



**Exploration of Microfinance and its Effectiveness in
Promoting Small Business Growth and
Sustainability in Ghana**

Submitted by

Patience Eyra Nanedo,

BSc, PGDE (UCC), MBA (KNUST)

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UNE Business School,

University of New England

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Declaration

I certify that this work has not been previously submitted for any degree and the substance of the thesis has also not been submitted for any other degree.

To the best of my knowledge, I certify that any help received in preparing this thesis and all sources used have been duly acknowledged in the thesis.



Patience Eyra Nanedo

Dedication

I dedicate this work to the Almighty God for making a seemingly impossible adventure such as this one possible. I am grateful to him for the courage, perseverance and strength he bestowed on me to start and complete this journey. Ebenezer, thus far you have brought me. I also dedicate this study to the love of my life, my husband, Dr. Nukunu Nanedo and our four amazing children Nyanyuie Nanedo, Kekeli Nanedo, Dzidzor Nanedo and Aseye Nanedo. You made unforgettable sacrifices and are the reason why I made it this far. I adore and love you very much. When it comes to your personal development, know that you can achieve anything you set your heart on, if you work hard and don't give up prematurely. Nukunu, I got this far due to your love, persistent prayer support, advise, inspiration, and sponsorship. I am grateful for the late nights, critiques and tough love you showed me while I churned out my drafts. To my late father Mr Martin Dzasimatu, mother Mrs Alberta Avorkliyah, foster parents Mr and Mrs Dzikunu and brothers and sister, George, Joseph, and Grace Dzasimatu, and nieces and nephews, I say thank you for standing by me in all those times when I needed you most.

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Meaning of key words used in the thesis

Key words	Meanings
Microfinance	A range of financial and non-financial services such as deposits, loans, payment services, money transfers and insurance to small businesses (SMEs).
Non-financial services	Business training in managerial and financial management, development of business plans, book keeping
Effectiveness of Microfinance institutions	The capability of and successes made by microfinance institutions in promoting growth and sustainability of small enterprises.
Financial independence	This refers to financial sustainability, which is evidenced by sustainable growth of the enterprise in terms of income, profits, sales, return on assets, increase in employee numbers and business transformation.
Small Business	An all-inclusive acronym to refer to micro, small and medium scale enterprises (SMEs).
Microfinance Institutions' sustainability	Ability of microfinance institutions to continue to mobilise sufficient funds to operate effectively over a long period of time without depending on donor funds or subsidies.
SMEs' sustainability	In this study SME sustainability refers to the ability of SMEs to operate and maintain growth over a long period of time because of microfinance services received and stakeholder engagement.
Susu	Informal daily deposit collection arrangement between a deposit collector and a client which provides an opportunity for savings to accumulate, with a fee payable to the deposit collector. It is an informal savings mechanism common in Ghana.
SMEs' growth	Positive changes in business size, employee numbers, sales and technologies use by SMEs.
Satisficing	Accepting results that are subjectively satisfying while not risking an effort to maximise gain, simply doing enough to suffice. The satisficing state seems familiar, hassle-free, and secure, whereas aiming for the best achievable result entails an unacceptable degree of risk.
Outreach	It refers to the breadth of microfinance services to the SMEs. Breadth of outreach refers to the total number of SMEs reached, as well as the geographical coverage. Thus, it defines the number of SMEs served (quantity) and geographical coverage (spread) of MFI services.

List of Acronyms

ADB	Asian Development Bank
AfDB	African Development Bank
ASCA	Accumulating Savings and Credit Associations
ASSIP	Agricultural Services Investment Project
BDS	Business Development Service
BOG	Bank of Ghana
CBRDP	Community Based Rural Development Program
CF	Conceptual Framework
CU	Credit Union
CUA	Credit Union Association
EAP	East Asia and the Pacific
FINSSP	Financial Sector Strategic Plan
FNGO	Financial Non-Governmental Organisation
GAMC	Ghana Association of Microfinance Companies
GAR	Greater Accra Region
GHAMFIN	Ghana Microfinance Institutions Network.
GHAMP	Ghana Microfinance Policy
GHASALC	Ghana Association of Savings and Loans Companies
ICCO	Inter Church organisation for the development of Co-operation
ILO	International Labour Organisation
LAC	Latin America and the Caribbean (LAC)
MASLOC	Microfinance and Small Loans Centre (Ghana)
MF	Microfinance
MFI	Microfinance Institution
MOFEP	Ministry of Finance and Economic Planning (Ghana)
MSE	Micro and Small Enterprise
MSME	Micro Small and Medium Scale Enterprise
NBFI	Non-Bank Financial Institution
NGO	Non-Governmental Organisation
OTI	Opportunity Transformation Investment
OECD	Organisation for Economic Co-operation and Development
PNDC	Provisional National Defence Council

PwC	Price water house Coopers
RCB	Rural and Community Banks
REP	Rural Enterprise Project
RFSP	Rural Financial Sector Services Project
ROSCA	Rotating Savings and Credit Associations
SAT	Sinapi Aba Trust (Ghana)
SDG	Strategic Development Goal
SIF	Social Investment Fund
SME	Small and Medium Scale Enterprise
SSA	Sub-Saharan Africa
TPS	Telecommunications Service Providers
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program

Abstract

This research explores microfinance and examines its effectiveness in promoting the growth and sustainability of Small, and Medium Enterprises (SMEs) in Ghana. The study was conducted in six districts of the Greater Accra Region of Ghana. Based on a qualitative multi-case study approach, purposive sampling techniques were employed to select six districts, 15 microfinance institution (MFI) cases, 12 key informants from government and private microfinance agencies and 95 small business owners.

The stated aim of the commercialisation of microfinance in Ghana was to make financial resources available to a greater number of those excluded from the traditional financial institutions. However, it was found that MFIs in order to defend their own sustainability did so at the expense of the SMEs' growth and sustainability in that they were prone to lend only to existing businesses and not to high risk start-ups. The MFIs performed better in mobilising savings deposits, but this dependence on local savings left them open to severe liquidity problems as they did not have the market power of the tier one banks to access cheaper money. The study found low levels of outreach among tier two MFIs, part of a cycle caused by exorbitantly high interest rates which deters SMEs from accessing loans.

Four crucial factors were identified as major obstacles that reduce the capacities of MFIs to promote the growth and sustainability of SMEs. These are market and government failure, corruption, and the low internal capacities of MFIs and SMEs alike. The market has failed to effectively intermediate funds for SMEs' growth and sustainability due to high interest and administrative cost charges. The competitive prices at which MFIs borrow from the open market for onward lending to SMEs are not favourable enough to enable them to charge low interest rates and take the risk of providing low-cost start-up capital funds to the SMEs. When SMEs do borrow, the resultant losses from interest repayments erode profits and working

capital and make repayment of MFI loans difficult. While some positive results were shown for the impact of microfinance on some SMEs in terms of income generated, assets accumulated and business expansion, the broader accounting of negative impacts of reduced profitability, erosion of working capital, loss of retained earnings in MFI deposit accounts, absence of any effective employment generation, and loss of trust in MFIs, significantly outweighs the positive impacts. At best many of the SMEs were seen to be satisficing by coping with the situation in a static manner due to lack of alternatives.

The challenges of microfinancing in Ghana are compounded also by Government [Bank of Ghana] failure, demonstrated in its inability to adequately enforce microfinance rules, especially among tier two MFIs. Also, there was little determined effort by the government or government agencies to establish state guaranteed micro finance delivery channels to lend to the microfinance institutions at reasonable rates of interest for on-lending to SMEs.

The combined effects of market and government failures, subtle corrupt practices of some lenders and borrowers and low internal capacities of MFIs and SMEs represent debilitating obstacles limiting the capacity of microfinance institutions to promote sustainable growth of SMEs in Ghana. Thus, these factors necessitate policy reviews and government action to strengthen the market position and operations of MFIs so they in turn can promote SMEs to achieve the national objectives of economic growth.

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Chapter 1

Introduction to the Research

1.1 Research Background

Small businesses comprising of micro, small and medium enterprises (MSMEs) [also classified as SMEs] defined as enterprises that employ from 0 up to 29 workers are recognised for their significant role in the economic development of developing countries. This notwithstanding, many studies have observed that SMEs' sustainability remain a challenge because of limited financial resources to meet their operational costs and investment in growth (Cook & Nixson, 2000; Abor & Quartey, 2010; Anane, Cobbinah & Manu, 2013). A World Bank study found credit for investment constituted the major constraint of 90% of small enterprises surveyed (Parker, Riopelle & Steel, 1995; Abor & Biekpe, 2006; Ahiawodzi & Adade, 2012). Restricted accessibility to funding sources by SMEs, as compared to large businesses, limits their growth and sustainability (Abor & Biekpe, 2006). Indisputably, funding is considered as an important ingredient in SMEs' performance and sustainability outcomes (Abor & Quartey, 2010). Most SMEs in Ghana, as in other developing nations, lack access to adequate amounts of debt and equity finance as well as other financial services (Abor & Quartey, 2010; Ahiawodzi & Adade, 2012). Accordingly, concerns have been raised that without a sustainable financial system in place most SMEs in Ghana, with a capital base that is small and weak, will eventually not survive and grow, and may ultimately fail (Anane et al., 2013).

1.2 Importance of SMEs in Economic Development

Micro, small and medium scale enterprises [SMEs] are found in both advanced industrialised and developing countries. At the bottom of the industrial pyramid are numerous micro and small-scale enterprises that serve large segments of the population (Prahalad & Hart, 2002;

Tarmidi, 2005). Thus, the role of SMEs in socio-economic development of developing countries, like Ghana, has been widely acknowledged (OECD, 2004; Mensah, 2004; Tambunan, 2006; Ghatak, 2010; Abor & Quartey, 2010, Dalberg, 2011). From a purely economic perspective, SMEs provide several benefits that include assets and skills accumulation. They also serve as important means for income-generation and employment and contribute significantly to gross domestic product, economic growth, and reduction in unemployment. SMEs are alleged to decrease wage inequalities through active economic participation by those in the lower half of the income distribution (Fischer & Reuber, 2003).

