

The narrow and broad argument of microfinance impacts on small- and medium-sized enterprises in Ghana

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Abstract

Microfinance has become a popular and fashionable word in financial and development circles. In practice, the term was often used more narrowly to refer to loans and other services from providers that identify themselves as microfinance institution. Indeed, the concept of microfinance was not new in Ghana. Microfinance plays a very crucial role in the area of addressing the market failures with regard to the provision of financial services to the low-income customers who until recently were receiving little or no help from the conventional financial service providers. This study examines the impact of microfinance on the operations of small- and medium-scale industries in Ghana – focusing on Tafo area of Ashanti region. The study uses sampling size of 91 clients. Data were collected through questionnaire. The findings reveal that most of the microfinance clients take loans to expand their personal businesses. The study recommends an effective monitoring system to be put in place to correct the poor collection mechanism that is currently facing the firms.

Keywords: Microfinance, small- and medium-sized enterprises, Tafo district

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1. Introduction

Microfinance institutions (MFIs) were created to perform financial intermediation to the low-income people. The microfinance concept was a developmental tool that can be used to alleviate poverty by providing financial services to low-income clients including the self-employed. Today, not only was there a need for the efficient allocation of resources paramount but also the transformation through financial intermediaries was recognised. The financing of microenterprise activities was largely rendered by rural banks and MFIs (Microfinance). According to Afrane (2002), small and micro enterprises were the backbone of many economies in sub-Saharan Africa, including Ghana. They hold the key to possible revival of economic growth and the elimination of poverty on a sustainable basis but were denied official support, particularly credit from institutionalised financial organisations that provide fund for business. Microentrepreneurs find it virtually impossible to access credit from the mainstream banks because these banks perceive them as not being trustworthy. Indeed, the concept of microfinance was not new in Ghana. There has always been the tradition of people saving or taking small loans from individuals and groups within the context of self-help to start businesses or farming ventures. Over the years, the microfinance sector has successfully developed into its current state, to assist in this direction.

1.1. Statement of problem

Poverty reduction remains the greatest challenge facing governments in many countries, especially those in the developing world like Ghana. The majority of the poor tend to be in small business activities. The owners of these business activities require financial support to grow, but many were affected with poverty. However, these individuals were those who were neglected by the traditional banks on the basis of perceived risk. The microfinance, therefore, was intended to meet these needs, but there were few in number to satisfy the growing demand of the clients and also some of the existing ones have diverted their focus from the poor who owns small business in the society creating a gap as to their actual support to the livelihood of the poor in the society. This research aims to ascertain the impact of the microfinance activities on the livelihood of the small business own by the people living in the area of Tafo as the basis for the study.

1.2. Objectives of the study

The general objective of the study was to investigate microfinance contributions to SMs small- and medium-scale enterprises (SMEs) in their efforts towards growth and the challenges facing the development of SMEs.

The specific objectives of the study were:

1. To identify the purpose of assessing product and services of microfinance firms by clients in the Tafo area of Ashanti region
2. To investigate how these services and products impact on the growth effort of customers SMEs
3. To examine the problems faced by customers in accessing services provided by MFIs.

1.3. Research questions

The study will address the following questions:

1. What are the purposes of assessing product and services of microfinance firms by clients in

the Tafo area of Ashanti region?

2. What are the impacts of product and services rendered by microfinance on SMEs?
3. What are some of the problems faced by clients of MFIs?

1.4. Significance of the study

This study was centred on the activities of microfinance and their contributions to the development of small- and medium-scale businesses in Ghana. The study would provide the government with the needed information in designing a policy framework to enhance the development of the SME industry. It would also help the public to understand the role of MFIs play in the SMEs sector. The study will assist MFIs to adopt the necessary measures needed to ensure the desired growth in the SME industry.

1.5. Scope of the study

The study focused on Tafo area to cover the microfinance in that area. The choice of the MFIs in Tafo was as a result of the following reasons: MFIs in that area have adequate resources to manage their own business. They were well known by most people in the country and they have been in existence for a very long time.

