

Savings Practices of Micro and Small Enterprises in Ghana: A Case Study of Wa Municipality

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Abstract

This study sought to determine the savings practices that support the survivalist operations of Micro and Small Enterprises (MSEs). A descriptive survey was conducted among 222 heterogeneous MSEs that were selected by the systematic sampling technique. A semi-structured interview guide was used to collect data and descriptive statistics were applied in data analysis and presentations. The findings of this study reveal that all MSEs save and do so largely on daily basis. Their most common method of saving is with the formal sector conventional banks, choosing safety as their main reason but with the greatest challenge of frequent deductions from their savings by the banks. The second most common method of saving is with the deposit collector of the informal sector because of easy accessibility to their cash but with the challenge of difficulty in accumulating large lump sums. Saving in cash at home is the most uncommon method of saving by MSEs. Coupled with this, the purposes to which MSEs save are by order of importance: business expansion, children's education, and family and social obligations among others. This study's unique finding was the very high MSEs' daily rate of savings with hitherto antagonistic conventional banks and this necessitates further research into banks' savings products, services and/or models that makes this possible. Recommendations are that banks should reduce charges on savings accounts to MSEs to enable them accumulate enough to meet their savings purposes. Also that Ghanaian pro-poor semi-formal microfinance institutions, designated to serve this market niche should re-visit their best practices of designing innovative and locally adapted microfinance methods/products that best meet MSEs savings purposes to attract them.

Keywords: Micro and Small Enterprises, saving practices, saving methods, saving purposes

1. Introduction

Savings is being put back on the agenda as a better strategy to debt in development discourse. It is an indigenous financial practice by many cultures and therefore can also be found among especially the poor of Wa Municipality in Ghana. Gélinas (1998), cites Adam Smith the father of modern economic thought that the desire to save is deeply rooted in every individual from the womb like an instinct and adds that savings, investment and capital formation are fundamental phenomena that have existed in every era and in all countries. However cultures differ, so it is expected that the saving practices - purposes to which the economically active poor, also referred to as Micro and Small Enterprises (Anaman, 2016) in particular save and the methods they use for saving - could differ from one country to another. Ledgerwood (1999) also distinguishes these Micro and Small Enterprises (MSEs) from the 'unstable poor'¹ and 'stable poor'² as 'growth enterprises' that have the potential to become genuinely dynamic small enterprises and are therefore assisted by microfinance (p.44)

Globally, promoting savings among microenterprises in developing countries, is gaining currency under the financial inclusion³ drive. Anaman and Ghartey (2015) cite Miine (2014) that MSEs need not only credit, but also savings, cash transfers, and insurance in a sustainable fashion to increase their incomes among other things. Indeed, microfinance - the world's most recent development strategy for MSEs (UN, 2005) is witnessing a paradigm shift from the use of microloans alone for development to microloans together with savings mobilization. The UNCDF (2005) also adds that savings mobilization accumulate assets for poor people and benefit country reserves. Unfortunately, in comparison with other African countries, Ghana's gross domestic savings as a percentage of GDP (World Bank, 2003) over the years has not been impressive. Nyanteng (1993), documents the country's various policies to promote private and public savings in order to increase overall national investment savings in the country after the country's Economic Recovery Program (ERP) in the 1980s. Arguably, the policies did not achieve the desired result or as is often done, measurement of savings mobilization

¹ The unstable are, potential micro entrepreneurs who need integrated services provision provided by Grameen-type microfinance - donor assisted funds, technical assistance, training and credit for consumption smoothing rather than income-generating activities

² Stable' enterprises are mainly women in income-generating activities of unspecialized nature, lack of value-added services, have limited growth potential and also difficulty in long-term savings since households are accustomed to seasonal savings build-up and liquidation cycles (Anaman, 2016)

³ Financial inclusion means that households and businesses have access and can effectively use appropriate financial services. Such services must be provided responsibly and sustainably in a well regulated environment (CGAP, 2015).

or utilization was limited to the formal sector alone forgetting that a lot of savings is done by the country's majority MSEs in the informal sector as well.