Accordingly, worldwide, small enterprise development has become a major policy focus for economic development policy analysts concerned with growth rates in low-income countries (Abor & Quartey, 2010). The SMEs, they argue, serve as the engines of economic growth in developing nations. They are considered as potential sources of income and employment generation in emerging countries (Tambunan, 2006; Abor & Quartey, 2010; Siddiqui, 2005). In Ghana, SMEs constitute 92% of businesses and form a major part of the informal sector of the economy. Several studies attest to the fact that SME activities account for almost three quarters of Ghana's GDP and over 80% to its employment base (Ahiawodzi & Adade, 2012; Abor & Quartey, 2010; Berry, von Blottnitz, Cassim, Kesper, Rajaratnam & Van Seventer,

1.3 Importance of MFIs in Microenterprise Development

In response to SMEs' financial constraints and market failure there have been many efforts by international development agencies to promote and finance small enterprises. Underpinning these efforts is the assumption that access to finance is a key constraint to small business growth and sustainability (Glisovic & Martinez, 2012). Accordingly, microfinance institutions were considered as important tools to propel the development of microenterprises which dominated economic development agenda in the 1970s and 1980s. Several definitions have been used for

microfinance but a comprehensive one by the Asian Development Bank (2000, p. 2) defines microfinance as, “the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their microenterprises.”

As argued by Abor and Quartey, (2010), funding is considered as an important ingredient in SMEs’ performance and sustainability and growth outcomes. Thus, MFIs existed as development oriented institutions that partnered and had strong ties to government and operated as government supported microenterprise lending programs (Tarrozzi et al, 2015). These MFIs led to the emergence of non-governmental organisations (NGOs) that provided small loans to the poor and small enterprises (Anuradha, 2012). Some of the NGOs had microfinance as a side line project but later transformed themselves into MFIs or formal financial institutions to be able to access and lend client savings as non-profits, or as for-profit organisations (Tarrozzi et al, 2015). Some MFIs such as Compartamos Banco in Mexico are for profit organisations and are publicly traded (Angelluci et al, 2015). MFIs such as Spandana in India follow the Grameen Bank concept or model of microfinance where the group loans are disbursed and they are a for profit lending organisation too (Banerjee et al, 2015). Specialised microfinance institutions have emerged and newer players such as the commercial banks have widespread branch networks and distribution channels. By region, East Asia and the Pacific (EAP), Latin America and the Caribbean (LAC), and sub-Saharan Africa (SSA) have the most MFIs whose small business portfolios are increasing (CGAP, 2011). A variety of microfinance institutions (MFIs) have emerged over time in Africa (Basu et al., 2004). Over 80% of enterprise development programmes sponsored by donors have a microfinance component (Basu et al., 2004). Most MFIs are interested in financing the small enterprise segments because they offer additional business growth opportunities (Glisovic & Martinez, 2012). Over the years, microfinance provider types have varied in terms of their agenda, methodology, product design,

mission, and legal structure. Individualised lending is also now common breaking away from the joint liability concept of lending pursued by the Grameen Bank.

1.3.1 Microfinance Institutions and SMEs' Growth and Sustainability

Given the importance of SMEs, the Millennium Development Goals (MDG) (United Nations, 2005, 2013) and the Sustainable Development Goals (SDGs) released by the United Nations in 2000 and 2015 stressed the need to build a strong micro, small and medium-size enterprises (MSMEs) sector. Thus, SMEs have important roles to play in sustaining economic development as espoused in the SDG (8): promoting inclusive and sustainable economic growth, employment, and decent work for all, as well as promoting sustainable industrialisation and fostering innovation (SDG 9). Objective 8.3 of SDG (8) emphasised achieving micro, small and medium scale enterprise growth through access to financial services (United Nations, 2015). Hence, since the early 1990s, the role of microfinance in promoting the sustainability of SMEs in developing countries has attracted significant interest among policy makers, academia and development practitioners (Afrane, 2002; Aryeetey, 2008; Hulme & Arun, 2009; Adjei, Arun & Hossain, 2009; Abor & Quartey, 2010; World Bank, 2010).

Microfinance is widely accepted as a tool for promoting small enterprise development in order to increase income levels and improve the general economic standards of the poor (United Nations, 2005; Van Rooyen, Stewart, & De Wet, 2012). Studies have also shown that microfinance has associations with enhancement of both financial and non-financial results. Examples of the financial indicators are asset accumulation and increased savings activity and some non-financial ones are social cohesion, education, health and job creation (Schuler, Hashemi, & Riley, 1997; Barnes & Keogh, 1999; Khandker, 2001; Adjei et al., 2009; Van Rooyen et al., 2012).

Proponents of microfinance (Daley-Harris, 2007; United Nations, 2013; Ledgerwood, 2013; Ahmeti, 2014; Banerjee, Duflo, Glennerster & Kinnan, 2015) argue that when properly developed and supported, it can economically empower individuals and small businesses in developing countries. This they contended would enable microfinance to contribute to rapid poverty reduction and economic development (Daley-Harris, 2007; United Nations, 2013; Ledgerwood, 2013; Ahmeti, 2014; Banerjee, Duflo, Glennerster & Kinnan, 2015). Thus, internationally, microfinance has developed into a vital strategy that promotes innovation geared towards poverty alleviation and sustainable development (Otero, 1999; Little, Murdugh & Hashemi, 2003; Government of Ghana [GoG], 2006; Lützenkirchen & Weistroffer, 2012; Maes & Reed, 2012). Hence, the microfinance industry has evolved into a more comprehensive development tool, both in terms of the financial resource investments required and the number of poor people reached.

Microfinance is considered as a distributive mechanism to enable the poor to have access to financial services to eliminate poverty through building more inclusive financial systems (Otero, 1999; Little, Murdugh & Hashemi, 2003; Bygrave & Quill, 2006; Basu, 2006). By providing material capital to the poor, microfinance can empower them to participate effectively in economic development (Otero, 1999; Little, Murdugh & Hashemi, 2003) as envisaged in SDG 8 and 9.

This notwithstanding, many low-income households and micro-entrepreneurs in developing countries have limited access to financial services and products provided by the traditional financial institutions and commercial banks (Lützenkirchen & Weistroffer, 2012; Van Rooyen, Stewart & De Wet, 2012). These include lack of access to finance, managerial skills, equipment and technological innovation (Anheier & Seibel, 1987; Steel & Webster, 1991; Aryeetey, Baah-Nuakoh, Duggleby, Hettige & Steel, 1994; Lader, 1996; Gockel & Akoena, 2002; Dalberg,

2011). The SME financing gap defined by the OECD (2006, p.16) refers to the situation where economically “SMEs cannot obtain financing from banks, capital markets or other suppliers of finance.” Commercial banking institutions usually fail to serve the poor and SMEs because of the high cost involved in small transactions, lack of traditional collaterals and basic requirements for financial services and geographic isolation (Rabobank, 2005).

Given the above, the main purpose of microfinance institutions is to increase access to financial services for micro and small size businesses and low-income individuals excluded from financial markets in emerging and developing economies to improve their socio-economic standards. Thus, proponents and practitioners of microfinance advocate for the establishment of functional microfinance institutions (MFIs) to provide financial services to the poor and SMEs in order to promote the socio-economic development goals of a country (Otero, 1999; Morduch, 1999). In this regard, MFIs have become part of the distribution channels for deploying the financial capital needs of the poor and SMEs.

Otero (1999) argues that considering the importance of MFIs in addressing the financial resource redistribution gap, the activities of MFIs need to be legislated and regulated to enable them to become part of the legal financial system in order to function effectively. Otero (1999) and Robinson (2001) explain that when microfinance institutions become part of the financial system, they [MFIs] can access debt and equity markets to finance their lending activities. This, they argue, will allow the MFIs to increase the number of poor people and SMEs that they can reach. Increased outreach, they contend, will in the long-term increase the MFIs’ financial independence and self-sufficiency. Aryeetey (2005) like Otero (1999) also emphasises that MFIs have the capacities to be effective mechanisms to mobilise deposits from and provide credit to households and the micro and small business sector. Aryeetey further argues that MFIs

can save up small amounts of money at relatively low cost and can retail more credit to the informal sector if they [MFIs] have access to bank credit.

1.4 Overview of the Ghanaian Microfinance System

The overarching policy goal of the Ghana government is to reduce poverty and create wealth for the people. In Ghana, microfinance has been identified as one of the mechanisms, which when applied properly, could improve the lives of the poor, who also tend to be mostly women (Ghana Ministry of Finance and Economic Planning, 2008). To mitigate significant problems in relation to financial dualism, unemployment and poverty, successive governments have introduced policies which have influenced the microfinance industry in Ghana (Osei-Assibey, Bokpin & Twerefou, 2011; Gyamfi, 2012; Anku-Tsedee, 2014; Aazanlerigu & Kuntulo, 2015; Boateng, 2015). Asiama and Osei, (2007, p. 3) and Boateng (2015, p. 52) assert that government policy instruments used in the past to shape the microfinance sector include subsidised credit provision during the 1950s as well as establishment of Rural and Community Banks. These instruments, however have been ineffective in achieving their objectives, hence have been abandoned.

Accordingly, in 1986, the restrictive financial sector system was liberalised which gave birth to a new financial sector law, PNDC Law 328 of 1991 which paved the way for establishment of non-banking financial organisations such credit unions and savings and loans (Asiama & Osei [BOG], 2007; Egyir, 2010). Other innovative development programs, such as the Ghana Youth Employment and Entrepreneurial Agency (GYEEDA) (Diaz Serrano & Sackey, 2015), District Assembly Common Fund (DACF), Youth Self Employment Fund, were introduced mainly to mitigate the negative effects of financial liberalisation and propel creation of enterprises and jobs among the youth. These programmes, however failed to achieve their intended purposes (Boateng, 2015).

