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Wealth Creation through Micro Financing: Evidence from Small Scale Enterprises in Ghana

Paul Quaisie Eleke-Aboagye[1*],Bernice Acheampong[1,2]
1. Faculty of Business Administration, Methodist University College Ghana, Accra, Ghana
2. First Allied Savings and Loans Limited, Abbosey Okai, Accra, Ghana
*E-mail of the corresponding author: eleke@mucg.edu.gh

Abstract
This study was designed to assess the effect of microfinance on Small Scale Enterprises (SSEs) in wealth creation and poverty reduction in Ghana. Specifically, it was designed to examine the various sources of finance needed by SSEs for start-up survival and future expansion; ascertain the current microfinance institutions (MFIs) arrangements to finance SSEs towards wealth creation and poverty reduction; determine the main obstacles hindering SSEs in accessing credit to MFIs; determine the main challenges MFIs face in advancing credit to SSEs; and identify new and sustainable ways MFIs can utilize to advance credit to SSEs. Five research questions that guided this study were gleaned from these research objectives. The study was a survey designed with questionnaires as the major means of data gathering. The respondents for the study come from 5 MFIs and 85 SSEs who operate in Abossey Okai. While the respondents from the MFIs were selected purposively, those from the SSEs were selected conveniently. The study found that personal sources were the main sources of funding for SSEs start-up and expansion. Other sources such as commercial and microloans contribute marginally to start-up and growth relative to personal sources. It was also found that the current MFIs arrangements to finance SSEs include different types of loans whiles the major challenges SSEs face in sourcing for credit include laborious loan application process, the demand for non-existent collateral among others. Meanwhile the challenges MFIs face in advancing credit to SSEs pertains mainly to default and their inability to recover loans. In the light of these findings, it was suggested that MFIs should ensure that they understand the business of their clients to be able to design products and services that fit their needs. Such products should be marketed to the target recipients to ensure that these products are patronized.
Keywords: microfinance, microfinance institutions, wealth creation, poverty alleviation

1. Introduction

In the contemporary economy, Small Scale Enterprises (SSEs) in the industrialization process have gained much prominence in developing countries. SMEs contribute to the economy in terms of creating employment, income generation and the increase in output of the production sector of the economy they stimulate. These notable contributions cannot be realized without the government creating the enabling environment for these SSEs to operate. Hence, government support will serve as a strong base for industrial development of the nation, making these contributions realizable.

According to Mensah (2004) indigenous-propelled industrialization process serves as a surefire means of mobilizing capital towards productive ventures. In other words, due to low capital requirement, individuals can set up their own firms through their own resources, thereby, serving as a means of mobilizing funds for economic activities. In spite of the substantial role of the SSEs in Sub-Saharan Africa (SSA) economies, they are denied official support, particularly credit from institutionalized financial service organizations that provide funds to businesses. This becomes even more controversial in the face of literature evidence that Small Scale Enterprises are the backbone of many economies in SSA and hold the key to possible revival of economic growth and the elimination of poverty on a sustainable basis (Abor & Quartey, 2010; Basu et al, 2004).

Abor and Quartey (2010) noted that the inability of SSEs to access formal credit from financial institutions and lack of enough governmental support have led to the collapse of these businesses within the first few years of their existence. Therefore with government and institutional failure in providing credit, the question that naturally arises is “How can we rope in the benefits from the proliferation of microfinance institutions to spur the growth of the SSE’s leading to wealth creation and consequently eradication of poverty?”

In a developing country context, credit is an important instrument for improving the welfare of the poor directly (consumption smoothing that reduces their vulnerability to short-term income shocks) as well as enhancing their productive capacity through financing investment in human and physical capital (Khandker, 1995). The demand for credit for productive investments usually comes from those poor who are less risk-averse and enables them to overcome liquidity constraints, making it possible to undertake investments that can boost production, employment and income. Over the past two decades, various development approaches have been devised by policy makers, international development agencies, non-governmental organizations, and others aimed at poverty reduction and wealth creation in developing countries (Basu et al, 2004). One of these strategies, which has become increasingly popular since the early 1990s, is microcredit, otherwise known as microfinance.

Microfinance is a popular concept of lending to the poor which was popularized and commercialized by Mohammed Yunus, a Bangladesh banker and a Nobel laureate. It represents the provision of financial services in the form of savings and credit opportunities for the working poor (Aryeetey, 1994), whom the traditional banking sector reckons too risky or costly to serve. According to Valdez (2006), the concept is generally regarded as a grass-roots development tool intended to benefit low-income women predominantly and men as well. Its ultimate aim is to reduce poverty through the provision of financial services and financial inclusion of the poor and non-collateralized people in the society (Valdez, 2006).

In addition to the provision of savings accounts (micro-savings), microfinance has recently been expanded to include insurance and money transfer services (Aryeetey, 1994). These interventions have been hailed by many as a solution to poverty alleviation, which allows market forces to operate, enabling the poor to invest in their futures and bring themselves out of poverty. It is therefore little wonder that there has been a dramatic surge of Microfinance Institutions (MFI) in the last decade. For instance, in Uganda, the Association of Microfinance Institutions of Uganda (2004) reported in its annual report that since the late 1990s and 2000s, over 900 MFIs have been formed (Kansiime, 2009). In Mexico, Valdez (2006) reports that though the four leading MFIs are Caja Popular, Compartamos, Independencia and FINCA, over 80 MFIs are established in just the last decade.

However, rigorous research findings have begun to question the highly optimistic view of microfinance as an effective and sustainable poverty reduction tool. As a matter of fact, evidence regarding the impact of microfinance has become controversial, partly due to the difficulties of reliable and affordable measurement, of fungibility, the methodological challenge of proving causality (i.e. attribution), and also because impacts are highly context-specific (Aryeetey, 1994; Basu et al, 2004). Similarly, Zaman (2000) has noted that ‘the question of the effectiveness and impact on the poor of microfinance programs is still highly in question’. Roodman and Morduch (2009) reviewed various studies on micro-credit in Bangladesh, and similarly conclude that ‘30 years into the microfinance movement we have little solid evidence that it improves the lives of clients in measurable ways’.

It is evident from the literature that even some bilateral agencies, and not just individual researchers, have also cast an aspersion on the wealth creation and distribution potentials of microfinance. According to a 2007 report of the World Bank, ‘the evidence from micro-studies of favourable impacts from direct access of the poor to credit is not especially strong’. Also, in recent findings of two Randomized Controlled Trials (RCTs) in the Philippines and India by the Massachusetts Institute of Technology’s (MIT) Jameel Poverty Action Lab, serious questions were raised regarding the impact of microfinance on improving the lives of the poor (Hashemi et al. 2010). In summary, these researchers and reputable institutions questioned the globally unquestioning belief that microfinance increases the wealth creation potential of poor individual, hence a sure means of reducing poverty among the vulnerable.

However, MFI institutions have not taken these pessimistic views lying down. For instance, the furor surrounding the findings of the MIT’s Jameel Poverty Action Lab raised spirited reactions from them. Six of the biggest network organizations in microfinance - Accion International, FINCA, Grameen Foundation, Opportunity International, Unitus and Women’s World Banking – responded to the findings by pointing to anecdotal evidence of the positive impact of microfinance, and also highlighted the weaknesses of the RCT studies. Their criticisms included the short time frame, small sample size, and the difficulty of quantifying the impact of microfinance (Hossain, 2008)

It must be noted that the optimism with which microfinance started and the later puncturing of these with pessimisms, is generally good for Sub-Saharan Africa (SSA), particularly, when one considers the unquestioning rapidity with which the movement of MFIs is growing and gaining formidable roots. In essence, this expansionary approach makes it imperative to establish whether micro-credit and micro-savings are helping or harming the poor people they purport to serve. This study therefore seeks to investigate these issues, using the SSEs in case as a case study. In other words, it is designed to investigate how microfinance can aid or prevent wealth creation among small business with a trickling down effect on vulnerable individuals.

Microfinance has gained global approval as an important poverty reduction tool in many developing countries (Kayanula & Quartey, 2000). Indeed microfinance is perceived as a crucial driving mechanism towards achieving the millennium development target of halving extreme poverty and hunger by 2015 (Steel & Andah, 2003). According to leading advocates in the field, microfinance has the capacity to efficiently and effectively provide sustainable financial services to poor households who are otherwise excluded from the conventional financial systems for lack of collateral. Casting aside the euphoria on microfinance, a sober question can be asked as to whether microfinance really reduce poverty and create wealth? The above question has generated scores of studies that have endeavoured to ascertain whether microfinance does indeed reduce poverty thus creating wealth.