MSEs together with all classes of the poor save for specific purposes. Robinson (2001) posits that the semi-formal sector MSEs in particular, save for purposes such as managing irregular income streams, investment opportunities and children's education. The informal sector poor, according to Rutherford (1999) also save for purposes such as to meet emergencies, opportunities and life-cycle events. The theory on savings of the poor (Robinson, 2001) postulates that if the purposes to which the poor save are known, 'better' innovative methods could be offered them by the semi-formal sector to support their business practices. The poor also have their own indigenous methods/products for saving (Aryeetey and Steel, 1994; Anaman, 2016; Rutherford's, 1999). These range from saving in cash under mattresses to variants of Rotating and Savings and Credit Associations (ROSCAs). However, Robinson (2001) argues that microfinance institutions in the semi-formal sector have placed at the disposal of these MSEs a combination of the informal and formal savings methods that provide them with *inter alia*, returns, confidentiality, safety, convenience, and liquidity. The formal financial sector's banks, known traditionally to sideline MSEs (Gélinas, 1998) are documented to be now downscaling to pick these poor clients (Infosys, 2009). This study sought to know whether MSEs exposure to different savings methods/products in the two other financial sectors have influenced their indigenous savings practices- (savings methods/products and savings purposes). Knowledge of this could assist financial institutions and policy makers strategize their approach towards an enhancement of their savings practices to support the growth of their enterprise, as well as fuel national reserves for development.

2. Literature Review

2.1 Micro and Small Enterprises

The unit of analysis of this study are MSEs whose definition in literature is varied. The subjective criteria used in MSEs definition could include one or a combination of: number of employees, financial strength, sales price, relative size, initial capital outlay and kinds of business (Carpenter, 2003; Osotimehin, 2012). Most recently in Ghana, the National Employment Report covering the Integrated Business Establishment Survey by the GSS (2015) has provided a classification for Large, Medium, Small and Micro (LMSM) establishment in Ghana using number of employees as metric. Large establishment have more than 100 employees, the medium-sized with 31 to 100 persons, small-sized between 6 to 30 persons and micro between 1 to 5 persons. However, at the proposal stage of this study, it was Hailay's (2003) enterprise classification which notes that Ghana defines micro enterprises as having 1-4 employees that was adopted. These microenterprises irrespective of their heterogeneity, could transform or ladder onto bigger firms therefore, their savings practices below are reviewed within the scope of all three financial sectors - formal, semi-formal and informal. Such savings practices argument is buttressed by Robinson's (2001) sixteen years of field work in many developing countries which reveal that 'many, probably most savers who open bank accounts also maintain some informal savings' (p. 240).

2.2 Savings purposes of MSEs

The purposes to which people save in the formal sector is described by Keynes (1935). He calculates that roughly one-third to two-thirds of income is held by firms mainly for the four reasons of: enterprise, liquidity, improvement and financial prudence. He also provides eight subjective reasons why individuals save to be Precaution, Foresight, Calculation, Improvement, Independence, Enterprise, Pride, and Avarice. Zenere (2013) notes that across the boundaries of the formal and informal financial sectors, it is attainable to position semi-formal financial establishments. This semi-formal sector's MSEs save for the purposes of meeting emergencies and unexpected investment opportunities; managing irregular income streams; long-term investments (land purchase, children's education, housing construction, purchase of machinery); social and religious obligations (life crisis ceremonies, religious holidays and pilgrimages); contributions to local funds and functions; and old age and disability' (Robinson, 2001 p. 245-248). For the informal sector, several writers (Collins, Morduch, Rutherford, and Ruthven, 2009; Anaman, 2016; Dupas and Robinson, 2009) have put forward that the main purpose to which the poor here save is to acquire lump sums to meet specific purposes such as: emergencies, life-cycle events and opportunities; to invest such as in business, or land or for the purchase of life-enhancing asset like television, fan and better furniture (Rutherford, 1999). Kendal (2012) adds by citing Collins et al (2009) that the savings purposes to which poor households need savings accounts as a financial tool are: generating useful lump sums of cash (for productive investment, preventative health care, and major events like pregnancy or weddings); weathering bad times (like crop failure, job loss) and funding of day-to-day expenses.