Between 2007 and 2008, the microfinance landscape in Ghana experienced some notable changes (Gyamfi, 2012). The recent financial sector changes and policy instruments that impacted the development of the financial sector that are worth noting include:

- i. The formulation of Ghana's Microfinance Policy Document in 2006;
- ii. Changes to the regulatory framework for microfinance in 2008 and 2011; and
- iii. Modifications of guidelines for MFI operations in 2013

A Microfinance Policy Document (GHAMP) was developed (Ghana Micro-Finance Institutions Network [GHAMFIN], 2013) to guide the operations of microfinance activities in Ghana. GHAMP was formulated to streamline both development partners and government interventions at the Ministries, Departments and Agency (MDA) levels. To provide access to credit facilities to the MFIs the Microfinance and Small Loans Centre (MASLOC) was set up and provided with an initial seed capital of US\$50 million, to support the MFIs and SMEs. However, MASLOC experienced some operational setbacks such as government intrusion, insufficient credit to clients, and lack of education among others. These setbacks made the operation of MASLOC ineffective, hence had little impact on microfinance services to SMEs (Asiama & Osei, 2007; Fant, 2011).

For effective implementation of the microfinance policy, the government also entered into partnership with stakeholders to establish an enabling environment to advance the course of microfinance as a strategic policy instrument for creating wealth to reduce poverty (Government of Ghana, 2008; Asiama and Osei, 2007; Adjei et al., 2009). Accordingly, the Financial Sector Strategic Plan (FINSSP), the United Nations Development Program's Microfinance Project (UNDP), and the Rural Enterprise Project (REP), (Asiama & Osei, 2007: 5; GoG, 2006: 2) were established through partnerships with donor agencies. The National Board for Small Scale Industries, was established in (1985) with the mandate to promote small

businesses creation through financial and non-financial services in the country (Ahiawodzi & Adade, 2012). The NBSSI from time to time receives funding from the government for on-lending to the small business sector. The recognition and establishment of microfinance as an important instrument in providing access to credit to the SMEs has led to proliferation of MFI institutions and resultant increase in credit risk (Gyamfi, 2012). The question that arises from these recent developments in the microfinance sector is, “what is the current state of microfinance in Ghana?”

1.5 Impact and Effectiveness of Microfinance

Some studies present varying views about the effectiveness of microfinance in general and its effectiveness as a policy instrument (Bhatta, 2001; Brau & Woller, 2004). Citing Bolnick and Nelson (1990), Brau and Woller (2004, p. 15) show that microfinance had positive impact on enterprises that are characteristically small in scale, labour intensive and growth oriented and had access to microfinance services. He however, stated that the impact was not equal across sectors. Copestake, Bhalotra and Johnson (2001, p. 95) found that borrowers who obtained a second loan experienced significantly high growth in profits and household income in comparison to a control group, but clients who did not qualify for the next loan round were worse off because of the stringent loan recovery measures and rules set by MFIs to be complied with. They also found through qualitative enquiry that clients who exited the MFI after the initial loan were the main casualties. With reference to Dunn’s (2001) report, Brau and Woller (2004, p.15) observed that entrepreneurs who accessed microfinance services performed better than those without in relation to employability, profitability and asset turnover. However, studies on SMEs in Ghana by Abor and Quartey (2010) revealed low performance of SMEs due to lack of adequate financial and non-financial services and high interest rates. The SMEs also suffer external competition, hence struggle to expand their market share in the local market

for their products and this limits their profitability and growth. SME entrepreneurs in Ghana also lack international business knowledge and experience, hence are not able to produce to meet international products standards. These weaknesses limit their ability to take advantage of globalisation and expand their markets beyond the local markets into the global market place (Abor, 2007; Abor & Quartey, 2010; Aryeetey, et al., 1994). SMEs do not also have the requisite knowledge of foreign markets (Abor, 2010). Thus, the impact of microfinance in promoting the growth and performance of SMEs remains inconclusive as there are mixed findings particularly in promoting the financial independence of the SMEs (Afrane, 2002; Viswanathan, 2002; Nanor, 2008; Adjei et al., 2009; Bateman & Chang, 2012).

Viswanathan (2002) identified insufficient working capital and high interest rates among other factors as challenges facing SMEs' growth generally. According to Bateman and Chang (2012, p. 21), any marginal increase in output of enterprises in Andhra Pradesh in India was insufficient to make-up for the exorbitant cost of microloans that were used to fund their business inputs in the first place. Furthermore, the enterprises found themselves in a "*vicious downward cycle of dependency and*" increasing debt. Bateman and Chang (2012, p. 17) argued that the focus of proponents of microfinance was only on the establishment of as many enterprises as possible in the short term without considering the importance of the minimum efficient scale required for these enterprises to be viable. By implication, the numerical strength of enterprises created appeared to be more important to these advocates than the sustainability and growth of the individual firms involved.

Davis (2006) argues that the upsurge of microfinance since the 1980s has created an increased artificial supply side of enterprises driven by MFIs. The supply side interventions were however not accompanied by a commensurate intervention to support users (demand side) of the services provided. The perceptions noted by Davis (2006), in Bateman and Chang's (2012, p. 22) view

drove competition at the grassroots upwards, minimised profitability in existing businesses and exerted negative forces on local cost of goods, services and incomes which adversely affect both start-ups and existing businesses. The results have been a fall in production, prices and employment as demand at the grassroot level is distributed across several enterprises (Bateman & Chang, 2012). Within a year of their formation, almost half of start-ups in Bosnia fail which typifies a high rate of unsustainability and is a known characteristic of the small and microenterprise industry in that country as well as other countries around the world (Bateman & Chang, 2012).

Bateman and Chang (2012, p. 24) argued that due to the exorbitant overall cost of loans and short-term nature of loan maturity periods on offer to SMEs, many sophisticated and complex SMEs are unable to manage MFI loans but their unsophisticated counterparts somewhat perform well. According to them, SMEs with high growth potential that utilise more sophisticated technologies can effectively start, stabilise and grow with the support of microfinance because it takes longer for them to accrue substantial returns. Citing Baumol (1990), Bateman and Chang (2012, p. 25) observed that microfinance has evolved an enterprise structure that is structurally unable to sustain growth at a productive rate, and also reduce poverty.

Chowdhury [UN] (2009, p. 2) show that loans or debt instruments are not the only determinants of output or income generated in a business. The other factors which can complement credit include recipient's entrepreneurial skills, technological and business management know how, promotion of market linkages for the supply chain, and common "infrastructure and sometimes regulatory" endorsements (Chowdhury, 2009). According to Mahajan (2005) reiterated by Chowdhury (2011, p. 166), microcredit "is a necessary but not a sufficient condition for microenterprise promotion." Generally, greater opportunities to access microfinance does not

automatically or simply make enterprises run by poor people successful (Pollin, 2007). Pointing out Bateman and Chang's (2009) observation, Chowdhury (2009, p. 3) reiterate that microfinance overlooks the significance of scale economies. Rather, it aids to create an excessive supply of inefficient micro-enterprises that undermines the development of more efficient small and medium size businesses.

Previous studies on the impact of microfinance in Ghana and for that matter elsewhere were more focused on financial and non-financial impacts on the target groups (Afrane, 2002; Nanor, 2008; Adjei et al., 2009). There have not been adequate studies on the effectiveness of microfinance in promoting small businesses' financial independence, and this needs more attention. Our understanding of the effectiveness of microfinance in promoting SMEs' growth and sustainability is crucial as a huge amount of resources and effort have been invested in its development since the beginning of the new millennium as an instrument to promote the growth of SMEs and reduce poverty (Hermes & Lensink, 2011). Effectiveness as defined by Harvey (2004) means the capability of, or success in, achieving a given goal. By this definition, the current study seeks to examine the "capability of" and "successes" made by microfinance in promoting sustainability (financial independence) of small enterprises.

Limited studies have been carried out on the success of microfinance in promoting sustainability of SMEs. A few studies by Ebomuche, Ihugba and Bankong (2014) and Yahaya, Osemene and Abdul Raheem (2011) examined the effectiveness of microfinance banks in poverty reduction in Imo and Kwara States in Nigeria. Ebomuche et al. (2014) found that microfinance could not be accessed by less literate sections of the community, in contrast to the high-income class bracket in Imo state. Muhammad and Shochruf (2015) examined the effectiveness of Baitul Maalwat Tamwil (BMT), an Islamic microfinance institution in reducing poverty in Indonesia. The authors examined the monthly household income as an

impact indicator of clients before and after receiving microfinance. Based on increased income of the clients, the study concluded that BMT was effective in improving the condition of the poor thereby reducing the level of poverty. Focusing on supply and demand-sides of the microfinance industry, Colombage, Ahmad, and Chandrabose (2008) also assessed the effectiveness of microfinance in reducing rural poverty in Sri Lanka. The authors assessed impact based on outreach and performance of the microfinance industry in reducing poverty in Sri Lanka on one hand. On the other hand, the authors assessed the impact of microfinance on enterprises and households, particularly its effect on empowering women. Impact of microfinance on enterprises was evaluated using indicators such as profitability, changes in business criteria and practices, resource base and utilisation of microcredit. Colombage et al. (2008) found that most small businesses covered in their survey performed poorly due to lack of economies of scale, undercapitalisation and limited ability of individual entrepreneurs. Most ventures, according to the authors, reported low profits and low incomes.

In Ghana, various studies (Afrane, 2002; Nanor, 2008; Adjei et al., 2009) have examined the impact of microfinance from either supply side or demand side perspectives. In his review of two microfinance case studies in Ghana and South Africa, Afrane (2002) concludes that microfinance increase business incomes, improved access to life-enhancing facilities and empower women economically. Adjei et al., (2009) evaluated the extent to which Sinapi Aba Trust, Ghana, has contributed to poverty alleviation among rural and urban poor people especially women. The authors found that participants reaped significant benefits through participation in the program. Overall, their results showed appreciable improvements in financial, human and physical assets. The current study will assess the effectiveness of microfinance in promoting growth and sustainability (financial independence) of small businesses in Ghana by assessing the supply side issues of microfinance as well as the demand-side represented by SMEs. The operational definition of financial independence is financial

sustainability, which is evidenced by sustainable growth of the enterprise in terms of income, profits, sales, return on assets, increase in employee numbers and business transformation.

