MFIs in the Metropolis. SMEs which have ever applied for credit from MFIs in the metropolis gain positively in their operations. This is more so if a greater percentage of the loan is granted. SMEs which worked with relatively greater number of MFIs are found to gain positive impact on their operation.

These findings reiterate previous researches. For instance, it confirms what was found in Indonesia by Nurfadilah, Samidi and Subagja (2018), which showed that MFIs are very vital to the smooth operation of SMEs. This was not also different from what was noted in Egypt by Nisser and Ayedh (2017) and in by Georgia, Chelidze, Gelitashvili, and Abutidze (2018) as well as in India by Pankaj, Farhad, and Rzgar, (2019) and Vaish (2020) who all found that MFIs help SMEs to get resources to beef up their businesses and all these lead to either directly or indirectly improvement in life of the people within those communities.

Challenges SMEs face in Accessing Credit from MFIs

Challenges SMEs face in accessing credit from MFIs are time factor and loan insecurity. Most SMEs which apply for credit from MFIs are required to provide collateral. About half of the SMEs do not get the collateral for taking credit from MFIs. Most SMEs are asked by MFIs to use either their shop or car as collateral. The findings of the study on the challenges SMEs face in accessing credit facilities are in line with several previous studies in Ghana and other parts of the world. For example, Baporikar, Nambira, and Gomxos (2016) conducted a study to explore factors hindering SMEs' growth in Khomas region in Nambia. Their study was a qualitative study which found that SMEs experience stealing, security problems, and fights from the customers, which hinder business growth. In addition, though they understand the importance of technology in boosting business growth, they are not able to keep the pace with changing technology, which impacts their business development. It was further found that access to finance, appropriate marketing strategies, lack of skilled manpower and poor customer service also hinder their business growth. The special aspect of case study design is that it defines the delimitation of the research study and may find it necessary to adjust the boundaries that in any case have initially been determined arbitrarily. Being a case approach, it may be difficult to generalize for all kinds of SMEs.

The findings still confirm a study that was done In Sri Lanka by Nashath and Nairoos (2018). The findings indicate that there is a significant positive relationship between selected challenges in Islamic Microfinance from the sample point of view. The study recommends for Islamic Microfinance staff working in market needs adequate training, motivate the staff, use the latest technological systems and government must invest in supportive financial infrastructure. This research reveals that staffs at Commercial Credit have perceptions that the selected challenges are impacted on practices of Commercial Credit. In the Ghanaian context, Goze (2019), in his study of small firms, stated that few small firms start their projects with their own capital (personal savings) and with assistance from families and close associates. Parker et al. (2015) also noted that credit constraints pertaining to working capital and raw materials were cited by small business enterprises in Ghana. Aryeetey et al. (2016), in their study of informal finance to SMEs in Ghana, said that thirty-eight percent of the SSEs interviewed mentioned loan as a limitation. It was deduced that SMEs have inadequate way to funds markets. This is so due to the fact that the notion of high risk, information barricade plus high costs of intermediation for micro firms.

Effect of Penalty Charges on the Performance of SMEs

Most SMEs which take credit from MFIs have arrears. SMEs have loans in arrears because these SMEs use some of the money for household expenses, sold goods on credit, loss asset acquired with loan amount, or the business is loan-based. As penalty for arrears, about half of SMEs are made to sell their assets. Assets sold to settle loans are mostly houses, land, or farm produce. To some SMEs, penalties on arrears moderately affect their operations.

The findings from this current study, when juxtaposed with previous evidence, suggest that the findings are in line with some of the previous studies. For example, Swistak (2016) indicated that taxation of SMEs poses different challenges from larger businesses. Several other authors have indicated that SMEs, in many cases, are sole proprietors or owner-operated incorporated companies, and may lack the capacity properly to fulfill their tax obligations, even more so if these are onerous (Evans et al., 2005; Engstom et al., 2006). Since small businesses, unlike large companies, have also limited options in securing additional funding, e.g. accessing bank credit, they may be unable to pay their taxes promptly (Ayadi & Gadi, 2013; Darvas, 2013; Ozturk & Mrkaic, 2014). The risk of voluntary non-compliance is also higher in the case of small businesses (Cowell, 2003; Crocker & Slemrod, 2005; Slemrod, 2004).

Chapter Summary

This chapter contained the results and discussion of the results in light of previous evidence. It was revealed that the operations of MFIs in the Bawku Municipality positively impact on the performance of SMEs. This is mostly so when they give credit to SMEs on time. However, factors like time constraint and assess to collateral securities are the major challenges SMEs face in their deals with MFIs. SMEs who are not able to pay back loans on time are punished mostly by selling their assets.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter summarizes, concludes, and offers policy recommendations related to the research objectives. Summary and conclusions of the study on the effect of microfinancing on the performance of SMEs in the Bawku Municipality were drawn explicitly from the results and discussion in the preceding chapter.