2.3 Savings methods/products offered by institutions in different financial sectors

Formal sector savings methods have the traditional savings accounts of Current account (highly liquid with little or no returns); Savings accounts (semiliquid with nominal rate of returns) and Fixed-term deposit (illiquid with high returns) (Ledgerwood, 1999). These are offered by depository, contractual and investment financial

intermediaries that are regulated and monitored under different Banking Acts. Traditionally these classic banks do not offer savings mechanisms to the “disdainful poor” (Gélinas, 1998). The semi-formal sector uses a combination of the savings accounts of the formal sector and informal savings methods such as cash, grain and cash crops; animals; valuables; land; ROSCAs; raw materials and finished goods; deposit collectors; and labor obligations and expected reciprocation for past contributions (Robinson, 2001). In Ghana, Kyereboah-Coleman (2007) offers that the semi-formal microfinance sub-sector in particular has evolved as a development tool meant to supply credit and money services to productive MSEs sidelined by the formal sector. The Bank of Ghana has also categorized this semi-formal savings mobilization institutions into a four-tier system that includes Rural and Community Banks (RCBs), and Savings and Loans (S&L) Companies among those in Tier I; and Susu Companies, deposit-taking FNGOs and Credit Unions in Tier II). For the informal sector, Rutherford’s (1999) treatise on savings practices of the poor shows their methods/products to include bank notes tucked into rafters, buried in the earth, rolled inside hollowed-out bamboo, or thrust into clay piggy banks, as well as reciprocal lending. Financial institutions in this informal sector operate beyond the scope of monetary sector rules and direction (Zenere, 2013). Two typical ones are the ROSCAs and the deposit collector (Aryetey and Gockel, 1991; Adjei, 2010; Steel and Andah, 2003). Alabi, Alabi and Ahiawodzi (2007) and Basoah (2010) describe the ROSCAs as an informal monetary system equated to banking that is embraced and followed religiously by micro, small and medium- scale savers and borrowers in the economy

2.4 Theoretical issues on savings in the three financial sectors

For the formal sector, the Keynes General Theory of employment, interest and money (1935) describes the propensity to save as a natural human tendency of not to spend an entire earned income and that savings is that part of income which is not used for consumption. Savings and the new microfinance theory (Robinson, 2001) explains semi-formal voluntary savings by MSEs. The theory disproves conventional banks’ assessment of the MSEs as disdainful savers and their savings mobilization as unprofitable but postulates that there is an unmet demand for savings by MSEs. Its major proposition for this research is that the informal sector offers MSEs savings mechanisms that are fraught with theft, illiquidity, lack of fungibility, and corrupt unregistered deposit collectors among others, relative to semi-formal savings with microfinance institutions/banks that provide a combination of security, convenience, liquidity, confidentiality, access to loans, returns and legal recognition which is unmatched by the former. Savings in the informal sector is grounded in Rutherford’s (1999, 2009) treatise on the ‘poor and their money’ that demonstrates three savings patterns of the poor as:

- **Saving up:** a savings service that allows you to accumulate savings first and take the resulting lump sum later.
- **Savings down:** a loan service that allows you to take the lump sum first as an advance against future savings.
- **Saving through:** a continuous stream of savings that is converted when a lump sum is required. If the amount needed is larger than the savings the saver also takes a loan, using both to create the lump sum needed, then repays the loan from future savings.

2.5 Empirical evidence on MSEs and savings practices

A Business Opportunity Identification Survey (BOIS) under the Rural Enterprise Project (REP) for 1542 MSEs in 10 districts in Ghana by Tetteh and Frempong (2006) (cited by Anaman, 2016) revealed that personal saving was an important source of funding MSEs in the informal sector. Findings also revealed that almost half of them saved with various ‘susu’ (ROSCAs) organisations and collectors, close to 17 percent saved with the banks, while 12 percent saved at home. Sifunjo (2014) said, the attitudes of MSEs influenced their saving, investment and borrowing behavior. His study shows that MSEs prefer saving with banks to microfinance establishments and other traditional instruments and that through saving over extended period, MSEs accumulate enough capital to invest in their small ventures. Another study done by Thornsten, Pamuk and Uras (2014) in Tanzania to determine entrepreneurial savings practices and reinvestment decisions revealed that informal individual saving, constituting 75%, was the most popular savings practice. 13% of them save formally, and the remainder save via giving them to household members for save-keeping or outside the household in Rotating and Savings and Credit Associations (ROSCAs) and with moneylenders. Kurgat (2009) also did a study of women’s savings in Kenya which revealed that 52% of them belonged to more than one informal group (merry-go-round) and that in order of importance:

- 62% were saving in order to expand their businesses
- 40% were saving for the education of their children and
- (26%) were savings to meet emergencies

3 Data and Methodology

This research was descriptive in nature and employs the survey method. The following indicators were selected

from those discussed at literature review to measure MSEs savings purposes: business expansion, unforeseen occurrence/ emergencies, family and social obligation, children’s education, long-term business investment and avoiding frivolous spending. Data collection instrumentation was an interview guide in face-to-face interviews that focused on the research sub-objectives. Primary data collected was quantitatively transformed using the Statistical Package for Social Scientists (SPSS). Frequencies, percentages and cross tabulations in distribution tables were used to organize and summarise data. Bar and pie charts were used to describe the basic features of the data in line with the research sub-objectives.

3.1 Population of the Study and sample size determination

The Wa Municipal Assembly (WMA) Revenue Unit gave the population of registered small and medium enterprises (SMEs) in the Wa Municipality as 664 and using this as a guide, I estimated the micro and small (without the medium) as 500 and focused on those operating in the commerce, services and food processing or manufacturing areas to constitute the sampling frame. The sample was calculated using the formula proposed by Yamane (1970), $n = \frac{N}{1+N(e^2)}$ ¹ where **n** was the sample size, **N**= target population (sampling frame), **1**= constant value and the **e**= our margin of error (0.05) based on 95percent confidence interval. So substituting the figures into the formula the sample size obtained was, $n = \frac{500}{1+500(0.05^2)}$ ² = approximately 222.

3.2 Sampling Techniques

The systematic sampling technique was applied which according to Singleton and Straits (2005), consist of selecting every kth case from a complete file of a population, starting with a randomly chosen case from the K cases. The lottery simple random sampling was first used to select one MSE from the 222 sampling frame. This MSE was located and used as the starting point during field work. The sampling interval was then chosen as 500/222 (Singleton et.al, 2005) to get 2.25 which was approximated to 3.

4.0 Empirical Results

This section begins with a summary of demographic factors of the 222 MSEs interviewed and analysis of the four sub-objectives stated under methodology.

- To find out if micro and small enterprises in Ghana save.
- To identify the savings purposes to which micro and small enterprises save
- To seek the methods that micro and small enterprises use to save.
- To identify the challenges that micro and small enterprises face in their use of savings methods/products from the different financial sectors.

4.1 Respondent Demographics. MSEs are deemed heterogeneous so a question was asked to confirm this and also obtain statistics for the three major sub-sector economic activities used for the study.

Of the total 222 MSEs interviewed, 101 (45.5%) are in commerce; 73 (32.9%) are in manufacturing and 48(21.6%) are in the services subsector. A cross tabulation of the economic activity and gender status is presented in table 4.1 below.

Table 4.1 Gender of Respondent * Line of Business

		Line of Business			Total
		Commerce	Service	Manufacturing	
Gender of Respondent	Male	29	20	39	88
	Female	72	53	9	134
Total		101	73	48	222

Field data, (2016)

From the study, MSEs in the commerce and services sectors are predominantly women but the manufacturing sub-sector is predominantly male. Further to this, I wanted to know how many of the respondents had micro business as compared to those with small businesses. Those who responded to having employees between 1 and 4 were 174 representing 78.2% while those having 5 and 29 employees totalled 48 representing 21.6percent. It can therefore be argued that micro enterprises far exceed small-sized businesses in the MSE enterprise taxonomy in Ghana. Respondents were also asked on the longevity of business operation. Only 28 MSEs which represent 12.6% have been in operations for less than 1 year. Cumulatively, 194 (87.40%) out of

¹ $n = \frac{N}{1+N(e^2)}$

² $n = \frac{500}{1+500(0.05^2)}$

222 MSEs had been operating businesses for one year and above. Their savings practices could be counted upon as enduring for making conclusions on MSE saving practices in Ghana.

