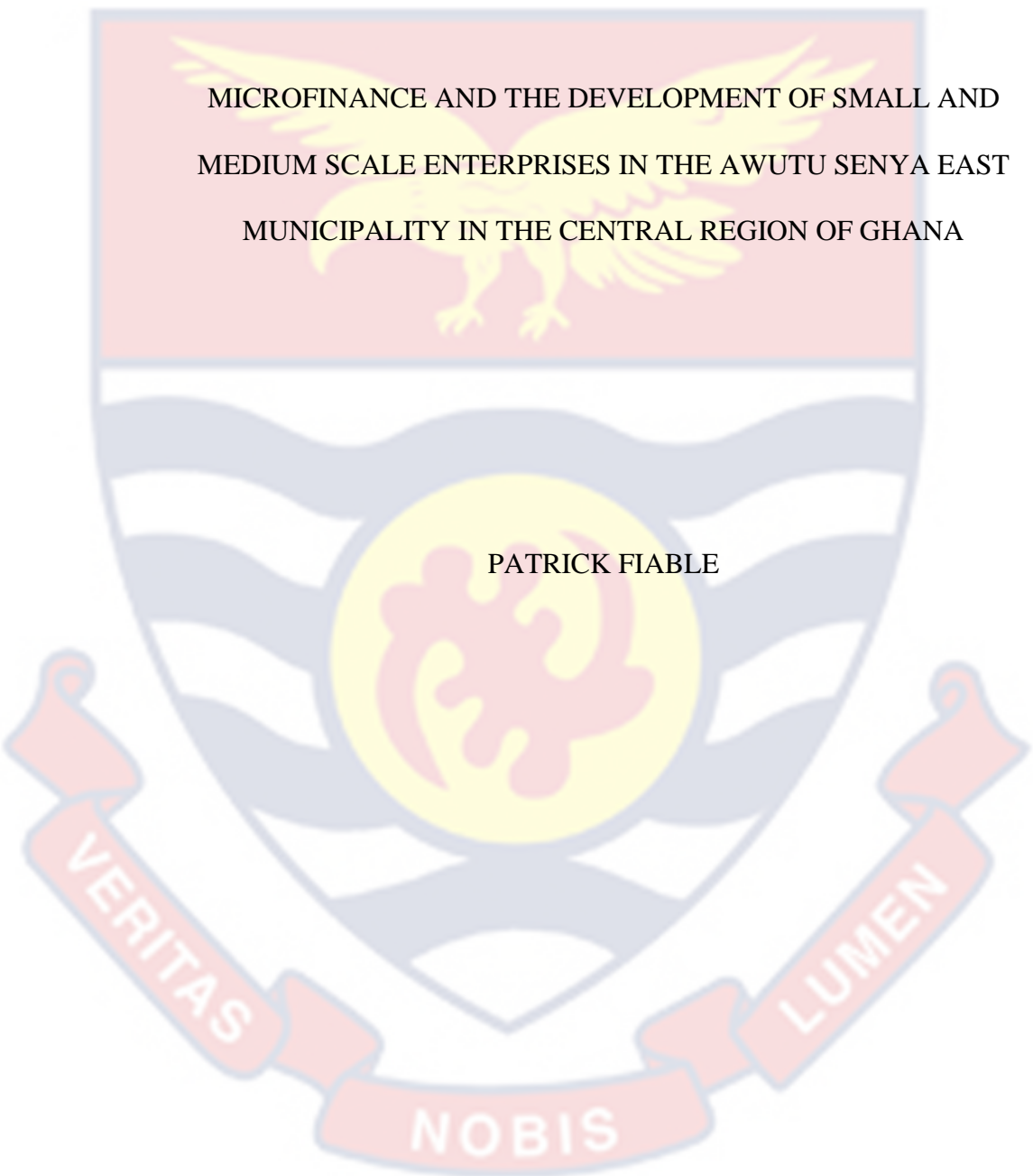


UNIVERSITY OF CAPE COAST



MICROFINANCE AND THE DEVELOPMENT OF SMALL AND  
MEDIUM SCALE ENTERPRISES IN THE AWUTU SENYA EAST  
MUNICIPALITY IN THE CENTRAL REGION OF GHANA

PATRICK FIABLE

2025

UNIVERSITY OF CAPE COAST

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MEDIUM SCALE ENTERPRISES IN THE AWUTU SENYA EAST  
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BY

PATRICK FIABLE

Thesis submitted to the Department of Integrated Development Studies of the  
School for Development Studies, College of Humanities and Legal Studies,  
University of Cape Coast in partial fulfilment of the requirements for the  
award of Master of Philosophy degree in Development Studies

MAY 2025

## DECLARATION

### Candidate's Declaration

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

Candidate's Signature: ..... Date.....

Name: Patrick Fiabile

### Supervisors' Declaration

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

Principal Supervisor's Signature: ..... Date.....

Name: Dr. E. K. Ekumah

Co-Supervisor's Signature: ..... Date.....

Name: Dr. Nana Amma Anokye

## ABSTRACT

Despite the growing availability of microfinance services to support SMEs' growth, many of these businesses still struggle with limited access to adequate capital, high interest rates, poor financial management, and inadequate business infrastructure. The study explained the contribution of microfinance institutions in the development of small and medium scale enterprises (SMEs) in the Awutu Senya East Municipality in the Central region of Ghana. The study employed a cross-sectional design with mixed methods, combining both quantitative and qualitative data collection and analysis. Sampling techniques included cluster, purposive, proportional, and simple random sampling, with a sample of 321 SME operators drawn from a total population of 1648 using Miller and Brewer's (2003) sample size determination formula, while 33 MFI staff, and 5 MFI managers were purposively sampled for the study. The quantitative analyses were aided by Statistical Package for Social Sciences (SPSS) using varied statistical tools, while qualitative data were analysed using the line-by-line analysis technique proposed by Corbin and Strauss (2008). The findings revealed that the major source of finance to the SMEs was loan from MFIs since that was easier to obtain compared to other means of acquiring capital to start-up businesses. It was found that there were no significant impacts of the independent variables such as savings, access to loan and training on the SMEs business growth. It was concluded that SMEs did personal savings but that was very slow in terms of business expansion so they relied mainly on micro financial institutions for their loan. It is recommended that MFIs should provide loans with flexible loan repayment terms to their clients in order to avoid the case of defaulters.

**KEYWORDS**

Microfinance

Development

Small and Medium Enterprise



## ACKNOWLEDGEMENTS

I would like to express my heartfelt gratitude to my supervisors Dr. E. K. Ekumah and Dr. Nana Amma Anokye of the School for Development Studies, College of Humanities and Legal Studies, of the University of Cape Coast for their guidance and assistance during the research period, without which I certainly would have fallen short in the process.



**DEDICATION**

To my wife, Justina Godzi Fiable.



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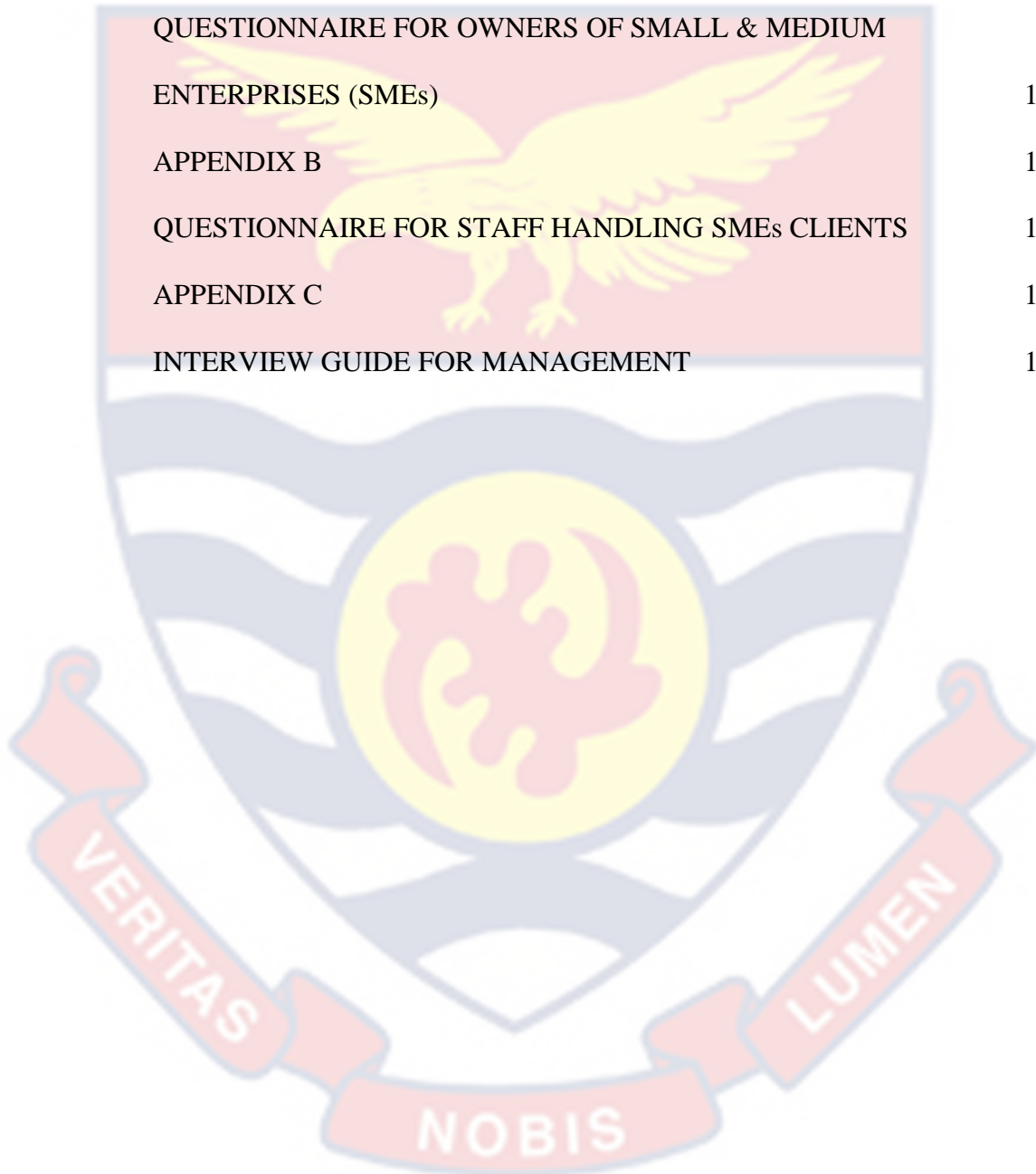
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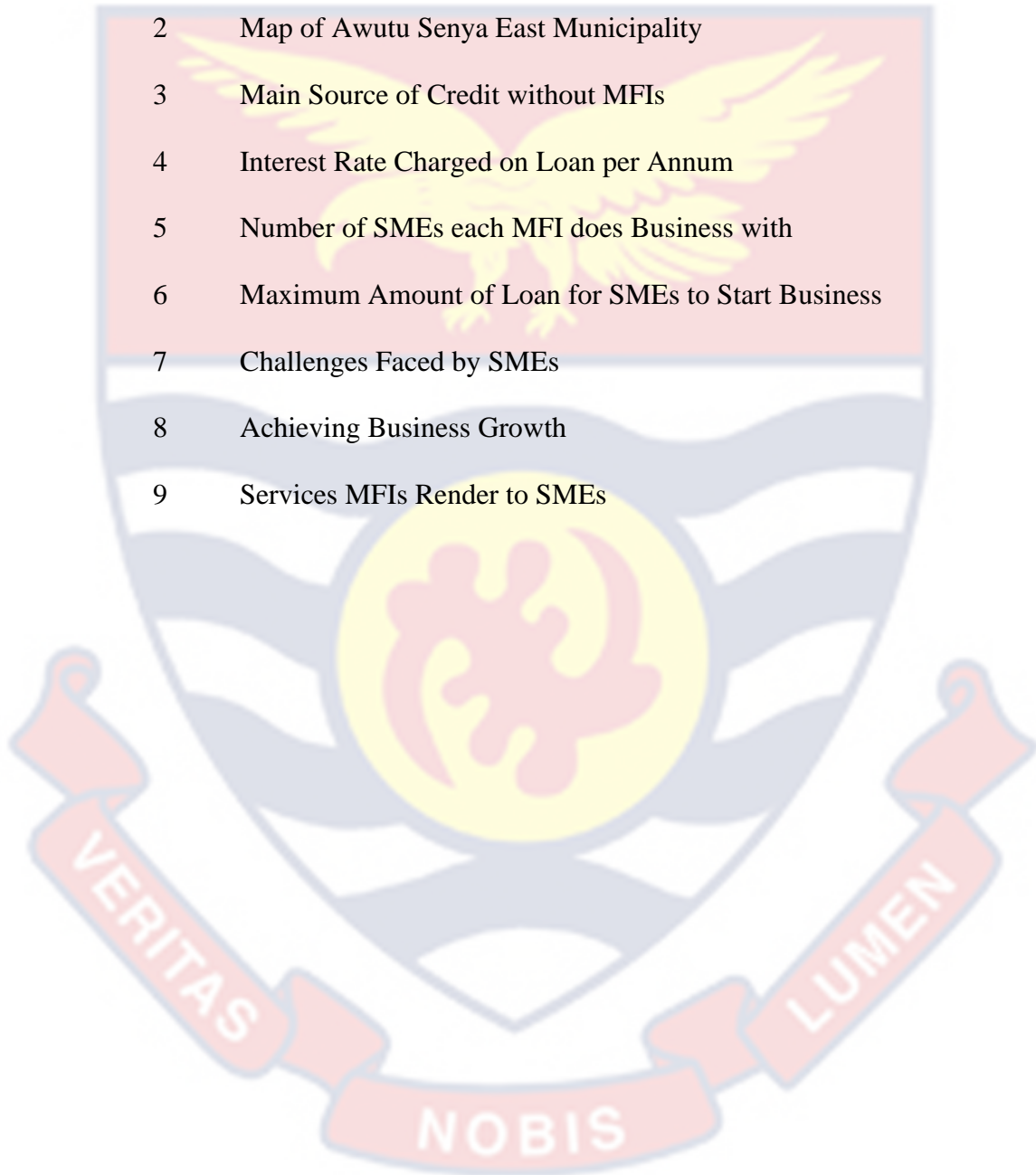


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**LIST OF ABBREVIATIONS**The logo of the University of Cape Coast is a shield-shaped emblem. At the top is a yellow eagle with its wings spread. Below the eagle is a yellow sun with rays. The shield is divided into horizontal bands of red, white, and blue. At the bottom of the shield is a red banner with the Latin motto "VERITAS NOBIS LUMEN" written in white capital letters.

|        |  |
|--------|--|
| AGI    | Association of Ghana Industries                        |
| ASEMA  | Awutu Senya East Municipal Assembly                    |
| CCML   | Christian Community Microfinance Limited               |
| DTI    | Department of Trade and Industry                       |
| EDIF   | Export Development and Investment Fund                 |
| FFI    | Formal Financial Institutions                          |
| GNI    | Gross National Income                                  |
| GSS    | Ghana Statistical Service                              |
| MASLOC | Microfinance and Small Loan Centre                     |
| MFI    | Microfinance Institutions                              |
| NBSSI  | National Board for Small-Scale Industries              |
| NGOs   | Non-Governmental Organisations                         |
| OECD   | Organisation for Economic Co-operation and Development |
| SMEs   | Small and Medium Scale Enterprises                     |
| WOCCUs | World Council of Credit Unions                         |

## CHAPTER ONE

### INTRODUCTION

#### Background to the Study

Microfinance institutions are very pivotal role in the providing small-scale financial services, including microloans, savings accounts, insurance, and financial education, to individuals and small businesses excluded from traditional banking systems (Taiwo & Benson, 2016). These institutions foster financial inclusion by addressing barriers such as inadequate collateral, limited credit history, and informal operations among micro and small enterprises (Adnan & Kumar (2021). Armendáriz and Morduch (2010) highlight that microfinance enables SMEs to access capital, encouraging business growth and fostering entrepreneurship in communities with limited economic opportunities. Microfinancing empowers women and other marginalised groups, promote gender equality and improving household incomes (Gizaw & Habtamu, 2016).

Microfinance, despite its many benefits, faces criticisms such as concerns over sustainability and the financial viability of microfinance institutions (MFIs), particularly in resource-constrained settings. Scholars like Cull, Demirgüç-Kunt, and Morduch (2009) also highlight risks of over-indebtedness, where borrowers struggle to repay multiple loans, potentially undermining financial stability. However, the consensus in the literature emphasizes microfinance's transformative potential in addressing barriers to traditional financial services to drive job creation, innovation, and economic growth among SMEs.

The role of Small and Medium-Scale Enterprises (SMEs) in economic development, innovation, and employment has been universally acknowledged. Governments around the world recognised their importance due to the constraints faced in establishing large corporations capable of absorbing most of the working population (Gizaw & Habtamu, 2016). Small and Medium-Scale Enterprises are seen as essential drivers of economic growth, particularly in developing economies, where they provide significant employment and contribute to poverty alleviation (Quaye, 2011).

The financial intermediation theory argues that institutions like MFIs facilitate the flow of funds from lenders to borrowers, thereby promoting economic growth by enabling SMEs to access credit (Diamond, 1984). MFIs act as intermediaries, reducing information asymmetry between borrowers and lenders and mitigating the risks associated with lending to small-scale entrepreneurs (Stiglitz & Weiss, 1981). The resource base view also posits that organisations achieve competitive advantage by leveraging unique resources and capabilities (Madhani, 2010). MFIs provide resources such as capital, financial literacy training, and business development services, which serve as key enablers for SMEs to build capabilities and achieve sustainable growth. the theory highlights how microfinance resources contribute to strengthening small and medium enterprises capacity, fostering innovation, and driving local economic development.

Empirical studies highlight the significant role of microfinance institutions (MFIs) in supporting the development of small and medium-scale enterprises (SMEs), particularly in developing economies. MFIs enhance SME growth by improving access to capital, with studies by Olutunla and Obamuyi

(2008) shows that microloans boost income and reduce poverty. In Ghana, Quaye, Abrokwah, Sarbah and Osei (2014) found that MFIs help SMEs grow in sales, profits, and assets. MFIs also contribute to employment generation, financial inclusion, and empowering women, as noted by Adjei, Arun, and Hossain (2009) and Khandker (2005). Additionally, MFIs offer business training, improving financial literacy and decision-making, as emphasised by Mensah (2015). However, challenges such as over-indebtedness, high-interest rates, and limited outreach in rural areas persist, as highlighted by Cull, Demirgüç-Kunt, and Morduch (2009) and Boateng, Agyemang, and Acquah (2015). Addressing these issues is crucial for maximizing the impact of microfinance on SMEs.

According to the World Bank (2010), micro, small, and medium enterprises constitute 99% of the estimated 19.3 million enterprises in the European Union (EU), employing about 65 million people, which accounts for two-thirds of all employment. In industrialised nations such as Japan, SMEs represent over 99% of all enterprises (Quartey, 2010). Similarly, India's Ministry of Micro, Small and Medium Enterprises reported that in 2008, SMEs made up 80% of the country's businesses (Quartey, 2010). In Africa, SMEs form the majority of businesses and employ a substantial portion of the population. For instance, in South Africa, 91% of formal business entities are SMEs (Quartey, 2010).

In Ghana, SMEs represent about 70% of all industrial establishments and are responsible for approximately 40% of the country's Gross National Income (GNI). The sector also accounts for 85% of manufactured goods and is a major source of employment (Ghana Statistical Service, 2012). Despite their

significance, SMEs in Ghana face considerable challenges, particularly in accessing finance. Traditional financial institutions often exclude SMEs due to their small size, lack of collateral, and the perceived high risk involved in lending to them (Quaye, 2011). This has led to limited access to credit and other financial services, which are crucial for the growth and sustainability of SMEs (Idowu, 2010). Access to finance remains one of the key barriers to the development of SMEs, affecting their ability to scale up operations, create jobs, and contribute to national economic development (AGI, 2011).

In response to these challenges, microfinance institutions (MFIs) have emerged as vital players in providing financial support to SMEs, particularly in the absence of formal credit from traditional financial institutions. Microfinance services, including microloans, savings programs, and business advisory services, offer an alternative for SMEs to access the financial resources needed for growth. MFIs have played a significant role in poverty alleviation by enabling low-income individuals to engage in productive activities through access to microcredit. The Grameen Bank model in Bangladesh, which provides loans without collateral, has been replicated globally, demonstrating the impact of microfinance on small businesses (Shukram et al., 2023). MFIs provide not only financial services but also non-financial support such as business training, financial management, and market linkages, all of which enhance the capacity of SMEs to manage their operations effectively (Osoro & Muturi, 2013).

In Ghana, successive government initiatives have aimed at promoting SMEs through microfinance services. The National Board for Small-Scale Industries (NBSSI), established in 1985, provides both financial and non-

financial services to SMEs, including credit facilities for working capital and fixed assets acquisition. Despite these efforts, SMEs continue to face significant barriers such as limited access to credit, inadequate infrastructure, outdated technology, and regulatory challenges (Bunting, 2010). Large firms often enjoy better access to financial services, which leaves SMEs at a disadvantage (Yankson, 2004; Bunting, 2010). The provision of adequate financial services to SMEs remains critical, as access to finance is essential for their growth, competitiveness, and overall contribution to the economy (Muktar, 2009).

The situation in the Awutu Senya East Municipality (ASEM) mirrors the broader challenges faced by SMEs in Ghana. The municipality, located in the Central Region of Ghana, hosts a variety of SMEs in sectors such as catering, wholesale and retail trade, wood processing, metal works, dressmaking, and hairdressing. These businesses, despite their potential, struggle with access to finance and other operational constraints. The Awutu Senya East Municipal Assembly has recognised the importance of fostering a favourable environment for private sector development and has been involved in programs aimed at accelerating SME growth. It is against the foregoing background that the present study examines the role of MFIs in the development of SMEs within the Awutu Senya East Municipality, highlighting both the challenges and opportunities faced by these businesses in accessing finance and growing their operations.

### **Problem Statement**

Despite the presence of numerous financial systems and interventions, SMEs in Ghana continue to face significant challenges in accessing finance,

driven by structural, institutional, and market-related barriers (Boakye-Ansah & Adhikari, 2023). Financial institutions often regard SMEs as high-risk borrowers due to their limited collateral, lack of credit history, and informal operational structures, resulting in stringent lending requirements (Mpofu & Sibindi, 2022). Poor financial records have hindered their ability to prove creditworthiness of many SMEs (Njue & Mbogo, 2017). Other scholars Owusu (2019) and Oyegbade et al (2022) have cited high borrowing costs, including steep interest rates and fees, make financing unaffordable, while mismatched financial products fail to meet the unique needs of SMEs. Hastings et al. (2013) argued that limited financial literacy and bureaucratic inefficiencies as well as regional disparities in financial infrastructure further exacerbate access issues, particularly for rural SMEs.

The challenges of accessing finance among SMEs in Ghana are deeply rooted in market inefficiencies, information asymmetry, and resource constraints (Mpofu & Sibindi, 2022). According to the financial intermediation theory, issues like information asymmetry, high transaction costs, and market imperfections restrict SME access to formal financing, resulting in financial exclusion and stunted economic growth (Aidoo, 2020). The RBV on the other hand argues that internal constraints such as limited resources, poor financial management, and capability deficiencies that hinder SMEs from meeting financial institutions' requirements (Ramon-Jeronimo et al., 2019). These challenges force SMEs to rely on informal financing, leading to resource depletion, competitive disadvantages, and missed growth opportunities (Njue & Mbogo, 2017).

While microfinance institutions (MFIs) have emerged as alternative sources of financial support, their actual contribution to SME development in ASEM remains underexplored. However, gaps remain in understanding the specific contributions of MFIs in certain regions, such as Awutu Senya East Municipality, where the dynamics between MFIs and SMEs may differ due to local economic conditions and institutional characteristics (Mensah & Ahenkora, 2015). The adequacy, accessibility, and sustainability of MFI services persist, alongside concerns about their ability to address the unique financial needs of SMEs in the municipality (Ameh, 2022).