Empirical studies have examined the effect of microfinance on wealth creation. However, most of these studies have concentrated on individual components such as on loans, groups, interest rates and savings. Studies that assess the entire implementation process from the perspective of service users are lacking in microfinance literature. This has resulted in disjointed understanding on how microfinance institutions work and affect poverty. Again like impact assessments, studies on the various components have observed microfinance interventions from the perspective of microfinance institutions rather than from users of microfinance services. The study therefore seeks to assess the contribution of microfinance institutions to the economy of Ghana in terms of wealth creation among operators of SSE's.

The main goal of this study is to assess the effect of microfinance on the wealth creation potentials of small scale businesses. The specific objectives are to: examine the various sources of finance needed by SSEs for start-up, survival and future expansion; ascertain the current MFIs arrangements to finance SSEs toward wealth creation and poverty reduction; determine the main obstacles hindering SSEs in accessing credit to MFIs; determine the main challenges MFIs face in advancing credit to SSEs; and identity new and sustainable ways of MFIs can utilize to advance credit to SSEs.

It is worth mentioning that most researchers have found this area of study very important to the development of the socioeconomic activities in developing countries like Ghana. The study will bring to light the benefits and question of whether the microfinance is really contributing to the growth of the Small Scale Enterprises in Ghana. This study is centered on the activities of MFIs and their contributions to the development of small size businesses in Ghana. A study of this nature is very imperative as it would provide the government with the needed information in designing a policy framework to enhance the development of the SSE industry. The study would enable microfinance institutions to put in place flexible policies and programs that will help SSEs to access their facilities and hence ensure development and expansion of the SSEs.

The main challenge encountered in the study was some operators' unwillingness to complete the questionnaires, because they were suspicious of authorities increasing their tax burdens or being prosecuted for not fulfilling statutory obligations including social security contributions. The main limitation of the study is the fact that it provided information about sources of finance available to SSEs from the perspective of both MFIs and SSEs but could not provide reasons for the observation.

2. Literature Review

Literature consulted included periodicals, journal articles, government publications, annual reports of financial institutions and other publications. The review of literature helped to identify how others have defined and measured key concepts and the data sources that others have used.

Microfinance institutions have existed in African and in fact, the world over for centuries (Africa Development Bank [ADB], 2006). It has been touted as the surest avenue for poverty alleviation and empowering women economically. It is hailed as the saviour of poor households and the lifeline to the informal sector. But what exactly do microfinance institutions do to boost the life of their customers and the economy of Ghana in general towards wealth creation and poverty alleviation? Moreover, what challenges stand in their way in getting their services across to those that need them, especially SSEs? This section will review literature from various scholars in the light of these issues.

2.1 Evolution, Reach and Categorization of MFIs in Africa and Ghana

According to ADB (2006) microfinance began in Africa in Nigeria in the fifteenth century. It began as a susu, a Yoruba term, used for the practice of traders saving a small percentage of their daily profit with a creditor until the month ending to receive the bulk savings; the practice is still widely used today, especially in Ghana. The ADB (2006) further asserts that mainstreaming, formalization, and recognition of microfinance in Africa, as part of the formal financial sector, began to gain momentum in the late 1990s.

According to ADB (2006) microfinance in the twentieth century underwent four distinct phases of evolution before arriving at its present phase of building sound, inclusive financial systems. These have been explained below:

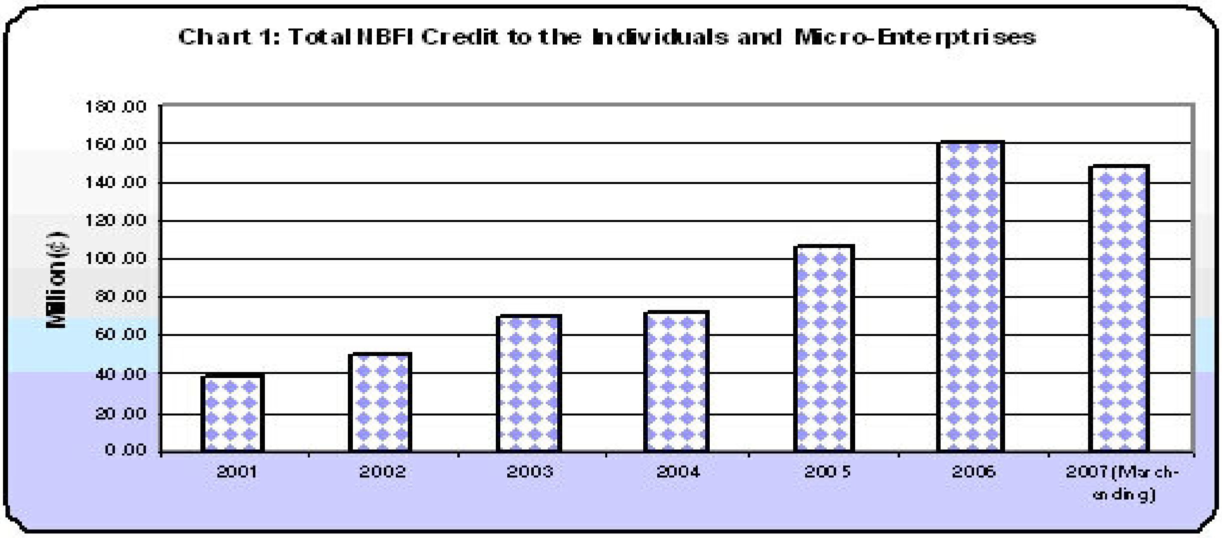
Phase one began in the 1950s and consisted of directed, subsidized credit, often targeting individuals who did not have the means to reimburse loans. These schemes wrongly assumed that the lack of money was the main obstacle to eliminating poverty.

Phase two started in the 1970s. This phase entailed a series of microcredit offered mostly through NGOs. It was pioneered by the Grameen Bank in Bangladesh and followed by a great number of NGOs that attempted to replicate its model, using donor funds and hence did not have financial self-sufficiency as its prime objective. Funds provided by development agencies, NGOs acted as intermediaries, largely functioning as income transfer agents, to ensure that funds reach the poor for social purposes rather than serious financial intermediaries.

In response to demand for its service, Phase three started, in the 1990s. This phase heralded the formalization of microfinance institutions, leading to MFIs offering more financial services, such as savings and insurance. In this phase, transformation of the economic circumstances of the poor and their families through microfinance was

aptly demonstrated, leading them to believe that they do have what it takes to lift themselves out of poverty.
Phase four which started in mid-1990s made the objective of MFIs to mainstream its institutions into the formal financial sector a reality. The major focus of MFIs at this juncture was to build inclusive financial systems for the poor, without losing its focus of service to the poor. Mainstreaming demanded MFIs and other intermediaries to operate according to the same standards of accountability, transparency, performance, and profitability required of the commercial banks and other formal financial institutions.
The current pursuit of microfinance in Africa in general and Ghana in particular follows a wide array of approaches; ranging from traditional group based - systems to specialized lending by banks to non-governmental organizations (NGOs). Others come in the form of non-bank financial institutions, cooperatives, rural banks, savings and postal financial institutions and increasing number of banks (ADB, 2006).
Interestingly, the varied types of microfinance institutions have also led to different and varied types of service offering to its clientele base. According to the ADB (2006) the "large demand and the diversity of the microfinance clients created the need for building inclusive financial systems that work for the poor. Poor and low-income people need and want a range of financial products and services to build income and wealth, smooth expenditure patterns, and reduce risk (e.g, deposits, loans, payment services, leasing, money and remittance transfers, pensions, and insurance)".
The growth of microfinance institutions in Ghana and Africa has been massive. Current estimates suggest that there are more than 320 million people in Ghana and Africa who need the services of MFIs but there is a wide gap between demand and supply of financial services to this burgeoning number, who are mostly poor (ADB, 2006). According to estimates submitted by the Microcredit Summit Campaign, in their 2004 annual report, 3,000 MFIs reached an estimated 81 million people at 2004. Among this number, 58 million were among the poorest of the poor when they accessed their first loan, proving that even the poorest of the poor, those considered destitute, will save when given the opportunity. The growth of MFIs lending in Ghana has been presented in Figure 2.1 below.