1.6. Limitation of the study

Information for this study has been collected in a wider scope, but it was limited and narrowed to Tafo area. Even though the findings can easily be generalised to the other areas of Ghana, its application may not be able to represent the total population of the country and this could be a limitation. Another limitation was time as well as funds to cover wider study area.

2. Literature Review

This chapter critically reviews the existing literature on the MFIs, the concept of SMEs and MFIs, products and services offered by these SMEs, the role of MFIs plays on the growth and development of SMEs and some of the problems envisage in the industry (Figure 1).

2.1. The Concept of microfinance

Microfinance, according to Otero (1999), was the provision of financial services to low-income earners and self-employed people. These financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment service.

Schreiner and Coombet (2001, p. 339) defined microfinance as the attempt to improve access to small deposits and small loans for poor household neglected by banks. Microfinance typically refers to a range of financial service including credit, savings, insurance, money transfer and other financial products provided by different services providers, targeted at poor and low-income people. Another aspect of microfinance was the issue of microloans. They were offered to the poorest of the poor, with a focus on women, to finance self-employment projects that will generate income and allow them to escape poverty so that they can provide food and shelter for themselves and their families.

According to Consultative Group to Assist the Poor (CGAP) (2010, p. 1), microfinance was often defined as financial services for poor and low-income clients. MFIs commonly tend to use new methods to deliver very small loans to unsalaried borrowers, taking little or no collateral. These methods include group lending and liability, pre-loan savings requirements, gradually increasing loan sizes and an implicit guarantee of ready access to future loans if present loans were repaid fully and promptly.

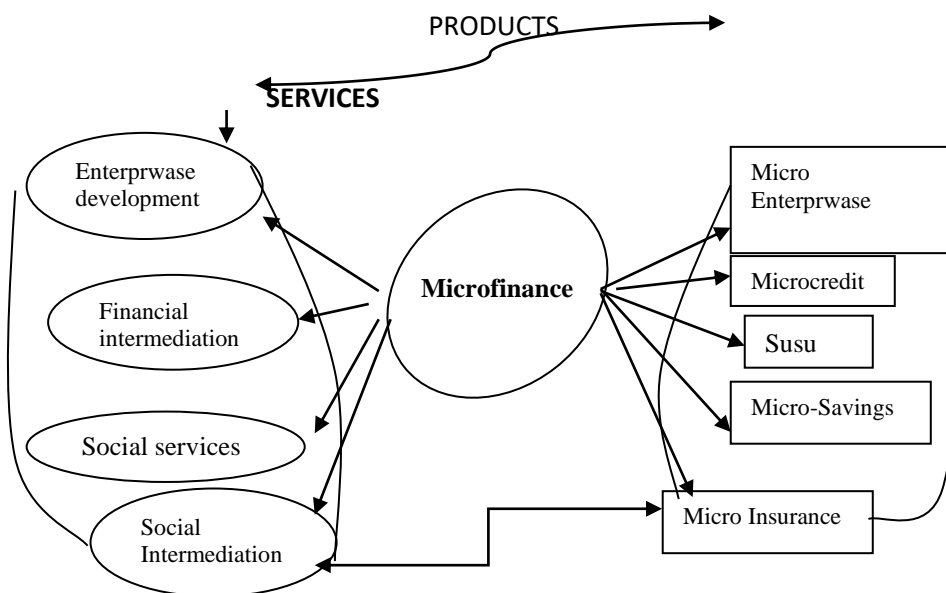


Figure 1. Products and services offered by microfinance Institutions

2.2. Different perspectives on the concept of SMEs

There have been various perspectives given for small-scale enterprise in Ghana, but the most commonly used criterion was the number of employees of the enterprise. In applying the definition, confusion often arises in respect of the arbitrariness and cutoff points used by the various official sources. Ironically, in its Industrial Statistics, the Ghana Statistical Service considers firms with fewer than 10 employees as small-scale enterprise and their counterparts with more than 10 employees as medium- and large-sized enterprises.