Given this backdrop, it is crucial to examine the extent to which MFIs are contributing to the growth and development of SMEs in ASEM. This study sought to explore the impact of MFIs on capital access, business expansion, and overall SME growth, while identifying the challenges and opportunities within the microfinance landscape in the region. This understanding would provide valuable insights into how MFIs can better support SME growth, fostering economic development in ASEM.

### **Objectives of the Study**

The study's general objective is to examine the contribution of microfinance to the development of small and medium scale enterprises in the Awutu Senya East Municipality in the Central Region of Ghana.

### **Research Objectives**

The specific objectives were to:

1. Investigate the funds available to SMEs in the Awutu Senya East Municipality.

2. Examine the operational challenges faced by SMEs in the Awutu Senya East Municipality.
3. Examine the contributions of MFIs' services to the growth of SMEs in the Awutu Senya East Municipality.

### **Research Questions**

1. What are the funds available to SMEs in the Awutu Senya East Municipality?
2. What are the operational challenges faced by SMEs in the Awutu Senya East Municipality?

### **Hypothesis**

H<sub>1</sub>: MFIs contribution has significant influence on the growth of SMEs in the Awutu Senya East Municipality.

### **Significance of the Study**

It is worth mentioning that most researchers have found this area of study very important to the development of socio-economic activities in developing countries like Ghana. This study is centered on the activities of Microfinance Institutions (MFIs) and the development of small and medium scale enterprises (SMEs) in Ghana. A study of this nature is very imperative as it would provide policy makers with the needed information in designing a policy framework to enhance the growth of the SME industry. It would also enlighten the public on the role MFIs play in the SMEs sector. The study would assist MFIs to adopt the necessary measures needed to ensure the desired growth of the SME industry.

This study can therefore help the MFIs know how effective and efficient they have been towards the economic development of SMEs. In

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

The study contributes to literature by offering localised insights into microfinance's impact on SMEs in a semi-urban setting. It addresses gaps in research by focusing on rural and semi-urban areas, emphasizing how microfinance services like loans and training support SME growth. The findings provide policy recommendations for improving microfinance services and sustainability, while also exploring challenges such as loan repayment and over-indebtedness.

#### **Delimitation of the Study**

The scope of the study comprises the examination of Microfinance Institutions (MFIs) and the development of small and medium scale Enterprises (SMEs). The study seeks to investigate the funds available for SMEs; examine the contributions of MFIs to the growth of SMEs; examine the operational challenges faced by SMEs; as well as recommend ways to improve the development of SMEs through MFIs. Again, since it would not be possible to examine all the microfinance institutions across the country, the study covers only the microfinance institutions operating in the Awutu Senya East Municipality.

#### **Limitations of the Study**

While the study provides valuable insights into the specific context of the Awutu Senya East Municipality, its results may not be fully applicable to

other regions or municipalities due to these factors. First, the socio-economic conditions, cultural factors, and local business environment in Awutu Senya East Municipality may differ significantly from other areas. These unique characteristics can influence the effectiveness and impact of MFIs on SME development, thereby limiting the ability to generalise the findings to other regions.

Secondly, the study's sample size and the diversity of the SMEs and MFIs was limited and does not adequately represent the wide range of businesses and financial institutions operating within the municipality. Therefore, the findings may not capture the full spectrum of experiences and challenges faced by all SMEs and MFIs. Again, the study is based on data collected within a specific time frame. Economic conditions, policy changes, and external factors such as market fluctuations or global economic trends can affect SMEs and MFIs differently over time.

Finally, the study's methodology, including data collection techniques and analysis methods had inherent limitations. For example, reliance on self-reported data from SME owners and MFI representatives can introduce bias, as respondents overstate positive outcomes or underreport challenges. The study did not fully account for external factors such as government policies, macroeconomic conditions, and global market trends that can significantly influence the performance of SMEs and MFIs.

### **Operational Definition of Terms**

For this study, the following concepts were explained as follows

1. **Microfinance** entails the provision of financial services, such as loans, savings, insurance, and other financial products, to individuals and

small businesses that typically lack access to traditional banking and financial systems

2. **Microfinance Institutions (MFIs)** are organisations that provide financial services to low-income individuals or business that do not have access to typical banking services.
3. **Small and Medium scale Enterprises (SMEs)** are businesses that maintain revenues, assets, or a number of employees below a certain threshold.
4. **SMEs Development** entails the various processes, policies, and initiatives aimed at fostering the growth, competitiveness, and sustainability of Small and Medium-sized Enterprises (SMEs).

### **Organisation of the Study**

The research is organised into five comprehensive chapters, each addressing a specific aspect of the study to provide a structured and coherent flow. This chapter lays the foundation for the study by providing detailed background information on the research topic, highlighting its relevance and importance. It includes the problem statement, which defines the core issue the study seeks to address, and outlines the research objectives that guide the investigation. Additionally, the chapter presents the research questions formulated to explore the topic in depth. The significance of the study is also discussed, emphasising the potential contributions of the research to academia, policy, and practice.

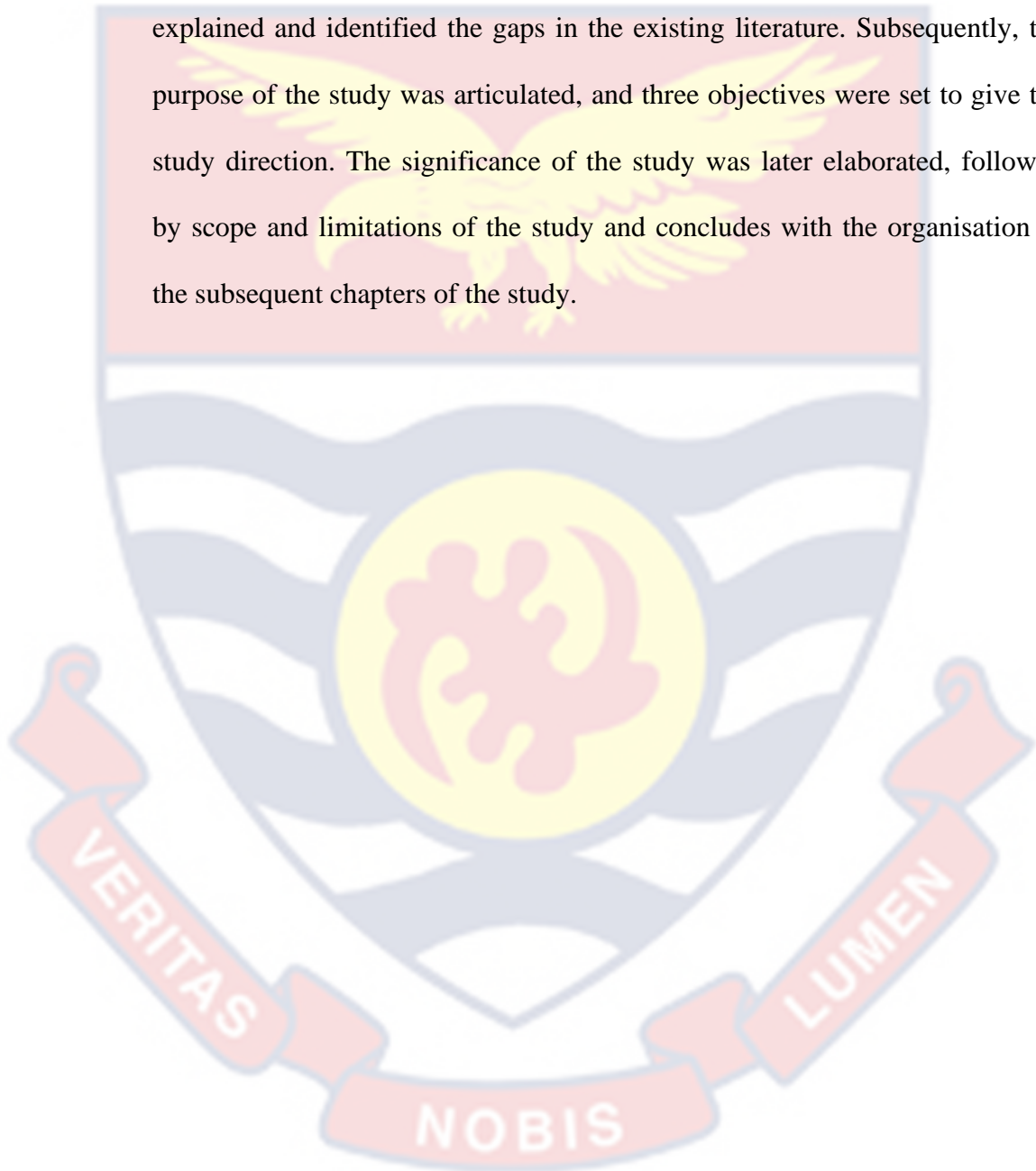
The second chapter reviews relevant and related literature to establish the study's theoretical and empirical context. The theoretical literature explores key theories and concepts that underpin the research, providing a framework

for analysis. The empirical literature examines previous studies to identify gaps and validate the research focus. Finally, the conceptual framework is developed to depict the relationships between key variables and concepts in the study, offering a visual representation of the research approach. The third chapter describes the research design and methodology employed in the study. It details the instruments used for data collection, such as questionnaires, interviews, or observations, ensuring reliability and validity. The chapter identifies the population of interest, defines the sample size, and outlines the sampling techniques used to select participants. The chapter explains the methods for data collection and analysis, ensuring transparency and replicability.

The fourth chapter presents the findings of the study based on data collected from the field. It includes a comprehensive analysis of the data, using appropriate statistical or qualitative tools to address the research questions and objectives. The results are presented in an organised manner, often with the use of tables, graphs, and charts for clarity. The chapter also interprets the findings in the context of the research objectives, highlighting significant trends, relationships, and implications. The final chapter synthesises the study by providing a summary of the key findings, linking them to the research objectives and questions. The conclusions drawn from the analysis address the problem statement, offering insights into the study's contribution to the field. The chapter includes with recommendations for policymakers, practitioners, and offers suggestions for future research based on the findings emerged and the unresolved issues relating to the topic.

### Chapter Summary

The chapter began with a background to the study, where the researcher showed the relevance of the study by elaborating on the theoretical underpinnings of the study. The statement of the problem was logically explained and identified the gaps in the existing literature. Subsequently, the purpose of the study was articulated, and three objectives were set to give the study direction. The significance of the study was later elaborated, followed by scope and limitations of the study and concludes with the organisation of the subsequent chapters of the study.



## CHAPTER TWO

### LITERATURE REVIEW

#### Introduction

This chapter reviews related literature on microfinance institutions (MFIs) and the development of small and medium scale Enterprises (SMEs). The literature review is divided into three main parts. The first part deals with a review of theories and concept of MFIs and SMEs. The second part focuses on the empirical literature regarding MFIs and the Development of SMEs, sources of finance of SMEs, the contributions of MFIs to the growth of SMEs, challenges of SMEs, development profile of SMEs, policies promoting SMEs in Ghana, and characteristics of SMEs in Ghana. The third part looks at the conceptual framework based on review of the literature and the objectives of the study.

#### Theoretical Review

Although the relationship between microfinance and the development of small and medium scale enterprises has several theoretical linkages. However, the study employed the financial intermediation theory and resource base view theory as theoretical lenses to unpack the role of microfinance institutions in the development of small and medium scale enterprises in the Awutu Senya East Municipality in the Central Region of Ghana. These theories are thoroughly reviewed and connected to the study.

#### Financial Intermediation Theory

The Financial Intermediation Theory was developed by Gurley and Shaw (1960) in their work Money in a Theory of Finance. Gurley and Shaw (1960) formalised the theory by explaining how financial intermediaries

reduce transaction costs, mitigate information asymmetry, and enhance capital allocation and promoting economic growth. Their contribution laid the foundation for modern financial intermediation theories and influenced subsequent research on the role of financial institutions in economic development.

The theory argues that financial intermediaries, such as banks and other financial institutions, exist primarily to reduce transaction costs and mitigate information asymmetry between savers and borrowers. Gurley and Shaw (1960) argue that these intermediaries enhance the efficiency of capital allocation by pooling savings, transforming maturities, and providing liquidity. Financial institutions facilitate economic growth by ensuring that funds flow smoothly from surplus units (savers) to deficit units (borrowers), thereby optimising investment and consumption decisions (Amoah et al., 2020). The theory emphasises the crucial role of intermediaries in reducing risks, lowering costs, and improving access to finance, which contributes to overall economic stability and development (Poghosyan, 2013).

SMEs often face financial constraints due to limited access to formal banking services, and microfinance institutions (MFIs) act as intermediaries by mobilizing savings from surplus units and channeling them to SMEs for expansion and operations. According to Gurley and Shaw (1960), financial intermediaries help lower transaction costs, making credit more accessible and affordable for SMEs that might otherwise struggle with high borrowing costs. MFIs mitigate information asymmetry by assessing borrowers' creditworthiness through relationship-based lending, credit assessments, and

group lending mechanisms, thereby reducing default risks (Poghosyan, 2013; Amoah et al., 2020).

By improving SMEs' access to credit, microfinance institutions enable entrepreneurs to invest in productive activities, acquire assets, and generate employment, thereby contributing to local economic development. The theory provides a strong foundation for understanding how microfinance supports SME development by addressing financing constraints, reducing transaction costs, mitigating risks, and fostering economic growth in the Awutu Senya East Municipality.

The theory provides valuable insights into the role of financial intermediaries in fostering economic growth by improving capital allocation efficiency. However, its limitations are increasingly evident in the modern financial landscape. Disintermediation risk from FinTech innovations and peer-to-peer lending challenges the relevance of traditional intermediaries, while high costs imposed by many financial institutions contradict the theory's premise of reducing transaction expenses, especially for SMEs (Teplý et al., 2021). Despite the theory's focus on mitigating information asymmetry, inefficiencies in credit assessments and a lack of transparency continue to hinder optimal resource allocation (Liu et al., 2021).

Financial exclusion remains a problem, as strict lending criteria exclude high-risk borrowers, which undermines the theory's claim of enhanced access to finance (Karlan & Morduch, 2010). The theory also overlooks the systemic risks that financial intermediaries pose, as demonstrated in the 2008 Global Financial Crisis, where excessive risk-taking led to instability. The maturity mismatch risks expose the potential for liquidity crises and bank runs,

while the theory's applicability is limited in regions with underdeveloped financial markets or low financial literacy, where financial intermediation struggles to foster development (Diamond & Dybvig, 2000).

Notwithstanding these criticisms, the Financial Intermediation Theory provides a robust framework for understanding how MFIs can address the financial challenges faced by SMEs in the Awutu Senya East Municipality. It highlights the role of financial intermediaries in ensuring access to funds, reducing transaction costs, and providing services that support the growth and stability of SMEs, making it highly relevant in addressing the research objectives.

### **Resource Base View Theory**

The Resource-Based View (RBV) theory was developed by scholars Jay Barney and William Murphy in the 1990s. However, Jay Barney is widely recognised as the key proponent of this theory. In his influential 1991 paper, "Firm Resources and Sustained Competitive Advantage," Barney argued that firms can achieve sustained competitive advantage by leveraging their valuable, rare, inimitable, and non-substitutable resources and capabilities. The RBV focuses on the internal resources of a firm, such as human capital, technology, brand reputation, and organisational culture, as sources of competitive advantage (Madhani, 2010).

The theory is built on several key assumptions that emphasise the importance of a firm's internal resources and capabilities in achieving sustained competitive advantage. It assumes that firms possess heterogeneous resources, meaning that each firm has a unique set of resources differing in quality, quantity, and combination, which can lead to distinct competitive

advantages (Helfat et al., 2023). Resources are often immobile, making them difficult for competitors to acquire or replicate (Hsu & Ziedonis, 2013). According to Barney (1991) a resource to contribute to competitive advantage, it must be valuable, rare, inimitable, and non-substitutable, meaning that it either helps a firm perform better than competitors or cannot be easily substituted or copied. Firms need the appropriate organisational capabilities to effectively utilize and deploy their valuable internal resources rather than solely relying on external market conditions (Madhani, 2010).

The Resource-Based View (RBV) theory provides a useful lens for understanding how microfinance contributes to the development of Small and Medium Scale Enterprises (SMEs) in the Awutu Senya East Municipality by emphasizing the critical role of internal resources and capabilities. Microfinance institutions (MFIs) offer financial resources that enable SMEs to overcome constraints and grow, creating competitive advantages in the local market. The heterogeneity of resources highlights that SMEs have diverse access to financial capital, human resources, and technology, which MFIs help to bridge, especially for those without access to traditional banking services (Ramadhan, 2024). The immobility of resources makes MFIs' relationships and tailored financial products valuable and difficult for competitors to replicate.

The financial support from MFIs is considered a valuable resource, as it allows SMEs to invest in critical areas such as equipment, skilled labor, and business expansion (Chiyah & Forchu, 2010). The rarity and inimitability of MFIs' services further enhance their importance, as these tailored services are often unavailable through traditional lending institutions (Hsu & Ziedonis,

2013). Non-substitutable resources, such as financial guidance and business advice, provided by MFIs, are crucial for SME growth, especially in the absence of alternative funding sources. Ramadhan (2024) argues that both MFIs and SMEs must have the organisational capabilities to effectively utilize and deploy resources for sustainable development.

While the Resource-Based View (RBV) theory provides valuable insights into how firms leverage resources for competitive advantage, it is besieged with several limitations. The theory has been criticised for its overemphasis on internal resources while neglecting external factors such as market conditions, industry structure, and competitive dynamics, which are crucial for a firm's success in a competitive environment (Liu & Atuahene-Gima, 2018). The theory overlooks the process by which firms acquire and develop their resources, assuming they are already available and in place, which is not always realistic, especially in fast-evolving industries (Ramadhan, 2024). The subjective nature of measuring resource value, as well as the challenges of determining whether resources are rare, inimitable, or non-substitutable, further complicates the practical application of the theory (Chiyah & Forchu, 2010).

The assumption that resources are inimitable fails to account for the fact that competitors can often replicate or substitute valuable resources, especially with technological advancements (Liu & Atuahene-Gima, 2018). RBV also tends to focus on tangible resources, neglecting intangible assets like organisational culture and employee skills, which are critical for performance. Firms may become overly reliant on a small set of key resources, exposing them to risks if those resources lose value, and the theory does not

offer clear guidance on resource diversification (Maket & Korir, 2017). The theory's internal focus ignores the external environment, such as economic conditions, regulatory changes, and institutional support, which significantly impact a firm's ability to leverage its resources effectively (Chiyah & Forchu, 2010).

### **Conceptual Review**

This section of the study undertakes a critical review of a vast array of existing literature on microfinance and development of SMEs. The purpose of a conceptual review is to categorize and describe concepts relevant to the study, outline the relationships between them, and integrate the findings into a coherent theoretical framework. It is often the preliminary step in the formulation of a conceptual framework, which serves as a map for the research, illustrating the expected relationships between variables based on the literature review (Onu et al., 2016).

### **The Concept of Microfinance**

Literally, microfinance means providing very poor people with small loans to help them engage in productive activities or grow their small businesses. However, technically, microfinance is a type of banking service that is provided to unemployed or low-income individuals or groups who otherwise have no other means of gaining financial services (Kavitha & Ramachandram, 2007). Therefore, microfinance refers to loans, savings, insurance, transfer services and other financial products targeted at low-income clients.

Microfinance involves both micro credits and micro savings. Micro credits refer to a small amount of money loaned to an individual or through

group lending (Shastri, 2009). Microfinance banking is supported by Bliss (2005) who opined that micro credit is the name given to small loans made to poor people who are regarded as high risks by conventional banks, as they have insufficient savings or assets to obtain a loan. Shastri (2009), also provides an explanation to micro savings where he indicated that they are deposit that allow people to store small amounts of money for future use, often without minimum balance requirements. What this means is that saving account allows households to save small amounts of money to meet unexpected expenses and plan for future investments.

In addition, Costa (2017) further explains microfinance as a field that focuses on providing a variety of financial services to the poor. Typically, individuals with very little income, and experiencing great difficulty in taking advantage of things like savings opportunities and insurance products. According to Costa (2017), low incomes go hand-in-hand with a lack of collateral and credit, which makes it difficult for the poor to obtain loans, invest and enjoy insurance protection. Microfinance therefore seeks to eliminate these problems, providing micro insurance, microloans, and other financial services to low-income people.

Muhammad (2010) further argue microfinance provides financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking and related services. From the discussion so far, it can be realised that the concept of microfinance intends to serve the impoverished majorities, help lift them out of poverty, finance small and medium scale enterprises (SMEs) thereby making them full participants in their country's social and economic development.

## The Structures of Microfinance Institutions

Literature has identified five main structures of microfinance institutions these are namely Rotating savings and credit associations (ROSCAs), Village Banking, Microfinance Integrated with Social Services (MFISS), Credit with Education and Credit unions. Rotating savings and credit associations (ROSCAs) and group lending schemes are the most common microfinance alternatives for poor individuals (Muhammad, 2010). In ROSCAs, around 40 to 50 persons form a group and each group member saves a fixed amount of money (Dunford, 2001; Khaled, 2012). The savings work as an interest-free loan, which is distributed on a rotating basis to each member by a designated leader. Group lending schemes function in the way that possible loan takers form a group and apply for a credit on a jointly basis (Khandker, 2005).

After receiving the loan, they distribute it among the group members. Each individual is liable for the repayment. When one loan period has ended with successfully repaid loans, each individual in the group is granted a larger loan in the following loan period (Khandker, 2005). This increase in credit amount induces the repayment of the loans. The group lending makes it possible for poor individuals to get access to commercial credits and to reduce the risk (Todaro & Smith, 2003).

Village Banking is the type of group-based lending most common today. The Foundation for International Community Assistance (FINCA) in Latin America developed village banking in the mid 1980's (Koech, 2011). The method emerged as a tool for fighting poverty and it targets women clients (Kushoka, 2013). In the places where MFI's provide village banking

(often in areas where no formal financial institution is present), individuals who want to receive a loan for income-generating activities may together form a village bank (Lensink & Pham, 2008). Typically, the village bank consists of women formed in groups with between 20 to 40 members (Dunford, 2001; Khaled, 2012).

The main idea with the village banking is to give the responsibility to the clients. Participation is a key word and the entire management of the loan (distribution, collection of repayment, repayment, book keeping etc.) is handled by the group members (Lensink & Pham, 2008). There is initially a period of training when the groups learn to manage their own village bank and its rules (Dunford, 2001). Microfinance integrated with social services is a type of structure where MFI's combine microfinance services with social services such as education and health, is another alternative (Todaro & Smith, 2003). This form emerged since it is often not enough to have access to financial services such as loans and savings for the very poor. There are principally three forms of how to integrate financial and social services (Lensink & Pham, 2008).

The first form is the Linked service which is a specialised MFI which offers financial services to its clients and cooperate with one or more independent organisations that offer social services at the same time to the same clients (Mukhtar, 2009). The same organisation/MFI offers financial and social services at the same time to the same clients through two or more different programmes. There is the Unified service where MFI offers both financial services and social services at the same time to the same clients, through one unified programme (Murray, 2010).

In the Credit with Education programme there is a field agent, usually from the local area, who is responsible for promoting and recruiting new groups, providing the new groups with initial training and attending each meeting in order to assist with its financial matters (Murray, 2010). At each meeting the field agent also gives a learning session (usually 20 to 30 minutes). In the learning session the field agent introduces a topic with relevance to issues in the group members lives. The field agent is responsible for helping the group members understand why the topic is relevant. The idea is to give basic information about practical actions the group members can undertake in order to improve their lives (Lensink & Pham, 2008). Each Credit with Education programme has its own mix of educational topics; examples are health, child nutrition, micro business, management (Dunford, 2001; Murray, 2010).