Figure 2.1: Growth of MFIs lending in Ghana



Source: Bank of Ghana (2007)

Figure 2.1 depicts the trend of growth of total monies advanced to individuals, groups and micro-enterprises from 2001 to 2007. Loans and advances extended amounted to GH¢50.97 million in 2002 as against GH¢39.64 million in 2001, indicating about 28.6 per cent growth. This further increased from GH¢70.63 million in 2003 to GH¢72.85 million in 2004, suggesting 3.1 per cent growth. In 2006 alone, total of GH¢160.47 million was extended to clients, which represents 48.8 per cent higher than the previous year's total loans and advances granted (Asiama and Osei, 2007). Based on this analysis they concluded that the upward- trending NBFI's credit to individuals, small businesses, groups and others indicates marked improvements in level of microfinance in Ghana.
People make the unwitting mistake of regarding microfinance in relation to micro lending or microcredit alone. Khavul defines micro lending as the issuance of small, unsecured loans to individuals or groups for the purpose of starting or expanding businesses. Though by far it is most popular and perhaps, most lucrative activity, microfinance spans a range of financial instruments including credit, savings, insurance, mortgages, and retirement plans (Khavul, 2010). The author further adds that all these activities are denominated in small amounts to make them accessible to individuals previously shut out from formal means of borrowing and saving.

The African Development Bank (2006) categorizes MFIs in Africa into three main levels. The categorization has been done according to the stages of institutional evolution, that is, from emerging MFIs to expanding MFIs; formal financial sector institutions; service coverage, and the levels of MFI institutional development, competence, and experience.

The first category consists of MFIs of the emerging stages and usually involve thousands of NGOs, informal-sector intermediaries (especially those working in rural areas), and even individuals who provide financial services on a largely artisanal basis. These MFIs operate spontaneously to fill market niches and charge very high rates of interest on loans to meet the demand of mostly poor people who work and do business in the informal sector. They operate largely without formal recognition in terms of licensing or registration. The small scale susu collectors as well as money lenders in Ghana fall into this category. According to Osei (2011) Susu collection is an informal arrangement for mobilizing savings deposits from clients.

The second category involves institutions that are in a full growth and expansion phase, becoming financially self-sufficient, and increasing their outreach to thousands of people who previously had no access to quality financial services. These MFIs are yet to become fully mainstreamed into the financial sectors of their respective countries. The susu associations in Ghana, which have won a level of recognition in terms of registration and financial self-sufficiency and some savings and loans companies fall into this category.

The third category involves fully mature financial institutions that are integrated into the formal financial sector of each of the countries. They are licensed and registered as financial service entities, such as commercial banks. Their respective legislative environments fully address microfinance, as is the case of Procredit, Opportunity Savings and Loans Company, Boafo of HFC among others. In other African countries, prominent examples are K-Rep Bank of Kenya, Equity Building Society in Kenya and Centenary Bank of Uganda

2.2 The Role of Microfinance in Economic Growth

The majority of Ghanaians who fall outside the formal sector, especially the poor, do not have access to banks, credit unions or similar financial institutions (Osei, 2011). Needless to say, the majority of Ghanaians do not actively engage with formal financial institutions. This is further attested to in Table 2.1. Most rural people in Ghana do not have access to a bank, credit union or similar financial institution. According to the Ghana Living Standards Survey (2000), access to financial services by small clients, such as the rural and urban poor, was around eight percent in 1999. Compared to the estimates given in Table 2.1, the situation has dramatically improved, albeit in a rather slow pace. This has engendered the situation where over 60 percent of the money supply in the country falls outside the commercial banking system and the rural banks (Osei, 2007). It is evident from Table 2.1 that in Ghana only approximately 26% of the populations have a bank account with a financial institution. The proportion is even lower in the rural areas where only about 17% percent have an account.

Table 2.1: Proportion of households with accounts in financial institutions

	% With Accounts	% With No Accounts	Not Mentioned
National	25.5	69.4	5.1
Rural	17.1	77.8	5.1
Urban	34.1	60.9	5

Source: National Development Planning Commission, 2006

The point being reiterated here is that the nature of the burgeoning informal sector, which started with the colonialist dualist economy, has led to the situation where the government loses out on taxation; makes planning difficult and limits the growth of the financial sector and its allied institutions. Indeed, it is an understatement to say that "robust economic growth cannot be achieved without putting in place well focused programmes to reduce poverty through empowering the people by increasing their access to factors of production, especially credit" Adeyemi and Adenugba (2011).

Fortunately enough, the evolution of savings and loan companies, semi-formal and informal financial systems have come to save the situation. These institutions play a particularly important role in Ghana's private-sector development and poverty reduction strategies, as well as roping in the informal sector for taxation purposes (Osei, 2011). The evolution of microfinance has also enhanced the latent capacity of the poor for entrepreneurship because it has enabled them engage in economic activities that have made them more self-reliant, increase employment opportunities, enhance household income, and create wealth (CBN, 2005). This becomes even more necessary considering the fact that the poor have few viable alternatives for smoothing out either income or consumption across time (Collins et al., 2009). Moreover, the potential for catastrophic events to unhinge the lives of the poor is evident not only when natural disasters come, but in several other unnoticed ways, for instance, when a family member is ill, a child dies, fire rips through a shantytown, or a crop fails because the rains never came (Morduch, 2009).

The ADB (2006) has also observed that microfinance has two long-term global goals. The first is to build inclusive financial systems to ensure that all people can access the services provided by formal financial institutions and the private sector. The second is to assist entrepreneurs working in the vast informal sector to expand their businesses into registered, licensed small- and medium-scale enterprises (SMEs).

According to Khavul (2010), microfinance serves as the best solution to the ubiquitous poverty problem and serves as a catalyst of economic growth because it offers several innovative solutions to problems of adverse selection, moral hazard, and transaction costs. Adeyemi and Adenugba (2011) summed the argument up better when they asserted that "micro enterprises have also tended to be a strategy in inner-city communities of both developed and developing economies to promote economic development and also to alleviate poverty and social costs such as food stamps and welfare". Microfinance companies also create jobs and give entrepreneurs good return for their investment (Schreiner, 2001). Giving an instance to support this assertion Adeyemi and Adenugba (2011) observed that microfinance enterprises usually start off with five or fewer employees that require less than $35,000 to start, a situation which makes it easy to start and hence create employment in the economy.

2.3 The Role of Microfinance in Poverty Alleviation

Poverty alleviation has been one of the top agenda of the United Nations for several years now (Khavul, 2011). This concern for the poor culminated in the development of the Millennium Development Goals (MDGs). In particularly the goal to reduce the number of people living in extreme poverty in 2000 by half in 2015 (World Bank, 2000). According to estimates submitted by the ADB (2006), more than 320 million people live on less than USD 1 per day in Africa. Khavul (2011) however contends that the tools for creating economic growth to move people out of poverty have been hard to come by. A window of hope is however offered in the microfinance arena. He argues that Microfinance is now promoted as a means to solve the crushing poverty that faces at least a third of the world's population. This stance is supported by the ADB (2006) who also stated that the poor "can effectively use microfinance to lift themselves out of poverty, reduce their vulnerability to external shocks, and become prosperous" and further asserted that although microfinance is not a panacea for poverty, access to financial services for all people underpins the attainment of the MDGs.

Touting the worth of MFIs, the ADB (2006) has observed that those institutions indeed play crucial roles in the achievement of the Millennium Development Goals (MDGs) by contributing to poverty reduction, increased political, social and economic development, social empowerment, community participation; school attendance of children and economic prosperity (especially for women). Microfinance is widely tipped as the influential avenue to increase women's empowerment (ADB, 2006; Swain, 2007). According to Swain (2007), that conviction is based on the view that women are more likely to be credit constrained, have restricted access to wage labour market and have limited decision-making and bargaining power within the household. Perhaps, this objective has underscored the focus of most microfinance towards women. For instance, the Grameen Bank reported in 2010 that 97% of its clients were women. The information gleaned from the website of Opportunity International Savings and Loans Company (2004), affirms that a vast majority of its clients are women, with approximately 60-70% being petty traders. The focus of this review on women empowerment is informed by the observation that they are the most prolific operators of SSEs and the informal sector (Steel & Andah, 2003). This further means that when the women are empowered with microcredit, ultimately, the small scale industry is lifted up and wealth creation is enhanced (Steel & Andah, 2003).