1.6 Research Problem Statement

Although the SMEs are recognised for their significant role in the economic development of developing countries, their sustainability and growth remain a challenge because of limited financial resources to meet their operational costs and investment drive (Cook & Nixon, 2000; Abor & Quartey, 2010; Anane, Cobbinah & Manu, 2013). Viswanathan (2002) identified insufficient working capital and high interest rates among other factors as challenges facing SMEs' growth and sustainability generally. According to Bateman and Chang (2012, p. 21), any marginal increase in output of enterprises in Andhra Pradesh in India was insufficient to make-up for the exorbitant cost of microloans that were used to fund their business inputs. Thus, the enterprises found themselves in a "*vicious downward cycle of dependency increasing debt*". Bateman and Chang (2012, p. 17) argued that the focus of proponents of microfinance was only on the establishment of as many enterprises as possible in the short term without considering the importance of the minimum efficient scale required for their sustainable growth. By implication, the numerical strength of enterprises created appeared to be more important than the sustainability and growth of the individual firms involved.

A World Bank study found the lack of credit for investment constituted the major constraint of 90% of small enterprises surveyed (Parker, Riopelle & Steel, 1995; Abor & Biekpe, 2006; Ahiawodzi & Adade, 2012). Restricted accessibility to funding sources by SMEs, as compared to large businesses, limits their growth and sustainability (Abor & Biekpe, 2006). Accordingly, funding is considered important in SMEs' growth and sustainability outcomes (Abor & Quartey, 2010). Most SMEs in Ghana, as in other developing nations, lack access to adequate amounts of debt and equity finance as well as other financial services (Abor & Quartey, 2010;

Ahiawodzi & Adade, 2012) to promote their sustainable growth. Hence, concerns have been raised that without a sustainable financial system in place most SMEs in Ghana, with small and weak capital base will not survive and grow, and may ultimately fail (Anane et al., 2013).

Davis (2006) argues that the upsurge of microfinance since the 1980s has created an increased artificial supply side of enterprises driven by MFIs. The supply side interventions were however not accompanied by a commensurate intervention to support users (demand side) of the services provided. The perceptions noted by Davis (2006), in Bateman and Chang's (2012, p. 22) view drove competition at the grassroots upwards, minimised profitability in existing businesses and exerted negative forces on local cost of goods, services and incomes which adversely affect both start-ups and existing businesses. The results have been a fall in production, prices and employment as demand at the grassroot level is distributed across several enterprises (Bateman & Chang, 2012). Within a year of their formation, almost half of start-ups in Bosnia fail which typifies a high rate of unsustainability and is a known characteristic of the small and microenterprise industry in that country as well as other countries around the world (Bateman & Chang, 2012).

However, the financial market reforms focused largely on the formal financial sector without consideration for financial services required by SMEs's growth and sustainability. Interest rates charged by the traditional banks were very high ranging between 24% and 30% per annum. Loan application from the SMEs were regarded by financial institutions as too small vis-à-vis the cost of lending (Diaz-Serrano & Sackey, 2015). Thus, to mitigate for the high cost of lending which was avoided by the traditional institutions, the MFIs charge interest rates as high as 30 per cent to 100 per cent on an annual basis (Sarpong, 2013). The interest rates charged by microfinance institutions (MFIs) became obstacles for SMEs' sustainability and growth.

Although several microfinance institutions have emerged to cater for small credit borrowers (Sowa, 2002), Aryeetey (2005) argued that the performance of microfinance in financing small business growth and sustainability in Africa including Ghana has not been as positive as in Asia and Latin America. Aryeetey (2005) stressed that microfinance institutions were unable to provide the needed financial services to SMEs for sustainability and growth. Ahiawodzi and Adade, (2012) attributed the lack of access to credit by the SMEs to weak development of the financial sector and its inability to provide the needed financial intermediation. They also identified ineffective institutional and legal structures to provide solutions to the associated risks involved in lending to SMEs. These they further explained make cost of lending to SMEs high, hence the high interest rates charged by the MFIs and its negative effect on SMEs growth and sustainability (Ahiawodzi & Adade, 2012).

Thus, the impact of microfinance in promoting the growth and sustainability of SMEs remains a challenge (Afrane, 2002; Viswanathan, 2002; Nanor, 2008; Adjei et al., 2009; Bateman & Chang, 2012). SMEs' inability to obtain the finance that they require acts as a major inhibitor to their sustainability and performance in terms of growth, employment generation, productivity, efficiency and returns on assets. In turn, poor performance by SMEs in these areas also constrains access to funds and raises the cost of these funds in the future (Harvie, 2011).

1.7 Research Aim and Objectives

As noted earlier, objective 8.3 of the United Nations' Sustainable Development Goal 8 focuses on the growth of micro, small and medium-sized enterprises through access to financial services (United Nations, 2015). Indisputably, this objective focuses on SMEs' sustainability and growth through access to financial services. Although advocates of microfinance have touted its effects and documented their findings, in Ghana there is a knowledge gap about how developments in the operations of MFIs have influenced their success in promoting

sustainability and growth of SMEs. In the light of this, the overarching aim of the research is “to explore the microfinance sector in Ghana and also examine the effectiveness of microfinance in promoting SMEs’ sustainability and growth.” The study will explore microfinance activity on one hand and also examine its effectiveness on SMEs’ sustainability and growth. Hence, the overarching question driving the thesis is: *How effective is microfinance in promoting SMEs’ sustainability?*”

1.7.1 Research Questions

To enable an assessment of the effectiveness of microfinance in promoting small businesses sustainability and growth, the following research questions will be addressed:

1. How effective has microfinance been in promoting SMEs’ sustainability?
2. What has been the impact of MFI services on small businesses’ sustainability and growth?
3. What are the factors affecting MFIs in Ghana?
4. What is the sustainability and financial independence of MFIs serving SMEs?
5. What challenges do SMEs face in accessing MFIs’ services?
6. What forms of institutional support do MFIs and SMEs receive to enhance their effectiveness?

1.8 Significance of the Study

Microfinance activists or promoters are of the opinion that making financial services accessible will markedly help in poverty reduction (Littlefield, Morduch & Hashemi, 2003; Dunford 2006; Hermes & Lensink, 2011). Hermes and Lensink (2011, p. 4) argue that increased accessibility to funding sources and finance could help to diversify the sources of operating income available to businesses in the long-term. This they argue will in turn increase growth in investment capital. They further argue that microfinance has the propensity to increase asset accumulation, smoothen consumption and resilience and general well-being of the borrower (Hermes &

Lensink, 2011, p. 4). Thus, governments, donors, development agencies have considered microfinance as having ability to reduce poverty, hence the increased the injection of funds and efforts into microfinance. Accordingly, the government of Ghana sees the private sector as the engine of growth and microfinance as a strategy for wealth creation and poverty reduction (Ghana Statistical Service, 2002; Asiaman & Osei, 2007).

This notwithstanding, there are disagreements about the impact of microfinance on poverty reduction and this has triggered many empirical studies (Hulme and Mosley, 1996; Mosley, 2001; Pitt & Khandker, 1998; Coleman, 1999; Simanowitz, 2002; Kirkpatrick & Maimbo, 2002; Scully, 2004; Marr, 2004; Khandker, 2005; Dunford, 2006; Chemin, 2008; Roodman & Morduch, 2009; Banerjee et al., 2009). These studies addressed issues of whether microfinance can reach the core poor; which contribution of microfinance is the most significant; and whether the benefits outweigh the cost (Hermes et al., 2011). Pellegrina (2010) however, took two different approaches by comparing the impact of credit from banks and microfinance institutions and impact of credit on investment. The depth and breadth of these studies and debates on the impact and contribution of microfinance is profound and continues unabated (Roodman & Morduch, 2009; Hermes et al., 2011). Similarly, studies on the impact and role of microfinance in Ghana follow similar trends (Afrane, 2002; Adjei, et al., 2009; Anane, et al., 2013). Thus, the literature on the impact of microfinance and specifically in the context of Ghana is inconclusive on several vital questions. Despite attempts by many researchers to understand the impact, problems and role of microfinance in financing SMEs, there are still significant gaps in our understanding and limited in-depth empirical investigations on the effectiveness of microfinance in promoting the sustainability and growth of SMEs in Africa and for that matter the Ghanaian economy. This research is different in terms of its engagement. Whereas other studies have focused on the effects of microfinance on poverty alleviation, this study focuses on exploring the supply-side of microfinance in Ghana and assessing the effects

of microfinance on the financial sustainability and growth of SMEs. Also, although some research has been done regarding the effects of microfinance on their clients and microenterprises in the past with varied results in other contexts, there is very limited documented research in Ghana on the successes of microfinance in promoting SMEs' sustainability and growth, hence this is poorly understood and emphasised.

Although little is known regarding the effects of microfinance on SMEs' sustainability in particular in Ghana, it is [microfinance] considered as crucial to the promotion of micro, small and medium enterprise sustainability in the developing world. It is unclear whether the currently available information on sustainability of SMEs in Ghana and elsewhere presents researchers, academia, policy makers, and development practitioners an adequate understanding of the transformational effects of microfinance on SMEs' sustainability. Such an analysis is, however, important as it will help our understanding about the real contribution microfinance can make. The current study attempts to fill this knowledge gap. A comprehensive understanding of the positive or negative effect of microfinance on the sustainability of SMEs will fill the knowledge gap and add to the theoretical debate on the impact of microfinance on SMEs' sustainability in Ghana. It will also have the capacity to help policy makers, academia, development agencies, and practitioners to focus on what is most important to generate long-term productive activities among SMEs to eventually reduce poverty which is the main driving force for all microfinance efforts globally.

This study aims to provide new directions for further research and the practice of microfinance in Ghana, Africa and elsewhere.

1.9 Structure of the Thesis

The thesis is organised into ten chapters and is organised in five parts. Part I comprises chapter one, the introduction which sets the stage for the study. Part II consists of chapters two and three. Chapter two presents a literature review of the concept of microfinance, microfinance paradigms and models, small business sustainability concepts and reviews empirical research on the impact and effects of microfinance on its target clients and businesses. Chapter three discusses the historical and evolutionary trends of microfinance in Ghana, and ongoing changes in the policy and regulatory framework for microfinance in Ghana.

Part III of the thesis consists of chapter four. Chapter four presents the research philosophy, methodology and methods to help answer the research questions. The chapter also provides a rationale for the selection of multiple case studies, research data collection, organisation and analysis. Chapter five provides a brief description of case study microfinance institutions selected for the research.