Credit unions are the organisations that are formed on the basis of financial relation of savings and loans between its members. They accumulate savings from its members and provide short-term credit to the needed members. The demand for loans in general exceeds the supply of savings. In most rural areas credit unions are still the solitary source of deposit and credit services, besides the informal financial market (Murray, 2010). Because credit unions have social as well as commercial objectives, they may have a key role to play in offering pro-poor financial services. It has been observed that some women have not benefited much from the credit unions because the level of savings required is too high.

Credit unions have achieved financial self-sufficiency within the last few decades. According to one statistic from the World Council of Credit

Unions (WOCCU), by the end of the 1980s there were about 17,000 credit unions in 67 developing countries around the world (Murray, 2010). These unions maintain nearly 9 million members and 60% of these members are from Africa and the Caribbean Islands (Mensah, 2004). These credit unions handled approximately US\$2 billion in deposits and share capital. It is estimated that they are disbursing US\$300 million in small loans to about 1.5 million small businesses (Mpofu & Sibindi, 2022). Another aspect of Microfinance structure is the difference in Individual-Based lending and Group-Based lending.

MFIs have also developed models that can provide financial services to individual borrowers (Natarajan, 2004). These institutions successfully combine mechanisms from the formal and informal lending sectors. They use different mechanisms, which help them reduce adverse selection and moral hazard problems, such as frequent and close contact with individual clients, to provide credit products tailor-made to specific needs (Mensah, 2004). Individual-based lending “draws on traditional banking practices and involves a standard bilateral relationship between the bank and customer (Ndife, 2013). It is mostly predominant in East Asia and the Pacific. This method appears as the most vulnerable one to weak enforcement policies and information asymmetries (ZeynepUgur, 2006).

Unlike MFIs, there are very few conventional financial institutions which provide individual loans to low-income people because poorer clients are considered higher risk clients due to their lack of collateral, plus the labour-intensive nature of the credits and hence the lack of profitability of small-credits (Njue & Mbogo, 2017). Furthermore, increasing the investments

on the workforce increase the profits as the lender cannot rely on the client for information. In general, individual-based lending is practiced for larger loans and therefore with less severe poverty levels. This method has proven to help MFIs become financially self-sufficient. ZeynepUgur (2006) found that labour costs are associated with higher profitability with this method of lending, as borrowers would receive larger loans once they are identified as reliable customers.

Most of the loans given out to the poor in developing countries are given in groups. Group-based lending, as the term already indicates, requires individuals to organize themselves into groups in order to gain access to financial services from a programme (Ogboru, 2007). We witness different programmes and projects to be involved in providing loans to these people. Sometimes, governments own and run these programmes; in other cases, international institutions, local and foreign NGOs are involved in reaching poor borrowers (Ojo, 2009). Normally, group-based lending works as follows. Loans are made to individuals, but all members of the group are held responsible for the loan repayment (joint liability principle) (Olagunju, 2004; Ogboru, 2007).

In some programmes loans are given strictly for a certain period of time (usually a year), while in other programmes the members are allowed to decide the loan terms themselves (Osoro & Muturi, 2013). Repayments are made on a weekly or monthly basis; this is done at group meetings or directly to the branches of the microfinance institution. Nowadays, worldwide many programmes use group-based lending to forward loans to the poor. Osoro and

Muturi (2013) also said that microfinance provides credit for investment in small-scale self-employment activities chosen by the poor themselves.

Dunford (2001) further stated that these loans seem to increase income and savings for the poor. Investing and repaying of loans seems to empower the poor through a personal transformation from a feeling of "I cannot" to one of "I can." Again Owusu (2019) argue that self-financing feature allows for massive expansion of microfinance to reach tens if not hundreds of millions of underserved people. For most populations, this strategy seems to have the broadest utility and the least cost per beneficiary (Poghosyan, 2013).

### **The Roles of Microfinance Institutions in the Development of SMEs**

According to Adongo and Shock (2005), improving the livelihoods of the poor has become a priority for most governments in the developing world as part of their efforts to increase the levels of human development. In order to achieve such goal, the provision of microfinance has been identified as one of the key instruments to enhance the livelihood of low-income households in the developing world (Adongo & Stork, 2005). This is supported by the United Nation Capital Development Fund in its annual report in 2004, who clearly puts the role of microfinance in the development of SMEs into three broad roles and these are;

- It helps very poor households meet basic needs and protects against risks;
- It is associated with improvements in household economic welfare; and
- It helps to empower women by supporting women's economic participation and thus promotes gender equity.

This means that microfinance enables low-income households engage in pre-entrepreneurial activities and micro-enterprises to increase their livelihoods, which will in turn have positive implications for the country's economy. The role of microfinance on SMEs development was further stressed by the African Development Bank in 2003, as a critical element of an effective poverty reduction strategy (Poghosyan, 2013). Which means that improved access and efficient provision of savings, credit, and insurance facilities will enable the poor to among other things develop their microenterprises.

In addition, Adongo and Stork (2005), argue that financial services provided by microfinance institutions will enable low-income households engaged in pre-entrepreneurial activities and micro-enterprises to increase their livelihoods. This will provide immense benefits to low-income households through various channels. The funds transfer facilities provided by microfinance institutions enable low-income households to make payments at low costs (Quaye, 2011).

These facilities are expected to reduce the inconvenience of having to travel long distances to effect transactions. Wright (1999) is also of the view that low-income households typically have irregular income streams and are faced with various lifecycle, structural and crisis risks that are beyond their control and can reduce their income levels below the poverty line. To overcome this, empirical evidence suggests that the savings facilities provided by microfinance institutions are useful in improving the household financial management, which contributes to more efficient inter-temporal decision-making (Quaye, 2011). This protects low-income households against risks

ahead of time, as opposed to providing support to cope with shocks after they occur through the provision of credit facilities (Quaye, Abrokwah, Sarbah & Osei, 2014).

Microfinance also provides a convenient savings facility and this according to De Soto (2000) enable low-income households to transform their non-financial assets into more liquid, high-yield forms that may eventually serve as collateral for larger loans. The use of savings facilities by low-income households enables them to store funds for future use and build credit history (Ramadhan, 2024). This is of particular importance as many low-income households lack the types of collateral acceptable by commercial banks that are required to access loans from this source of finance (Rosengard, 2001; Ramadhan, 2024).

The flexible and convenient credit facilities provided by microfinance institutions enables low-income households to borrow funds to cover emergencies that they cannot meet from their levels of current savings (Saari, 2020). This can reduce the poverty gap and poverty headcount, even though real income may not increase (Robinson, 2003). The savings facilities provided by microfinance institutions enable microenterprises to invest their surplus funds, while obtaining a return on their investments (Quartey, 2000). This enables them to better manage liquidity and could increase their levels of self-financed investment.

In addition, individual rights to these savings assets are legally recognised and can be used to meet collateral requirements. The credit facilities provided by microfinance institutions enable microenterprises to borrow funds to cover various short-term financial needs, particularly the

working capital (Saari, 2020). These needs also include financial costs incurred during pre-start-up training, planning and start-up phases in the micro-enterprise life cycle. Microfinance can also be used to cover the financial costs of further training and to meet other unforeseen circumstances (Mushendami, 2004; Santem, 2010). From the above discussion it safe one to summarize that, microfinance is instrumental in promoting the sustainability of SMEs, to the extent that it creates an improvement in the management of their financial activities. This should lead to the strengthening of the domestic production structure, which has positive implications for balanced development across different sectors and regions.

### **The Concept of SMEs**

There is no single, uniformly acceptable, definition of a small firm (Storey, 1994). This is due to the fact that firms differ in their levels of capitalisation, sales and employment (Sievers & Vandenberg, 2004). This implies that, definitions which employ measures of size (number of employees, turnover, profitability, net worth, etc.) when applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to a different result (Stiglitz & Weiss, 1981).

The European Commission (2003) defines SMEs as any entity engaged in an economic activity, regardless of its legal form which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million and/or an annual balance sheet total not exceeding EUR 43 million. Within the SME category, a small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet

does not exceed EUR 10 million (Stiglitz & Weiss, 1981). On the other hand, a micro enterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or balance sheet does not exceed EUR 10 million (Suberu, 2011).

The British Department of Trade and Industry (DTI) in 2001, also maintains that the best description of a small firm remains that of the Bolton committee report of 1971 which defines a small firm as an independent business, managed by owners and co-owners and having a small market share. According to Kufour (2008), to be classed as an SME or a micro-enterprise, an enterprise has to satisfy the criteria for the number of employees and one of the two financial criteria that is either the turnover total or the balance sheet total. In addition, it must be independent, which means less than 25% owned by one enterprise (or jointly by several enterprises) falling outside the definition of an SME or a micro-enterprise, whichever may apply (Sievers & Vandenberg, 2004). This view is not different from some developing countries such as Ghana where available data from the Registrar General Department indicates that 90 % of companies registered are micro, small and medium enterprises and are generally defined as:

1. Micro enterprises: Those employing up to 5 employees with fixed assets (excluding realty) not exceeding the value of \$10,000;
2. Small enterprises: Employ between 6 and 29 employees with fixed assets of \$100,000; and
3. Medium enterprises: Employ between 30 and 99 employees with fixed assets of up to \$1 million (Mensah,2004).

The National Board of Small-Scale Industries (NBSSI) on the other hand applies both the “fixed asset and number of employees” criteria. It defines a small-scale enterprise as one with not more than 9 workers, and a plant and machinery (excluding land, buildings and vehicles) not exceeding GH¢10million (Kufuor, 2008). These two views given in the Ghanaian context means that the term SME covers a heterogeneous group of businesses in a developing economy, ranging from a single artisan working in a small shop making handicrafts for a village market to sophisticated engineering firms selling in overseas markets and this is supported by Fischer and Reuber (2003).

Although SMEs have been defined according to size, turnover, activity, ownership and legal status (Ubom, 2003). There is an emerging consensus that size (number of employees) may be the most appropriate defining characteristic, given the heterogeneity of enterprises operating in this sector due also to the fact that employment figures are readily available (Taiwo & Benson, 2016). SMEs can, therefore, be defined as firms employing less than 100 employees while entities with less than ten employees are categorized as micro-enterprises (Hussain, 2000). In spite of all the above definitions and propositions, an SME in this study adopts the definition given by Aryeetey et al (1994), which defines SMEs as follows:

1. Micro enterprises – employs (1-9 workers);
2. Small enterprises – employs (10-29 workers); and
3. Medium enterprises– employ (30-140 workers).

### **Sources of Funds Available to SMEs**

Due to moral hazard and problems with information opacity typically being more severe during the initial stages of SME development, internal equity financing, as best represented by owner manager personal savings, is a critical source of funding for SMEs in these early stages (seed financing and start-up) (Wilson & Summers, 2002). To develop and grow SMEs tend to reduce their dependence on these sources and start seeking alternative channels for raising capital (Yankson, 2004).

Internally generated profits and venture capital exemplify just two of the other equity options SMEs seek to expand as they grow (Zeller & Sharma, 2003). In general, “equity capital is that capital invested in the firm without a specific repayment date, where the supplier of the equity capital is effectively investing in the business” (Ou & Haynes, 2006, p. 156). Equity capital can be raised either internally or externally. Internal equity is funds obtained from the current owner–manager(s), family, and friends or from the retained earnings within the firm (ZeynepUgur, 2006). External equity, however, is capital acquired from external channels other than the existing partners and their relatives.

#### **Personal Sources**

These are the most important source of finance for a start-up. This can be personal savings or other cash balances that have been accumulated. It can be personal debt facilities which are made available to the business (Zeller, 2003). In particular savings and other “nest-eggs are a form of savings where entrepreneurs will often invest personal cash balances into a start-up (Zeller & Sharma, 2003). This is a cheap form of finance and it is readily available.

Yankson (2004) conducted research into SMEs financing where he asserted that small firms' usual does not require huge initial capital and any high technology and therefore mostly apt to finance start-up through personal savings or credit from relatives and friends.

Yankson (2004) stated that initial capitals outlay in developing countries are mostly wholly financed from personal savings or those of relatives and friends and subsequent investments are financed largely from retained earnings. His findings are consistent with that of the World Bank report (1994) which established that "small entrepreneurs begin with very small amounts of capital from personal savings (their own and relatives' or friends') and steadily build up their enterprise by reinvesting profits". He however failed to establish why this trend of financing has not changed with the liberalisation of the financial sector. Often the decision to start a business is prompted by a change in the personal circumstance of the entrepreneurs – example redundancy or an inheritance (Zeller, 2003). Investing personal savings maximizes the control the entrepreneurs keep over the business. It is also strong signal of commitment to outside investors or providers of finance.

#### **Borrowing from Family and Friends**

Friends and family who are supportive of the business idea provide money either directly to the entrepreneur or into the business. This can be quicker and cheaper to arrange (certainly compared with a typical or standard bank loan) and the interest and repayment terms may be more flexible than a bank loan (Wilson & Summers, 2002). However, borrowing in this way can add to the stressed face by the entrepreneur, particularly if the business faces difficulties (Waterfield, 2008).

### **Debt Financing**

It is well known that capital structure decisions, in SMEs as in large firms, relate to the use of either equity or debt or both (Waterfield, 2008). However, Berger and Udell (1998) believe that in the case of SMEs, this is partly incorrect because information opacity is more severe in SMEs. Issuing additional equity to satisfy the firm's financial needs would then lead to a dilution in ownership and control (Wanjohi & Mugure, 2008). Therefore, in order to keep full ownership and control of their businesses, SMEs owner-managers may prefer to seek debt financing rather than external equity.

### **Trade Credit**

One of the most important sources of finance for SMEs start-up is trade credit. Basically, it involves the purchase of goods and services from a supplier on credit. According to García and Martínez (2010) trade credit is a delay in the payment for goods or services after they have been delivered or provided as a result of an agreement between the supplier and the firm. The rationale behind the widespread use of trade credit among SMEs has been argued by researchers (Wanjohi & Mugure, 2008). SMEs resort to trade credit when alternative sources of finance are unavailable or more expensive. Trade credit is very important to SMEs for a number of reasons (Broome, 1983). Moyer et al. (1992) assert that suppliers are more flexible in dealing with SMEs than the banks. Suppliers may only check the credit standing of an SME whereas a bank is likely to demand financial statement and cash flow budgets before extending a credit facility (Wanjohi & Mugure, 2008).

Generally, suppliers are very eager to add to their customers (irrespective of the size of firm) and thereby increase their sales hence they are

more willing to assume greater risk (Wanjohi, 2007). Suppliers are more flexible regarding adherence to terms of credit. Banks required strict adherence to loan terms and monitor borrowers more closely than suppliers do (Wanjohi & Mugure, 2008). The amount of trade credit granted may be readily increased just as the volume of a company's purchases increases. It may not take a lot of negotiations to make this possible. Banks are less willing to substantially increase the amount of credit they grant to customers, especially small and medium scale companies (Pierson, 1990).

Fatoki and Odeyemi (2010) argued that trade credit financing is preferred by new and young SMEs when the risk of default is high during the early years of operations. Wilson and Summers (2002) argue that trade credit can be a costly financing source for SMEs if the buyer delays the payment beyond the specified date in the agreement. Nevertheless, Berger and Udell (2006) believe that in spite of some drawbacks, trade credit remains a crucial financing source for most SMEs, especially the young. They further explained that trade credit has the ability to provide the desired cushion during credit crunches, contractions of monetary policy or other shocks that may make other funding suppliers unwilling to provide financing to SMEs.

### **Challenges Facing the Growth of SMEs**

SMEs face a variety of constraints in factor markets (Kayanula & Quartey, 2000). Raw materials for SMEs to produce goods are very difficult to get because of price instability in the market. SMEs have limited access to capital markets, locally and internationally, in part because of the perception of higher risk, informational barriers, existence of high collateral to financial institutions, credit rating, accounting and auditing, economies of Scale and the

higher costs of intermediation for smaller firms (Kayanula & Quartey, 2000). As a result, SMEs often cannot obtain long-term finance in the form of debt and equity.

An insufficient supply of skilled workers can limit the specialisation opportunities, raise costs and reduce flexibility in managing operations (Rosengard, 2001). SMEs have difficulties in gaining access to appropriate technologies and information on available techniques. This limits innovation and SME competitiveness (Robinson, 2003). At the same time, other constraints on capital, and labour, as well as uncertainty surrounding new technologies, restrict incentives to innovation. SMEs face constraints in the availability of production inputs (Kayanula & Quartey, 2000). For instance, better quality raw materials are generally exported or are available only to larger firms and their suppliers tend to be oligopolies. Inadequate infrastructure and weak provision of basic services such as transportation, energy, urban planning and production sites represent particular impediments for SMEs (Ramadhan, 2024).

The lending infrastructure includes the information environment, the legal, judicial and bankruptcy environment, and the tax and regulatory environments (Quaye, 2011). All of these elements may directly affect SME credit availability by affecting the extent to which the different lending technologies may be legally and profitably employed (Ou & Haynes, 2006). The final element, the regulatory environment, may also restrict SME credit availability indirectly by constraining the potential financial institution structure (Allen & Gregory, 2005).

The diminished role of the state in productive activity and renewed private investment has created new opportunities for SMEs (Mwangi, 2013). Nonetheless, limited access to public contracts and subcontracts, often because of cumbersome bidding procedures and/or lack of information, inhibit participation in these markets (Fatoki & Odeyemi, 2010). Also, inefficient distribution channels and their control by larger firms pose important limitations to market access for SMEs. Previously insulated from international competition, many SMEs are now faced with greater external competition and the need to expand market share (Ou & Haynes, 2006). Limited international marketing experience, poor quality control and product standardization and little access to international partners, however, impede expansion into international markets (Fatoki & Odeyemi, 2010).

#### **Management Constraints**

The lack of economies of scale and competition is one of the scarcest resources. Inadequate Management know-how places significant constraints on SMEs development (Gockel & Akoena, 2002). Lack of managerial know-how puts significant constraints on SMEs. Owners or managers of SMEs have limited managerial knowledge, attitude and skills in spite of the numerous institutions providing training and advisory services like National Board for Small Scale Industries (NBSSI). There is still a skill gap in the SME sector as a whole (Kayanula & Quartey, 2000).

This is because entrepreneurs cannot afford the high cost of training and advisory services while others do not see the need to upgrade their skills due to complacency (Fatoki & Odeyemi, 2010). They mostly develop their own approach to management through a process of trial and error. Most SMEs

are owner managed and these owners often lack the requisite skills and expertise to keep the company moving in today's turbulent environment (Baa-Nuakoh, 2003). In few cases where skills have been acquired through other formal or informal ways, the right attitude to work, maintenance, law and civil life is often lacking (Fatoki & Odeyemi, 2010).

Majority of those who run SMEs are ordinary persons whose educational background not be too high. Hence, they may not be well equipped to carry out managerial routines for their enterprises (King & McGrath, 2002). A highly skilled labour fosters the development of SMEs. The educational background of entrepreneurs has an impact on their ability to operate their businesses efficiently and how well they can absorb new technical and managerial skills (Baah-Nuakoh, 2003). Moreover, per Kayanula and Quartey (2000) despite the numerous institutions providing training and advisory services, there is still a skill gap in the small and medium enterprises sector as a whole; this is because entrepreneurs cannot afford the high cost of training and advisory services while others do not see the need to upgrade their skills due to complacency.

### **Regulatory Constraints**

Although wide ranging structural reforms have improved prospects for enterprise development, many issues remain to be addressed at the firm level (Kayanula & Quartey, 2000). Complicated and inefficient tax codes that include cascading sales taxes and stamp taxes are least favourable to SMEs. At the same time, the tariff and non-tariff barriers which favour larger firms that play a role in policy making are often biased against SMEs (Kayanula & Quartey, 2000).

High start-up costs for firms, including licensing and registration requirements can impose excessive and unnecessary burdens on SMEs (Baah-Nuakoh, 2003). The high cost of settling legal claims, and excessive delays in court proceedings adversely affect SME operations (Pralahad, 2004). In Ghana the cumbersome procedure for registering and commencing business are key issues often raised (Owusu, 2019). The World Bank Doing Business Report (2006) cited in Abor and Quartey (2010), indicated that it takes 127 days to deal with licensing issues and there are 16 procedures involved in licensing a business in Ghana.

The absence of anti-trust legislation favours larger firms, while the lack of protection for property rights limits SME access to foreign technologies (Kayanula & Quartey, 2000). Inflexible labour codes and other indirect labour costs bear most heavily on SMEs, raising their cost of doing business and depriving them of the flexibility to adapt (Olutunla & Obamuyi, 2008; Osoro & Muturi, 2013).

### **Technological Advancement**

Kotler and Keller (2006) describe technology as one of the most dramatic forces shaping people's lives and businesses today. Most of SMEs who adopted ICT have realised the benefits and are very positive in continuing to invest and harvest those benefits (Ashrafi & Murtaza, 2008). Technological advancement has rather posed a great challenge to small businesses. This has resulted from their inability to learn and utilize the immense benefit of the technological advancement (Nkuah, et al., 2013). Since the mid-1990s there has been a growing concern about the impact of technological change on the work of micro and small enterprises. Even with change in technology, many

small business entrepreneurs appear to be unfamiliar with current trends (Olutunla & Obamuyi, 2008). Those who seem to be well positioned are most often unaware of these technologies and if they know, it is not either locally available or not affordable or not situated to local conditions (Nkuah, Tanyeh & Gaeten (2013).

In Ghana, like many other African nations, the challenge of connecting indigenous small enterprises with foreign investors and speeding up technological upgrading still persists (Muteti, 2005). There is digital divide between the rural and urban Ghana. With no power supply in most of the rural areas, it is next to impossible to have Internet connectivity and access to information and networks that are core in any enterprise (Nkuah et al., 2013). Thus, technological change, though meant to bring about economic change even among the rural lot, does not appear as answer to the plight of the rural entrepreneurs involved in SME operations. Duan et al. (2002) identified lack of ICT knowledge and skills as one of the major challenges faced by SMEs.

### **Financing and Access to Credit Facility**

In Sub-Saharan Africa, most small businesses fail in the first year due to lack of support from government and traditional banks (Abor & Biekpe, 2006). A major barrier to rapid development of the SME sector is a shortage of both debt and equity financing (Ndife, 2013). Accessing finance has been identified as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries (Njue & Mbogo (2017). Small business especially in Africa can rarely meet the conditions set by financial institutions,

which see SMEs as a risk because of poor guarantees and lack of information about their ability to repay loans (Ndife, 2013).

Without finance, SMEs cannot adopt new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms (Mensah, 2004). Many factors are believed to be responsible for the refusal of loans and equity fund to SMEs by formal banks. According to Cork and Nixson (2000), poor management and accounting practices hinder the ability of smaller enterprises to raise finance. This is coupled with the fact that small businesses are mostly owned by individuals whose personal lifestyle may have far reaching effects on the operations and sustainability of such businesses (Nkuah et al., 2013).

As a consequence of the ownership structure, some of these businesses are unstable and may not guarantee returns in the long run. According to Kauffmann (2005), access to formal finance is poor because of the high risk of default among SMEs and due to inadequate financial facilities. The three main hurdles to accessing capital for SMEs in Ghana according to Mensah (2004) are the relatively undeveloped financial sector with low level of intermediation, lack of institutional and legal structures that facilitate the management of SME, lending risk and the high cost of borrowing and rigid interest rates. The World Bank's Doing Business Report (2004) ranked Ghana a dismal 115 out of 178 economies in ease of access to credit.

### **Policies for Promoting SMEs in Ghana**

The important role SMEs play in the socio-economic development of Ghana cannot be overlooked. The idea of SME promotion has been in existence since 1970 though very little was done at that time (Natarajan,

2004). Key institutions were set up to assist in the promotion of SMEs and prominent among them were the Office of Business Promotion and the present Ghana Enterprise Development Commission (GEDC) (Mwangi, 2012). The main objective of GEDC was to assist Ghanaian businessmen to enter into fields where foreigners mainly operated and had packages for strengthening small scale industry in general, both technically and financially (Kayanula & Quartey, 2000).