The ADB (2006) has observed that strengthening women's financial base and economic contribution to their families and communities can increase women's confidence and empower them through greater economic independence and security, ultimately helping them earn more respect from their husbands, children, in-laws and extended families. Empirical studies conducted by Hashemi, Schuler and Riley (1996) supports this observation made by the ADB. In their study, Hashemi et al (1996) investigated whether women's access to credit has any impact on their lives, irrespective of who had the managerial control. Analysis of their findings suggested that women's access to credit contributes significantly to the magnitude of the economic contributions reported by them; to the likelihood of an increase in asset holdings in their own names; to an increase in their exercise of purchasing power and in their political and legal awareness. They also found that access to credit was also associated with higher levels of mobility, political participation and involvement in 'major decision-making' for particular credit organizations. Therefore, to all intent and purposes, microfinance helps with poverty alleviation, especially pertaining to women and micro-business owners.

The argument that microfinance empowers women has however not sunk well with all and sundry. One of the proponents of the counter argument is Mayoux (1997). She holds the opinion that the impact of microfinance programmes on women is not always positive, but has been negative at certain levels. According to the author, women who have set up enterprises benefit not only from small increases in income at the cost of heavier workloads and repayment pressures, but their loans are sometimes "hijacked" by their spouses to set up their own businesses. This observation has received a further boost in studies done by Rahman (1999). Rahman (1999) used in-depth interviews, participant observations, case studies and a household survey to uncover that between 40% and 70% of the loans disbursed to women are used by their spouse, a phenomenon which invariably fuels household tension. This also affects their enterprises and ultimately, wealth creation potentials. Mayoux (1997) further argues that in some cases women's increased autonomy, that resulted from accessing the microcredit, has been temporary and has led to the withdrawal of male support, an action with a direct blow to general wealth creation efforts. It has also been observed that small increases in women's income are also leading to a decrease in male contribution to certain types of household expenditure (Swain, 2007).

2.4 Poverty Reduction and Wealth Creation Activities of RCBs

One group of microfinance that has been noted for an efficient poverty reduction and wealth creation in the rural areas is Rural and Community Banks (RCBs). Until 1963, there were five main banks providing credit for economic activities in Ghana. These banks centered their operations in the urban centers, hence cutting off most rural dwellers and SME operators, especially those in the informal sector (Asiedu-Mante, 2011). These discriminations were premised on the perception that rural dwellers and operators of the informal sector were poor and could not provide the collaterals that were required by these banks in their credit business.

According to proponents of RCBs, rural and community banks have a very significant position to take part in development and improve wealth creation potentials. Studies have shown that RCBs plays the following three key roles in growth: it assists poor families to meet fundamental needs and protects against risks; it is connected with the enhancement in family financial welfare; and it also assists in empowering women by sustaining women's financial contribution and so promotes gender equity. UNCDF (2004)

Otero (1999) illustrates the various ways in which RCBs battle poverty. She points out that microfinance generates capital for prolific rural and informal sector entrepreneurs and together with human capital (which have been dealt with via education and training, and social capital) attains comprehensive local organization building, finally permitting people to move out of poverty. By providing material capital to a poor person, there is a reinforcement of the person's self-respect and this can help to reinforce the person to take part in the economy and society. He further identified that the aim of RCBs is not presently about providing capital to the poor to fight poverty on an individual level, but it also has a responsibility at an institutional level. RCBs try to find organizations that deliver financial services to the poor, who are constantly overlooked by the formal banking sector.

Littlefield and Rosenberg (2004; cited in Adeyemi and Adenugba, 2011) stated that "the poor are exempted from the financial services sector of the economy and as a result RCBs have appeared to deal with the market failure". Otero (1999) emphasized that addressing this gap in the market is a financially stable way, and RCB can be converted into the formal financial system of a country and so can access opportunities in the capital markets to fund their lending portfolios, which allows them to considerably increase the number of poor people they can reach.

RCBs may have great impacts on the client's business, the client's well being, the client's family, and the community (Sulaiman and Matin, 2002; cited in Steel & Andah, 2003). This is usually revealed after a thorough impact evaluation. In entrepreneurial households money can flow quite easily between the business and different members of the household. In the light of this Ejigu (2009) argues that it is usually wrong to assume that money lent to a particular household member for a specific purpose will be used only by that person, for that purpose. The author emphasized the well-known fact that loans dispersed for self-employment can often be diverted to more immediate household needs such as food, medicine, and school fees, and that, even though an MFI targets a woman, the loans may often end up transferred to husbands. These observations were also confirmed by Steel and Andah (2003).

According to Sulaiman and Matin (2002), it would be a mistake to measure only changes in the client's enterprise when evaluating a credit program. A survey done by Khandker (2001) suggested that community members who have access to microloans facilities do better than those without those facilities. Interestingly, he also found that the poverty reduction programmes had an additional overflow outcome of the local financial system, but the impacts are very small. According to Robinson (2001), between the economically poor of the developing world, there is the strong demand for small scale commercial financial services for both credit and savings. These and other economic services assist low income earners to smooth income flows and consumption cost, and eventually lead to expansion of their micro businesses.

One sparkling evidence of poverty intervention is that of Grameen Bank in Bangladesh. This MFI operates the group lending methodology in its wealth creation and poverty reduction programme. According to Hossain (2008), "members of Grameen Bank had incomes about 43% higher than the target group in the control villages, and about 28% higher than the target group nonparticipants in the project villages". The Bangladesh Institute of Development Studies in collaboration with the World Bank, showed that the Grameen Bank not only "reduced poverty and enhanced welfare of partaking families but also enhanced the family's capacity to maintain their gains over time". In short, the bank help families create wealth and exit poverty.

Similarly, Zaman (2000) examined the extent to which micro-credit decreases poverty and susceptibility through one of the largest providers of micro-credit to the poor in Bangladesh known as BRAC. The paper concluded that micro-credit contributes to justifying a number of factors that contribute to susceptibility while the impact on income-poverty is a function of borrowing beyond a certain loan threshold and to a certain extent dependent on how poor the household is to begin with. According to Zaman (2000) members in micro-credit systems decrease susceptibility by smoothing consumption, building assets, providing emergency help during natural disasters, and contributing to female empowerment. These are works that propose that the right of entry to credit has the potential to significantly decrease poverty (Khandker 1,998). On the other hand Morduch (1998) argued that micro-credit has negligible influence on poverty alleviation and consistent wealth creation potentials.

Hashemi et al (1996) and Montgomery et al. (1996) suggested that, the availability of micro-credit has been found to strengthen the problem of coping system, diversify income-earning sources, build assets and improve the status of women. A study conducted by Ardon and Colindres, (2007) in Honduras, stated that participation in the credit and savings programme had enabled beneficiaries to send several children to school at a time, helped their businesses grow and had reduced drop-out in the higher primary school grades. Moreover, household income of families with access to credit is considerably more advanced than for similar households without access to credit.

2.5 Challenges of Microfinance Institutions

Microfinance holds a huge potential for poverty amelioration in the world, especially in Africa. Their operations are however encumbered by several challenges that limit their reach and sustainability; including institutional, attitudinal and governmental constraints. For instance the ADB (2006) observed that the single biggest challenge facing the growth of outreach of financial services to the poor is the absence of strong retail capacity in microfinance institutions. Other challenges the institution observed were: the extension of access to financial services to the remotest of rural areas in a cost-effective manner; the pervasive impression that microfinance is a social system of resource transfers to "beneficiaries" at subsidized interest rates, rather than a part of the financial sector – a reason which explains why national enabling environments still restrict MFIs from mobilizing savings and prevent them from achieving financial self-sufficiency due to interest rate ceilings; and institutional infrastructure needed for MFIs to thrive. This includes service providers such as training institutes, accountancy, credit bureaus, and information technologies

In Ghana, the challenges MFIs face are also many and varied. The most prominent being the absence of specific policy guidelines and goals to guide their practice. According to Asiama and Osei (2007), this factor partially accounts for the slow progress of the sub-sector, and the apparent lack of direction, fragmentation and lack of coordination. This constraint further accounts for other constraints such as: inappropriate institutional arrangements; poor regulatory environment, inadequate capacities; lack of coordination and collaboration; poor institutional linkages; absence of a specific set of criteria to categorize beneficiaries; lack of linkages between formal and informal financial institutions, inadequate skills and professionalism; and inadequate capital. Better coordination and collaboration among key stakeholders including the development partners, government and other agencies, could help to better integrate microfinance with the development of the overall financial sector.