4.2 Research sub-objective one: To find out if micro and small enterprises in Ghana save.

All the 222 MSEs interviewed stated that they save. This confirms the Keynesian theory (1935) that the propensity to save is a natural human tendency. Their rate of saving was then sought for as shown in table 4.2

Table 4.2: How often do Micro and Small Enterprises Save?

	Frequency	Percentage (%)
Daily	129	58.1
Weekly	62	27.9
Monthly	31	14.0
Total	222	100.0

Source: Field Data (2016)

Table 4.2 reveals that of 222 MSE who all save, the 129 majority, representing 58.1% save on daily basis, whilst 62 (27.9%) respondents save weekly with 31 (14.0) MSEs saving monthly.

4.3 Research sub-objective two: To seek the savings purposes of MSEs in Ghana.

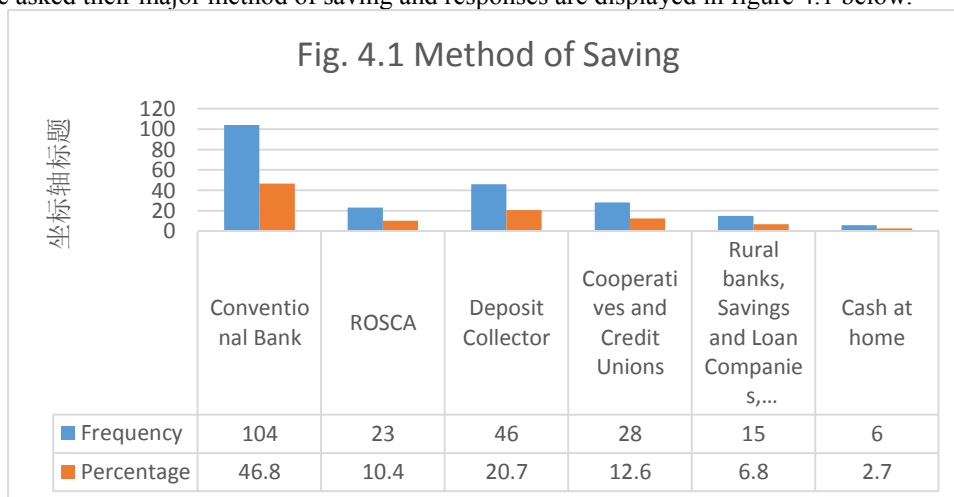
Table 4.3: Savings purposes of MSEs

MSEs savings purposes	Frequency	Percentage (%)
Business expansion	89	40.1
Unforeseen occurrence/ emergencies	14	6.3
Increase wealth	7	3.2
Working capital	10	4.5
Family and social obligations	39	17.6
Children's education	47	21.2
On the spot investment	13	5.9
Avoid frivolous spending	3	1.4
Total	222	100.0

Source: Field Data (2016)

From table 4.3, the most widespread purpose to which MSEs accumulate savings is to expand their businesses and 89 (40.1 percent) respondents attest to this. The next popular purpose to which MSEs save is for their children's education (47 MSEs representing 21.2 percent) and was followed by: Family and social obligations 39 MSEs (17.6 percent); Unforeseen occurrence/ emergencies 14 MSEs (6.3 percent); on-the-spot-investment 13 MSEs (5.9 percent) and working capital 10 MSEs (4.5 percent). Saving to avoid frivolous spending is not a common practice among MSEs in Wa municipality as only 3 of them (1.4 percent) claim to do so.