The Economic Recovery Programme (ERP) instituted in 1983 broadened the institutional support for SMEs. The National Board for Small Scale Industries (NBSSI) was also established within the Ministry of Industry, Science and Technology under the New Patriotic Party (NPP) regime to address the needs of small businesses (Mensah, 2005). The NBSSI established an Entrepreneurial Development Programme intended to train and assist persons with entrepreneurial abilities into self-employment (Boakye-Ansah & Adhikari, 2023). In 1987, the industrial sector also experienced the coming into operation of the Ghana Appropriate Technology Industrial Service (GRATIS) (Boateng, 2009).

It was to supervise the operations of Intermediate Technology Transfer Units (ITTUs) in the country (Boateng, 2009). GRATIS aims at upgrading small scale industrial concerns by transferring appropriate technology to small scale and informal industries at the grass root level (Boateng, 2009). ITTUs in the regions are intended to develop the engineering abilities of small-scale manufacturing and service industries engaged in vehicle repairs and other related trades (Kayanula & Quartey, 2000). They are also to address the needs of non-engineering industries (Boakye-Ansah & Adhikari, 2023). The setting

up of the new Ministry for Private Sector Development by the New Patriotic Party (NPP) government was also an attempt to focus on the development of the SME sector (Mensah, 2005).

A recent policy to promote the growth of SMEs in Ghana was contained in the 2005 report of the second Growth and Poverty Reduction Strategy (GPRS II 2006 - 2009) now Ghana Shared Growth Development Agenda, 2010-2013 framework (Boakye-Ansah & Adhikari, 2023). The overarching objective of the policy was to engender sufficient economic growth that will propel Ghana into a middle-income economy by 2015 (Amoah et al., 2020). To achieve this objective, the driving force of economic growth was the promotion of the private sector competitiveness. It was under this broad strategic goal that the enhancement of SMEs performance falls. According to a report from the OECD (2006), the SME was showing positive signs of response to this reform. The World Bank/IMF's annual Doing Business Report (2008) ranked Ghana as a top ten (10) global reformer for two years in a row (2006 & 2007) (Amoah et al., 2020). In addition, Ghana's economic policy on business models has been geared towards divestiture of state-owned enterprises and more of private ownership (Amoah et al., 2020; Ameh, 2022).

A number of institutions, both public and private have been established with the aim of facilitating the growth of the general industrial sector which includes the SMEs (Amoah et al., 2020). The institutions include the National Board for Small Scale Industries (NBSSI), the Association of Ghana Industries (AGI), EMPRETEC-Ghana Foundation, the Ghana Export Promotion Council (GEPC), the Private Enterprises Foundation (PED) and

NGOs both local and international (Ameh, 2022). These promotional institutions provide specific assistance to the SMEs which include training, central organisation to protect the interest of industry, facilitation of industrial related information, entrepreneurship development, the promotion of exports of goods made in Ghana and Business Advisory Services as well as linking them to financing institutions for credit facilities (Ameh, 2022).

### **Contribution of MFIs to the Development of SMEs Financing**

A lot of studies have been conducted to examine the effect of financing SMEs by microfinance institutions on the development of SMEs. According to Maina (2012), MFIs had come up to address the gap in finance requirements for SMEs. He conducted a survey on contribution of microfinance services to entrepreneurial development in Kenya. The study employed a case study design and focused on SMEs within Nairobi. In his study, Maina noted that, the banking sector in Kenya is fairly vibrant in the development of third world countries.

However, the sector is 90 percent dominated by the formal commercial banks. Credit policy for banking institutions specifically centered on big businesses only, thus implying lack of access to finance for small and medium enterprises. Nilsson (2010) conducted a study to investigate the impact of microfinance institutions (MFIs) on the development of SMEs in Cameroon. The study adopted a case study approach that involved CAMCCUL (Cameroon Cooperative Credit Union League). The study concluded that microfinance is an important asset in developing countries since it is able to cater for the financing needs of the very poor in the society.

### **Financial Literacy**

Financial literacy among SMEs owners and managers is critical in ensuring that SMEs grow from small and medium to large enterprises (Suberu, 2011). According to a report by Financial Sector Deepening (FSD) 2009, SMEs finance capacity is a critical component in expanding SME finance. The report noted that some MFIs were involved in enhancing the capacity for SMEs through financial literacy training (Teplý et al., 2021). It was however noted in FSD report that attempting to build this capacity at an institutional level was unlikely to be sustainable and certainly an expensive approach among MFIs (Swaid & Wigand, 2007). Thus, as much as MFIs wish to provide SMEs capacity to handle finances, most of them are limited by the costs associated and the likelihood of passing this cost to the final consumer reduces original concept of providing affordable financing to SMEs.

### **Development of Management Skills**

Management of SMEs is a likely intervention that MFIs are expected to offer in a bid to provide remedy to many inadequacies that SMEs face. According to Armyx (2005), it is generally recognized that SMEs face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. Among such challenges as highlighted by Wanjohi (2007) is lack of managerial training and experience. Wanjohi (2007) noted that a typical owner or manager of small businesses develop their own approach to management, through a process of trial and error. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept

(Stiglitz, 1990; Sievers & Vandenberg, 2004). Although this attitude is the key strength at the start-up stage of the enterprise because it provides the creativity needed, it may present problems when complex decisions have to be made (Suberu, 2011).

A consequence of poor managerial ability is that SME owners are ill-prepared to face changes in the business environment and to plan appropriate changes in technology (Sievers & Vandenberg, 2004). Majority of those who run SMEs are ordinary persons whose educational background is inadequate. Hence, they may not be well equipped to execute managerial routines for their enterprises (King & McGrath, 2002). According to Mugure (2008) some educational institutions have made attempts to incorporate managerial training among SMEs. However, little is known about how MFIs impart business management skills among SMEs and how this has affected their development (Shastri, 2009).

### **Market Facilitation**

Inadequacy of market information poses a great challenge to small enterprises (Shastri, 2009). Despite the vast amount of trade-related information available and the possibility of accessing national and international databases, many small enterprises continue to rely heavily on private or even physical contacts for market related information (Shankar, 2006). This is due to inability to interpret the statistical data (Mwangi, 2013) and poor connectivity especially in rural areas. Since there is vast amount of information and lack of statistical knowledge to interpret and Internet connectivity, small entrepreneurs need to be supported (Santem, 2010; Mwangi, 2013).

This could also help in networking and obtaining business information. In addition to offering financial products Mwangi (2013) suggests that, MFIs can provide a link between clients and SMEs through formation of business clubs, marketing associations and practising development of updated information data bases on SMEs, their products and services. Little has been discussed on how enhanced SMEs network and accessibility of market information provided by MFIs have contributed towards growth and development of SMEs (Saari, 2020).

### **Lessons Learnt from the Empirical Review**

It was striking that prior researchers in their quest to explain the relationship between microfinance and the development of small and medium scale enterprises have employed numerous theoretical framings that align with their philosophical orientations and the nature objectives their study sought to explore. This insight enabled the researcher to align the study variables with the appropriate theories that best explain microfinance and the development of small and medium scale enterprises. Again, it was learnt that microfinance institutions (MFIs) help bridge the SME financing gap by providing accessible funding and tailored financial services. However, financial literacy and managerial skills remain challenges, as many SME owners lack business knowledge.

Limited market intelligence also affects SME competitiveness, which MFIs can address through networking and market insights. SMEs face multi-dimensional challenges such as high production costs, poor infrastructure, and regulatory barriers. Technology adoption is difficult due to resource constraints, while limited access to credit remains a major issue. Government

policies have provided some support, but persistent challenges require continued efforts. A holistic approach involving financial support, training, technology, and regulatory improvements is crucial. Collaboration between MFIs, government, and the private sector is essential for sustainable SME growth.

Methodologically, prior researchers have employed both qualitative and quantitative approaches to explore microfinance and the development of small and medium scale enterprises phenomena using varied statistical tools. The decision to approach the study both quantitatively and qualitatively was premised on the works of prior researchers. The preceding lessons provided the substantive ground for conducting the present study as an effort to the examining contribution of microfinance to the development of small and medium scale enterprises in the Awutu Senya East Municipality in the Central Region of Ghana.

### **Conceptual Framework of Microfinance and the Development of Small and Medium Scale Enterprises (SMEs)**

A conceptual framework is defined by Kothari (2004) as a structure that presents relationship between the main constructs in a given study. Mugenda (2003) further adds that a conceptual framework gives an explanation of how the researcher perceives the relationship between variables deemed to be important in a study. The conceptual framework in Figure 1 explains the relationship between the dependent and independent variables. It also establishes the relationship between the objectives of the study and the theoretical underpinning of the research. From the figure, Microfinance institutions exist to break the vicious cycle of poverty. To break this cycle the

MFIs, provide a number of services (credit, savings and training) for the development of SMEs.

The growth of the SME happens in various stages and its success can be seen in the profit margin, level of employment, increase in output and an increase in the firm's assets. All these dependent variables are all linked to each other. For example, an increase in output of the SME would result in an increase in sales which would increase in the profit margin of the firm. It is however important to observe that the SMEs in the course of operations will face challenges and these challenges need to be addressed. Failure to address these challenges could result in the spiral of another vicious cycle of poverty. The dependent variable is stage of SMEs growth and the independent variables are savings mobilisation, access to credit and managerial training.

The framework is modelled as  $SME = f(\text{Savings Mobilisation, Access to Credit, Managerial Training})$

$$SME = \beta_0 + \beta_1 SM + \beta_2 AC + \beta_3 MT + \varepsilon$$

Where SMEs= Small and Medium Enterprises measured by growth in SMEs

$\beta_0$ = Constant (autonomous performance)

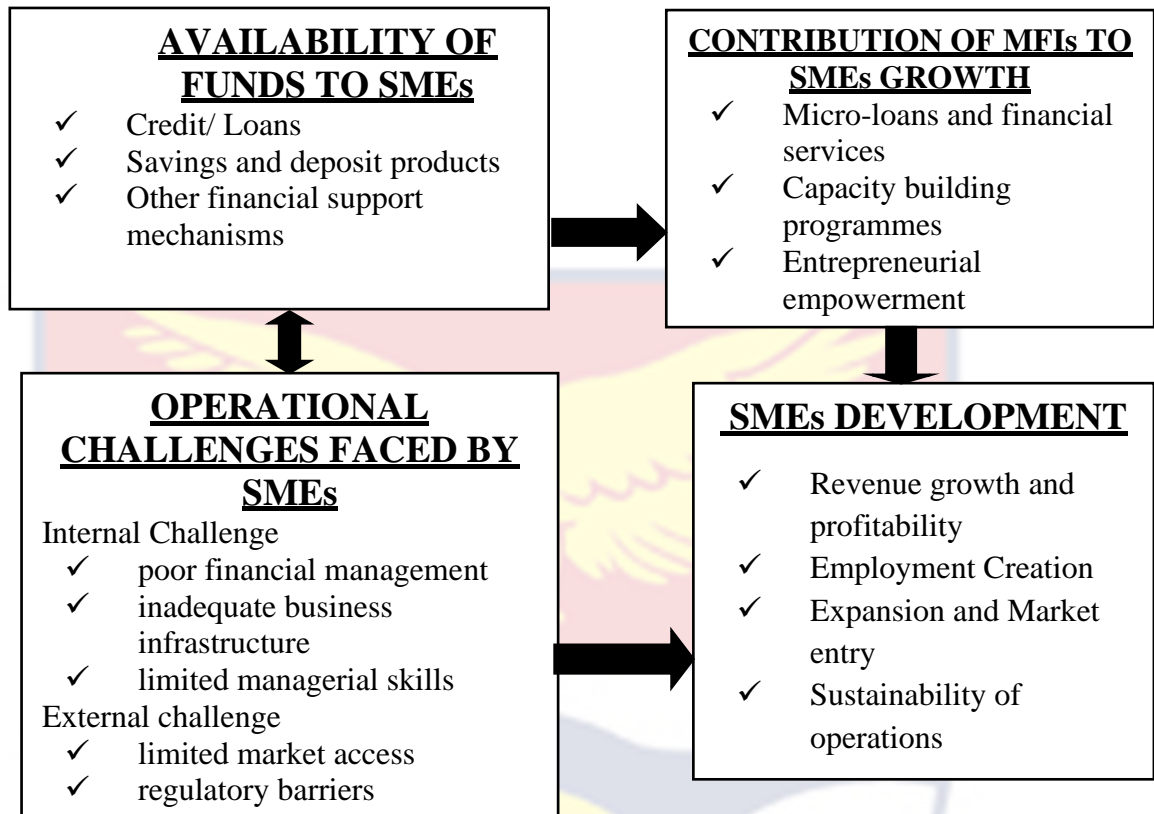
SM= Savings mobilization

AC= Access to Credit

MT= Managerial Training

$\beta_1, \beta_2, \beta_3$  are the coefficient of the independent variables

$\varepsilon$ = Error Term



*Figure 1: Conceptual Framework of Microfinance and the Development of Small and Medium Scale Enterprises (SMEs)*

Source: Adopted from Kothari (2004)

### Chapter Summary

From the study of materials and related literature it can be seen that SMEs require a lot of funding and the MFIs are available to provide the needed funding alongside other financial institutions. A number of challenges were seen on the part of SMEs and how to mitigate these issues were also discussed. A number of theories guiding this study and the theory of Stage of Development of SMEs. The literature review was very useful as it served as the basis for comparing the findings that came out of the field work and most importantly the literature so reviewed provided the study with the needed conceptual and theoretical frameworks.

## CHAPTER THREE

### RESEARCH METHODS

#### Introduction

The previous chapter reviewed existing studies on microfinancing and the development of SMEs. This current chapter delivers a detailed description of the methodological approaches employed to address the study objective. The chapter presents information on how each scientific approach to conducting this empirical study was undertaken, giving cognisance to their respective preconditions. The Chapter discusses important aspects such as study design, population, research strategy, research area, sampling technique, data collecting instrument, data collection procedure, data processing and analysis, and ethical considerations.

#### Study Area

According to Sarantakos (1998), the study area is the boundary where the research work is to be carried out. The study area selected for this research is Awutu Senya East Municipal, situated in the Central Region of Ghana. This municipality is strategically bounded to the north and east by Ga South Municipality, to the south by Gomoa East and Agona Districts, and to the west by Awutu Senya West District. The research was conducted across 11 main communities within the municipality, namely Oduponkpehe (Kasoa), Akwele Nkwanta, Ofaakor, Akweley, Papase No.I, Opeikuma, Kpormetey, Kwadwo Gada, Zakari Kope, Oklu Nkwanta, and Kwaku Bentum. These communities represent a mix of urban and peri-urban settings, offering a diverse socio-economic landscape ideal for studying the impact of microfinance institutions (MFIs) on small and medium-scale enterprises (SMEs). Oduponkpehe,

commonly known as Kasoa, serves as a major commercial hub, while other communities like Ofaakor and Akweley provide a blend of residential and small-scale commercial activities.

The socio-cultural composition of Awutu Senya East is predominantly Guans, complemented by a variety of settler tribes such as the Gas, Akans, Ewes, Walas/Dagartis, Moshies, Basares, and numerous smaller ethnic groups. This ethnic diversity enriches the municipality's cultural fabric and contributes to a wide range of economic activities, from agriculture and trade to services and small-scale manufacturing. The varied demographics and economic activities across these communities provide a robust backdrop for analyzing how MFIs support SME development and contribute to local economic growth. The map of these 11 communities is depicted in Figure 2, illustrating their geographical distribution and accessibility within the municipality.

The choice of Awutu Senya East Municipal as the study area is pivotal, given its rapid economic growth and strategic location near major trade routes, making it an ideal setting to observe the interaction between MFIs and SMEs. This diverse and dynamic environment ensures a comprehensive understanding of the role of MFIs in fostering SME development across different community settings. The municipality's vibrant commerce, agriculture, and services sectors, combined with its strategic location near major trade routes and proximity to Accra, create a dynamic environment for examining MFI-SME interactions. The area's socioeconomic diversity allows for insights into how MFIs support various demographic groups, including youth and women entrepreneurs. The Ghanaian government's focus on economic development and financial inclusion in this region, along with a

noted research gap, underscores the importance of this study in providing valuable data to inform broader SME development strategies and enhance financial inclusion efforts.

MAP OF AWUTU SENYA EAST MUNICIPAL



Figure 2: Map of Awutu Senya East Municipality  
Source: Ghana Statistical Service, GIS (2018)

The main economic activities in the Municipality include trading (wholesale/retail), agro-processing, informal sector service and commerce. Trading and its related activities are the leading economic ventures which, according to the 2010 Population and Housing Census, employ about 35.7 percent of the working population in the Municipality. Livestock production is also practiced in the Municipality but on a smaller scale. The private informal sector's contribution is enormous. The sector employs about 81.9 percent of the working population in the banking and service sectors but needs to be integrated with the formal sector. In 2010, the total population of the Municipality stood at 108,422 which represented 4.9 percent of Central Region's population. There are five (5) vibrant micro-financial institutions (MFIs) that were identified in the municipality to be directly providing services to SMEs. These are AKI Microfinance, Christian Community Microfinance Limited (CCML), Quick Capital Microfinance, Royal Microfinance and Express Microfinance. The list of the MFIs is shown in Table 1.

**Table 1: The main MFIs in Awutu Senya East Municipality**

| Name                         | Location /Catchment<br>Area | Year Of<br>Establishment |
|------------------------------|-----------------------------|--------------------------|
| CCML                         | West                        | 1975                     |
| Quick Capital Microfinance   | South                       | 2000                     |
| Express Capital Microfinance | South                       | 2004                     |
| Royal Microfinance           | North                       | 2009                     |
| Aki Microfinance             | East                        | 2010                     |

Source: Field Data (2016)

## Research Approach

The study employed the mixed-method approach. Mixed-method approach combines both qualitative and quantitative methods of research. Tashakkori and Teddlie (2003) argue that multiple methods are useful if they provide better opportunities for a researcher to answer research questions and where the methods allow a researcher to better evaluate the extent to which the research findings can be trusted and inferences to be made from them. The study employed concurrent mixed methods where the researcher united or merged quantitative and qualitative data in order to provide a comprehensive analysis of the research problem.

In the mixed methods approach, the researcher built the knowledge on pragmatic grounds (Creswell et al., 2003; Maxcy, 2003) asserting truth is “what works” (Howe, 1988). While designing a mixed methods study, three issues need consideration: priority, implementation, and integration (Creswell, Plano, Clark, Guttman, & Hanson, 2003). Priority refers to which method, either quantitative or qualitative, is given more emphasis in the study. Implementation refers to whether the quantitative and qualitative data collection and analysis come in sequence or in chronological stages, one following another, or in parallel or concurrently. Integration refers to the phase in the research process where the mixing or connecting of quantitative and qualitative data occurs. These designs had the purpose of examining the effects of microfinance institutions on SMEs in the Awutu Senya East Municipal.

## Study Design

The study used a cross-sectional design with mixed methods which is a procedure for collecting and analysing both quantitative and qualitative data at the same stage of the research process within a single study to understand a research problem more completely (Creswell, 2012). The researcher used a cross-sectional research survey because it facilitated the collection of data from different strata of respondents namely, the staff of micro-finance and their managements and those engage in small and medium enterprises (SMEs) in the area.

Creswell (2012) argues that cross-sectional survey design has the advantage of measuring current attitudes or practices. It also provides information in a short amount of time, such as the time required for administering the questionnaire and collecting the information. Cross-sectional survey was preferred as a method of data collection over others in this particular study due to the fact that many questions were asked and it was possible to reach the entire respondents within a short period of time (Fowler, 2002).

## Population

According to Cooper and Schindler (2003), a population is the total collection of elements about which one wishes to make some inferences. The target population for this study consisted of all the SMEs operating in the Awutu Senya East Municipality. The list of SMEs for the study was acquired from the Revenue Section of the Awutu Senya East Municipal Assembly. This was because the Assembly does not have Business Advisory Centre (BAC) where data on SMEs can be obtained. The accessible population comprised

artisans, petty traders, food processors, small-scale manufacturers, hairdressers, dressmakers and tailors, food vendors, tie and dye makers bakers etc., totalling 1,648 as shown in Table 1. The MFIs had 40 staff members and five managers.

**Table 2: SMEs Operators in Awutu-Senya East Municipality**

| Communities       | Artisans | Traders | Manufac | Food | Services | Total |
|-------------------|----------|---------|---------|------|----------|-------|
| Oduponkpehe Kasoa | 78       | 66      | 23      | 55   | 7        | 229   |
| Akwele Nkwanta    | 56       | 45      | 31      | 23   | 4        | 159   |
| Ofaakor           | 32       | 29      | 27      | 65   | 8        | 161   |
| Akweley           | 34       | 34      | 33      | 22   | 4        | 127   |
| Papase No.I       | 45       | 33      | 12      | 25   | 2        | 117   |
| Opeikuma          | 42       | 21      | 49      | 27   | 3        | 142   |
| Kpormetey         | 34       | 10      | 45      | 41   | 9        | 139   |
| Kwadwo Gada       | 56       | 12      | 44      | 34   | 8        | 154   |
| Zakari Kope       | 45       | 52      | 23      | 21   | 4        | 145   |
| Oklu Nkwanta      | 65       | 11      | 32      | 54   | 7        | 169   |
| Kwaku Bentum      | 27       | 17      | 32      | 28   | 2        | 106   |
| Total             | 514      | 330     | 351     | 395  | 58       | 1648  |

Source: Revenue Department (2016)

### Sampling and Sampling Procedure

The Cluster sampling, purposive sampling, proportional sampling and simple random sampling techniques were used to select the participants. These are probability and non-probability sampling techniques. The sample size for the study consisted of 321 SME operators, 33 staff of micro-financial

institutions and 5 managers of MFIs. The Cluster sampling technique involves the selection of an entire group from a list of groups (Adam & Kamuzora, 2008). The area is a cluster of 11 communities. The SMEs accessible population was divided into a number of relatively small subdivisions which themselves are clustered communities of SMEs. Purposive sampling was used to select the five managers of MFIs.

The purposive sampling technique is a non-random sampling method where the researcher establishes a criterion devoid of randomness for selecting the sample. The reason was that the researcher had the desire to include specific sections of the study population that have potential in-depth information and understanding of the basic themes of the study. Proportional sampling technique was used to select the operators of SMEs and the staff of MFIs who handle the SMEs clients. The sample size for the SMEs was determined using the mathematical method as postulated by Miller and Brewer (2003) in the determination of sample size of a research.

$$n = \frac{N}{1 + N(\alpha)^2}$$

Where  $n$ =the sample size,

$N$ =the population and

$\alpha$ =the level of significance (margin of error)

Using the mathematical method above with a margin of error of .05 or 5%

$$n = \frac{1648}{1 + 1648(0.05)^2}$$

$$n = \frac{1648}{1 + 1648(0.0025)}$$

$$n = 321$$

The sample size for the population of 1648 SMEs is 321 SMEs.

In the case of the MFIs, there were five vibrant ones identified to provide direct services to SMEs and also, they were chosen because of how

long they have been in the municipality and how readily available they are to provide information concerning their activities in the municipality.

With respect to the staff of the MFIs, it is calculated as:

$$n = \frac{40}{1 + 40(0.05)^2}$$

$$n = \frac{40}{1 + 40(0.0025)}$$

The sample size for the MFIs staff was 33 as indicated by Miller and Brewer (2003). Proportional sampling was then used to select the participants from each of the 11 communities. Gay (2003) suggested that 20% of the accessible population is adequate to serve as a study sample in each stratum.

Miller and Brewer (2003).