2.6 Conclusions - Literature Review

This review has succeeded in tracing the evolution, growth, reach and categorization of microfinance in Ghana. It was realized that the issue of micro savings is not new in Africa and indeed, Ghana. It is a practice of old but was only formalized into MFIs when the issue of poverty alleviation reached its zenith point and microfinance was seen as one of the surest ways to arrest it. Beside these, literatures were also reviewed on the role of microfinance for economic growth and prosperity as well as the role it plays in poverty alleviation and women empowerment. Finally, it traced the challenges MFIs face in their operations. These challenges range from institutional challenges to regulatory challenges and capacity building and utilization challenges. In fact, a lot has to be done if MFIs are to take their place of empowering the masses economically and transforming the poorest of the poor to thriving members of society.

3. Research Methodology

This section focuses on the research techniques adopted for this study with the aim of achieving the research objectives. It elaborates the research design, research area, population and sampling, research instrument (data collection technique) and administration of the instrument. Survey research design was adopted in this study to assess the impact of microfinance on Small Scale Enterprises.

The study target MFIs and SSEs that operate within Abossey Okai a suburb of Accra. Abossey Okai was chosen because it is one of the areas with huge commercial activities in Accra, particularly in the sale of spare parts and allied products. This is attested to by the fact that the area alone can boast of eleven banks and five MFIs. These banks (i.e., UBA, SGGHANA, UT, Ecobank, Fidelity, HFC, Prudential, Merchant, Access, Agricultural Development Bank and GCB), recognizing the wealth creation potential have scrambled to establish branches of operations in this business district, with others looking for openings to establish branches in this area.

The Abossey Okai suburb has five MFIs and approximately 600 SSEs. These institutions therefore formed the population of the study. The managers of these institutions were the main respondents since they were considered to be knowledgeable about the subject matter of this study. These two streams of respondents were selected because the researcher wanted to find out whether the respondents from the MFIs and the SSEs have similar views pertaining to microcredit as a source of financing SSEs, perceptions of the barriers to credit delivery as well as a means of addressing challenges faced from each side. The MFIs that operate in the vicinity are: Equity Focus, Dwetire, Multi Credit, Diamond Capital and Top-Up Co-operative.

While the sample of MFIs was selected purposively, the SSEs operators were selected conveniently. The usage of the purposive sampling method was informed by the fact that the researcher intended to administer questionnaires to respondents whose views were relevant to the objectives of the study. Towards this end, three managers were selected from each institution. The targeted managers were the Chief Executive Officer (CEO), the Finance Manager and the Operations or Credit Manager (depending on the designation given in each organisation).

There is a population of 600 SSEs in Abossey Okai, which is made up of spare parts operators, food vendors, kiosk operators among others. Out of this number, questionnaires were sent to 85. This means that, the researcher selected SSEs that were willing to be part of the study. The details of the sample selected have been summarized in Table 3.1 below:

Table 3.1 Population and Sample in the Study

Institution Type	Number of Institutions	Number of Managers	Sample Selected
MFIs	5	30	15
SSEs	600	600	85
Total	605	630	100

Source: Author's survey of Abossey Okai

Two semi structure questionnaires were prepared – one for the MFI operators and the other for the SSE operators. The use of questionnaire allowed the researcher to collect large amounts of data in a relatively short time. The questionnaires were designed by the researcher with guidance from the objectives of the study as well as the literature reviewed.

4. Data Analysis and Discussion

This section focuses on the analysis of data and discussion of the data in the study. Questionnaires were administered to 100 respondents, comprising 15 MFI operators and 85 SSE operators in Abossey Okai in the Greater Accra Region. However, typical of all surveys, not all the questionnaires could be recovered. The researcher had a total of 65 completed questionnaires returned representing a recovery rate of 65%. These comprised all the 15 responses from the MFI operators (representing 100% recovery rate for this category of respondents) and 50 from the SSE operators (representing approximately 59% of this category of respondents). It is the cumulative recovery rate that was pegged at 65%. All the 65 responses were useable.

The data were organized into tables and figures based on responses from the questionnaires. The responses were then analyzed and converted into percentages and other charts, using the SPSS software and Microsoft Excel to generate the three dimensional bar chart and pie charts. The result was subsequently computed into percentages. Percentage (%) values, which were not round figures, were approximated to the nearest whole numbers. Diagrammatic representations of the statistical summaries of the result were presented in the form of pie charts, graphs frequency tables.

4.1 Demographic Information

A series of questions were asked to determine the backgrounds of the respondents in the study. This involved questions about their age, length of time as employees or business people, highest educational attainment and position as either an employee or a businessperson. The details of these analyses have been presented below:

It was obvious that from the table below that majority of the MFI operators were between the ages of 25 and 34 (47%) while the rest were 18 to 24 years (13%), 35 to 44 years (33%) and 45 to 54 years (7%). None of the respondents were above 60 from either the SSE operators or the MFI employees. With respect to the SSE operators, it was observed that the majority were between 35 to 44 years (72%), while the rest were 18 to 24 years (2%), 25 to 34 years (10%), 45 to 54 years (16%). It is evident that the MFI employees were younger than the SSE operators. Table 4.1 below illustrates the above analysis.

The majority of the MFI workers had worked for relatively shorter time than their SSE counterpart, who seems to have been in business longer. Specifically, 40% of the MFI employees have worked in their institutions for 4 years or fewer whiles 60% have worked between 5 to 9 years. Conversely, the SSE operators had been in business between 5 to 9 years (10%), between 10 to 14 years (26%), between 15 to 19 years (36%) and 20 and above (28%) in that order.

Table 4.2 presents the educational qualification of respondents. There is an identifiable inverse relationship between the educational qualification of the SSE operators and those of the MFI operators. While the majority of the MFI employees had their tertiary education, the majority of the SSE operators had only had their Middle School Leaving Certificate or WASSCE. In fact, a cumulative 80% of the respondents did not have any tertiary education. However an impressive 20% of the SSE operators had a Higher National Diploma (HND) certificates.

Table 4.1: Age and Length of Work of Respondents

		MFI Employees		SSE Operators	
	Variable	**Frequency**	**Percentage (%)**	**Frequency**	**Percentage (%)**
Age of Respondents	18-24 years	2	13	1	2
	25-34 years	7	47	5	10
	35-44 years	5	33	36	72
	45-54 years	1	7	8	16
	Total	**15**	**100**	**50**	**100**
Length of Work	Below 4 years	6	40	0	0
	Between 5 - 9 years	9	60	5	10
	Between 10 - 14years	0	0	13	26
	Between 15 - 19 years	0	0	18	36
	20&Above years	0	0	14	28
	Total	**15**	**100**	**50**	**100**

Source: Fieldwork, 2013

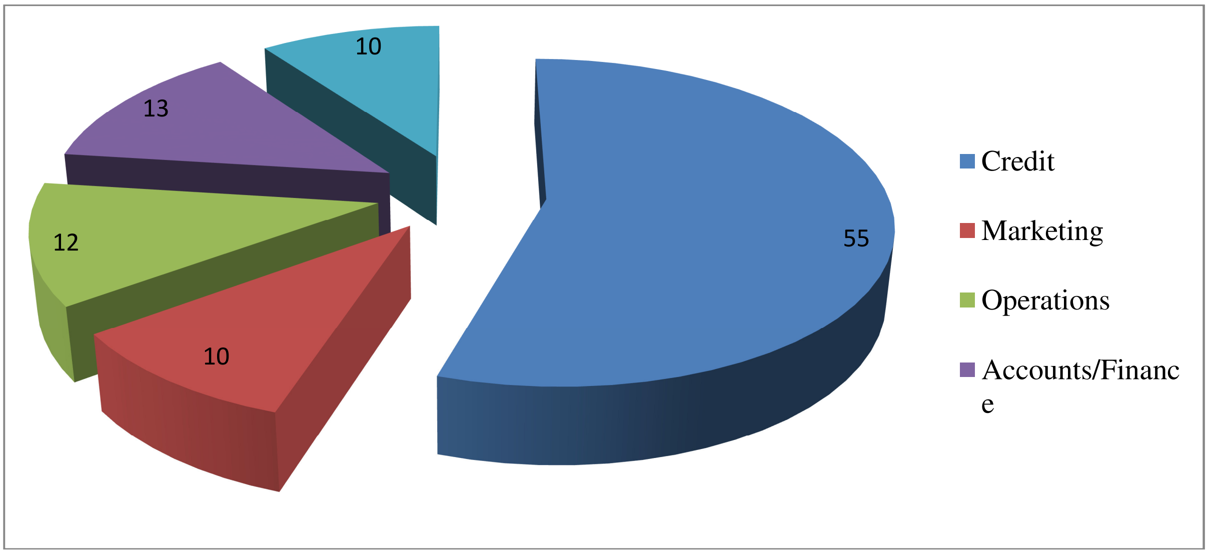
Table 4.2: Educational Qualification of Respondents

		MFI Employees		SSE Operators	
	Variable	**Frequency**	**Percentage (%)**	**Frequency**	**Percentage (%)**
Education	Primary/JHS	0	0%	9	18
	WASSCE/MSLC	2	13	36	72
	Higher National Diploma	7	47	10	20
	Bachelor's degree	3	20	2	0
	Professional qualification	1	7	2	4
	Master's degree	1	7	0	0
	Total	**14**	**93**	**50**	**96**

Source: Fieldwork, 2013

Almost all the SSE operators described themselves as owner/managers while the remaining few (8%) described themselves as only managers. Among the MFI employees, the majority was sourced from the credit department (55%), marketing department (10%), operations (12%) and accounts/finance (13%). However 10% of the respondents described themselves as managers. The positions of the MFI operators have been captured in the pie chart below.