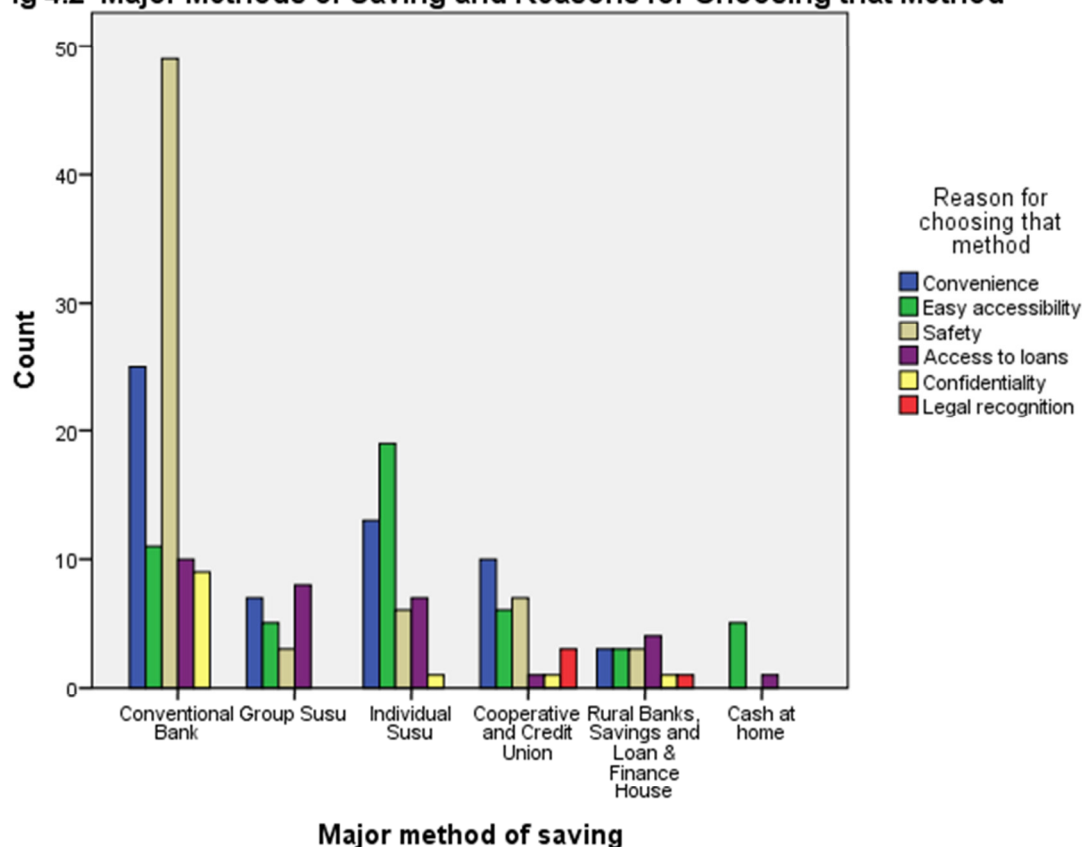
4.4 Research sub-objective three: To seek the methods that micro and small enterprises use to save. First, MSEs were asked their major method of saving and responses are displayed in figure 4.1 below.



Source: Field Data (2016)

From figure 4.1, MSEs major method of savings is with conventional banks in the formal sector. This observation partly confirms Sifunjo’s (2014) findings discussed under literature review that MSEs like saving with banks relative to other microfinance institutions and traditional instruments. The second major method that MSEs use to save is with the deposit collector (individual susu) in the informal sector and the third choice is with cooperative and credit unions in the semi-formal sector. This reveals that MSEs utilise different savings methods in all the financial sectors but with a higher preference for specific ones. In all, the practice of saving in cash at home seem to be dwindling and this gives a hope for the achievement of financial inclusion of the poor by conventional banks relative to microfinance, the subsector that is acclaimed to deliver financial services to MSEs (CGAP, 2015). In delving into their savings practices, I probed further with the question ‘why do you save at where you mostly save? In figure 4.2 below, these reasons have been juxtaposed with their major savings method to give a holistic picture of MSEs reasons for using specific savings methods

Fig 4.2 Major Methods of Saving and Reasons for Choosing that Method



4.5 Research sub-objective four: To identify the challenges that micro and small enterprises face with regards to the savings products and/or methods that they use.

Even though MSEs revealed the challenges they face in savings with financial institutions in all three financial subsectors, the focus here is on their most common form of savings - the conventional bank as revealed in figure 4.1