**Table 3: Sample Size Determination Using 20% Proportional Sampling**

| Community      | SMEs                     | Population | Sample size |
|----------------|--------------------------|------------|-------------|
| Oduponkpehe    | Artisans                 | 78         | 15          |
|                | Traders                  | 66         | 13          |
| Kasoa          | Manufacturers            | 23         | 5           |
|                | Food vendors/restaurants | 55         | 11          |
|                | Services                 | 7          | 1           |
|                | Artisans                 | 56         | 11          |
|                | Traders                  | 45         | 9           |
| Akwele Nkwanta | Manufacturers            | 31         | 6           |
|                | Food vendors/restaurants | 23         | 4           |
|                | Services                 | 4          | 1           |
|                | Artisans                 | 32         | 6           |
|                | Traders                  | 29         | 6           |
| Ofaakor        | Manufacturers            | 27         | 5           |
|                | Food vendors/restaurants | 65         | 13          |
|                | Services                 | 8          | 1           |
|                | Artisans                 | 34         | 7           |
| Akweley        | Traders                  | 34         | 7           |
|                | Manufacturers            | 33         | 6           |
|                | Food vendors/restaurants | 22         | 4           |
|                | Services                 | 4          | 1           |
|                | Artisans                 | 45         | 9           |
| Papase No.I    | Traders                  | 33         | 6           |

**Table 3: (Continued)**

|              |                          |      |     |
|--------------|--------------------------|------|-----|
|              | Manufacturers            | 12   | 2   |
|              | Food vendors/restaurants | 25   | 5   |
|              | Services                 | 2    | 1   |
|              | Traders                  | 21   | 4   |
|              | Manufacturers            | 49   | 10  |
|              | Food vendors/restaurants | 27   | 5   |
|              | Services                 | 3    | 1   |
| Rmetey       | Artisans                 | 34   | 7   |
|              | Traders                  | 10   | 2   |
|              | Manufacturers            | 45   | 8   |
|              | Food vendors/restaurants | 41   | 8   |
|              | Services                 | 9    | 2   |
| Kwadwo Gada  | Artisans                 | 56   | 10  |
|              | Traders                  | 12   | 2   |
|              | Manufacturers            | 44   | 9   |
|              | Food vendors/restaurants | 34   | 7   |
|              | Services                 | 8    | 2   |
| Zakari Kope  | Artisans                 | 45   | 9   |
|              | Traders                  | 52   | 10  |
|              | Manufacturers            | 23   | 4   |
|              | Food vendors/restaurants | 21   | 4   |
|              | Services                 | 4    | 1   |
| Oklu Nkwanta | Artisans                 | 65   | 13  |
|              | Traders                  | 11   | 2   |
|              | Manufacturers            | 32   | 6   |
|              | Food vendors/restaurants | 54   | 11  |
|              | Services                 | 7    | 1   |
| Kwaku Bentum | Artisans                 | 27   | 5   |
|              | Traders                  | 17   | 3   |
|              | Manufacturers            | 32   | 6   |
|              | Food vendors/restaurants | 28   | 6   |
|              | Services                 | 2    | 1   |
| Total        |                          | 1648 | 329 |

Source: Field Data (2016)

To get the respondent's, simple random sampling technique was used to select the participants from SMEs operators and MFIs staff. Simple random sampling is the most basic form of probability sampling in which each member in the research has equal chance of being selected to participate in the

research (Bill et al., 2008). Pieces of papers with 'yes' and 'no' was folded and put them in a container, mixed them completely and participants were asked to pick without replacement using lottery method until all the 321 participants were selected.

### **Data Collection Instruments**

Interview schedule and interview guide were used as instruments for data collection. The interview schedule was administered to SMEs' operators and the staff of MFIs dealt directly with the SME clients. Best and Khan (1993) observe that interview schedule enables the person administering them to explain the purpose of the study and to give meaning of the items that may not be clear. The interview schedule was used for data collection because it offered considerable advantages in the administration. It presented an even stimulus potentially to large numbers of people simultaneously and provided the investigation with an easy accumulation of data.

Two sets of closed ended and open-ended questions were administered to the respondents. One set with 36 question items and the other set with 35 questions were administered on the owners of SMEs and MFIs staff respectively. The interview schedule for SMEs operators (owners) and the staff of MFIs were in four sections. Section A collected information on socio-demographics of the respondents, Section B was on the sources of funds available to SMEs, Section C was on the services of MFIs to SMEs and Section D was on operational challenges faced by SMEs.

Interviews were conducted with five managements of MFIs in the Awutu Senya East Municipality in the Central Region of Ghana. Interviews were semi-structured to allow the managements to shift the agenda and

contribute their own line of thought whenever they wish (Thomas, Walker & Webb 1998). The aim of the semi-structured interview was to obtain accurate uninhibited accounts from informant that would base on their personal experience and knowledge.

The interview guides contained 25 items of questions covering all the research questions raised to guide the study. The interviewer-initiated contact with the interviewee consent and established the right to ask questions where the interviewee agreed to answer those questions (Miller & Brewer 2003). The interview was capable of producing situated understandings grounded in specific interactional episodes. The interview was made up of three sections. Section A elicited information on the sources of funds available to SMEs from MFIs, section B elicited information on the services of MFIs' staff from MFIs managers to the SMEs client and section C was on operational challenges faced by SMEs in accessing loan.

### **Validity and Reliability of Instrument**

The research instrument was subjected to a validity and reliability test. Reliability is a measure of the degree to which a research instrument yields consistent results of data after repeated trials (Mugenda, 2003). A pilot test of the instrument was conducted whereby the questionnaires were administered in thirty (30) selected SMEs in the Cape Coast Metropolis. This area was chosen for the pilot testing because of proximity reasons and the fact that MFIs in the Cape Coast Metropolis share similar goals and objectives with MFIs in Awutu Senya East Municipality in assisting SME operators to acquire loans for their operations. The data gathered were analysed and the

Cronbach's alpha established for each of the items that fell under the three research questions.

The reliability of the instruments was determined using Statistical Product for Service Solutions (SPSS). Cronbach's alpha of 0.71 for the SME operators and 0.613 for MFI staff questionnaires was obtained. According to De Vellis (1991), reliability coefficient of 0.60 and above is said to be acceptable. Therefore, the instrument was considered reliable and appropriate to collect the relevant data to answer the questions posed. Also, Fraenkel and Wallen (2000, p. 17), posited that "For research purposes a useful rule of thumb is that reliability should be at .60 and preferably higher". With these in place, the instrument could be said to be of good quality capable of collecting useful data for the study. The queries that came out of the item analyses were catered for. All these actions were taken to ensure that the instrument would be capable of collecting quality and useful data for the study.

### **Field Work**

As a researcher, I visited the participating micro-finance institutions, introduced myself and sought authorisation from the management. I conducted the interview with the MFI managers. On the part of the SMEs and MFIs staffs, I used interview schedule and respondents were assured of confidentiality of the data collection on the basis that information collected would strictly be used for academic purposes. I was available throughout to offer assistance to the respondents and made any necessary clarifications. The researcher recorded and took down notes during the interview sessions. It took me about one month to collect the data from the respondents.

### **Ethical Considerations**

According to Saunders (2007), research ethics are the appropriateness of behaviour of the researcher in accordance with the rights of those who become the subjects of the study. It is undisputable that every research conducted has the potential of affecting the subjects in one way or the other. The effect could be psychological or physical. The researcher sought permission to carry out the study in the Awutu Senya East Municipality from the SMEs and MFIs managers. Other ethical procedures included ensuring anonymity of the respondents and selected organisations that participated in the study. Finally, the researcher ensured that names of respondents did not appear on the questionnaires for the sake of confidentiality.

### **Data Processing and Analysis**

The data collected were edited to ensure that responses are suitable. The editing helped to exclude the questionnaire and interview questions which were not complete and inappropriate. Finally, the items in the questionnaire were coded for easy analysis. Deductive and inductive coding was used. With the deductive coding, the researcher classified the responses into pre-established categories, as in the case with close-ended questions. With the inductive coding, the responses mentioned most frequently are included in a coding scheme to analyse the data (Nachmias, 1992).

According to Kothari et al (2013), the purpose of the coding would help to classify the answer to a question into meaningful categories so as to bring out their essential pattern. After the information has been collected, data editing was done which involved the process of examining the collected raw data to detect errors and omissions and to correct these where possible. The

data collected was screened, coded and keyed into Statistical Product for Service Solutions (SPSS) computer software version 20 for easy analysis. The socio-demographical data were analysed using frequencies and percentages. Research Objective 1 was analysed using frequency counts and percentages as well as charts on the sources of funds available to SMEs.

The second objective was analysed using multiple regression of Durbin Waston Statistic to measure savings mobilisation, access to credit and managerial training to help predict the dependent variables of how MFIs improves the growth of SME as independent variable in their operations in the Municipality while Research Objective 3 was analysed using frequencies and charts to give a clear visual impression of the challenge SMEs face. Five-point Likert-scale was drawn starting from Strongly Disagree (1), Disagree (2), Uncertain (3), Agree (4) and Strongly Agree (5) to analyse some of the variables.

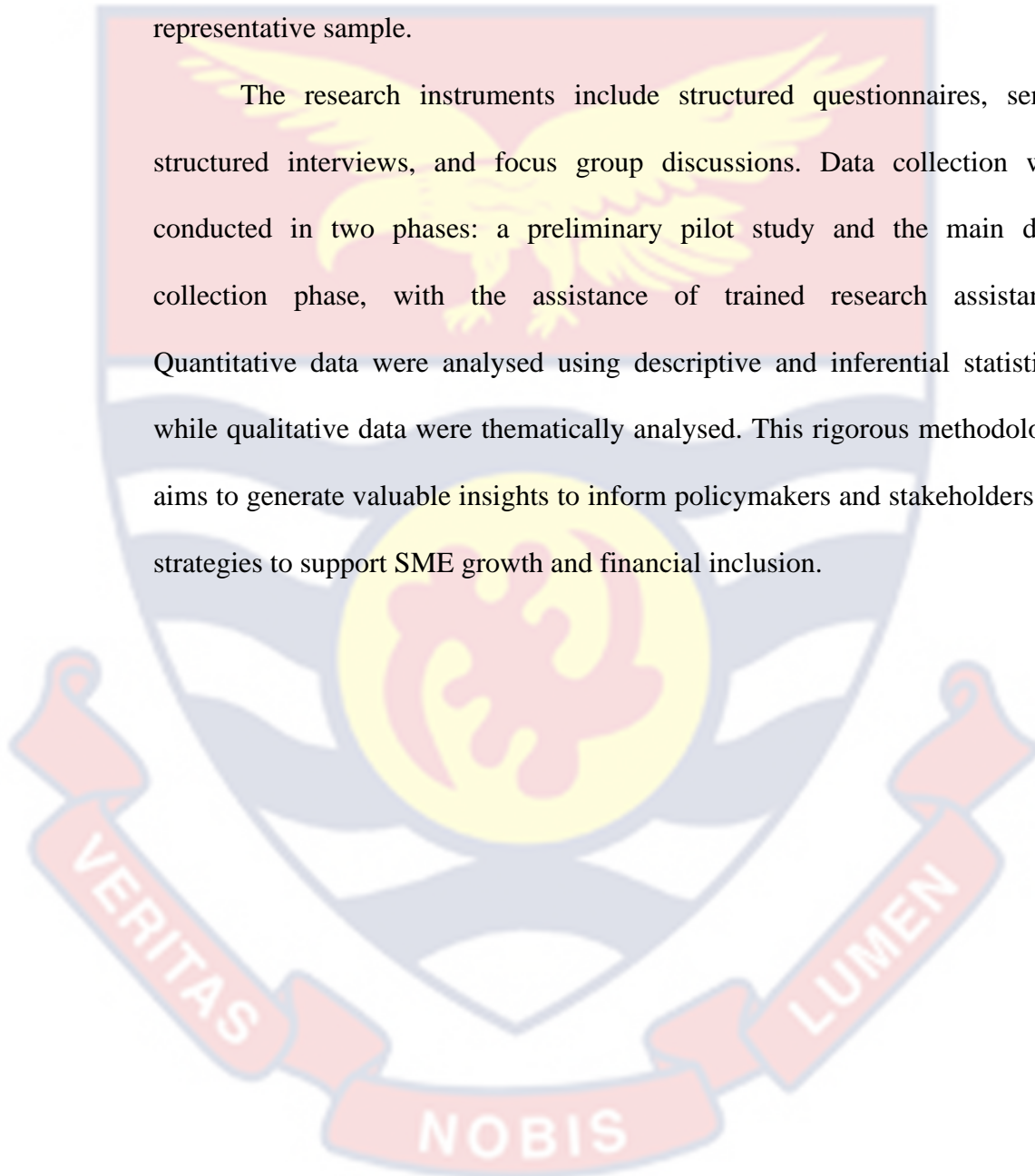
Qualitative data was analysed through development of data categories and themes, recognising relationships to produce well-grounded conclusions. The researcher immersed himself in the data in order to become familiar with the information. A content analysis of the interview responses was done. Data gathered from the interviews were organized, transcribed, segmented under themes. Themes were established inductively to facilitate interpretation and presentation of findings.

### **Chapter Summary**

This chapter details the research methodology used in examining the role of microfinance institutions (MFIs) in the development of small and medium-scale enterprises (SMEs) in Awutu Senya East Municipality, Central

Region of Ghana. The study employs a descriptive and explanatory mixed-methods design, combining quantitative and qualitative approaches to provide a comprehensive analysis. The population includes all SMEs and MFIs in the municipality, with a stratified random sampling technique used to ensure a representative sample.

The research instruments include structured questionnaires, semi-structured interviews, and focus group discussions. Data collection was conducted in two phases: a preliminary pilot study and the main data collection phase, with the assistance of trained research assistants. Quantitative data were analysed using descriptive and inferential statistics, while qualitative data were thematically analysed. This rigorous methodology aims to generate valuable insights to inform policymakers and stakeholders on strategies to support SME growth and financial inclusion.



## CHAPTER FOUR

### RESULTS AND DISCUSSION

#### Introduction

This chapter presents the findings and discusses the data collected to address the research questions and objectives that guided the study. The goal of this chapter is to transform the collected data into meaningful insights, allowing for a deeper understanding of the research topic. The chapter concurrently presents and discusses the findings in light of the existing literature and theoretical framework. The chapter further provides valuable insights into the phenomenon under study and sets the groundwork for the conclusions and recommendations in the subsequent chapter. In analysing the specific study objective both descriptive (frequency, percentage, mean standard deviation) and inferential statistics (regression) with the aid of Statistical Package for Social Sciences (SPSS) version 28. The findings were presented in the respective ensuing Tables.

#### Demographic Information of SMEs

Before presenting the study's primary findings, it is essential to explore the demographic characteristics of the respondents. While demographic data may not be the central focus of this research, understanding the participants' backgrounds provides valuable context enhances the interpretation of the main results. The demographic characteristics enhance the depth of analysis, strengthen the validity of the findings, and aid in crafting well-informed recommendations to address the research objectives. This section examines key demographic attributes such as age, gender, educational level, years of experience in business of the respondent as captured in Table 4.

**Table 4: Demographic Information of SMEs**

| <b>Variables</b>                               | <b>Number of SMEs</b> | <b>Percentage of SMEs</b> |
|--|-----------------------|---------------------------|
| <b>Sex</b>                                     |                       |                           |
| Male   | 142                   | 44.2                      |
| Female   | 179                   | 55.8                      |
| <b>Total</b>                                   | <b>321</b>            | <b>100</b>                |
| <b>Age</b>                                     |                       |                           |
| 20-39  | 257                   | 80.1                      |
| 40-59  | 64                    | 19.9                      |
| <b>Total</b>                                   | <b>321</b>            | <b>100</b>                |
| <b>Level of Education</b>                      |                       |                           |
| JHS  | 121                   | 37.7                      |
| SHS  | 198                   | 61.7                      |
| Tertiary                                       | 2                     | 0.6                       |
| <b>Total</b>                                   | <b>321</b>            | <b>100</b>                |
| <b>Nature of SMEs</b>                          |                       |                           |
| Retail Trading                                 | 88                    | 27.4                      |
| Manufacturing                                  | 27                    | 8.4                       |
| Export   | 3                     | 0.9                       |
| Services                                       | 147                   | 45.8                      |
| Wholesaler                                     | 29                    | 9.1                       |
| Farming  | 27                    | 8.4                       |
| <b>Total</b>                                   | <b>321</b>            | <b>100</b>                |
| <b>Years of SMEs in operation</b>              |                       |                           |
| Less than 1 year                               | 29                    | 9.0                       |
| 1-5 years                                      | 48                    | 15.0                      |
| 6-10 years                                     | 204                   | 63.6                      |
| 11-15 years                                    | 37                    | 11.5                      |
| 15+  | 3                     | 0.9                       |
| <b>Total</b>                                   | <b>321</b>            | <b>100</b>                |
| <b>Reasons for SMEs entering into business</b> |                       |                           |
| Profit   | 187                   | 58.3                      |
| Easy to start                                  | 104                   | 32.4                      |
| Others   | 30                    | 9.3                       |
| <b>Total</b>                                   | <b>321</b>            | <b>100</b>                |

Source: Field Data (2017)

The characteristics of the SMEs owners according to sex showed that there were more females of 55.8% among the SMEs and 44.2% were males as found in Table 4. These results implied that females dominated in SMEs in doing business since they normally engaged in petty trading which is a major target of Microfinance institutions. This situation may be attributed to the fact that there a policy of these MFI for empowering women economically. Also, more female normally engaged in services like hairdressing, dress making and distribution food items. Age of the owners of SMEs is an important factor which can influence economic activities to be performed by a healthy individual. On age, 257 (80.1%) of SMEs were between the ages of 20 and 30, forming the majority of the respondents. This showed that majority of the operators in SMEs were adults and in their economically active age; which implied high level of productivity.

The study revealed that, 60.2% of the SMEs respondents had secondary school education, and those with degree accounted for only 3.9% of the respondents. These results suggest that most of the micro entrepreneurs consulted by the researcher were found to have secondary level of education. This is because micro and small-scale enterprises are easy to set up since they require little technical knowhow and little initial capital to operate hence does not require higher learning before setting up SMEs.

Table 4 again indicates that out of the total of 321 SMEs, 147 (45.8%) were into services. Those into services comprised of hair dressers, tailoring, teachers, fitters etc. Eighty-eight SMEs, representing 27.4% were into retail trading like food vendors, mini-stores, distributors etc. indicating the second highest. The services sector is dominated for the reason being that it normally

requires small initial capital and little or no technical procedures of starting. From Table 4, it shows that, 204 (63.6%) of the SMEs owners said they had been in operations between 6 to 10 years.

From Table 5, it also shows that 54.5% of the MFIs had been in operation between 1-5 years. This shows that, most of the SMEs sampled for the study were established in very recent. As to the reasons of being in business, 187(58.3%) of the SMEs respondents indicated that they entered into the business for profit, but 104 (32.4) respondents said they entered into the business because it was easy to engage in it. It can be concluded that all the respondents had different reasons for entering into small scale enterprising which may imply that there would be different needs of each client for which the MFI has to provide appropriate products to satisfy each client's needs.

**Table 5: Demographic Information of MFIs Staff**

| Variables                 | Number of MFIs Staff | Percentage of MFIs Staff |
|---------------------------|----------------------|--------------------------|
| <b>Level of Education</b> |                      |                          |
| SHS                       | 15                   | 45.5                     |
| HND                       | 6                    | 18.2                     |
| Tertiary                  | 12                   | 36.4                     |
| <b>Total</b>              | <b>33</b>            | <b>100</b>               |
| <b>Category of work</b>   |                      |                          |
| Marketing Executive       | 18                   | 54.5                     |
| Supporting Staff          | 10                   | 30.3                     |
| Loan Officer              | 5                    | 15.2                     |
| <b>Total</b>              | <b>33</b>            | <b>100</b>               |
| <b>Years of operation</b> |                      |                          |
| 1-5 years                 | 18                   | 54.5                     |
| 15+                       | 15                   | 45.5                     |
| <b>Total</b>              | <b>33</b>            | <b>100</b>               |

Source: Field Data (2017)

Table 5 shows that, 45.5% of the MFIs staff respondents had secondary school education, and those with degree accounted for 36.4% of the respondents. These results suggest that most of the MFI's staff consulted by the researcher were found to have secondary level of education which suggest that they were those who collect the daily susu from SMEs. Regarding the category of workers, 18 (54.5%) of MFIs staff were marketing executives representing the highest respondents' responses.

This was followed by the loan officers with a percentage point of 30.3. This may imply that microfinance institutions have majority of their members being sent out to market their products in order to attract more SME members. The succeeding dealt with the main objective of the study. First examines the main data on microfinance institutions and the development of small and medium scale enterprises (SMEs). The second objective examines the sources funds available for SMEs; while their third objective examine the contributions of MFIs to the growth of SMEs and examine the operational challenges faced by SMEs.

### **Sources of Funds Available to SMEs**

This section examined the various sources of funding available to SMEs in the Awutu-Senya East Municipality. The section provides a clear understanding of the financial landscape for SMEs in the municipality and points to the need for more accessible funding options to support business growth and sustainability. Statistical tools such as frequencies and percentages were used to analyse and present the data, providing a clear picture of the distribution and preferences of SMEs regarding different sources of fund. Table 6 and Figure 3 indicates that, majority of the SMEs respondents, 59.2%

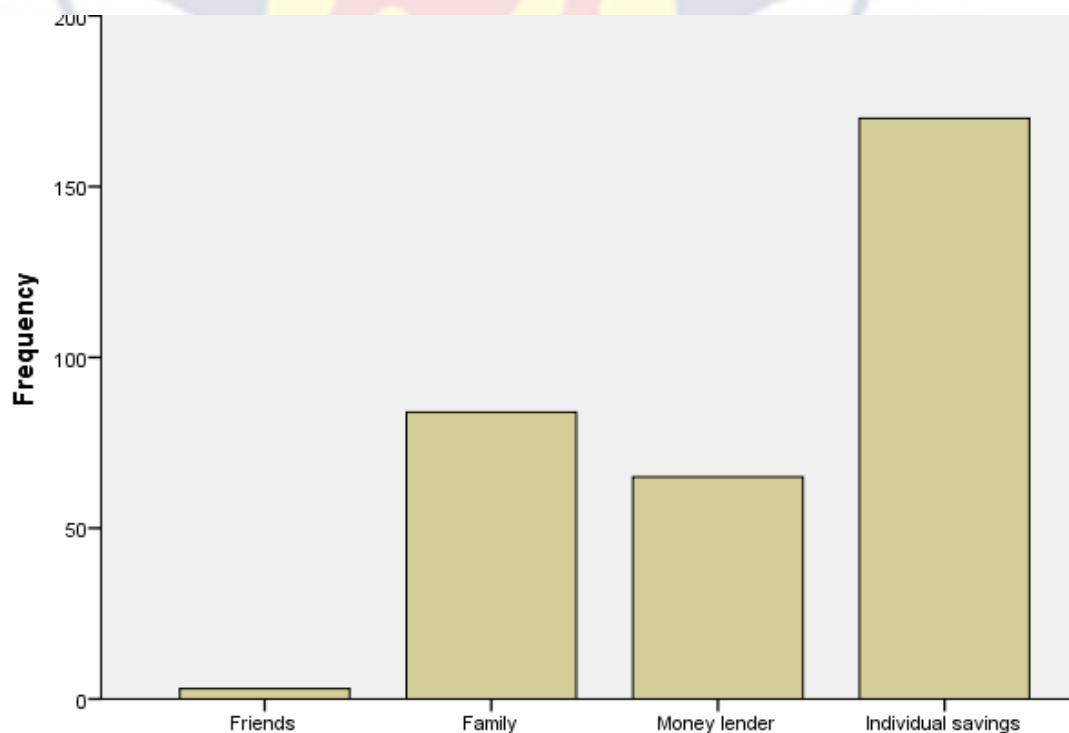
affirmed that they acquired loans from the microfinance institutions, with only 17.4% acquiring capital from their family members as their sources of business capital.