The value of fixed assets in the firm has also been used as an alternative criterion for defining SMEs. However, the National Board for Small Scale Industries in Ghana applies both the 'fixed asset and number of employees' criteria. It defines a small-scale enterprise as a firm with not more than 9 workers and has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Ghana cedis. It was important to caution that the process of valuing fixed assets poses a problem. Second, the continuous depreciation of the local currency as against major trading currencies often makes such definitions outdated.

In defining small-scale enterprise in Ghana, Steel and Webster (1991) and Osei, Tutu and Sowa (1993) used an employment cutoff point of 30 employees. Osei et al. (1993), however, classified small-scale enterprise into three categories. These were as follows: (i) Micro-employing <6 people; (ii) very small employing 6-9 people; (iii) small between 10 and 29 employees. More recent definitions might have used different categories, but the parameters and variables used were often common as far as definition of the concept was concerned.

2.3. Theoretical links between microfinance and SME development

Accessing loans was considered to be a major link between microfinance and the SMEs in increasing the development of SMEs. It was believed that access to loans enables poor and low-income people to overcome their liquidity constraints and undertake some investments such as the improvement of farm technology inputs, thereby leading to an increase in agricultural production.

The main objectives of microcredit were to improve the livelihood of the poor as a result of better access to small loans that were not offered by the formal financial institutions. Often times, it was argued that insufficient access to credit by the poor just below or just above the poverty line may have negative consequences for SMEs and overall welfare. Therefore, the essence of microfinance was assumed to improve the welfare of the poor. MFIs that were financially sustainable with high outreach have a greater livelihood and also have a positive impact on SME development because they guarantee sustainable access to credit by the poor.

Microcredit programmers were measured by factors such as high repayment rate, outreach, and financial sustainability. It was a fact that in Ghana, improvement to access to microfinance and market for the poor people was not sufficient unless the individual also has access to loans from other financial institutions.

2.4. Definition of key terms

Table 1. Definition of key terms

Terminology	Meaning
Microcredit	Component of microfinance that provides small loans to very poor
Susu	Traditional and indigenous form of savings mobilisation where an individual saves a fixed amount per day with a collector for a specific period
Microsavings	Microfinance service that allows provision of individuals to safeguard money and other valuable items and even earn interest
Microenterprise	Microenterprise operations tend to be low technology and focused on retailing and services such as salons and tailoring
Microinsurance	Financial arrangement to protect low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved
Financial intermediation	The provision of financial products and services such as savings, credit, insurances and credit cards
Social intermediation	Process of building human and social capital needed by sustainable financial intermediation for the poor
Enterprise development	Services or non-financial services that assist microentrepreneurs include skills development, business training, marketing and technology
Social services or non-financial services	Focus on advancing the welfare of microentrepreneurs and includes education, health, nutrition and literacy training

3. Methodology

3.1. Research design

Survey research design was adopted in this study to assess the effects of microfinance activities on the growth of SMEs in Ghana. A survey was an investigation about the characteristics of a given population by means of collecting data from a sample of that population and estimating their characteristics through the systematic use of statistical methodology. The survey used was a non-experimental, descriptive research method. It was a quantitative study aimed at collecting information from a sample of population such that the results were representative of the population within a certain degree of error.

3.2. Justification for the use of survey

Survey research design was chosen because the sampled elements and the variable that were being studied were simply being observed as they were without making any attempt to control or manipulate them. Furthermore, the design was chosen because the quantitative information needs to be collected through the use of standard and structured questionnaire.

3.3. Target population

The study was carried out in Tafo area in Kumasi where the old microfinance branches were located. The population of the study comprised customers and officials of the institutions. The officials consist of senior official of the institutions.

3.4. Sampling method

The study used non-probability sampling design due to convenience and administrative simplicity. The convenient sampling method was used to gather the information from the customers and officials within the institutions at the time of the questionnaire administration.