Table 4.4: Challenges MSEs face in saving with conventional banks

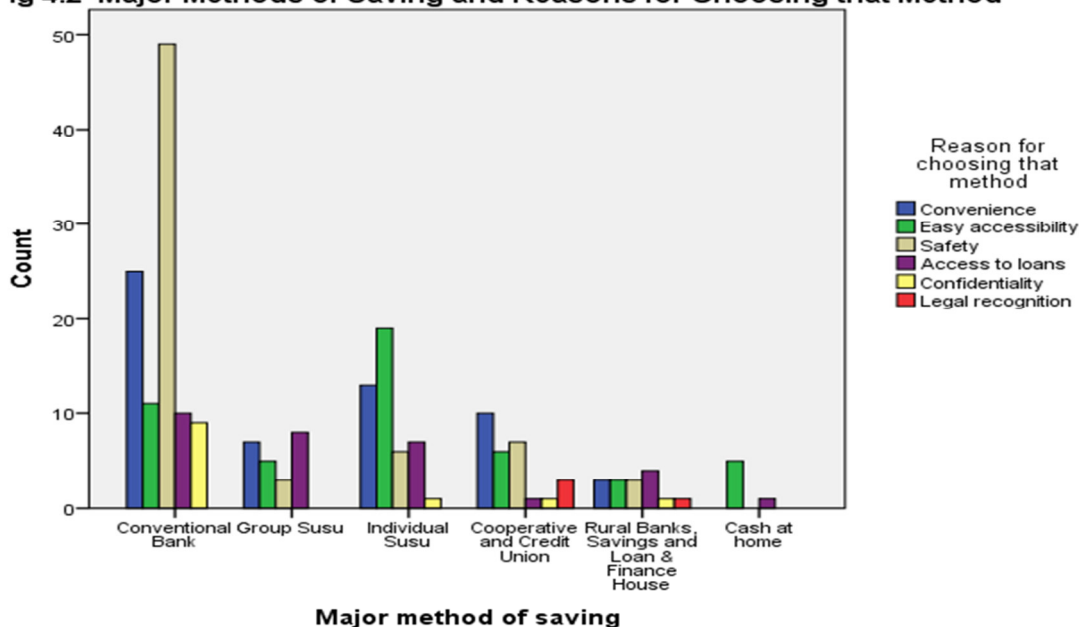
	Frequency	Percentage (%)
Unnecessary deduction	43	41.3
Withdrawing process is hectic	41	39.4
Bad customer relationship	11	10.6
Any other	9	8.7
Total	104	100.0

Source: Field Data (2016)

As evident in Table 4.5, 41.3 percent of the 104 respondents who use the formal sector conventional banks saving accounts mentioned that the greatest challenge they face is unnecessary deduction by the banks, followed by 39.4 percent MSEs whose challenge was hectic withdrawing process and 10.6 percent who face bad customer relationship. A summary of the other savings methods show that in the semi-formal sector, 34.8

percent MSEs had an outstanding challenge of frequent changing of mobile deposit collectors, whilst (32.6 percent) faced hectic withdrawal processes. For the informal sector MSEs major saving challenges were indiscipline and default payment by some ROSCA members (44.8 percent); possibility of deposit collector absconding with cash (34.5 percent) and no other proper record keeping when susu card is lost (13.8 percent)

Fig 4.2 Major Methods of Saving and Reasons for Choosing that Method



5. Conclusion

This study sought to determine the savings practices that support the survivalist operations of Micro and Small Enterprises (MSEs). A descriptive survey was conducted among 222 heterogeneous MSEs that were selected by the systematic sampling technique. A semi-structured interview guide was used to collect data and descriptive statistics were applied in data analysis and presentations. The findings of this study reveal that all MSEs save and do so largely on daily basis. Their most common method of saving is with the formal sector conventional banks, choosing safety as their main reason but with the greatest challenge of frequent deductions from their savings by the banks. The second most common method of saving is with the deposit collector of the informal sector because of easy accessibility to their cash but with the challenge of difficulty in accumulating large lump sums. Saving in cash at home is the most uncommon method of saving by MSEs. Coupled with this, the purposes to which MSEs save are by order of importance: business expansion, children’s education, and family and social obligations among others. This study’s unique finding was the very high MSEs’ daily rate of savings with hitherto antagonistic conventional banks and this necessitates further research into banks’ savings products, services and/or models that makes this possible. Recommendations are that banks should reduce charges on savings accounts to MSEs to enable them accumulate enough to meet their savings purposes. Also that Ghanaian pro-poor semi-formal microfinance institutions, designated to serve this market niche should re-visit their best practices of designing innovative and locally adapted microfinance products that best meet MSEs savings purposes to attract them.

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