Part IV consists of chapters six to nine which present an analysis, discussion and synthesis of the research findings.

Part V is mainly chapter 10 which concludes the research with a presentation of a summary of the overall thesis, the policy implications of the findings, recommendations, conclusions and makes suggestions for future research.

PART II

**LITERATURE REVIEW, CONCEPTUAL FRAMEWORK AND EVOLUTION OF
MICROFINANCE IN GHANA**

Chapter 2

Microfinance and Small Business Sustainability

2.1 Introduction

The previous chapter examined the research context. It also described the structure of the thesis and how the chapters relate to one another. This chapter examines the theoretical foundations of microfinance and small businesses, concepts of microfinance, various microfinancing models and business strategies, sustainability/performance, outreach and impact of microfinance and their relevance to SMEs, small business growth and sustainability, and sustainability of SMEs. The purpose of the chapter is to use these theoretical foundations and models to develop a “microfinancing and small business conceptual framework” to analyse small business growth and sustainability in the study area. Thus, a review of microfinance theories, empirical work on microfinance impact and small business sustainability are presented. The chapter further highlights the conceptual framework (CF) for analysing the effectiveness of microfinance institutions in promoting the sustainability of SMEs. Section 2.2 presents a conceptualisation of microfinance, followed by section 2.3 which examines supply of microfinance. Section 2.4 presents microfinance delivery models followed by section 2.5 with various approaches to microfinance service delivery. Section 2.6 examines the different types of products and services offered by MFIs, followed by the concept of sustainability in microfinance which is examined in section 2.7. Next, section 2.8 discusses the concept of outreach. Section 2.9 focuses on the demand-side of microfinance followed by Section 2.10 which examines microfinance and SMEs.

2.2 Conceptualisation of Microfinance

The concept of microfinance has its roots in microcredit and micro enterprise financing programmes (CGAP, 2017; Karmaker, 2008; Dichter, 1996). The “impact of microcredit” programmes “on the performance of” the micro and small businesses of the poor in the informal economy highlights its importance in small business sustainability (Boachie, 2016). However, the full range of financial services needed by the poor to increase income, build assets, smooth consumption, and manage risks were not provided under the conventional microcredit model, which only involved the disbursement of microcredit. Dave (2008) observed that while the advocates of microcredit developed different credit delivery models, these models did not make provision for all available forms of financial services which was the most important requirement of the poor to sustain their businesses. Microfinance needs to evolve to fill in the missing gap in financial services to the under-served and unbanked masses (Lazar & Palanichamy, 2008). Microfinance services needed by low-income households, micro, small and medium scale producers and businesses in response to the missing gap include deposits, money transfers, and insurance (Khandker, 2005; Lazar & Palanichamy, 2008; Baten, 2009).

Microfinance has been defined in various ways by different stakeholders. Beck (2015, p. 3) of the World Bank Group sees microfinance as, attempts to provide finance and other services to enterprises and households that are usually excluded from accessing the services of traditional commercial banks. Microfinance entails the intermediation of credit and savings on a small-scale transactional basis solely tailored to meet the specific requirements of small and medium-scale businesses (Khandker, 2005). It is financial intermediation between savers, borrowers or investors at a micro-level (Seibel, 2005; Owusu & Amo, 2016). It is a distributive mechanism that enables the poor to have access to financial services. It is also considered as inclusive financial systems that provide access to finance to the excluded from the financial system

(Otero, 1999; Little, Morduch & Hashemi, 2003; Bygrave & Quill, 2006; Basu, 2006). Microfinance has also been described as the range of financial systems, delivered by specialised institutions, intended to encourage the poor to either borrow or save (Dzisi & Obeng, 2013; Aryeetey, 2008; Aryeetey, 1994). It is argued that by providing material capital to the poor, they are able to participate effectively in economic development (Otero, 1999; Little, Morduch & Hashemi, 2003). Otero (1999) and Morduch (1999), contend that access to microfinance provides capital, reduces poverty among the poor, and strengthens financial institutions. Hence, microfinance systems aim also to strengthen financial institutions by providing more effective financial services (Otero, 1999). Thus, effective microfinance systems are two-fold: the demand and supply-side aspects of financial services. Accordingly, this research explores the workings of the supply-side in terms of its sustainability/performance and its success in promoting SMEs' sustainability and growth. The characteristics of the supply-side of microfinance are briefly introduced in the next section.

2.3 Supply of Microfinance

Microfinance services are offered by different categories of microfinance institutions (MFIs) according to their capacities. The various MFIs include commercial banks, micro-lenders, nongovernmental organizations (NGOs), and rural and cooperative banks (Beck, 2015). Based on their capacities and legislative rights, they provide different financial services to their clients. They all, however, focus on the low end of the finance market. They also use a variety of techniques to reach their markets [the demand-side of microfinance] which differ from the techniques of the conventional banking system (Beck, 2015). To provide financial services, MFIs use varied delivery models. The subsequent sections examine these delivery models and approaches. The various services and products MFIs offer to their clients [in this case SMEs] are also analysed.

2.4 Microfinance Delivery Models

Microfinance service delivery models designed to meet demand have been debated and contested within the microfinance sub-sector. There are four broad categories of microfinance service delivery models identified in the literature (Ledgerwood, 1999; Lairap, 2004). These categories are (a) financial intermediation, (b) social intermediation (c) enterprise development services or nonfinancial services, and (d) social services (Ledgerwood, 1999; Lairup, 2004). Each of the categories is explained further in the next section.

2.4.1 Financial Intermediation

The term financial intermediation is explained as the process by which funds raised from savings are made available to those who need them for investments. By this, surplus funds mobilised from the economy are channelled towards investment (the deficit sector) of the economy (Ledgerwood, 1999; Iuga, 2016). Ledgerwood (1999), Lairap (2004) and Boachie (2016) view financial intermediation as a process that entails the provision of financial services in the form of loans, savings deposits, credit cards, insurance and payment systems. Microfinance institutions therefore serve as the financial intermediaries between investors and microfinance institution clients.

2.4.2 Social Intermediation

Social intermediation is a method of building social and human capital needed for sustainable, effective and efficient financial intermediation (Ledgerwood, 1999). Edgcomb and Barton (1998, p. vii) view social intermediation as an approach in “which investments are made in the development of both human resources and institutional capital.” This he argues aims at harnessing the capabilities of groups that are marginalised to enable them to engage effectively

in formal financial intermediation. Thus, social intermediation of microfinance service delivery is concerned with capacity building to address capacity gaps in those sectors of society that lack access to credit and savings facilities. Bennet, Goldberg and Von Pische, (1994) state that social intermediation seeks to empower and strengthen entrepreneurs, systems and institutions to become self-reliant and confident in financial intermediation.

2.4.3 Enterprise Development

Enterprise development and other related non-financial services including marketing, training, technology skills development non-financial services such as training, marketing and technology skills development are aimed to assist entrepreneurs achieve financial intermediation effectively. Enterprise Development services especially support the management and business know how development of clients.

2.4.4 Social Services

Social services are specific types of non-financial services which include education, health, financial intermediation, and literacy education including health, education. Social services focus on improving the well-being of entrepreneurs. Social services usually depend on recurrent subsidy which is provided by the country, state or through donor support to NGOs (Ledgerwood, 1999; Lairup, 2004).

Ledgerwood (1999) highlights that while social services are often implemented by some countries state apparatus, local NGOs and/or community organisations, while some MFIs also provide financial intermediation and social services together as one product. This mode of service delivery enables MFIs to take advantage of contact with clients during provision of social services to promote loan disbursement and repayment.

The extent to which an institution combines and provides these services is reliant on whether it takes an (a) integrated, (b) minimalist (c) poverty lending/welfarist or (d) institutionist/financial systems approach to microfinance (Ledgerwood 1999; Dichter, 1996; Robinson, 2001; Brau & Woller, 2004). The use of these various models has been contested and debated within microfinance circles and while one school of thought uphold the minimalist view another school focus on the integrated approach. These approaches have a bearing on how products and services are designed, priced and delivered and are therefore discussed subsequently. In exploring microfinance, these modes of service delivery will be used to identify the paradigm orientations of the MFIs.

2.5 Approaches to Microfinance Service Delivery

2.5.1 Integrated Approach to Microfinance

The integrated approach to microfinance service delivery comprises all the four approaches to microfinance services delivery, namely financial intermediation, social intermediation, enterprise developmental services and social services (Ledgerwood, 1999; Mago, 2013; Mago & Hofisi, 2014). This method of microfinance delivery is guided by the notion that enterprise development should be holistic in order to provide the capacities needed by the enterprises to realize their full potential. MFIs that use this approach provide the entire package of “financial and social intermediation, enterprise development and social services” to their clients with assumptions that each complements the other for synergic effects (Dichter, 1996). Dichter (1996) defended the approach by arguing that to enable productive use of small loans by poor entrepreneurs and small business owners, credit must be complemented by market and business development services without which these recipients of microcredit risk the chance of success.

2.5.2 Minimalist Approach to Microfinance

The microfinance model which focuses on “credit only” is referred to as the minimalist approach. The minimalist approach focuses on financial system sustainability, rather than the welfare and social transformation of the population. This model makes the financial system the core objective of microfinance (Rankin, 2002; Meyer & Rankin, 2002).

This approach was pioneered by the Grameen Bank (Rhyne & Otero, 1994; Rankin, 2002). MFIs that adopt the minimalist approach to microfinance normally offer only financial intermediation with limited social intermediation services (Ledgerwood, 1999). The underlying assumptions of the minimalist microfinance delivery model is lack of access to short-term credit which serves as the main barrier to enterprise growth (Ledgerwood, 1999; Dichter, 1996). This assumption by the minimalists fails to identify other factors necessary for enterprise survival and growth. Thus, critiques of the minimalist approach argue that those who access microfinance (the poor with their enterprises) do not do so simply because of a lack of funds, but also due to their vulnerability (Bhatt & Tang, 2001). Citing Bhatt (1998), Bhatt and Tang (2001, p. 323) argue that MFIs that provide microfinance facilities are not as effective as those that also support micro credit recipients to overcome the psychological burdens of poverty.