Figure 4.1: Position of MFI Respondents



Source: Fieldwork, 2013

4.2 Sources of Financing for SSEs

A series of questions were asked to establish how SSE operators get funds to start and grow their business. Similar questions were posed to the MFI operators to establish whether they are aware of the alternative means of financing SSE operators in the metropolis.

According to the MFIs operators personal sources represent the most predominant means through which SSE operators start their businesses. Cumulatively 92% respondents indicating so while 8% were neutral on this variable. A similar observation was made with regards to the growth of SSEs. Again, while 92% said most SSEs finance their growth with their personal funds, 8% were neutral on this variable. These observations and the subsequent ones have been summarized in Table 4.3 below

It was also apparent that family and friends form the second most dominant source of fund most SSEs use for starting and growing their businesses. However, the strength of this variable was minutely diminished, relative to those of personal sources. This is explained by the cumulative 88% who strongly agreed and agreed; this is how SSE operators fund their start up while 12% disagreed.

While a lot more MFI operators believe that the support from family and friends usually fund start-up, many did not believe it usually fund growth of such businesses. This is evidenced by a cumulative 60% agreeing that funds from these sources usually fund growth while 40% disagreed. Obviously, a lot more respondents disagreed to this variable as the source of fund for growth relative to this source funding start-up.

An interestingly low level of agreement was recorded when it came to whether commercial banks fund start-up of SSEs. It was observed that only 17% agreed that indeed commercial banks fund SSEs while the majority (80%) disagreed. Similar observations were made with regards to the growth of SSEs. These observations confirm copious literature evidence that points out that SSEs generally lack fundings from commercial banks due to severally varied reasons. This is in confirmation with Abor and Quartey (2010) that, the inability of SSEs to access formal credit from financial institutions and lack of enough governmental support have led to the collapse of these businesses within the first few years of their existence. These go to further affirm that commercial banks do not play a principal in the wealth creation and poverty reduction role of SSEs in Ghana, despite critical literature evidence that affirm this potential of SSEs (Mensah, 2004, Abor & Quartey, 2010; Basu et al, 2004).

Similar to the commercial banks, it was observed that MFIs hardly fund start-ups. While 80% of the MFI respondents were of this conviction, 17% indicated that MFIs fund start-ups. However, an interesting twist was observed when it came to financing growth of SSEs. Unlike the case with start-up, majority of the MFI operators indicated that they support growth. This is evidenced by a whopping 95% of the respondents agreeing this to be the case while 5% dissented. In fact, it can be argued that the respondents were rather justifying their existence in the business district since their dealings is principally with SSEs. Whereas this focus confirms Valdez (2006) conception of microfinance as a grass-roots development tool intended to reduce poverty through the provision of financial services and financial inclusion of the poor and non-collateralized people in the society, it did not confirm the observation by Zaman (2000) that questioned the effectiveness of microfinance programs on wealth creation and poverty reduction. Neither do these findings confirm the position by Roodman and Morduch (2009) that 30 years into the microfinance movement, there is still no solid evidence that establishes solidly that it is an effective tool in poverty reduction.

Table 4.3: Sources of Financing SSEs according to MFI Employees

Variable	Response Category					
	Strongly Agree (%)	Agree (%)	Neutral (%)	Disagree (%)	Strongly Disagree (%)	Total
Financing start-up from Personal Sources	20	72	8	0	0	**100**
Financing growth from Personal Sources	20	72	8	0	0	**100**
Financing start-up with funds from Family and Friends	25	63	0	10	2	**100**
Financing growth with funds from family and Friends	15	45	0	35	5	**100**
Financing start-up with funds from Commercial Banks	5	12	3	70	10	**100**
Financing growth with funds from Commercial Banks	5	12	3	70	10	**100**
Financing start-up with funds from Microfinance Institutions	5	12	3	70	10	**100**
Financing growth with funds from Microfinance Institutions	40	55	0	5	0	**100**

Source: Fieldwork, 2013

Similar to the MFI operators, the majority (in fact all) of the SSE respondents indicated that they finance their business operations with their personal funds. As illustrated in Table 4.4 below, all the respondents (100%) indicated that they financed their business from their personal sources.

It is also obvious that funding from family and friends also represent a very important source for these SSE operators. While 72% believed that this represents an important source of funding, 16% disagreed. Twelve percent (12%) were neutral on this variable.

Similarly, 76% reckoned family and friends as the predominant source of financing for growth whiles 16% thought otherwise. These observations confirm that though funding from family and friends could be very relevant and in fact critical to SSE start up and growth, personal sources far supersede this source of financing.

When it came to financing start-up and growth with funds from commercial banks, none of the respondents indicated commercial bank funding as a source, unlike 17% of the MFI operators who thought this is a source of financing for SSEs operators. However, the response is similar to the predominant responses of the MFI operators as they saw this source of financing as almost non-existent. Again, this confirms the copious literature evidence that lament the lack of SSE funding in Africa, leading to the demise of those businesses within a few years of starting up (Abor & Quartey, 2010).

With regards to funding start up and growth by MFIs, while none of the respondents saw it to be the case of start-up, a cumulative 58% saw MFIs as funding for growth of SSEs. Apparently, this is the time when the business has passed its riskiest time and hence becomes quite viable to invest in. However, according to Sulaiman and Matin (2002), when evaluating the impact of microfinance on wealth creation and poverty reduction, it becomes a mistake to measure only changes in the client's enterprise. It therefore can be summed up that the effect of microloans in the case of these businesses might be more than just funding growth of SSEs. Other indicators such as consumption smoothing, saving from vulnerability, attending to the health needs, transfer to other needy members of the family, purchase of assets among others (Ejigu, 2009; Steel and Andah, 2003; Otero, 1999 etc.)

Other sources of funding mentioned by respondents were: susu credit schemes; cooperative credit unions; pawn shops; funding from financial NGOs; and credit lines (ie, taking goods from suppliers on credit and paying back after selling) However, it was apparent that these sources were marginal when compared with, for instance, personal sources and those received from family and friends.

When respondents were asked which of the sources of financing were reliable and effective, about 95% of the MFI operators saw microfinance as the most reliable and effective source of financing, the SSE operators saw personal financing as the most reliable and effective source of financing.