3.5. Sampling size

The total sample of 91 was used for the study, of which three were top senior officials of the institutions and 88 were customers (clients) who patronise the services of the MFIs.

3.6. Method of data collection

The data were collected using both qualitative interviews and quantitative research. The two instruments were both structured with open-ended questions and closed-ended question. Questionnaire was distributed to customers who came to the banking hall at the time of the questionnaire administration. Questions were strategically designed to accurately assess the role of microfinance play to enhance the growth and development of SMEs in Ghana and the services rendered. In general in Tafo branches in particular. Respondents were required to confirm or deny certain in the closed-ended questions. Besides, open-ended questions were also posed to respondents to enable them answer in their own words.

3.7. Ethical considerations

Respondents were assured of the non-disclosure of their vital personal information provided. Due to ethical issues, respondents were informed that information obtained would be used for the purpose of this research.

4. Analysis

The data collected from the questionnaire were analysed with the help of the Statistical Package for the Social Sciences. Descriptive and inferential statistics were adopted to analyse the data. Basic frequencies with percentages were run and displayed using tables.

4.1. Purpose for assessing microfinance Loans

Table 2. Purpose for assessing loans

Assessing loans	Frequency	Percentage
Business	40	43.95
Education	17	18.68
Other	34	37.36
Total	91	100

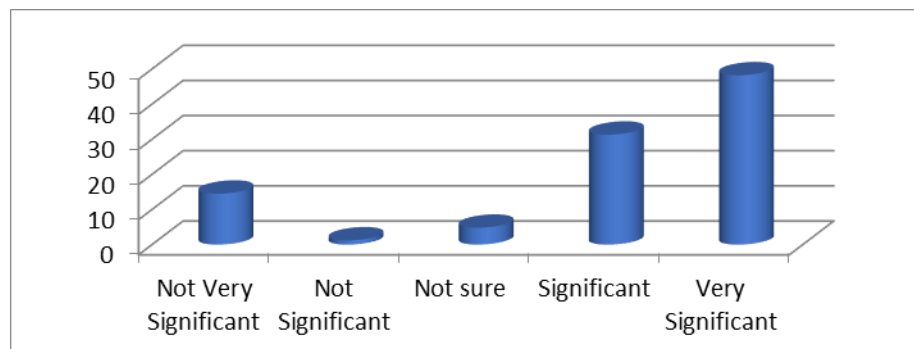
Source: Field data (May, 2017)

As per Table 2, out of the total 88 responses indicated business as their purpose of assessing loans which represent 44%. However, 19% and 37% were either accessing these loans for the purpose of education or otherwise, respectively.

All things being equal, it would be expected that loans will be contracted to support customers' business engagements or any other projects that yield or will yield substantive cash flows in the shortest possible time.

4.2. Impact of products and services on respondents livelihood

Figure 1. Graph of Impact of Loans on Respondents' Livelihood



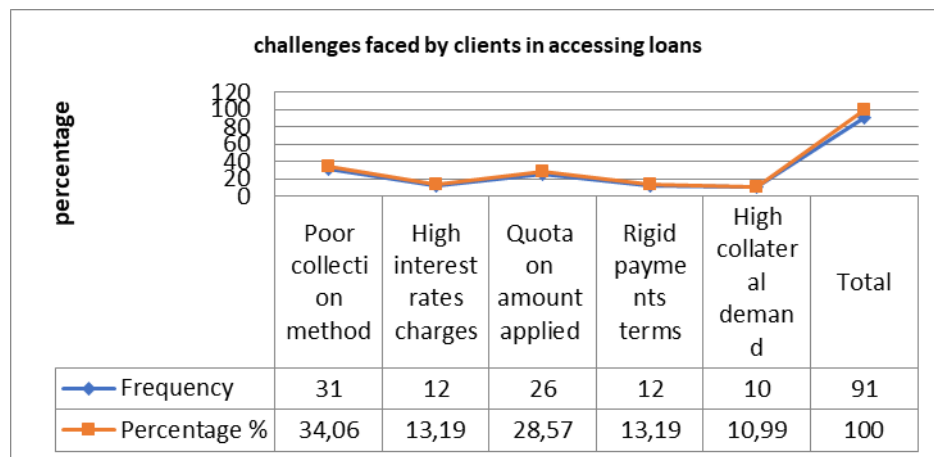
Source: Field data (May, 2017)