The evidence, however, on impact shared on “minimalist” MFIs as opposed to “socially-oriented” approaches is mixed; hence it is difficult to draw any meaningful conclusion (Bhatt, 1998; Kabeer, 2005). In Rankin’s (2002, p. 13) view, the minimalist approach entails giving out credit, allowing savings and now, increasingly, insurance and other financial instruments and has reduced “microfinance to the strictly financial dimensions of poverty alleviation.”

2.5.3 Welfarist /Poverty Lending Approach to Microfinance

Morduch (2000) identified two schools of thought regarding microfinance services delivery which he referred to as the “microfinance schism”. Proponents of the welfare-oriented approach to microfinance service delivery argue that depth of outreach and poverty alleviation [material and nonmaterial]is crucial for sustainable development” strategy combining financial and non-financial services (Bhatt &Tang, 2001; Brau & Woller, 2004). Robinson (2001) also viewed the welfarist approach to microfinance as the poverty lending approach. The concept of poverty lending involves lending to the poor at subsidised rates. The welfarist approach aims at changes in borrower’s welfare (Bhatt & Tang, 2001). The welfarist’s contend that the focus on microfinancing should not be solely on financial sustainability (Hermes & Lensink, 2008; Efendic & Hadziametovic, 2017). They argue that MFIs can achieve institutional sustainability without financial self-sufficiency because donations they receive is a form of equity (Hermes & Lensink, 2008; Efendic & Hadziametovic, 2017) They regard donors as social investors who are not profit oriented but aim at social or intrinsic benefits. The “poverty lending” approach is a donor-subsidised lending to those classified as the poorest of the poor. The approach provides social, educational and other helpful services to people living in poverty (Kabeer, 2005). Robinson (2001) observed that development agencies that adopted the poverty lending model were unsustainable and most failed.

2.5.4 Institutional/Financial Systems Model

The financial system proponents believe that the important role of microfinance is financial “broadening.” Financial broadening involves the development of a financial system which is able to service the financial requirements of a large group of people on a sustainable basis (Bhatt &Tang, 2001; Lairup, 2004). The focus therefore is on financial inclusion. Impact on loan recipients and the larger society, under such an approach, is rarely emphasized and success

is demonstrated by the lending organisations growth towards financial sustainability (Bhatt & Tang, 2001; Hermes & Lensink, 2008). Robinson (2001), a proponent of the financial systems approach, contends that microfinance should be concerned about cost recovery and financial sustainability and loans to the economically active poor should be approached with a commercial orientation. Kabeer (2005) argues that the financial systems approach in the short-term can compensate for failures in financial markets to serve certain social groups and create a more integrated financial system in the long-term. Furthermore, “the financial systems approach” has its foundations in “methodological individualism and a competitive equilibrium view of the world” (Kabeer, 2005, p. 4717). Robinson’s stance on cost recovery and financial sustainability is consistent with the neo-liberal orientation to market principles (Kabeer, 2005). Proponents of the financial systems view- point argue that the approach does not only make “fewer demands on donor funds or government subsidies” compared to the poverty lending approach, but it is also more effective in empowering the poor and reducing poverty (Kabeer, 2005, p. 4709). Kabeer (2005, p. 4717) explains that when financial exclusion of the poor reflects individual deficiencies of assets, education, health, and market failure problems of asymmetric information and contract enforcement”, the financial systems approach can reduce or eliminate the deficit. In addition, the financial systems approach has a limited capacity to address difficulties of financial exclusion caused by lack of access to social services in situations of “structural inequality” (Kabeer, 2005). The financial systems model adopts minimalistic perspectives to microfinance service delivery.

Robinson (2001, p. xxxii) identified that the loan portfolios of institutions pursuing the financial systems approach to microfinance are financed by savings, commercial debt, and for-profit investment in varying combinations. In recent years, there has been a major move away from the delivery of government or donor subsidised debt to the development of sustainable financial intermediaries that use local savings, access commercial finance, and provide loans to low-

income people at costs that enable them to fully recover investment and attain institutional self-sufficiency (Robinson, 2001a; Robinson, 2010b; Mahanan, 2010). In its advanced form, commercial microfinance is practised in banks and other formalised institutions where all loans are wholly financed by deposits, commercially sourced debt, private equity investment and retained income (Robinson, 2001, p. xxxii). In addition, all savers and all credit worthy borrowers can be served, and repeat borrowers can be accommodated as they expand their enterprises (Robinson, 2001, p. xxxii).

Ledgerwood (1998) proposes that due to the complex and interdisciplinary nature of microfinance an understanding of the process of financial intermediation and social intermediation is best handled from a system rather than an institutionist approach. She argues that “within the systems framework” of microfinance, the institutions may have varied views on how costs of service provision should be accounted for or covered. In Ledgerwood’s (1999) view, “formal financial institutions and membership” organisations focus on “financial sustainability” as an essential goal, whereas NGOs, though expected to be efficient, have a focus that is not essentially on profitability.

MFIs therefore adopt these various models in the supply of their services and products. The question then is: what products and services do microfinance institutions offer? This is discussed next.

2.6 Microfinance Products and Services

The main microfinance products and services are traditionally credit and savings/deposit services. In recent years, other services include insurance, leasing, and money transfer services (Helm, 2006). The products are examined briefly in the next section.

2.6.1 Microfinance Institution Lending

Generally, formalised microfinance has focused mainly on enterprise lending which remains the dominant product offered by MFIs (Brau & Woller, 2004). Nourse (2001, p. 61) argues that small and micro-entrepreneurs receive credit to help create or grow their businesses and as a result of such credit, reports have been made of “success in increasing entrepreneurial income and expanding the number of informal sector businesses.” Woller (2004) contends that MFIs need to tailor their lending services to different categories of the poor to make their services more client-focused. Eyiah (2001) and Meyer (2002) further suggest that MFIs need to move away from inflexible loan products and use approaches that serve the different needs of their clients. Meyer (2002) however cautions that although lending processes have been simplified, oversimplification of the administrative processes of loan disbursement can present certain drawbacks, such as increased default rates among small loan borrowers and a lack of demand for bigger loan products.

2.6.2 Microfinance Institution Savings/Deposit Services

Robinson (1998) states that the savings component of microfinance services permits people to accumulate excess liquidity for future use, and to obtain returns on their assets. Accordingly, MFIs need to provide savings services to allow the poor to save their excess liquidity through innovative approaches that encourage them to save voluntarily or compulsorily. Forced savings are usually used as a form of cash collateral. There are however strict rules that regulate when and how clients may withdraw cash from their savings (Brau and Woller, 2004). The rules regarding voluntary savings on the other hand are flexible (Montgomery, 1996; Nourse, 2001; Brau & Woller, 2004). Brau and Woller (2004) notice that savings are important for poor households’ risk management strategies and constitute an important strategy to cope with external shocks to which they are so vulnerable. Poor people’s resilience to external shocks

allows them to harness the opportunities inherent in making investments and reaping the benefits there of (Grosh & Somolekae, 1996).

Havers (1996, p.147) argues that “savings provide an important source of funds as well as a source of collateral security” from the institutions view point. Further, “borrowers who have saved with an MFI are more cautious in how they use money borrowed from the same” institution because their savings serve as collateral and insurance (Haver, 1996). Savings deposits help to “accumulate funds for emergencies, equity inputs and for business activities” (Havers, 1996). A savings culture helps aspiring borrowers have a long-term investment perspective of their money and businesses (Havers, 1996). Considering its benefits, savings components of microfinance often attract “many more clients than a credit facility particularly among the poorest” (Havers, 1996; Robinson 1998; Rhyne & Otero, 2006).

2.6.3 Microfinance Insurance Product

Helm (2006, p. 27) provides a definition of insurance in the context of microfinance as, “the protection of low-income people against specific perils in exchange for regular monetary payments/premiums proportionate to the likelihood and cost of the risk involved.” Helm (2006) shows that the costs of a risky event are shared among several individuals allowing for risk pooling as is common with other forms of insurance services. Helm (2006) provides a caveat that microfinance insurance products to SMEs must be sensitive to the need for risk protection, must be easy to understand, and must also be affordable. Helm (2006, p. 27) further suggests that, as a new product being introduced by MFIs, “there is much interest among microfinance institutions to provide microinsurance in partnership with” insurance organisations. The author delivers a warning however, that MFIs that attempt to deliver life or health insurance find it difficult to become sustainable, therefore the right balance for delivering services to SMEs will

depend on offering adequate protection with affordability which will present a real problem (Helm, 2006).

2.6.4 Money Transfer Services

Helm (2006, p. 25) of the CGAP is of the view that “money transfers encompass more than just remittances.” In Helm’s (2006, p. 25) view remittances refer to the part of income earned by migrant workers which are transferred to relatives or other people living where the migrants originally came from. This includes international and domestic money transfers.

2.7 Concept of Sustainability in Microfinance

Sustainability, as a concept is generally interpreted to mean continuity of an outcome, or for a defined behaviour to continue indefinitely. Feline (2011) considers sustainability to mean a system or process in which the resources that keep it functional will not be exhausted over a reasonable period. Thus, sustainability denotes a long-term perspective of systems. The term also refers to permanence. The focus of this study as indicated in chapter one is to examine the ability of microfinance services to sustain small business growth in order to reduce poverty in the long run. Success for microfinance is demonstrated in the achievement of the three-pronged goals identified as: 1. Sustainability, 2. Outreach, and 3. Impact, also known as the triangle of microfinance. The concept of sustainability in microfinance is discussed in the next section.