**Table 6: Sources of Fund Available to SMEs**

| Source of start-up capital | Frequency of SMEs | Percentage of SMEs |
|----------------------------|-------------------|--------------------|
| Personal savings           | 75                | 23.4               |
| Family member              | 56                | 17.4               |
| Loan from MFIs             | 190               | 59.2               |
| Total                      | 321               | 100                |

Source: Field Data (2017)

Regarding the sources of credit SMEs accessed before encounter with MFIs, 164 (51.1%) of SMEs respondents said they relied on their individual savings to expand their business as per the analysis in Figure 3. The least source of fund indicated by respondents was from friends representing 0.9% of the respondents.



*Figure 3*-Main Source of Credit without MFIs

Source: Field Data (2017)

It clearly showed from this analysis that most SMEs relied on individual savings before their encounter with the MFIs. As to what other sources of fund available to MFIs client, it was observed that 69.7% of the respondents of SMEs accessed overdraft from the microfinance institutions to complement their business capital. Responses from the interview revealed that businessmen and women raised initial capital from many sources including themselves, relatives or friends, financial institutions and credit facilities. People in SMEs raised their initial working capital from personal savings because their businesses generally require small working capital and also financial institutions do not normally give loan facility to infant firms or beginners for the fear of high risk.

MFI A manager said that most SMEs depended on MFI loan as source of fund to expand their businesses because SMEs lack savings culture. MFI B manager indicated that if the SMEs holder is a first timer to start a business, we asked them to be in groups so as to reduce the risk of repayment. When SMEs do not get into groups the bank direct them to do personal savings for a maximum of three months to qualify them for loan. Both MFI C and D said that those SMEs beginners are mostly encouraged to depend on their personal savings to start their business and later apply from the MFI loan after they have been with the institution for at least three months. MFI E manager affirmed that the MFI did not give loan to new SMEs unless they provided collateral securities.

It is evidence from the discussions that MFIs gave loan to SMEs but that was dependent on their ability to pay back so a guarantor was provided as surety. It showed that MFIs gave startup capital to SMEs clients to start their

business. The discussions are in support of Boome (1983) who said that most writers on the subject of SME financing, described two basic types of financing namely debt and equity, which were further classified by Hisrich and Peters (1995) also into two sources internal and external. Again, Berger and Udell (2006) also supported this discussion that in spite of some drawbacks, overdraft remains a crucial financing source for most SMEs, especially those without any startup capital.

In contrast with the discussion, Wilson and Summers (2002) asserted that overdraft can be a costly financing source for SMEs if the MFI expect payment within a shorter period of time. It can therefore be concluded that most of these SMEs are likely to depend mostly on external sources such as the MFIs. Further on this the respondents were asked whether they had ever taken loan from MFIs to set up their business, the responses were indicated in Table 7.

**Table 7: Loan from MFIs**

| <b>Name of MFI</b>           | <b>Frequency of SMEs Served with Loan</b> | <b>Percentage of SMEs Served with Loan</b> |
|------------------------------|---|--|
| AKI Microfinance             | 35  | 10.9                                       |
| CCML Microfinance            | 74  | 23.1                                       |
| Quick Capital Microfinance   | 131                                       | 40.8                                       |
| ROYAL Microfinance           | 54  | 16.8                                       |
| Express Capital Microfinance | 27  | 8.4  |
| <b>Total</b>                 | <b>321</b>                                | <b>100</b>                                 |

Source: Field Data (2017)

Table 7 shows that majority of the SMEs, 40.8% of the respondents' accessed loan from 'Quick Capital Microfinance'. The microfinance company that gave out loan to the least number of SMEs was 'Express Capital Microfinance' (8.4%). It means that some of the microfinance companies were

much more preferred than others and therefore attracted more customers considering the respondents responses. The respondents were required to indicate the interest rate paid on their loan. The following were the responses as per Table 8.

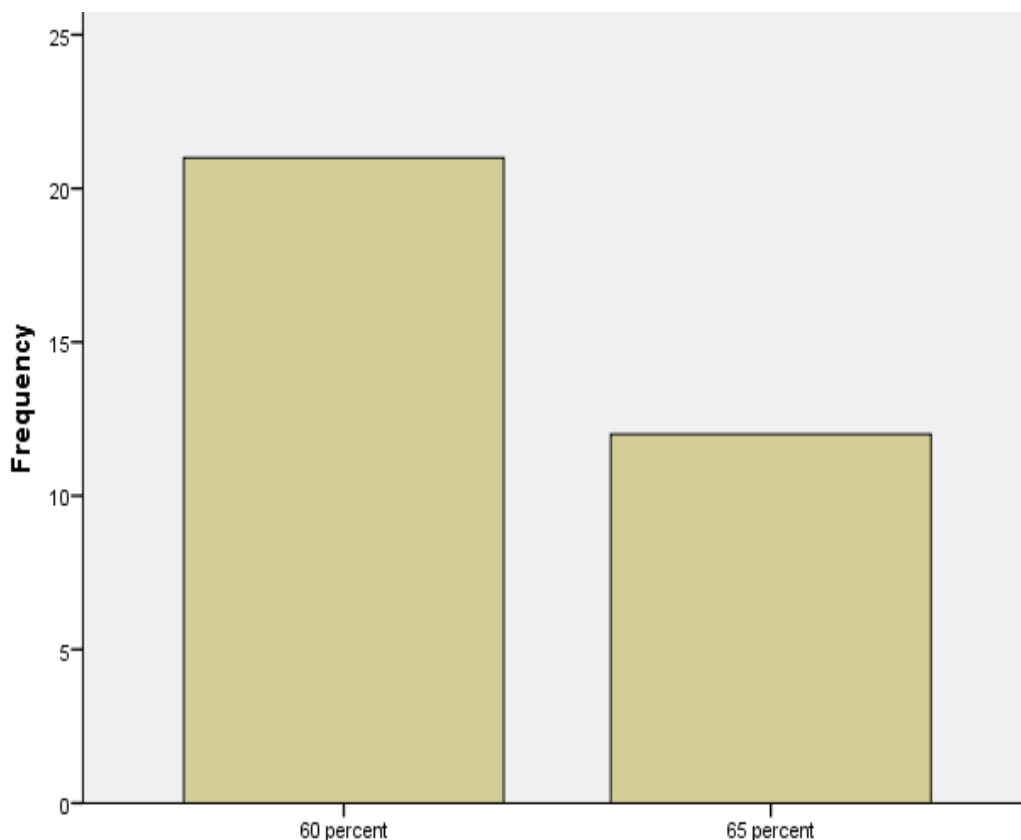
From Table 8, 280 (87.2%) of the SMEs respondents indicated that the microfinance institutions charged high interest rate. To them the nature of the interest rate has deter them from contracting funds from micro financial institutions since the banks are not prepared to help SMEs to grow. Only 7.5% of the respondents said the interest rate was low. It can be concluded that the interest rate charged on loans scared many SMEs customers and that did not give them any urge to access enough loan from the MFIs.

**Table 8: Interest Rate on Loan**

| Interest Rate on Loan | SMEs      |          |
|-----------------------|-----------|----------|
|                       | Frequency | Per cent |
| Low                   | 24        | 7.5      |
| Moderate              | 17        | 5.3      |
| High                  | 280       | 87.2     |
| Total                 | 321       | 100      |

Source: Field Data (2017)

Figure 4 indicates that out of the 33 MFIs staff, 21 (63.6%) said they charged 60 percent interest per annum on the loan SMEs accessed from the MFIs. While the remaining 12 of the MFIs constituting (36.4%) claim they charge 65 percent. The MFIs said, the interest rate charged on customers' loan was 5% per month. It implies that MFIs charged high interest rate as compared to the traditional banking institutions.



*Figure 4: Interest Rate Charged on Loan per Annum*

Source: Field Data (2017)

The interview from the respondents indicated that SMEs face high interest rates of 60% and more per annum from MFIs. MFI A manager affirmed that interest on loan was charged on monthly basis and is 5% for shorter periods and can be increased if one defaults payment. MFI B manager indicated that interest was 5% per month for medium term repayment but can be reduced for those on long term repayment. MFI C manager affirmed that, the interest rate was not fixed but it ranges between 3% and 8% monthly and is dependent on the changes in economic variables such as inflation and exchange rate instability. MFI D manager also asserted that the interest rate was charged at 5% monthly based on the commitment of the client but can be increased if one default payment while MFI E manager said, the interest rate is fixed at 5% per month.

Regarding the methods used in calculating the interest rate, 23(69.7%) of MFIs staff respondents indicated that the loan repayment was on straight-line method. It means that the interest rate charged on loan is constant throughout the loan repayment periods. Only 30.3% of the respondents said that the MFIs charged interest on loan based on reduction balancing formula. It can therefore be concluded that the straight-line method of charging interest rate on loan is likely to be peculiar with many of the MFIs because of their profit maximization motive. It is deduced that the interest rate charged on the SMEs loan is 60% or more per annum, but that is dependent on economic conditions like inflation, exchange rate and cost of living prevailing in the economy.

It can be concluded that the MFIs charged high interest rate and that discouraged many customers from accessing huge amount of loan from those microfinance institutions. This corroborates Nilsson's (2010) study on the impact of microfinance institutions (MFIs) on the development of SMEs in Cameroon in which he concluded that microfinance institutions charge high interest rate. Table 9 shows that out of 321 SMEs respondents, 200 (62.3%) got to know about the operations of MFIs through friends and 29.0 % heard it through the MFIs staff. Only 8.7% of SMEs got to know about the MFIs through the media. The fact is that most of these SMEs operators do not have much time to listen to radio, watch television or even read newspapers. They therefore rely on grapevine to receive their information. It can be concluded that friends play a dominant role in directing SMEs to know about the MFI for accessing loan.

**Table 9: Knowledge about the Operations of MFIs**

| Knowledge source | SMEs      |         |
|------------------|-----------|---------|
|                  | Frequency | Percent |
| Friends          | 200       | 62.3    |
| Media            | 28        | 8.7     |
| MFIs Officials   | 93        | 29.0    |
| Total            | 321       | 100     |

Source: Field Data (2017)

Interview with the managers of the MFIs revealed that, MFIs operated with categories of SMEs in the areas of service provision such as tailoring, hair dressing, mechanics and food vendors. SMEs that are into manufacturing, trading and agro processing are also assisted by the MFI. Managers of the MFIs indicated that in the direction of increasing clientele, the MFIs open their doors to all SME clients who are into legal businesses. This is done to widen the breadth of outreach by providing assistance to as many SMEs as possible. The following discussions ensued:

MFI A manager indicated that they helped increase the SMEs working capital by giving them top up loan and this was not different from MFI B manager who said that they opened their doors to all kinds of SMEs and fulfilled their financial needs. MFI C manager indicated that their dealing with the SMEs on loan is based on the customers' type of business and creditworthiness for previous loan repayment. MFI D manager asserted that they gave loan to SMEs who were able to bring guarantors and were already operating with the MFI.

However, MFI E manager said they gave advice to the SMEs customers on how they should go about their businesses in order for them to grow. It can be deduced that the MFIs operations with SMEs is based on track

records of both parties but the services extended to SMEs are dependent on their creditworthiness and their ability to pay their loan. Table 10 captures the number of MFIs each SMEs do business with, the following results were obtained as per Table 10.

From Table 10, 167 (52.0%) of the SMEs said they operated with exactly two microfinance institutions, representing the majority responses. The next higher responses representing 46.7% indicated that SMEs engaged with only one microfinance institution. The reason was that they wanted to build a solid relationship with more than one MFI. The respondents indicated that they depend more than one MFI to accumulate capital so as to inject it into their businesses. It can therefore be concluded that SMEs prefer to be engaged with few MFIs for the sake of maintaining customer relationship as indicated with 52.0%.

**Table 10: Responses of SMEs as a Customer to MFIs**

| No of MFIs dealt with by each SME | Frequency | Per cent |
|-----------------------------------|-----------|----------|
| One                               | 150       | 46.7     |
| Two                               | 167       | 52.0     |
| Three                             | 4         | 1.3      |
| Total                             | 321       | 100      |

Source: Field Data (2017)

Regarding the number of customers MFIs had, responses from the MFIs staff indicated in Figure 5 show that out of the 33 sampled MFIs, 27 (81.8%) of the micro financial institutions have 1000 SMEs as their clients. Only 6 (18.2%) of the respondent's said MFIs have SME clients of 1200 and above. It stands out to reason that each of the financial institutions had an appreciable number of customers probably as a result of improved services. According to Maina (2012), microfinance institutions specifically focused on

big businesses only, thus implying lack of access to finance for small and medium enterprises so the smaller SMEs depend more than one MFI to accumulate capital for their businesses.

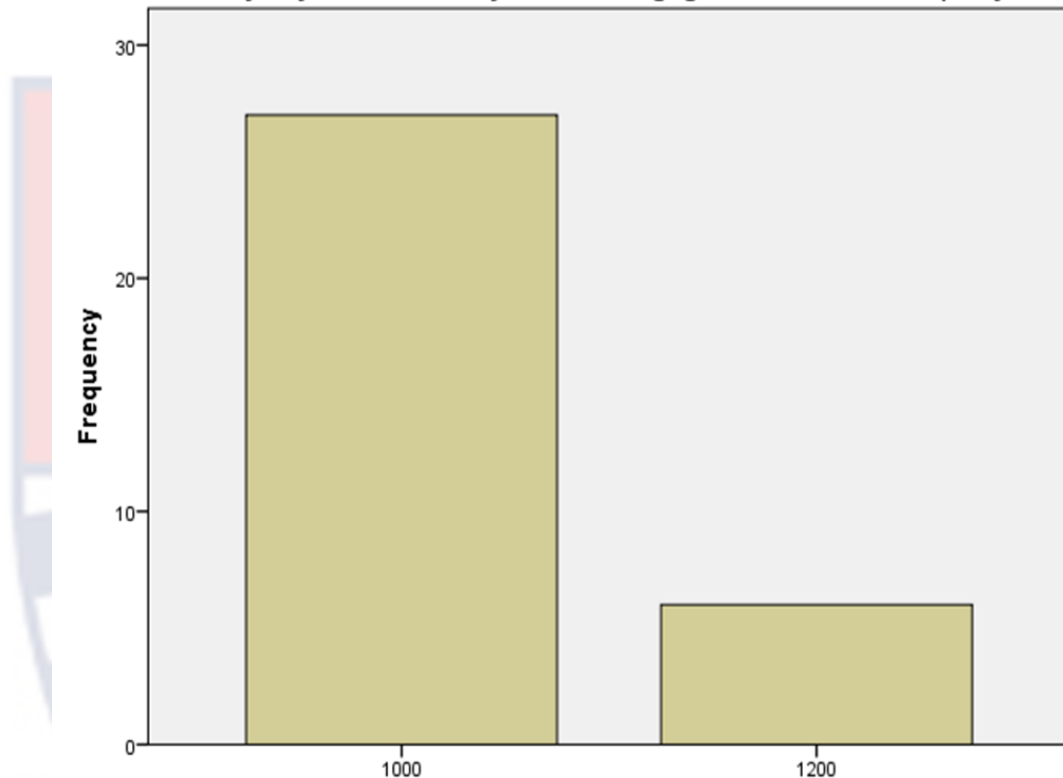


Figure 5: Number of SMEs each MFIs does Business with

Source: Field Data (2017)

Regarding the maximum amount of loan MFIs gave to SMEs, Figure 6 indicates that, 66.7 % of the MFIs staff said the maximum amount of loan given to SMEs clients was 1000 Ghana cedis because of many defaulters. Only few, 15.2% of the respondents said they gave the SMEs operators 10,000 Ghana cedis to start their business. It can therefore be concluded that microfinance institutions are not given enough loan to their customers because of the likelihood of many loan defaulters. Responses from the interview indicated that the maximum start-up capital for the SMEs is between 200 to

1500 Ghana cedis. This is dependent on the type of business the person is undertaking.

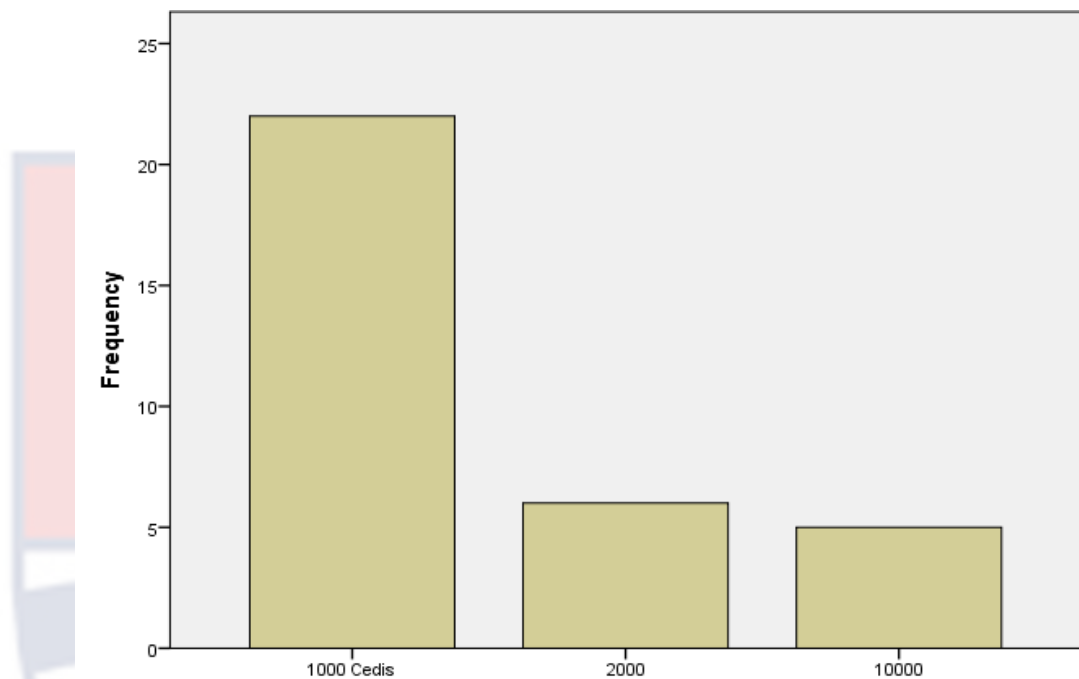


Figure 6: Maximum Amount of Loan for SMEs to Start Business

Source: Field Data (2017)

The interviewees gave their version as follows:

MFI A manager affirmed that the MFI normally gave 300 Ghana cedis to food vendor to start their business while MFI B manager indicated that those who engaged in services like hairdressers, tailoring, and fitting workers receive 1000 Ghana cedis for the start of their business but used their shop as collateral security. MFI C manager affirmed that the amount of loan received is dependent on the type of business, but the MFI can give 1500 Ghana cedis to the SMEs who are artisans such as those into carpentry, pot making, and carving. MFI D and E managers said, SMEs could access loan up to 1000 Ghana cedis if it were infant business but the older SMEs could access as much as 1500 Ghana cedis or even more. It is clear from the analysis that the

MFIs maximum amount of loan given to their customers depend on the kind of business the SMEs undertake and the expected returns.

Conclusion from Research objective one indicated that the source of finance to the SMEs is loan from MFIs since that is easier to obtain compared to other means of acquiring capital to startup businesses. The most prominent MFIs in the Municipality are Quick Capital microfinance and CCML due to their outstanding services rendered to the general public and comparative low interest rate. The infants SMEs do personal savings and later plough back their profit but that is very slow in terms of business expansion.

#### **Operational Challenges faced by SMEs in the Municipality.**

This section examines the operational challenges faced by SMEs businesses, focusing on issues related to access to finance, regulatory requirements, and the overall business environment. By examining these challenges, the study seeks to provide a deeper understanding of the barriers limiting the potential of SMEs and to offer insights into possible solutions that can foster a more conducive environment for their growth and success.

In addressing this objective frequencies and percentages were employed as displayed in Table 11. Table 11 indicates that the major constraint SMEs face in operating and growing their businesses was high interest rate as it recorded 51.4%. This was followed by inadequate amount of loan granted to the SMEs clients with a percentage of 46.7. Another major constraint in SMEs business activities was competition from other sectors indicating 1.9%

**Table 11: Major Challenges of SMEs**

| Challenges              | MFI's STAFF<br>Frequency | Percent |
|-------------------------|--------------------------|---------|
| High interest rate      | 165                      | 51.4    |
| Loan amount not granted | 150                      | 46.7    |
| Others                  | 6                        | 1.9     |
| Total                   | 321                      | 100     |

Source: Field Data (2017)

Other pressing challenges had to do with competition and regulation, low business, lack of proper book keeping and poor managerial skills in decreasing order of significance. Regarding the solutions to the problem SMEs face, out of the total 321 SMEs respondents, 178 (55.5 %) gave the suggestions that there should be easy access to loans acquisition without providing collateral securities or guarantors. An appreciable number, 120 (37.4%) of the respondents said that the interest rate must be attractive. It can be deduced that SMEs clients provided guarantors or collateral securities which slowed down the loan access to individuals and groups. It can be concluded that the competition and regulatory constraint has slowed down SMEs businesses. This means that SMEs find it unattractive in accessing loan from MFIs because of collateral securities or guarantors constrains coupled with high interest rate.

Small and Medium Enterprises (SMEs) play a crucial role in economic development; however, they encounter various challenges that hinder their growth and sustainability. Figure 7 presents an overview of the key challenges faced by SMEs, including low business, lack of proper book keeping, poor managerial skills and competition and regulatory constraints. Understanding these obstacles is essential for policymakers, financial institutions, and

business owners to develop strategies that enhance SME resilience and long-term success.

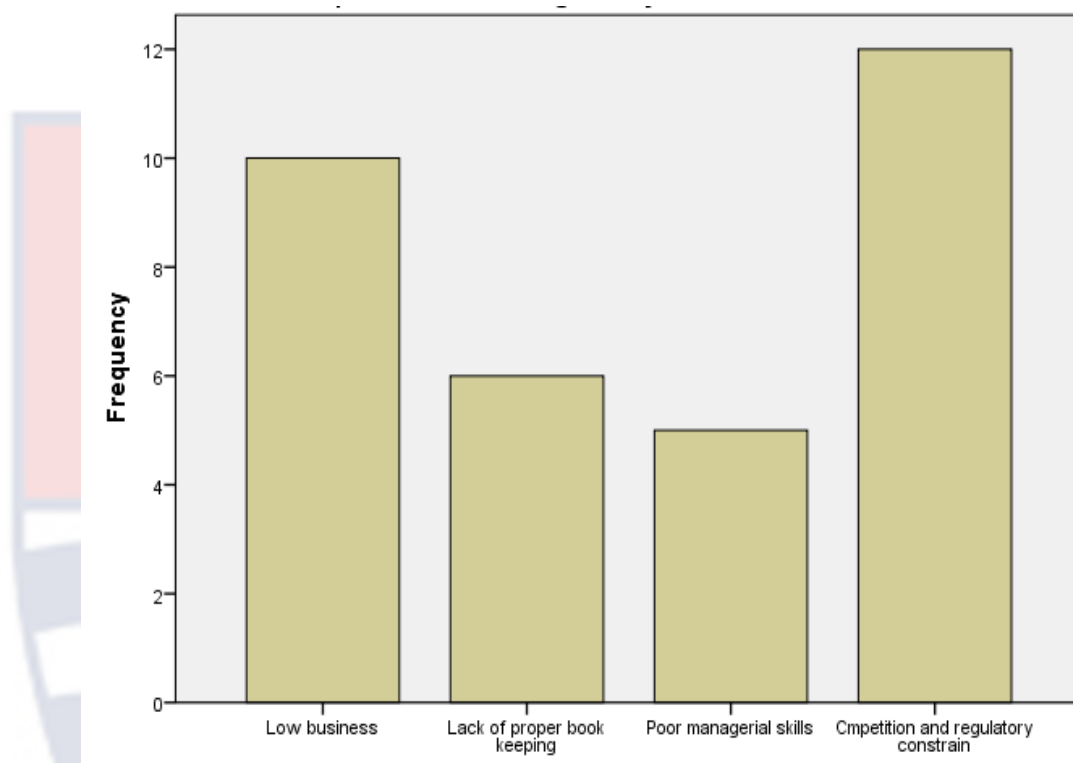


Figure 7: Challenges Faced by SMEs

The researcher enquired from the SMEs whether they face any difficulty in accessing loans from MFIs. Table 12 indicates that, 42.4% of the respondents said collateral security is required for accessing loan from MFIs. Some MFIs did not require any form of security at all but rather granted credit based on the creditworthiness and savings capacity of the client. Apart from collateral security that served as a challenge for some SMEs in accessing credit, SMEs enumerated other challenges they face in their bid to accessing credit from MFIs.