Summary

The main objective of this study was to determine the effect of MFIs on the performance of SMEs in the Bawku Municipality. Most of the SMEs used for the study are into manufacturing. Also, most of the SMEs employ less than six people, are for-profit businesses, and are self-financed. The study was underpinned by Supply-Leading Finance Theory. The study was a quantitative study that employed the use of questionnaires as the data collection instrument. The sample size for the study was 70 and it was calculated with the Krejchie and Morgan sample size determination formula. The data were entered into SPSS version 23 and analysed with STATA version 14. The results were presented using tables and charts.

Summary of Key Findings

The following is a summary of the study as per the objectives.

Summary of findings on the contribution of MFIs on SMEs operations

1. Most SMEs have adequate capital.
2. Most SMEs know of MFIs and have ever benefited from MFI.
3. Greater number of SMEs benefit from credit from MFI.

4. Most loans SMEs take from MFIs are medium-term loans.
5. The higher the period for paying back loans from MFI, the greater the percentage of the loan being granted.
6. There is a positive association between SMEs' decision to acquire products of MFI and its SMEs' performance.
7. If the benefit acquired from MFI is in the form of credit, its impact on the operation of the SME will be significantly positive. This is not same for SMEs which acquire financial and management training and other products of MFIs in the Metropolis.
8. SMEs which have ever applied for credit from MFIs in the Metropolis gain positively in their operations. This is more so if a greater percentage of the loan is granted.
9. SMEs which worked with relatively greater number of MFIs are found to gain positive impact on their operation.

Summary of findings on challenges SMEs face in accessing credit from MFIs

1. Challenges SMEs face in accessing credit from MFIs are time factor and loan insecurity.
2. Most SMEs which apply for credit from MFIs are required to provide collateral.
3. About half of SMEs do not get the collateral for taking credit from MFIs.
4. Most SMEs are asked by MFIs to use either their shop or car as collateral.

Summary of findings on the effect of penalty charges on the performance of SMEs

1. Most SMEs which take credit from MFIs have arrears.
2. SMEs have loans in arrears because these SMEs use some of the money for household expenses, sold goods on credit, loss asset acquired with loan amount, or the business is loan based.
3. As penalty for arrears, about half of SMEs are made to sell their assets.
4. Assets sold to settle loans are mostly houses, land, or farm produce.
5. To some SMEs, penalties on arrears moderately affect their operations.

Conclusions

The following conclusions are drawn from the study:

Most SMEs in the Bawku Municipality have adequate capital. That is, the capital available for their operations is adequate for them to operate at a scale they want to operate. Most SMEs know of MFIs and have ever benefited from MFI. A greater number of SMEs benefit from credit from MFI. Most loans SMEs take from MFIs are medium-term loans. The higher the period for paying back loans from MFI, the greater the percentage of the loan being granted. There is a positive association between SMEs' decision to acquire products of MFI and its SMEs' performance. If the benefit acquired from MFI is in the form of credit, its impact on the operation of the SME will be significantly positive. This is not same for SMEs who acquire financial and management training and other products of MFIs in the Municipality. SMEs which have ever applied for credit from MFIs in the Municipality gain positively in their operations. This is more so if a greater percentage of the loan is granted. SMEs which worked with relatively greater number of MFIs are found to gain positive impact on their operation.

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Recommendations

The following recommendations are made based on the findings of the study.

- SMEs which have inadequate capital should take credit from SMEs since there exist a positive association between credit from MFIs and SMEs' performance.
- If an SME in the Bawku Municipality is in a financial constraint, it is more prudent to take credit from MFIs than taking financial and management training from MFIs.
- This is more so if a greater percentage of the loan is granted. Also, SMEs which worked with relatively greater number of MFIs are found

to gain positive impact on their operation. SMEs are, thus, advised not to depend on only one MFI but should deal with multiple MFIs.

- MFIs should be efficient to be able to give out credit to SMEs within the shortest possible time. This will enable SMEs to get the required funds for their operations at the time they are in need.
- MFIs should insure their loans to SMEs through other means rather than collateral since most SME are not able to provide these collaterals.
- The Ministry of Trade and Industry should support SMEs in getting credit from MFIs by insuring the security of the credit they take from MFIs.
- Further studies could employ qualitative study design to gain deeper understanding of how MFIs are improving the lives of people in the Bawku Municipality.

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APPENDIX

APPENDIX A: Research Instrument

UNIVERSITY OF CAPE COAST, SCHOOL OF BUSINESS STUDIES

INTERVIEW SCHEDULE FOR CLIENTS

Hello, my name is ……………………………………………… and I am here on behalf of Adam Bugli Ibrahim, one of the Masters' Degree students at the University of Cape Coast, School Of Business Studies. He is researching on the topic: The Effects of Microfinance on Small Scale Businesses in Ghana: The Case of Bawku Municipality. I would deeply appreciate your filling out this questionnaire to help him make vital analyses. Your privacy would be protected. You do not need to write your name or contact. Only the general results, conclusions and recommendations drawn from these analyses would be included in the final report and not the individual papers.

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

When did your business begin operations?

....

What was the objective for establishing your business?

....

....

What is your line of business?

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

4. How many people have you employed?

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

d. 30-99 people [ ]   e. Above 100 [ ] 5. What is (are) the source(s) of your business capital?

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

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

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

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

....

....

....