Table 4.4: Sources of Financing SSEs according to SSE Operators

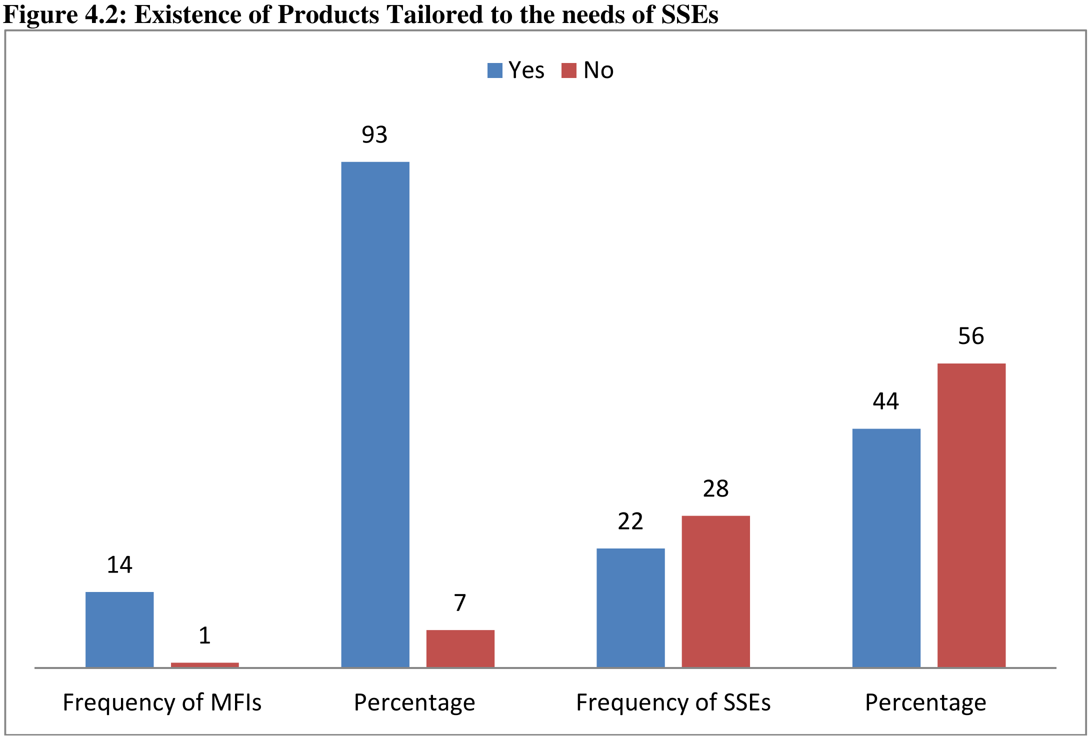
Variable	Response Category					
	Strongly Agree (%)	**Agree (%)**	**Neutral (%)**	**Disagree (%)**	**Strongly Disagree (%)**	**Total**
Financing start-up from Personal Sources	40	60	0	0	0	**100**
Financing growth from Personal Sources	40	60	0	0	0	**100**
Financing start-up with funds from Family and Friends	24	48	12	10	6	**100**
Financing growth with funds from family and Friends	25	51	8	10	6	**100**
Financing start-up with funds from Commercial Banks	0	0	3	70	27	**100**
Financing growth with funds from Commercial Banks	0	0	3	70	27	**100**
Financing start-up with funds from Microfinance Institutions	0	0	3	70	27	**100**
Financing growth with funds from Microfinance Institutions	15	43	22	20	0	**100**

Source: Fieldwork, 2013

4.3 Current MFIs Arrangement for SSEs Financing

A series of questions were asked to ascertain the current MFI arrangements to finance SSEs operations. The first of such question was to find out the existence of products tailored to finance SSEs in the first place. As illustrated in Figure 4.2 below, the majority of the MFI employees agreed that indeed, there is such a product while the majority of the SSEs were unaware of such products. Among the SSE operators, 44% indicated that there was such a product while 56% indicated that they do not have such a product. It can be deduced from the 56% who indicated that there was no such product that either they do not know of such a product or had not applied for such before.

Figure 4.2: Existence of Products Tailored to the needs of SSEs



Source: Fieldwork, 2013

When respondents were asked to mention some specific products tailored to these SSEs, several submissions were made. Some of these are: susu loans; commercial loans; short term credit; fixed deposit; super-golden susu loans; fast-track loans; travel loans; group loans; clearance loans; and consumer loans While the above list were submitted by the MFI operators, the SSE operators only mentioned four of these products, i.e., susu loans, group loans, fixed deposits and fast-track loans. This shows that either the MFIs were not marketing their products well enough or the SSE operators were not availing themselves of those opportunities the MFIs offer. However, the MFI respondents could not mention any new product they intend to roll out for the start-up and growth of MFIs. They repeated those products mentioned earlier. It was also observed that the MFI operators mentioned similar products, indicating that there is little innovation among these institutions on how to meet the needs of SSEs.

Table 4.5 illustrates respondents rating on how their products are patronized and aid wealth creation and poverty reduction efforts. While most of the MFI employees see their products patronized to an extent (53%), the majority of the SSE operators (60%) were neutral on this variable. The other MFI employees saw patronage to a large extent (13%), neutral (7%) and not at all (27%). Among the SSE operators, 2% saw patronage to a large extent, 20% to an extent and 18% not-at-all.

With respect to MFI products and wealth creation, it was evident that all the MFI employees see their products as leading to wealth creation and poverty reduction while the inverse relationship was the case for the SSE operators.

Table 4.5: Extent to which Microfinance Products are Patronized and Aids Wealth Creation

		MFI Employees		SSE Operators	
	Variable	**Frequency**	**Percentage (%)**	**Frequency**	**Percentage (%)**
Patronage of MFI products	To a large extent	2	13	1	2
	To an extent	8	53	10	20
	Neutral	1	7	30	60
	Not-at-all	4	27	9	18
	Total	**15**	**100**	**50**	**100**
Aiding in Wealth Creation and Poverty Reduction	To a large extent	10	67	0	0
	To an extent	5	33	5	10
	Neutral	0	0	30	60
	Not-at-all	0	0	15	30
	Total	**15**	**100**	**50**	**100**

Source: Fieldwork, 2013

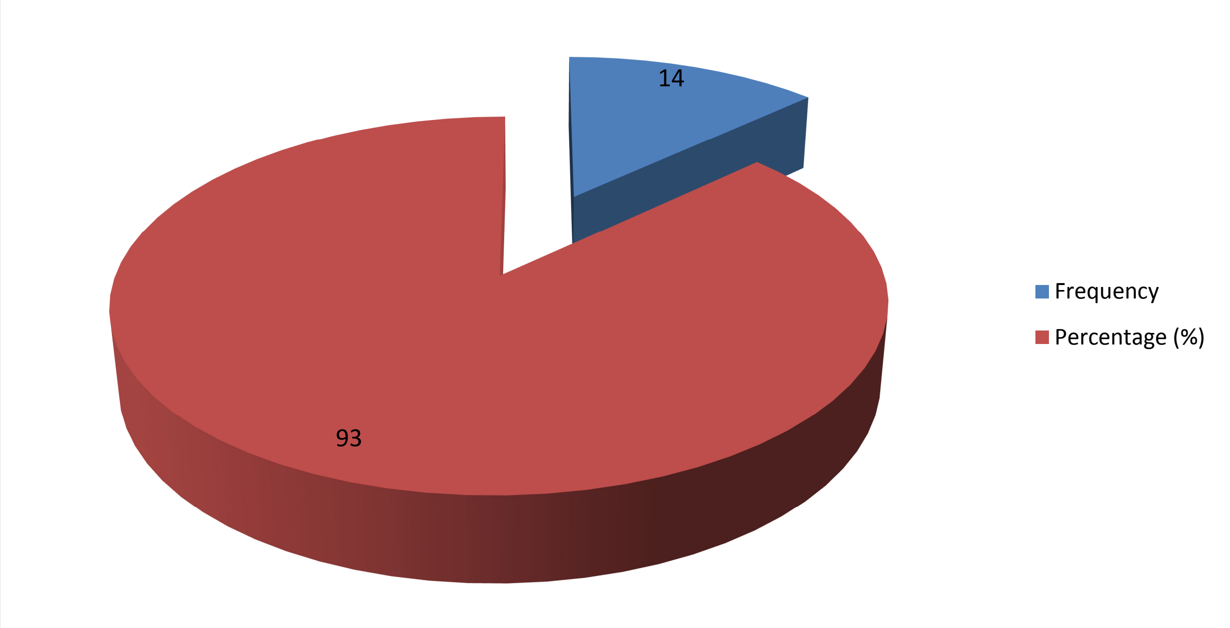
However, among the SSE operators, the majority of them stayed neutral, indicating that they either have not accessed those products before or did not realize the anticipated benefits. However, this study was limited in unraveling the reasons behind this trend of responses.

4.4 Identifying New and Sustainable Ways of Delivering Microcredit

This objective sought to investigate whether MFIs have identified new and sustainable means of delivering credit to SSEs, especially in the light of the huge potential the sector holds in the entire economy (Africa Development Bank, 2006; Bank of Ghana, 2007; Asiama and Osei, 2007). Firstly, most of the MFI operators (93%) were of the view that there are new and sustainable means of advancing credit to SSE operators. Fourteen percent (14%) however thought otherwise. These responses have been summarized in Figure 4.3 below. However, when asked for these new and sustainable means of delivering microcredit, though some responses were given, they were no different from those listed earlier. These included fast-track loans and susu loans. However some mentioned delivering credit at the doorstep of SSEs. Others mentioned that credit was not the most important need of SSEs but rather savings, financial education and re-engineering. These respondents were of the conviction that most SSEs are profitable but do not realize these profits because their financial records are usually in shambles.