**Table 12: Loan Accessibility is Difficult**

| Accessing Loan              | MFIs STAFF |         |
|-----------------------------|------------|---------|
|                             | Frequency  | Percent |
| Lack of collateral security | 14         | 42.4    |
| Group default of loan       | 9          | 27.3    |
| Individual default of loan  | 10         | 30.3    |
| Total                       | 33         | 100     |

Source: Field Data (2017)

The following were frequently mentioned by the SMEs in relation to challenges in accessing credits: forming of groups in order to be granted a loan, cumbersome and bulky documentations before credits are granted, backing credits with guarantors with good financial standing and meeting the minimum requirement of saving up to some months before credits are granted. The MFIs used the frequency of saving (susu saving criteria) as a criterion in assessing the viability of a client's ability to pay back loans. By their procedures, the MFIs allow clients to save for a period of two-three months before allowing them to apply for a loan facility. The strength of this method is that, the amount of money saved by the clients becomes the collateral for the loan being asked for. The following discussions ensued:

MFI A manager stated that the clients came to the MFI personally to save every week to qualify them future loan. MFI B manager indicated that the MFIs marketing staff go to the workers at their work places to collect daily susu from them and that gave the SMEs the urge to save. MFI C manager affirmed that the client saved with the MFI to enable them access huge loan. Thus, the amount of savings made with the MFI attract three times what the customers received.

MFI D and E managers indicated that MFI sent their staff to collect susu from their customers on daily basis and that also attracted new clients. In conclusion, it is evidenced that SMEs clients who saved regularly with MFIs were able to access easier and quicker loan than another counterpart who did not. In reference to this discussion, Wright (1999) is of the view that the difficulties faced by most SMEs for accessing loan is based on their low-income status typically have irregular income streams and are faced with various lifecycle, structural and crisis risks that are beyond their control and can reduce their income levels below the poverty line.

Collateral security serves as a challenge for some SMEs in accessing credit hence unable to expand their businesses. Other challenges SMEs face in their bid to access credit from MFIs ranges from forming of groups in order to be granted a loan, cumbersome and bulky documentations before credits are granted, backing credits with guarantors with good financial standing and meeting the minimum requirement of saving up to some months before credits are granted. SMEs do not get funds from MFIs to expand and grow their businesses. To overcome this, empirical evidence suggests that the savings facilities provided by microfinance institutions are useful in improving the household financial management, which contributes to more efficient inter-temporal decision.

### **Contributions of MFIs' Services to the Development of SMEs**

This section of the study reported the findings relating to the hypothesis on the MFIs contribution have significant influence on the growth of SMEs in the Awutu Senya East Municipality. A simple linear regression analysis was conducted to establish the cause-and-effect microfinance and

development of SMEs in the Awutu Senya East Municipality. Here, the construct measuring microfinance was modelled as independent variable while the development of SMEs was the dependent variable. In analysing the effect, multiple regression was applied and findings were captured in the Table 13.

**Table 13: Regression Analysis of MFIs Contributions on SMEs Growth**

| Model  | Unstandardized |           | Standardized | t     | Sig  |
|--|----------------|-----------|--------------|-------|------|
|  | B              | Std error | $\beta$      |       |      |
| Constant   | .886           | 2.663     |              | .333  | .740 |
| Savings mobilisation                                 | -.115          | .227      | -.164        | -.433 | .591 |
| Direct financing contributes to my business growth   | -.186          | .311      | -.340        | -.596 | .551 |
| Market facilitation contribute to my business growth | .094           | .249      | .079         | .380  | .704 |
| MFIs services allow SMEs to increase output          | -.083          | .387      | -.100        | -.215 | .830 |
| MFIs services allow SMEs to increase sales volume    | -.466          | .345      | -.450        | -1.35 | .178 |
| MFIs services allow SMEs to increase assets          | -.164          | .179      | -.186        | -.914 | .362 |
| MFIs services allow SMEs to increase profit          | 0.19           | .193      | .013         | .098  | .922 |
| Access to Credit                                     | .538           | .437      | .181         | .402  | .548 |
| The amount of credit MFIs give to you                | .789           | .848      | .436         | .931  | .353 |
| Amount of interest rate charged on MFIs credit       | .313           | .288      | .221         | 1.085 | .279 |
| Speed of processing loan to SMEs                     | .026           | .322      | .20          | .081  | .935 |

**Table 13: (Continued)**

|   |       |      |       |       |      |
|---|-------|------|-------|-------|------|
| MFIs services allow SMEs to increase their working capital        | -.141 | .288 | -.133 | -.488 | .626 |
|   | .063  | .253 | .098  | .255  | .483 |
| Managerial Training   |       |      |       |       |      |
| Financial literacy contributes to my business growth              | .141  | .239 | .183  | .591  | .555 |
|   | .274  | .352 | .279  | .780  | .436 |
| Development of management skills contribute to my business growth |       |      |       |       |      |
|   | .083  | .149 | .082  | .557  | .578 |
| MFIs services allow SMEs to increase number of employees          | -.246 | .270 | -.151 | -.910 | .363 |
| The level of satisfaction with the activities of MFIs             |       |      |       |       |      |
| R= 0.252, R <sup>2</sup> = 0.063, Adjusted R <sup>2</sup> =0.017  |       |      |       |       |      |
| Source: Field Data (2017)   |       |      |       |       |      |

Information in Table 13 yielded a multiple regression (R<sup>2</sup>) of .063. Results show that the coefficient of determination R<sup>2</sup> = .063, indicating the total variation in the dependent variable and is due the variation in the independent variables of 6.3% in the stage of SMEs growth due to savings mobilization (-.164), access to credit (.181) and managerial training (.098) in the model specification. The variations indicated that SMEs growth was not due to savings mobilization but due to access to credit and managerial training which had positive relationship.

This means that other factors not explained in the model accounted for as much as 93.7%. The value of R=.252 in this model indicated a low level of prediction. The results showed that analysis of variance of the multiple regression data yielded an F-ratio of .1380 was statistically not significant at p = .151 > .05 alpha level. Multiple regressions were used to determine the level of prediction of the dependent variable.  $Y = .886 - .428SM + .266AC + .482MT$ .

The analysis of variance of the multiple regression data yielded an F-ratio of .1380 and it was statistically not significant at the  $p = .155$  of 0.05 alpha level.

Analysis of variance was conducted to find out the significance of the variables in the model. The results are shown in Table 14.

**Table 14: ANOVA Model on Multiple Regression Analysis**

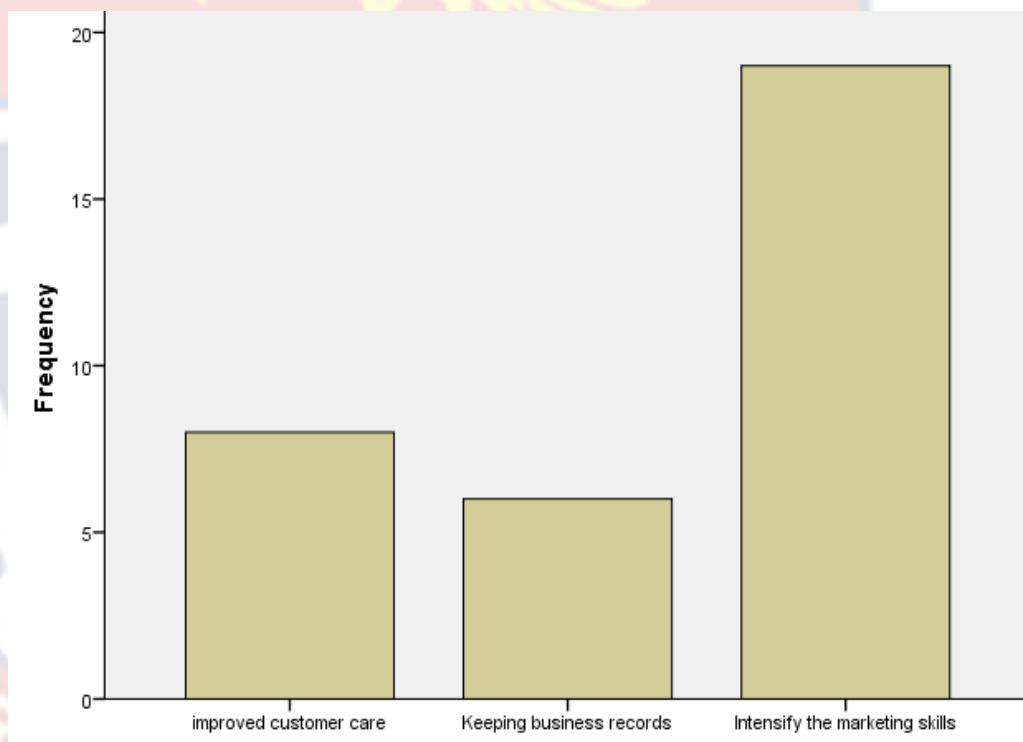
| Model      | Sum of Squares | df  | Mean Square | F     | Sig. |
|------------|----------------|-----|-------------|-------|------|
| Regression | 15.457         | 15  | 1.030       | 1.380 | .155 |
| Residual   | 228.434        | 306 | .747        |       |      |
| Total      | 243.891        | 321 |             |       |      |

Source: Field Data (2017)

Table 14 indicates that there was no significant relationship between factors influencing SMEs growth on one side and SMEs growth on the other side,  $F = .1380$ ;  $p = .151 > 0.05$ ;  $df = (15, 306)$ . The results suggest that the variables in the model did not have any significant impact on SMEs growth. It therefore meant that there is no significant impact of independent variables such as savings, access to loan and training on the business growth. In support of the analysis, Mugenda (2003) adds that a conceptual framework gives an explanation of how the researcher perceives the relationship between variables deemed to be important in a study. The Microfinance institutions are in existence to break the vicious cycle of poverty of SMEs. To break this cycle the MFIs provides a number of services (credit, savings and training) for the development of SMEs. The growth of the SME happens in various stages and its success can be seen in the profit margin, level of employment, increase in output and an increase the firm's asset.

From Figure 8, it can be seen that, 19 (57.9%) of the MFIs staff indicated that the staff need to intensify their marketing skills in order to

achieve the business growth of SMEs clients and that gave the highest responses. It can be inferred that SMEs need regular education in order to make their businesses grow. The growth of a firm can be determined by supply of capital, labour and appropriate management and opportunities for investments that are profitable. Enterprise development services are provided by some MFIs adopting the integrated approach. The services provided by MFIs that are nonfinancial are: marketing and technology services, business training, production training and subsector analysis and interventions.



*Figure 8: Achieving Business Growth*

Source: Field Data (2017)

MFI A manager indicated that there is lack of managerial know-how and that place significant constraints on SME development. The Manager also indicated that management is going to intensify training programmes for SME clients. This according to the Manager was going to enlighten the clients on the need to repay loans and how to grow their businesses. MFI B manager said

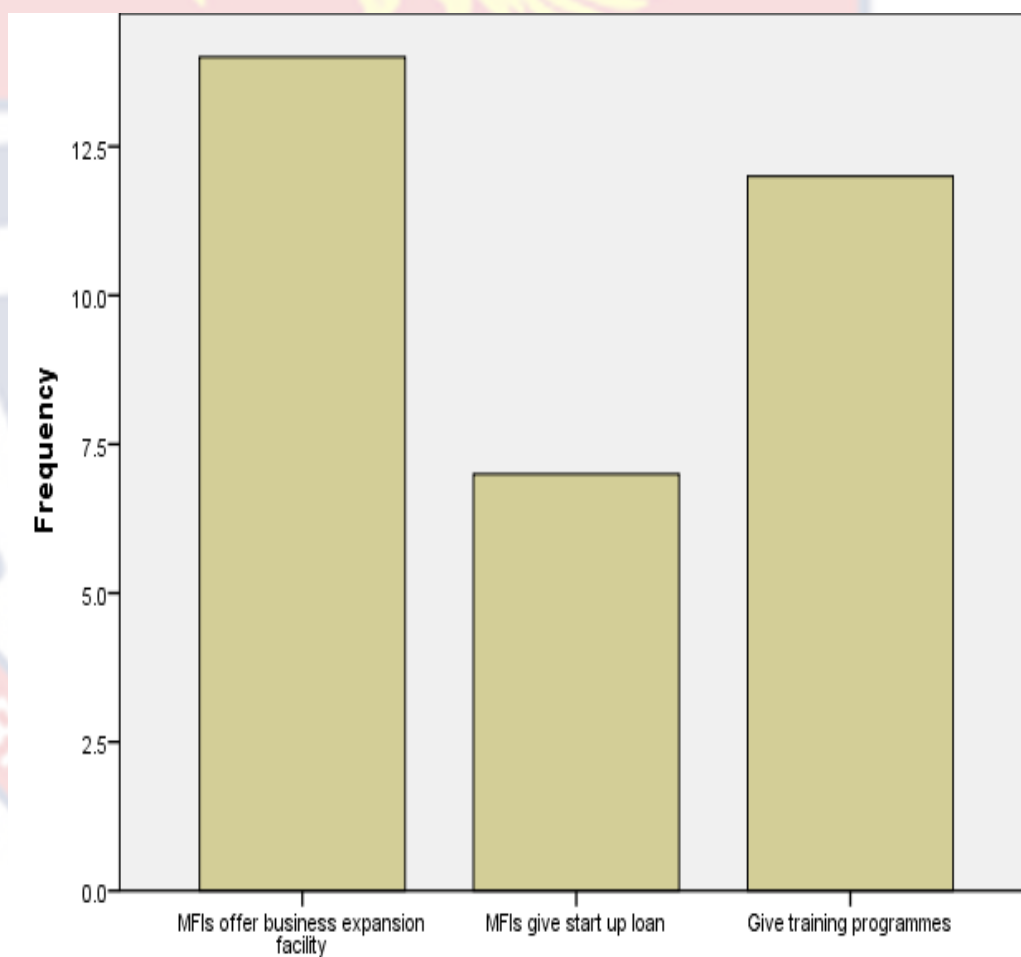
that MFIs face relatively higher expenses in advancing for the growth effort to SME in order to improve their business booms.

MFI C manager affirmed that MFI should have good customer relationships with the SMEs and guide them to use their loan for the intended purposes. MFI D manager also indicated that SMEs lack information gathering and do not take advantage of existing services from MFIs, results in insufficient demand for their goods. MFI E manager said MFIs focused on SMEs objectives to get more profit, and to move micro entrepreneurs from an informal sector to a formal sector since that would be more reliable and pose the MFIs the least risk in retrieving their loan.

The foregoing revelations are in conformity with the growth phenomena in SMEs resulted in stochastic models, which have evolved from the field of economics (Matthew, Dobbs & Hamilton, 2006) and developed from the "Law of proportionate effect" Gibrat's (1931). The Stochastic theory argues that there are too many factors affecting growth and that no specific factors have a dominant effect that can be used to explain growth. Accordingly, the growth of firms can be assumed to be perfectly random and cannot be predicted using any group of variables.

Figure 9 shows that, 14 (42.4%) of MFIs respondents said the institutions offered business expansion facility to their customers. Only, 7(21.2 %) of the MFIs respondents said that they gave the start-up capital to the customers. From the qualitative data, management of the MFIs ensured the provision of quality service to their SME clients. The MFIs have introduced a wide range of services to cater for all the needs of their clients and have also delivered services promptly.

Managements of the MFIs put in place frequent training programmes for their clients on the innovative ways to become successful in their businesses. The MFIs undertake training sessions for its SME clients. This training is in the areas of record keeping, budget preparation, pricing of goods, usage of loans and general business management techniques. This training is done to equip SME clients to squarely face the realities in doing business. The provision of a range of products and services by the MFI is to make sure that they serve the needs of all SME clients.



*Figure 9: Services MFIs Render to SMEs*  
Source: Field Data (2017)

The underlying responses ensued:

MFI A manager stated that they offered loans to SME clients to start and expand their businesses. They also provided quality services with affordable loan repayment period to SMEs clients. Huge loans were given to committed SME clients to start the building of their houses and also pay their wards' school fees so that such investments do not collapse the owners' businesses. This involves giving technical advice to clients on how to improve upon their business performance and to fast-track loan repayments. MFI B manager said that MFI trained its SME clients on how to keep records, price products, prepare budgets and general business ideas.

The training programmes for SME clients help to improve their business skills of their clients. MFI C and E managers said that MFI provided insurance policies to cover their loan repayment. SMEs had limited access to huge capital base because of the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms. As a result, SMEs often cannot obtain long-term finance in the form of debt and equity. They also provided insurance facilities to customers to cover their children's education and in times of other exigencies. MFI D manager indicated that MFI gave regular training and advice their clients on business expansion and using their loan for the intended purposes.

The target groups of MFIS are self-employed low-income entrepreneurs who are traders, seamstresses, street vendors, small farmers, hairdressers, artisans' blacksmith, etc., however, the MFI also help the medium enterprises who engage in manufacturing and processing to access credit to expand their business. The MFI manager stated that those into

production such as sachet water production receive training by technical men in their actual production, packaging, transportation and marketing in order to enhance their businesses.

It can be concluded that MFIs provide quality services to SMEs in order to maintain goodwill and help grow SMEs businesses. Again, the microfinance institutions gave maximum loan to their committed customers on the pretext that their businesses were booming. In supporting the analysis on report by Financial Sector Deepening (FSD) (2009), SMEs finance capacity is a critical component in expanding SME finance. The report noted that some MFIs were involved in enhancing the capacity for SMEs through financial literacy training. It was however noted in FSD report that attempting to build this capacity at an institutional level was unlikely to be sustainable and certainly an expensive approach among MFIs.

Duration of credit accessibility per Table 15 was found to be mainly in short terms, indicating 45.5% whilst the medium term was found to be 33.3%. Regarding the duration of loan processing and disbursement, majority, 17(51.5%) of the MFIs respondents said the beneficiaries of SMEs take between 1-2 weeks to access loans from the MFIs, while some customers, 36.4% take less than one week to access credit facility from the MFIs.

**Table 15: Duration of Credit Facilities MFIs Offer to SMEs**

| Duration    | MFIs STAFF |         |
|-------------|------------|---------|
|             | Frequency  | Percent |
| Short Term  | 15         | 45.5    |
| Medium Term | 11         | 33.3    |
| Long Term   | 7          | 21.2    |
| Total       | 33         | 100     |

Source: Field Data (2017)

From the qualitative analysis, MFI had very simple and easy loan processing and disbursement procedures. The first step is for a client to submit an application to the MFI for consideration. When the applications are vetted by the loan committee and found all requirements satisfying, the loan is readily disbursed to clients. Depending on conditions prevailing in the MFI, it takes a maximum of one to two weeks to disburse loans to applicants. Some of their responses were:

MFI A manager affirmed that MFI took less than one week for loan processing and disbursement if the clients had guarantors and the necessary collateral securities. MFI B and C managers indicated that the loan is processed and disbursed which took two weeks or beyond if the client delayed in meeting the necessary conditions. MFI D and E managers said the MFI processes and disburses loan for the old customers in exactly one week but the new clients have theirs within two weeks when they met the necessary criteria. Also, short term credits dominate since MFIs find it very risky to offer Medium-Long term credit as loans where defaults are likely to be higher with such facilities.

The need for short-term credit is driven by the fact that most SMEs use their loans to finance recurrent expenditure incurred in the day-to-day running of their businesses. Loan processing and disbursement to customers is also based on some requirements such as whether the customers are new or old, availability of guarantors and collateral securities in order to smoothen the loan processes.

Table 16 shows that, 18(54.5%) of the respondents said the categories of MFIs target group were traders. This is followed by food vendors indicating

30.3 % as the second higher group. It can be concluded that petty trading is characterized by low capital requirement and little legal and managerial requirements hence good for people with low educational and financial background.

**Table 16: Category of MFIs Target Groups**

| MFIs Target Groups | Frequency | Per cent |
|--------------------|-----------|----------|
| Manufacturers      | 5         | 15.2     |
| Traders            | 18        | 54.5     |
| Food Vendors       | 10        | 30.3     |
| Total              | 33        | 100      |

Source: Field Data (2017)

From the qualitative studies, credit facilities the MFI provided to its SME clients showed that they provided loans to those who needed them. These loans ranged from susu loans, school fees loans and general loans for starting or expanding a business. MFI A and B managers confirmed that MFI provided loan to SMEs clients and advised them on the need to expand their businesses so that they could pay off their loan. MFI C, D and E managers said that the services provided to customers were both loan and overdraft. It can be deduced that the MFIs provided facilities such as susu loans, school fees loans and general loans to their customers for starting or expanding their businesses.

The study concluded that the contributions of MFIs had no significant impact on the savings, access to loan and training and the SMEs growth in the study area. The SMEs saved with the MFIs in order to qualify for huge loan to expand their businesses. The MFIs provided facilities such as susu loans, school fees loans and general loans for starting or expanding SMEs businesses. Again, loan processing and disbursement to customers is based on

some requirement such as whether the customers are new or old, availability of guarantors and collateral securities in order to smoothen the process. Finally, MFIs train their SMEs clients on how to keep records, price products, prepare budgets and general business ideas all in a bid to grow their businesses.

### **Chapter Summary**

This study examined the sources of funding, contributions of microfinance institutions (MFIs), and operational challenges faced by SMEs in the Awutu-Senya East Municipality. The findings revealed that loans from MFIs were the primary source of funding for SMEs, as they were easier to access compared to other capital acquisition methods. Quick Capital Microfinance and CCML were the most prominent MFIs in the municipality due to their favorable services and lower interest rates. While SMEs initially relied on personal savings and reinvested profits for expansion, this approach was slow.

Furthermore, SMEs faced significant operational challenges, including difficulties with securing collateral, meeting loan documentation requirements, and forming groups to qualify for loans. Inadequate funding, due to high-risk perceptions from MFIs, further hindered SME growth, and punitive measures, such as increased interest rates or asset confiscation, worsened their financial stability and business prospects. The study also found that the contributions of MFIs to SME growth, such as savings, loans, and training, did not have a significant impact on business growth, likely due to other external factors. MFIs provided loans for business expansion, but the loan process was often hindered by strict requirements, such as collateral and guarantors. These

findings highlight the need for more accessible and flexible financing options and the removal of stringent barriers to enhance SME growth in the municipality.



## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### Introduction

The previous chapters have examined microfinance institutions (MFIs) and the development of small and medium scale enterprises (SMEs) in the Awutu Senya East Municipality in the Central Region of Ghana. This chapter provides a comprehensive overview of the research findings, drawing conclusions from the analyzed data and offering practical recommendations for future practice and research. The chapter begins with a summary of the key insights gained from the study, succinctly encapsulating the main points discussed in the previous chapters. The chapter further presents well-founded conclusions that address the research questions and objectives, emphasizing the implications of the findings for both theory and practice. The chapter offers actionable recommendations based on the study's results.

#### Summary

Despite the growing availability of microfinance services to support SMEs' growth, many of these businesses still struggle with limited access to adequate capital, high interest rates, poor financial management, and inadequate business infrastructure. The study uncovered the contribution of microfinance institutions in the development of small and medium scale enterprises (SMEs) in the Awutu Senya East Municipality in the Central region of Ghana. The study used a cross-sectional design with mixed methods which is a procedure for collecting and analyzing both quantitative and qualitative data. The study used statistical procedures to analyze the data collected through the administration of questionnaires and content analysis for

the interview guide. The qualitative data collected were analysed using open-coding session of what Corbin and Strauss (2008) referred to as a line-by-line analysis (p. 72) in order to detect prominent or repetitive concepts. The Cluster sampling, purposive sampling, proportional sampling and simple random sampling techniques were used to select the participants.