B. THE CONTRIBUTION OF MFIs IN THE OPERATIONS OF SMEs

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

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

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

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

a. Yes [ ]   b. No [ ]

Which products of Micro Finance Institutions have you benefited from?

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

Has the availability of MFIs contributed to the enhancement of your managerial skill, financial management skill and overall business knowledge?

a. Yes [ ] b. No [ ]

Have you ever applied for credit facility from any MFI? a. Yes [ ]

b. No [ ]

What percentage of loan applied was granted?

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

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

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

e. above 4 weeks [ ]

How many Micro Finance Institutions do you work with?

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

Do you access more credit from MFIs than the traditional banks? a. Yes [ ]

b. No [ ]

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

....

....

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

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

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

d. Unchanged [ ]

C. THE CHALLENGES FACED IN ACCESSING CREDITS

What kind of credit do you normally request from MFIs?

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

How many times have you applied for loans from MFIs?

....

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

....

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

Yes [ ] No [ ]

Do MFIs always require collateral securities before granting loans?

a. Yes [ ] b. No [ ]

What kind of collateral do they request?

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

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

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

....

....

....

D. THE RATE OF UTILIZATION OF CREDITS BY SMEs

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

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

How often do you apply for loans from MFIs?

Not Often [ ] b. Often [ ] c. Very Often [ ] d. Not sure [ ] 31. Have you ever felt the need to acquire a loan for other purposes apart from business? a. Yes [ ] b. No [ ]

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

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

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

....

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

Kindly suggest how credit misappropriation can be avoided

....

....

CREDIT HISTORY

9.**Other source of income for individual** ______________________________

10.Do you receive credit from the above mention MFI? [1]Yes [2] No *(If No, skip to 26.)*

Length of membership with the MFI. [1]One week-1month [2] 2months-6mnths

[3] 7months– 1year [4] more than one year

Date of joining the program ______________________________

Have you received your first loan? [1]Yes [2] No

14.How many times have you been granted a loan under the microfinance scheme

[1] Once [2] Twice [3] Thrice [4] More than four times

What did you use the loan for? [1]To start trading [2] To repay back another loan

[3] To meet some other household needs including school fees [4] Other specify _______

How much did you get in your previous loan from the MFI? ________

How much did you apply for? __________________________________

Year and month of first loan taken ______________________________

How much did you get in your current loan from the MFI? _________

How much did you apply for? __________________________________

21.**Year and month of current loan taken** ___________________________

22.What is the duration (in days) between the previous and the current loan? ________

23.What is the status of recent loan? [1] Fully repaid [2] Repayment on schedule [3]

REPAYMENT IN ARREARS.

24.If in arrears what is the balance remaining? ______________________

What was the problem for the loan to be in arrears? [1] Loan based business activity was not profitable [2] Used some of the loan for household living expense [3] Sold on credit but did not get paid back on time [4] Loss of assets acquired by the loan [5] Other (specify) ________

Do you have voluntary saving with the MFI? [1] Yes [2] No

Number of other household borrowers _______________________

COPING WITH SHOCKS

46.Have you faced any problem in the last 6 months? [1]Yes [2] No

47.**What happened?** [1]Poor sales performance in the business [2] Matrimonial ceremony [3] Illness of one of the household's members [4] Death in the household [5] Theft of key assets [6] Indebtedness

48.Have you sold off some of your assets to pay back the credit to the MFI? [1]Yes [2] No

49.**If yes, what assets had you sold out?** [1]House [2] Clothing [3] Land [4] Animal [5] Farm Produce [6] Electronics, or other assets

SELF-EMPLOYMENT ACTIVITIES

52.**What type of business do you have?**

[1]Manufacturing [2] Commerce (Petty Trading) [3] Services (restaurant, mechanics) [4] Agriculture (Farming) [5] No business

53.Are you the owner of the business? [1] Yes [2] No

54. **Where do you have your business?**

[1] At home [2] In a rented premise [3] In a owned premise (not at home) [4] On the street market

55. **How long have you being in business?**

[1] 0-1 year [2] 1-5 years [3] 5-8 years [4] Above 8 years [5] Cannot remember

56. State the initial amount of money you used for your business _______

57. **Where did you get the money from?**

[1]A gift (inheritance) [2] credit [3] savings [4] By selling out properties or assets [5] Given to me by relatives

58. **If savings, where do you deposit?**

[1]Formal institutions [2] MFI [3] Informal mechanisms

59. **If credit, where did you get the credit from?**

[1] Formal institutions [2] MFI [3]

Informal agents.

60. **How many people have you employed in your business (paid)?**

[1]1-3 [2] 4-5 (3) 6-10

61. Do you have any relatives including your children who give unpaid services to the business?

[1] Yes [2] No

62. **If yes, who are they?**

63. [1]My son(s)/ daughter(s) [2] Other close relatives [3] Other (specify) ________________

64. **How many hours do they work per day?** _________________________

65. **On the average how many hours per day do you spend working on your business?** _

66. How many days do you work a week? ___________________________

67. **How would you describe financial situation since having your own business?**

[1]Much worse now [2] A little worse now [3] same [4] A little better now [5] Much better now [6] I don't know