Respondents further gave a preview into how they think MFIs can help aid SSEs development. These included cutting down the need for collateral and rather dealing with group loans or existing cooperative societies, enrolling SSEs in capacity building programmes, especially financial and management educational programmes, cultivating saving habits by making it convenient for SSEs to save, reducing the rate on loans, making funds available to children at the time of need and helping SSEs draw up management and business planning. In addition to helping them draw up good succession plans that will ensure business continuity in the event that the entrepreneurs are no longer available.

Figure 4.3: Existence of New and Sustainable Means of Advancing Credit



Source: Fieldwork, 2013

4.5 Challenges and Suggestions

Finally, a series of questions were asked to assess the challenges faced by MFIs in giving credit to SSEs and the challenges the SSEs face in accessing credit from the MFIs. It also sought for suggestions on how to overcome these challenges and to ensure both MFIs and SSEs are satisfied in their mutual pursuit.Both streams of respondents indicated that they face tremendous challenges in advancing and accessing credit respectively. As depicted in Figure 4.4 below, while 87% of the MFI employees indicated that they do have challenges, a whopping 92% of the SSE operators answered similarly. Indeed, these overwhelming response points to real challenges from each camp.

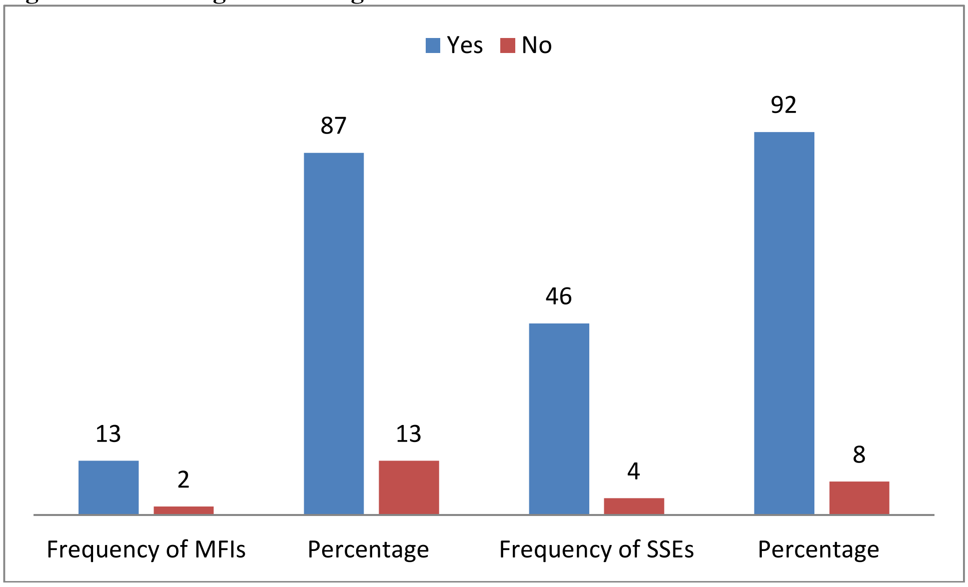
According to the MFI operators, the major challenges they face in their business of advancing loan of SSEs are as follows: loan default due to loan diversion, business losses or just deciding not to pay; information asymmetry, i.e., client withholding information during loan applications; fronting for other business men; inability to fully utilize credit due to weak managerial skills or financial literacy; revenue leakage due to lack of financial literacy; giving fake collaterals; weak enforcement of co-operative societies or group loans; and frequent fire outbreaks that leads to losses and hence inability to repay loans.

Incidentally, the responses boil down to clients' inability to repay loans contracted. Though the ADB (2006) recognized the poor capacity of SSE operators to repay, it also saw that challenge as affecting the MFIs too as they were also observed to lack managerial capacities. Besides the ADB (2006) mentioned the single biggest challenge facing MFIs to be the growth of outreach of financial services to the poor is the absence of strong retail capacity in microfinance institutions. This requires business planning and managerial capacity building to overcome. MFIs can take advantage of learning from the mainstream banking system.

When the SSE operators were asked what challenges they face in accessing credit from the MFIs, several responses came up. The prominent ones include: laborious loan application process; demand for non-existent collateral; delay in processing and giving out loan amount which often results to loss of business opportunities; products that are unresponsive to current business demands; discourteous bank officials; long queues in banking halls, leading to waste of time; unwillingness to give credit to co-operatives and associations; "killer" interest rates (that can literally kill your business); lack of innovation in loan product design; and using macho-men and police men to retrieve debts.

Unlike the MFI employees who were predominantly concerned with loan repayment, the SSE operators were concerned not only with loan application but other issues relating to their relationship with the banks, including delays in the banking halls and loan retrieval processes. According to respondents, the only thing the government has done to ensure loans are affordable to SSEs is by lowering the base rate at which banks borrow from the central bank. However, no direct intervention from the government was recorded by the respondents. Incidentally the MFI operators did not mention any new product they were rolling out to address the challenges they have outlined.

Figure 4.4: Existing of Challenges



Source: Fieldwork, 2013

5.0 CONCLUSION AND RECOMMENDATION

5.1 Conclusions

On the first objective, which states "To examine the various sources of finance needed by SSEs for start-up, survival and future expansion", it can be concluded that personal sources, funds from family and friends are the main sources of funding for SSE start-up and expansion. Other sources such as commercial and microloans contribute marginally to start-up and growth relative to these sources. This is more so in the case of commercial bank loans than microloans.

On the second objective, which states "To ascertain the current MFI arrangements to finance SSEs toward wealth creation and poverty reduction" it was found that these arrangements cover susu loans, commercial loans, short term credit, fixed deposit, super-golden susu loans, fast-track loans, travel loans, group loans, clearance loans and consumer loans. However, only four of these products, ie, susu loans, group loans, fixed deposits and fast-track loans were readily mentioned by the SSE operators, indicating that the other products might not have been marketed to them.

On the third objective, which states "to determine the main obstacles hindering SSEs in accessing credit to MFIs", it was observed that the major challenges SSEs face in sourcing for credit are: laborious loan application process; demand for non-existent collateral; delay in processing and giving out loan amount, leading to loss of business opportunities; products that are unresponsive to current business demands; discourteous bank officials; long queues in banking halls, leading to waste of time; unwillingness to give credit to co-operatives and associations; "killer" interest rates (that can literally kill your business); lack of innovation in loan product design and - using macho-men and police men to retrieve debts.

On the fourth objective, which states "To determine the main challenges MFIs face in advancing credit to SSEs" it can be concluded that the major challenge MFIs face in advancing credit to SSEs pertains mainly to default and their inability to recover loans due to loan diversion, information asymmetry, fronting for other businessmen, giving fake collaterals, frequent fire outbreaks and revenue leakage due to financial illiteracy.

On the fifth objective, which states "To identify new and sustainable ways MFIs can utilize to advance credit to SSEs" it can be concluded that the MFIs have not designed new products, besides what they are already running, despite claiming that there is the existence of such innovations. In other words, respondents could not mention many products that are in the offing.

5.2 Recommendations

Based on the findings made in the study, the following recommendations are made.

MFIs should ensure their products are marketed to their target recipient to ensure these customers know these products and patronize them. MFIs could use the radio, television, billboards and other promotional packages towards this end. In addition, they may use enticement packages that allow clients to win certain prizes for patronizing those products.

MFIs should undertake market survey of the spare parts dealers they serve to better understand their target market in order to roll out products that are tailor-made to their needs. This will promote creativity and avoid the design of generic products that are run by almost all those institutions.

The views of clients should be classified by the microfinance institutions to help them know their clients' perception of their activities in order to change negative impressions.

The MFIs should also take steps to make the procedure and requirements for the granting of the loans much more flexible. They should increase credit given out to meet clients' financial needs and also extend the repayment period to suit individual or prospective borrowers.

Follow ups must be conducted by the MFIs in the field to assess whether the credit facilities granted are being used for the purposes for which they secured.

Lastly clients especially the entrepreneurs should be educated on good management practices to enable them to operate profitably.

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