2.7.1 Dimensions of Sustainability in Microfinance

The notable dimensions of sustainability identified from the literature include: demand, organisational [institutional], financial, mission, programme, human resource, market, policy, operational, environment, and impact sustainability (Sa-Dhan 2010; Mahajan, 2008). Details of these dimensions are discussed in Mahajan’s work (see Mahajan, 2008). Despite the

importance of each dimension, this study focuses on financial and operational sustainability of MFIs and SMEs. Khandker, Khan and Khalily (1995, p. 32) defined sustainability as the ability of a program to continuously maintain its activities and services in order to meet its objectives. The objectives of the institution must therefore be fully met for it to be truly sustainable. To be sustainable, in the context of microfinance, an MFI must focus on three key areas (Khandker et al, 1995). The MFI must promote its own institutional development based on government policies and costs. It must operate efficiently based on its institutional framework and program design to achieve economic and financial viability, and it must generate sustainable benefits for the poor to attain borrower [SME] viability. Kinde (2012, p. 2) refers to financial sustainability of an institution [MFIs] as the ability of the institution to cover all its costs without any external assistance or subsidy. It also means the ability to continue to achieve the MFI's objectives without donor support or subsidies (Dunford, 2003). These definitions measure MFIs success of operation through profits they generate without depending on grants or subsidies. Although this definition relates mainly to microfinance institutions in the literature, this study extends this definition to include SMEs' growth and sustainability as the economic purpose for the existence of microfinance institutions.

2.7.2 Determinants of Microfinance Sustainability

The ability of MFIs to recover their loans efficiently and effectively is a major determinant of their sustainability (Addae-Korankye, 2014). It is important for MFIs to maintain a very high portfolio quality and this should be based on attaining a 100% repayment rate (Owusu & Amo, 2016). This also means that microfinance sustainability can be achieved by ensuring low delinquency rates, high cost recovery and efficient lending (Addae-Korankye, 2014; Owusu & Amo, 2016). Low repayment of loans by MFI clients erodes profits, hence risks MFIs' growth and sustainability outcomes.

Adongo and Stork (2005) enumerate some possible determinants of microfinance institution sustainability. According to them the major determinants include: the level of support by supporting institutions; forms of incorporation or business ownership; flexibility of repayment; the supply of start-up capital by donors; the provision of collateral and ways of provision of the loan; the amount of savings mobilised by the MFIs; and the amount of loans and the per capita income of the locality where the MFI is situated. It is theoretically expected that MFIs that are supported by a body which does not have a vested interest in ownership or investment gains in the MFI will have a positive or negative effect on sustainability, while those supported by a body with a closer support financially and in terms of ownership interests will be negatively related to financial sustainability. This is because the ones with closer support have a relatively greater possibility to reduce the problems resulting in diminishing financial sustainability, with the help of the closer support (Adongo & Stork, 2005). With regard to forms of ownership of the institutions, those that can separate themselves from provision of other non-financial services (training, marketing) can improve the level of their financial sustainability. In contrast, those MFIs with integrated approaches to microfinance will have adverse effects on their level of financial self-sustainability. That is, it is expected that those that are providing integrated services will face additional operational costs beyond the cost of provision of financial services (Adongo & Stork, 2005). Adongo and Stork (2005, p.17) indicate that if the cost of non-financial services is managed well and excluded from that of financial services, the institution's financial sustainability improves. The other important determinants of sustainability are the flexibility and frequency of repayment schedules. In theory a higher effective interest rate is realised when repayment is flexible. Therefore, weekly repayment arrangements positively influence financial sustainability and in turn affects the effective and breakeven interest rate (Adongo & Stork, 2005, p.18). Adongo and Stork, (2005, p. 18) conclude that there is a "trade-off between" provision of flexible financial services at a reduced cost while maintaining the

frequency of repayment and associated risks when designing microfinance products from an institutional perspective.

Other determinants of MFIs financial sustainability are availability of equity funds from donors and group lending. Donor equity funds to MFIs increases their chances of being financially sustainable (Adongo & Stock, 2005). Lending to groups also positively affects financial sustainability of MFIs due to the peer pressure exerted by group members on each other to repay loans (Adongo & Stork, 2005, p. 26).

According to Khandker et al., (1995, p.32) sustainable organisations (MFIs) are also characteristically those that influence their employees and clients to perform efficiently. Thus, a proper incentive structure that will motivate employees to improve the MFIs delivery and recovery mechanisms is also crucial to the sustainability of the MFI.

Havers (1996) and Rosenberg [CGAP/World Bank] (2009, p. 1) identified some fundamental indicators to use to measure performance of microfinance institutions (MFIs). These are in five core areas, namely: outreach (number of clients served); clients' poverty level (how poor clients are); loan collection performance (ability to collect loans); financial sustainability (profitability of the MFI to maintain and expand its services without subsidies from donors) and; efficiency (how well does the MFI control its administrative costs).

2.7.3 Levels of Financial Self-Sustainability of MFIs

The importance of MFIs' sustainability financially has been debated and advocated for by many (Gonzalez-Vega, 1993; Otero & Rhyne, 1994; Robinson, 1998). Four levels of financial sustainability have been identified in relation to microfinance institutions (Otero & Rhyne, 1994, p.17; Havers, 1996). The four levels are distinguished by the extent to which the programmes depend on donor or concessional funds or subsidies. Per Havers' (1996) analysis

and Otero and Rhyne's (1994) description, at the first level, firms have high amounts of subsidy. Their sources of funds for lending include grants and soft loans from donor agencies. The operating expenses of such MFIs are also paid by continuing grants. At this level, the value of the revolving fund erodes rapidly through delinquency and inflation. The level two firms rely on funds borrowed at concessional, but near-market rates from donor agencies as level one firms. The level of subsidy paid to level two firms is minimal. Their operational expenses are partly paid by interest income and partly by grants. At the second level, the revolving fund erodes slowly with time. At the third level, sources of funds are the same as for level two, however subsidies are reduced to the lowest minimum level and gradually approach zero. The revolving funds are stable in real time and the operating expenses are paid solely from interest income (Otero & Rhyne, 1994; Havers, 1996). Firms at the fourth level raise funds at commercial rates from formal financial institutions and client savings (Havers, 1996). The revolving fund is also stable and expenses are covered also solely from interest income.

Havers (1996) also contends that expansion and scaling up is an important indicator for financial sustainability. Small lending usually involves high operating costs per borrower. This necessitates high interest rate charges to achieve financial sustainability (Havers, 1996). Achieving the goal of financial sustainability by the MFIs means integrating savings and credit services to be able to serve more people (outreach). Havers (1996), shows that sources of income for microfinance institutions are mainly fees and interest income. He further argues that for microfinance institutions to attain true financial sustainability they should have the capacity to cover institutional costs of funds, operating costs, loan write offs and inflation.

2.7.4 Measurement of Financial Sustainability

Financial sustainability can be measured using “operational self-sufficiency” and “financial self-sufficiency” methods (Kinde, 2012, p. 2). Citing Meyer (2002), Kinde (2012, p. 2) refers to operational sustainability as “the capability of an institution to cover its operational costs from its operating income regardless of the source of income.” In other words, MFIs are financially self-sufficient when they can cover from their own generated income, both operating and financing costs and other forms of subsidy valued at market prices. MFIs “whose profitability is determined after covering some of the operating costs by subsidised resources or funds will also be considered financially unsustainable.” The financial sustainability of microfinance institutions can be measured based on their loan recovery rate or the repayment rate of the clients. The loan repayment rate alone is, however, not an adequate measure of sustainability because apart from loan loss other factors such as administration costs, cost of funds, inflation, interest rates and fee income constitute a significant proportion of the sustainability equation (Havers, 1996).

Microfinance institutions use different techniques to calculate financial sustainability, hence the results for one institution may differ from other institutions based on the techniques used for the calculation. The subsidy dependence index (SDI) is one of the comprehensive indicators of sustainability used in microfinance which measures the percentage by which interest rate would have to be increased to accommodate the MFIs expenses and avoid subsidy injections (Yaron, 1992; Paxton & Cuevas, 2002).

2.7.5 Measures to improve MFIs' Financial sustainability

Moral hazard and adverse selection have been identified as the key agency problems posed by information asymmetry which MFIs face and must deal with to ensure financial sustainability (Armendariz de Aghion & Morduch, 2005). Information asymmetry stems from a situation where “borrowers have more information about their creditworthiness and risk-taking” behaviour than their lenders” [MFIs] (Armendariz de Aghion & Morduch, 2005, p. 51). This situation brings about the problem of moral hazard and adverse selection respectively. Armendariz de Aghion and Morduch (2005, p. 45) also refer to moral hazard problems after loans have been disbursed as “ex post moral hazard or the enforcement problem” where after lending, the lender [MFIs] cannot enforce loan repayments or the lender does not fully observe the borrowers’ (Agent/SMEs) profits, hence the borrower can falsely claim a loss and default. In other words, ex post moral hazard refers to borrowers becoming less disciplined in their spending after a loan has been approved than they were before when they received the loan. The adverse selection problem on the other hand refers to the situation where lenders “cannot distinguish inherently risky borrowers from safer ones (Armendariz de Aghion, 2005, p. 46). Therefore, generally, because the MFIs are not capable of predicting the trading outcomes of loans disbursed to the borrowers due to limited information (and high transaction costs), they [borrowers] usually take advantage of this and under report on the performance of the loans to lenders in order to defraud them (Aveh et al, 2013a). The borrowers sometimes after receiving the money, change their identity and migrate to other cities leading to default in payments (Aveh et al., (2013b).

Thus, effective screening for adequate information about the borrower and monitoring can help minimise moral hazard and adverse selection involved in microfinancing. These can also

prevent the lender from mistakenly granting loan to fraudulent borrowers or more risky borrowers (Aveh et al., (2013b).

Repayment and management of default strategies are key to improving the levels of financial sustainability in MFIs (Havers (1996). Havers (1996) suggests that as part of lenders' repayment strategy they should consider the previous amount of loans the borrowers managed and their repayment history to make lending decisions. Havers (1996) warns leaders to be careful in lending large sums of money to borrowers which they had no experience in managing. He observed that when the loan amounts are small, even when the business fails, borrowers are able to repay it (Havers, 1996). Havers further provides a caveat that, repayment periods and intervals are critical to sustainability, and if managed properly serve as an indicator of the flow of earnings to the business (Havers, 1996). Additionally, loan terms, interest payment and repayment holidays should be kept at a minimum.

Proactive measures such as confiscating people's bank accounts, taking over their businesses, personal assets and taking legal actions can help to minimise losses (Havers, 1996).

In a study of factors affecting the performance of MFIs in Ethiopia, Kinde (2012) identified breadth and depth of outreach, dependency ratio and lending cost per borrower as the main factors affecting financial sustainability of microfinance institutions. In contrast, the study also revealed that capital structure and staff productivity had little effects on financial sustainability of MFIs in that country. Their research was based on data collected over an eight-year period between 2002 and 2010. for the study periods.