The sample for the study consisted of 321 SME operators, 33 staff of micro-financial institutions and five managers of MFIs. Triangulation was a technique used to strengthen the robustness of a qualitative and quantitative study. The purpose of the study was to examine microfinance institutions (MFIs) and the development of small and medium scale enterprises (SMEs) in the Awutu Senya East Municipality. The specific objectives of the study were to: (1) investigate the funds available to SMEs in the Municipality. (2) examine the operational challenges faced by SMEs in the Municipality. (3) examine the contributions of MFIs' services to the growth of SMEs in the Municipality. The study employed the financial intermediation theory and the resource base view to address the stipulated objectives.

The first research objective of this study was to investigate the sources of funds available to SMEs in the Awutu-Senya East Municipality. The main findings of the study are:

- a. It was found out that the source of finance to the SMEs was loan from MFIs since that was easier to obtain compared to other means of acquiring capital to startup businesses.
- b. The most prominent source of MFIs in the Municipality were Quick Capital Microfinance and CCML due to their outstanding services rendered to the general public and comparative low interest rate.

- c. The infants SMEs did personal savings and later ploughed back their profit but that was very slow in terms of business expansion.

The second research objective was to examine the operational challenges faced by SMEs in the Municipality. The main findings of the study are:

- a. The findings revealed that using collateral securities as surety served as a challenge because that was impossible for most SMEs to get before accessing credit hence unable to expand their businesses.
- b. The SMEs faced other challenges such as forming of groups in order to be granted loan, cumbersome and bulky documentations before credits are granted, backing credits with guarantors with good financial standing and meeting the minimum requirement of savings up to some months before credits are granted from the MFIs.
- c. SMEs did not get enough funds from MFIs to expand and grow their businesses because of high risk with their loan repayment.
- d. MFIs sanctioned their customers by increasing the interest rate on their loan or confiscating their assets in the event of failing to repay the MFIs loan and that stifle their business growth.

The third research objective was to examine the contributions of MFIs' services to the growth of SMEs in the Municipality. The main findings of the study are:

- a. The finding indicated that there was no significant impact of the independent variables such as savings, access to loan and training on the SMEs business growth due to other factors.

- b. It was found out that SMEs saved with the MFIs in order to qualify them for huge loan to expand their businesses. The MFIs provided facilities such as susu loans, school fees loans and general loans for starting or expanding SMEs businesses.
- c. Again, loan processing and disbursement to customers were based on some requirements such as whether the customers were new or old, availability of guarantors and collateral securities in order to smoothen the loan processes.
- d. Finally, MFIs trained their SMEs clients on how to keep records, price products, prepare budgets and general business ideas all in a bid to growing their businesses.

### **Conclusions**

Based on the findings obtained after analyzing the various responses from the questionnaires, it can be concluded that:

On the first objective, the study concluded that the primary source of funding for SMEs in the Awutu-Senya East Municipality is loans from microfinance institutions (MFIs), as they are more accessible compared to other financing options. Among the MFIs in the municipality, Quick Capital Microfinance and CCML emerged as the most prominent due to their exceptional services and relatively lower interest rates. Newly established SMEs initially relied on personal savings and later reinvested their profits for expansion. However, this approach proved to be slow in fostering business growth, highlighting the need for more accessible and flexible financing options to support SME development.

Regarding the second objective the study concluded that SMEs faced significant operational challenges, including difficulties with securing collateral, meeting loan documentation requirements, and forming groups to qualify for loans. Inadequate funding, due to high-risk perceptions from MFIs, further hindered SME growth, and punitive measures, such as increased interest rates or asset confiscation, worsened their financial stability and business prospects.

With the third objective the study concluded that despite the various services provided by MFIs, including savings opportunities, access to loans, and training, these factors did not significantly impact SME business growth due to the influence of other underlying factors. SMEs engaged in savings with MFIs primarily to qualify for larger loans to support business expansion, while MFIs offered diverse financial products such as susu loans, school fees loans, and general business loans. However, loan processing and disbursement were contingent on specific requirements, including customer history, guarantors, and collateral security, which sometimes posed challenges for SMEs in accessing funds. Additionally, MFIs played a vital role in training SME clients on essential business skills such as record-keeping, pricing strategies, budgeting, and general business management. While these efforts were aimed at fostering SME growth, the overall impact remained limited, suggesting the need for further improvements in financial accessibility and support mechanisms.

The study concluded that microfinance institutions (MFIs) are the primary source of funding for SMEs in the Awutu-Senya East Municipality, with Quick Capital Microfinance and CCML being the most prominent.

Newly established SMEs relied on personal savings and reinvested profits, but this approach was slow in driving business growth, highlighting the need for more accessible financing options. SMEs faced challenges such as securing collateral, meeting loan documentation requirements, and forming groups to qualify for loans, which hindered their ability to access funding. High-risk perceptions from MFIs led to inadequate funding for SMEs, while punitive measures like high-interest rates and asset confiscation further worsened their financial stability. Although MFIs provided various services, including loans, savings, and business training, their overall impact on SME growth was limited due to structural and financial constraints.

### **Recommendations**

Based on the conclusions, the researcher wishes to make the following recommendations:

Microfinance institutions (MFIs) should provide adequate loans to SMEs based on their business type and repayment capacity to support their growth. To minimize default rates, MFIs must conduct thorough research into highly profitable business lines and offer tailored advice and credit to clients capable of leveraging such opportunities. Additionally, regular business and financial training should be provided, aligning with the specific needs of clients to enhance their financial literacy and business management skills. Furthermore, MFIs should offer loans with flexible repayment terms to reduce the risk of defaults and ensure sustainable financial support for SMEs.

SMEs should prioritise personal savings to complement startup capital obtained from microfinance institutions (MFIs) to enhance their financial stability. Additionally, the qualification criteria for MFI loans should not be

solely based on collateral securities but should also consider the track records of SMEs, as this would enable them to access the necessary funds for business expansion and sustainable growth. These would enable them to reduce their overreliance on external financing, enhance financial discipline, and provide a financial cushion during business uncertainties.

Although the influence of independent variables such as savings, access to loans, and training on SME business growth was not significant, the government still plays a crucial role in fostering a conducive and enabling environment for SMEs to thrive. This can be achieved through policies that promote financial inclusion, tax incentives, infrastructure development, and regulatory frameworks that support small business operations. Additionally, the government should facilitate access to affordable credit, enhance business education programs, and invest in digital and physical infrastructure to reduce operational costs for SMEs.

### **Suggestions for Further Research**

Future research should focus on conducting an in-depth analytical study to identify the underlying factors contributing to the weak conceptual model that did not significantly impact SME business growth. Additionally, similar studies should be carried out in different regions of Ghana to compare findings and provide a broader perspective on the factors influencing SME growth across various settings.

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## APPENDICES

## APPENDIX A

## UNIVERSITY OF CAPE COAST

## COLLEGE OF HUMANITIES AND LEGAL STUDIES

## SCHOOL FOR DEVELOPMENT STUDIES

## QUESTIONNAIRE FOR OWNERS OF SMALL &amp; MEDIUM

## ENTERPRISES (SMEs)

## INTRODUCTION

Dear Respondent,

This questionnaire is aimed at gathering primary data on microfinance institutions and the development of SMEs. The information you provide would be treated with utmost confidentiality and would be used for the purpose of accomplishing an academic goal.

**Section A: General Information (Please tick appropriately)**

1. Sex:

a) Male  b) Female

2. Age:

a. 0-19 years  b. 20-39 years

c. 40-59 years

d. 60 years above

3. What is your level of education?

a) No education  b) JHS

c) SHS  d) Tertiary

e) Others (specify).....

4. Kind of organization (please tick as appropriate)

i. Retail trading  ii. Export  iii. Manufacturing  iv. Services

v. Wholesale  vi. Farming  v. Others (specify) .....

5. Why did you enter into this particular business and not other ventures?

a. Profit  b. easy to start

c. easy to manage  d. Others (specify).....

6. For how long has your enterprise been in operations?

- a. Less than one (1) year [ ]
- b. Between 1 and 5 years [ ]
- c. Between 6 and 10 years [ ]
- d. Between 11 and 15 years [ ]
- e. Over 15 years [ ]

### Section B: Sources of Funds Available to SMEs

7. How did you get funds to start your business?

- a. personal savings [ ]
- b. family members [ ]
- c. loan from MFIs [ ]
- d. money lenders [ ]
- e. Others (specify).....

8. Which MFIS have you ever taken loan from to set up your business?

- a. AKI Microfinance [ ] b. CCML Microfinance [ ]
- c. Capital Microfinance [ ] d. ROYAL Microfinance [ ]
- e. Express Microfinance [ ]

9. What other sources of finance do you take from MFIs?

- a. Loan [ ] b. Overdraft [ ] c. investment fund [ ] d. savings with MFIs [ ]

10. Did you pay interest on the loan?

- a. Yes [ ] b. No [ ]

11. If yes, how was the interest rate on that fund?

- a. high [ ] b. moderate [ ] c. low [ ]

12. Have you heard of the operations of MFIs?

- a. Yes [ ] b. No [ ]

13. If yes, how did you get to know of their operations?

- a. Friends [ ] b. Media [ ]
- c. MFIs official [ ] d. Others (please specify).....

14. What has been your main source of credit/finance after you have heard of the activities of MFIs?

- a. Plough back profit [ ] b. Friends [ ] c. Family [ ]
- d. Money lender [ ] e. MFIs [ ] f. Others (specify).....

15. How many MFIs do you do business with?

- a. A. one [ ] B. two [ ]

- b. C. three [ ] D. four and above [ ]

### Section C: Services of MFIs to SMEs

16. After the establishment of your business, have you accessed any non-financial services from MFIs to develop your business?

- a) Yes [ ] b) No [ ]

To what extent have these services of MFIs contributed to your business growth?

Where 1 = Strongly Disagree, 2= Disagree Agree, 3= Undecided, 4= Agree and 5 = Strongly Agree

| Services                             | 1 | 2 | 3 | 4 | 5 |
|--------------------------------------|---|---|---|---|---|
| 17. Direct Financing                 |   |   |   |   |   |
| 18. Financial Literacy               |   |   |   |   |   |
| 19. Development of management skills |   |   |   |   |   |
| 20. Market Facilitation              |   |   |   |   |   |

21. In dealing with MFIs, what can you say about the amount of credit they give to SMEs?

- a) very big [ ] b) not big [ ] c) just sufficient [ ]

22. In your opinion, how was the interest charged on their credit?

- a) very low [ ] b) low [ ] c) satisfactory [ ]  
d) high [ ] e) very high [ ]

23. How do you rate the speed of processing credit facility to SMEs?

- a) very low [ ] b) low [ ] c) satisfactory [ ]  
d) high [ ] e) too high [ ]

After accessing the services of MFIs, what has been its impact on your business in terms of the following parametres?

Where 1 = Strongly Disagree, 2= Disagree Agree, 3= Undecided, 4= Agree and 5 = Strongly Agree

| No. |   | 1 | 2 | 3 | 4 | 5 |
|-----|---|---|---|---|---|---|
| 24. | MFIs services allow SMEs to increase output.                |   |   |   |   |   |
| 25. | MFIs services allow SMEs to increase sales volume.          |   |   |   |   |   |
| 26. | MFIs services allow SMEs to increase assets.                |   |   |   |   |   |
| 27. | MFIs services allow SMEs to increase profit.                |   |   |   |   |   |
| 28. | MFIs services allow SMEs to increase number of employees.   |   |   |   |   |   |
| 29. | MFIs services allow SMEs to increase their working capital. |   |   |   |   |   |

30. What is your level of satisfaction with the activities of MFIs?

- a) Very Satisfied [ ]      b) Satisfied [ ]  
 c) Uncertain [ ]      d) Dissatisfied [ ]  
 e) Very Dissatisfied [ ]

31. What other benefit have you derived from MFIs since you started dealing with them?.....

.....

**Section D: Operational Challenges that Confront Operators Of SMES**

**And their Resolutions.**

32. Which major challenges do you face in dealing with MFIs?

- a) High interest rate [ ] Loan amount not granted [ ]
- b) Cumbersome procedures [ ] Bureaucratic procedures [ ]
- c) Delays in loan approval [ ] Others (specify).....

33. What do you suggest MFIs must do to improve their services?

- a. Easy access to loan [ ] Attractive interest rate [ ]
- b. Less procedures [ ] Fast-track and improve loan approval [ ]
- c. Others (specify).....

34. What other constraints do you face in your business activities?

- a) Geographical location [ ]      b) Regulatory constraints [ ]
- c) Land tenure system [ ]      d) Competition [ ]
- e) Limited suppliers [ ]      f) power outage [ ]
- g) Others (specify).....

35. Do these constraints affect your operations despite the contributions of MFIs?

- a) Yes [ ]      b) No [ ]

36. If yes, what do you think should be done by the municipal Assembly?

.....

.....

**THANK YOU**

## APPENDIX B

## UNIVERSITY OF CAPE COAST

## COLLEGE OF HUMANITIES AND LEGAL STUDIES

## SCHOOL FOR DEVELOPMENT STUDIES

## QUESTIONNAIRE FOR STAFF HANDLING SMEs CLIENTS

**Introduction**

Dear Respondent,

This questionnaire is geared towards gathering primary data on microfinance institutions and the development of SMEs. You are kindly requested to fill in the questions depending on the instructions given. The information you provide would be treated with utmost anonymity and confidentiality and would be used for the purpose of accomplishing an academic goal.

**Section A: Background Information**

Circle the correct answer

1. Sex: a) Male [ ] b) Female [ ]
2. Age: a) 20 – 25 years [ ] b) 26 – 30 years [ ]  
c) 31 – 35 years [ ] d) 36 – 40 years [ ] e) 41 – 45 years [ ]  
f) 46 – 50 years [ ] g) Over 50 years [ ]
3. For how long have you worked with this MFI?  
a. 1-5 Years [ ] b. 6-10 Years [ ] c. 11-15 years [ ]  
d. 16-20 years [ ]
4. What is your educational background?  
a. WASSCE/O' Level [ ] b. HND [ ] c. First Degree [ ]  
d, Masters [ ] e. Others please specify.....
5. Indicate your work category.  
a. Marketing executive b. supporting staff  
c. Others please specify.....
6. For how long has this MFI been in operation?  
a. 1-5yrs. [ ] b. 6–10 yrs. [ ] c. 11–15 yrs.[ ] d.15yrs and above [ ]

**Section B: Sources of Funds Available to SMEs**

7. What is the maximum amount of loan do you give to your client to start their business?.....
8. How much interest do you charge on the loan Per Annum?  
.....
9. How is the interest rate calculated on the principal?  
a. Straight line method [ ] b. Reduction method [ ]  
c. Others Specify .....
10. How is the operation of MFIs to the client to start their SMEs?  
.....  
.....
11. What other sources of finance do you make it available to your clients?  
.....
12. How many of your clients do you know engage in SMEs in the municipality?.....  
.....

**Section C: Services of MFIs to SMEs**

13. Do you know about the activities of SMEs in the municipalities?  
a. Yes [ ] b. No [ ]
14. Which products do you provide to the SMEs?  
a. Savings [ ] b. Loan/Credit [ ] c. Investment [ ]  
d. Non - Financial services [ ] e. Others (Please specify).....
15. Which kind of credit facility do you offer if any?  
a. Long term Medium term Short term
16. How long does it take to process and disburse credits?  
a. Less than a week [ ] b. 1-2 weeks [ ] c. 2 -3 weeks [ ]  
d. 3-4 weeks [ ] e. above 4 weeks [ ]
17. Do you find the criteria for loan processing cumbersome?  
a. Yes b. No
18. If yes, why .....
19. Do you always require collateral securities before granting loans to SMEs?  
a. Yes b. No
20. Which category of SMEs are your target group?

- a. Artisans [ ] Manufacturers [ ] Traders [ ] Services [ ]  
 b. Food venders [ ] others (specify) .....
21. In providing credit to SMEs, which of the conditions are mostly required?  
 a. Collateral [ ] b. Credit history [ ] c. Business plan [ ]  
 d. Asset turnover [ ] Cash alien (Garrantor) [ ]  
 f. Others ( specify) .....
22. Is the condition in question 15 easily met by your clients?  
 d. Yes [ ] b. No [ ]
23. What are some of the purposes that your clients (SME) use the credit from MFIs for?  
 a. For start up [ ] b. For expansion [ ]  
 c. For capital expenditure [ ] d. Others (specify).....
24. Do you provide any form of training to your clients (SMEs)?  
 a. Yes [ ] No [ ]
25. If yes, which form of training and education do you provide?  
 a. Business management [ ] b. Credit management [ ]  
 c. Financial literacy [ ] d. Record keeping [ ]  
 e. Others (specify).....
26. What is the level of participation of SMEs in the training  
 a) High [ ] b. Low [ ] c. Moderate [ ]
27. Do the clients (SMEs) or its members save at the MFIs?  
 d. Yes [ ] b. No [ ]
28. How often do they save?  
 a. Daily [ ] b. Weekly [ ] c. Monthly [ ]
29. In your own opinion what is their level of savings  
 a. Good [ ] b. Average [ ] c. Bad [ ]
30. What is their mode of savings  
 a. They come to the MFIs themselves [ ]  
 b. Our employed staff go there for the savings [ ]  
 c. Others (specific).....

#### Section D: Operational Challenges of SMEs

31. Do you think your institution has sufficient funds to satisfy the financial needs of the SMEs? A. Yes [ ] b. No [ ]

32. For how long should an SME owner save before he/she qualifies for credit?

- a) 0-3 months [ ]
- b. 4-12 months [ ]
- c. 12 months and above [ ]

33. What happens if one defaults repayment?

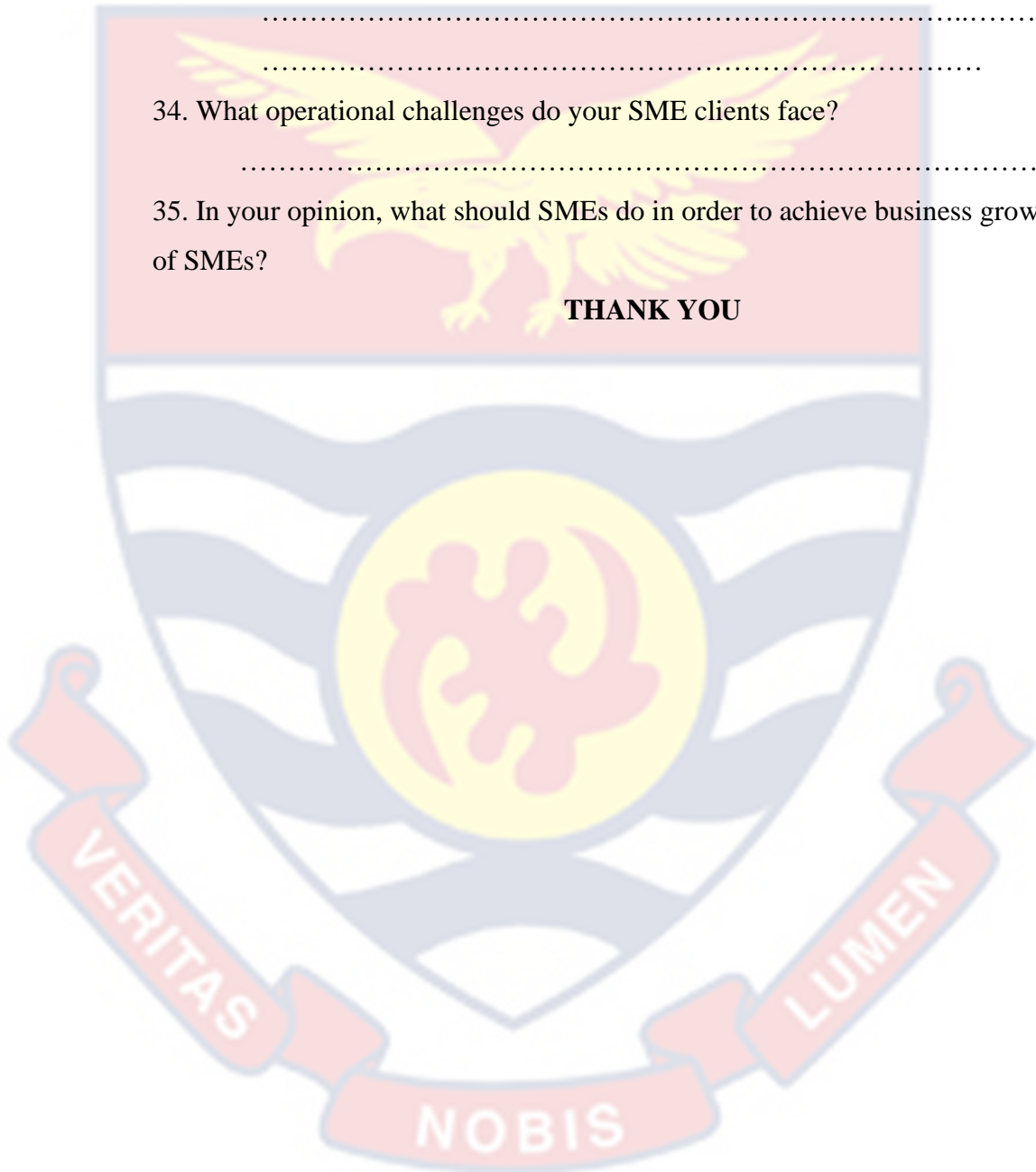
.....  
.....

34. What operational challenges do your SME clients face?

.....

35. In your opinion, what should SMEs do in order to achieve business growth of SMEs?

**THANK YOU**



## APPENDIX C

## UNIVERSITY OF CAPE COAST

## COLLEGE OF HUMANITIES AND LEGAL STUDIES

## SCHOOL FOR DEVELOPMENT STUDIES

## INTERVIEW GUIDE FOR MANAGEMENT

**Introduction**

Dear Respondent,

This interview is geared towards soliciting primary data on microfinance institutions and the development of SMEs. You are kindly requested to respond to the interview questions as objectively as you can. The information you provide would be treated with utmost anonymity and confidentiality and would be used for the purpose of accomplishing an academic goal.

**Section A: Sources of Funds Available to SMEs**

1. **What is the maximum amount of loan do you give to your client to start their business?**
2. What are the terms of repayment?
3. How much interest do you charge on the loan Per Annum?
4. How is the interest rate calculated on the principal?
5. How do the operations of MFIs affect capital acquisition to the SMEs client to start up their SMEs?
6. What other sources of finance do you make it available to your clients?
7. How many of your clients do you know engage in SMEs in the municipality

**Section B: Services of MFIs to SMEs**

8. What products do you provide to your SMEs clients?
9. Which kind of credit facility do you offer to your clients?
10. How long does it take to process and disburse credits?
11. Do you always require collateral securities before granting loans to SMEs? Why?

12. Which category of SMEs are your target group?
13. In providing credit to SMEs, what condition do you require from them?
14. What are some of the purposes that your clients (SME) use the credit from MFIs for?
15. Which form of training do you provide to your clients (SMEs)?
16. What is the level of participation of SMEs in the training
17. Do the clients (SMEs) save at the MFIs?
18. How often do they save?
19. In your own opinion what is their level of savings
20. What is their mode of savings

### **Section C: Operational Challenges of SMEs**

21. In what ways do your institution satisfy the financial needs of the SMEs clients?
22. For how long should an SME owner save before he/she qualifies for credit?
23. What happens if one defaults repayment?
24. What operational challenges do your SME clients face?
25. In your opinion, what should SMEs do in order to achieve business growth of SMEs?

**THANK YOU**