Responses to respondents' livelihood. Figure 1 indicates that about 48.2% of respondents found the impact to be very significant, 31.3% representing the impact to be significant, 14.5% not very significant and 1.2% not significant. Some 4.8% were not sure of credit significance or found it to be insignificant on their livelihood. It was quite impressive to witness the fact that majority of customers

were seeing significant improvements in their livelihood by the assessment of loans. Some respondents said that they have built their own houses, expand their business and bought motor vehicles which help the smooth running of their business which have increased the income level significantly.

4.3. Respondents' perceived problems associated with loans acquisition

Figure 2. portrayed



Sources: Field data (May, 2017)

As portrayed in Figure 2, the perceptions of the study clients as far as problems associated with loan acquisitions were concerned were varied. Some suggested high interest rates as their problems, others suggestion was of poor repayments collection methods and rigid repayment terms. Others have to do with the fact that clients were made to deposit portions of credits approved for them as compulsory savings and demanded high collateral in some instances. Although these problems appear to be quite similar with most microfinance, management should put in place strategies to meet these challenges as and when the need be, because the lack of these could spell doom for the company.

4.4. Discussion of the findings

From the responses received, majorities of the respondents received very little income which warrants the need for loans from these microfinance institutions. Programmes and products' design should be done with the findings to afford the institution the enjoyment of a more practical and realistic cash flow and other financial planning. As noted, products and services had various levels of impact on its clients' business and standard of living, mainly positive impacts. This can be boosted by increasing the income levels and improvements of the SMEs. Even though the MFI's will be focusing on the how to reduce the credit risk or the implication if the customer fails to pay. However, policies can be made to encourage the clients to pay on time and more incentives packages given to clients that pay their loans on time. This will reduced the default rate and increase the profited of all stakeholders of the microfinance firms.

5. Conclusion

The concluding chapter presents useful thought and the recommendations for future researchers. Notwithstanding the financial support or findings the institutions enjoy, it has its own challenges as it was revealed in the course of the study while the customers also have their own forms of challenges. Another problem is that the officials were too careful to come out with appropriate policies that can improve the process for the granting of loans to the poor in the society.

MFIs play a strategic role in the financial system in Ghana and also provide financial services to participant. Although the firms are doing well, there is a need to revisit some basic principles by reviewing its microfinance practices. Regardless of the challenges faced by the clients, on the whole, microfinance firms appear to have enormous goodwill among its customers.

Accordingly, it should be pointed out that firms seriously need to reposition itself to be able to adequately and appropriately deliver value in the form of products in fastest way to their customers and also expand their branches as and when necessary for customers' convenience; and to promote and communicate effectively to clients.

6. Recommendations

The study revealed that most owners had challenges that hindered their business operations such as problems associated with customers accessing loans such as high interest rate, rigid payment terms and the demand of high collaterals. It is, therefore, recommended that flexible loan terms can be established to enable most people to access more loans to help improve their standard of living and also to develop the economy of Ghana. The government must help in bringing all regulatory aspect of microfinance under a single mechanism and also to a larger extent help weed out the bad nuts from the system. Future researchers must examine government role in relation to helping MFIs to reduce poverty in the country.

Again, the government through the bank of Ghana should design and implement policies that will bring down interest rates and by so doing create a decent level of atmosphere for business activities including microfinance service institutions. Researchers willing to apply findings to the whole Africa continents can take larger sampling size covering most of the cities in Ghana to ensure easy comparability.

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