Quayes (2012) also examined 702 MFIs from 83 countries and found trade-offs between outreach and financial sustainability among the MFIs. The study found that the sustainability of for-profit MFIs far outweighed that of not-for-profit MFIs which further emphasised the importance of MFIs being profit oriented to become financially sustainable. Furthermore,

commercial MFIs had a larger loan portfolio, higher levels of equity and higher levels of debt to equity ratios.

2.8 Outreach of Microfinance Institutions

Outreach is explained by Benjamin, Piprek and Yaron, (1997, p.91) as “a measure that assesses the extent to which an MFI has succeeded in reaching its target clients and the degree to which the MFI has met the client’s demand for financial services.” Dimensions of outreach are the depth (the type of clients reached and their poverty level) and breadth (number of clients served) as well as number of women served. Cull, Dirmirgic Kunt & Morduch (2007, p.110) refer to the depth of outreach as “reaching the poor” and the breadth as the “scale.” Schreiner (2001, 2002) identifies six aspects of outreach which Woller, (2004) discusses. The six aspects of outreach proposed by Schreiner are worth, cost, scope, length, breadth, and depth of outreach (Schreiner, 2001; Woller, 2004). In support of Schreiner’s (2001) observation, Woller (2004) argues that the average loan size by itself is an inaccurate measure of depth of outreach. He suggests that a better measure of average loan size is to break it down into dollars disbursed[amount], the average balance, term to maturity, dollars per instalment, and dollar years of borrowed funds (Woller, 2004; Schriener, 2001; Nyamsogoro, 2010). Woller, (2004) suggests that a measure of the depth of outreach to the poor who save but do not borrow must also be considered.

Mechanisms used by microfinance institutions in the provision of their services to SMEs and individuals, while maintaining financial viability, are innovations which often entail changes to existing credit rationing criteria (Cheng & Ahmed, 2014). These mechanisms include group guarantees, frequent loan repayments, targeting of women and sustainable interest rate charges (Morduch, 1999). Each of these mechanisms helps MFIs to deliver their services to their target groups successfully where traditional financial institutions have failed. The microfinance

movement exploits new contract terms and institutional arrangements that reduce the risks and costs involved in disbursement of small loans without collateral (Morduch, 2000). Hermes and Lensink (2008) contend that the commercialisation of “microfinance can attract commercial funds, which can be used to achieve MFIs’ outreach objectives. With funding from the commercial institutions, the MFIs may have the capacities to increase the amount of loans to the poor for a longer period. Client outreach and the age of MFIs are found to have a positive but a lesser impact on attainment of financial sustainability (Ayayi & Sene, 2010). Therefore, MFIs are not only supposed to be maintaining their financial sustainability but they are also required to continue to serve more poor people and SMEs that have been excluded from the financial system. Success for microfinance is also demonstrated in the impact it has on its users (SMEs) who are found on the demand-side of microfinance. The next section examines the demand side of microfinance.

2.9 Demand side of Microfinance

The demand side of microfinance comprises the clients [in this study, SMEs] of microfinance institutions. The majority are low income, self-employed or informally employed individuals, with no formalised ownership titles on their assets and with limited formal identification papers (Beck, 2015). The demand-side, which also comprises the vulnerable non-poor, constituted by small and medium entrepreneurs, usually requires promotional measures such as credit, savings, and insurance provided by the MFIs (Adjei et al., 2009). The services and products of the MFIs are used for generating income and for sharing some of the risks of technical innovation (Adjei, et al, 2009). The demand-side is also characterised by extremely poor households who require survival measures such as voluntary savings mechanisms and emergency consumption credit facilities (Adjei et al., 2009). Other clients of microfinance institutional products and services need protection measures, such as low risk income

generation activities, education, and training for building their capacity to manage debt. This current study will focus on the SME clients of microfinance institutions.

2.9.1 Conceptualisation of SMEs

The concept of SMEs is full of many definitional inconsistencies that have been identified in the literature by researchers (Chisala, 2008, Bekele & Worku, 2008, Abor & Quartey, 2010, Yon & Evans, 2011) and development agencies (Organisation for Economic Cooperation and Development, 2006, Edinburgh Group, 2012, United Nations Conference on Trade and Development, 2005; Dalberg, 2011). Kushnir, Mirmulstein, and Ramalho (2010) found a significant variation in countries' definitions of micro, small and medium scaled enterprises, MSMEs. About third of the 132 economies covered in their study, however, defined micro, small and medium scaled enterprises as having up to 250 employees.

The definitions vary from one nation to the other based on the level of each country's economic development, strength of business and industrial sectors, size of the SMEs and the peculiar constraints they face (Bekele and Worku, 2008). Even within a country, Ron and Evans (2011) suggest that the term SMEs can change over time. Definitions of SMEs are further complicated by non-governmental organisations (NGOs), donors and authors of various studies by adopting different definitions to suit the purpose of the study they are engaged in (Dalberg, 2011; UNCTAD, 2012). Many international organisations therefore employ a working definition in the absence of a standard one.

Country-specific definitions have traditionally been based on the number of employees, revenue, turnover or assets. Business sector definitions have also been identified in some countries such as in the United States of America and South Africa (Edinburgh Group, 2012). Based on UNIDO's classification, large firms are those with 500 or more workers, medium

firms have between 100 and 499 workers and small firms have fewer than 99 workers in developed countries (Kayanula & Quartey, 2000; Abor & Quartey, 2010). In developing countries SMEs are categorised into micro, small and medium enterprises where microenterprises have less than five workers, small enterprises have between five and 19 workers and medium enterprises have between 20 and 99 workers. However, Burkina Faso uses a combination of financial investment, employment and sales as well as other qualitative criteria to define micro, small and medium enterprises (UNCTAD, 2012). Zambia uses total investment as criteria to differentiate between small manufacturing enterprises and those in the trading and services sectors (UNCTAD, 2012). Definitions that adopt financial measures however pose a challenge due to “exchange rate variations and the distortions from inflation over time” (Edinburgh Group, 2012, p.37).

In Ghana, the Statistical Service defines businesses with employee numbers below 10 as small enterprises and those with over 10 employees as medium and large firms (Kayanula & Quartey, 2000, p. 8). The NBSSI (NBSSI, 1998) defines SMEs on the basis of employee numbers and fixed assets as any business that engages up to 29 people as employees. Referring to Osei et al, (1993) and Steel and Webster (1990), Kayanula and Quartey (2000, p. 9) divided small businesses into three categories as illustrated in Table 2.1.

Table 2-1 SMEs in Ghana

SMEs Subsector	SMEs Clusters	Fixed Asset Composition
Micro-enterprises	Enterprises with 0-5 employees	Fixed assets (without land and buildings considered) should not exceed US\$10,000 in value
Small-enterprises	Enterprises with 6-9 employees	Fixed assets (without land and building) should not exceed US\$100, 000 in value.
Medium-enterprises	10-100 employees	fixed assets of up to US\$1million.

Source: Adopted from the National Bureau of Small Scale Industries, Ghana

From the preceding discourse, this study adopts the definition of small business as micro, small and medium (SME) scale firms that employ up to 29 workers based on the NBSSI definition.

2.10 Impacts of Microfinance on SMEs

The impact of microfinancing services for the poor in general is important to all stakeholders. The assessment of microfinance impact is conducted at four levels; household, individual, enterprise, and community levels (Cohen, CGAP & Burjojee, 2003). The relevant level of impact identified for the current study is at the enterprise level. At the enterprise level impact is expressed by an increase in enterprise revenue and job creation (Cohen, et al., 2003).

Several studies have been done to determine the transformational effects of microcredit and microfinance services in general on its users (Hulme & Mosley, 1996; Pitt & Khandker, 1998, 2002; Coleman, 2006; Marr, 2004; Khandker, 2005; Dunford, 2006; Chemin, 2008; Roodman & Morduch, 2009; Banerjee et al., 2009). In a case study of Bancosol in Bolivia, Hulme and Mosley (1996) observed that of all the borrower groups in their study, about a quarter showed spectacular growth, ten to fifteen percent went bankrupt and the remainder sustained their business at its existing level. In terms of effects on employment, they found that Bancosol loans had a large impact on income for poorer borrowers but increases in employment were non-existent among their study group. Hulme and Mosley (1996) suggest that the ability to keep servicing a series of loans does not necessarily lead to a cumulative increase in income.

In Northeast Thailand, Coleman (2006) found that access to loans from community banks boost borrowers capacities to take more loans from other financial institutions. This also positively affected women's productive assets. Members of the village banks also considered to be wealthier seemed to benefit more from the village banks than the poorer non-members of the bank (Coleman, 2006). Pitt and Khandker (2002) noticed that a majority of borrowers from

their study in Bangladesh used their loans to finance nonfarm activities. There was however no significant variation in profits made between nonfarm and agricultural activities. Pitt and Khandker (2002) observed that even when the borrowers are monitored effectively, the fungibility of money influenced access to group-based credit and may permit households to use resources received to other uses when they might have been allocated to the farming activities in the absence of the group-based credit programme. Pitt and Khandker (2002) concluded that microfinance programmes have influenced the welfare of poor participants as well as non-participants in microfinance programmes. Roodman and Morduch (2014, p. 583) replicated the study of Pitt and Khandker (1998) in Bangladesh and raise concerns in relation to the methods used and assumptions made to arrive at the earlier findings that microcredit shows a positive impact on poverty. The authors observed that the poverty reducing effects of microfinance disappeared when outliers were left out of the randomised test equation (Roodman & Morduch, 2014, p. 583).

Kaboski and Townsend (2005) found in Thailand that institutions with good policies promoted asset growth, consumption smoothing and decreased the reliance on money lenders. In South Africa, Karlan and Zinman (2008) examined the impact of access to credit on the recipients. Their results indicated significant and positive effects on income, food consumption, and job retention.

Analysing the effects of groups on microfinance outcomes, Marr (2012) citing her studies in 2002, 2003 and 2006 found that the effects of group dynamics in rural communities had negative impacts on well-being and group stability. Tensions between financial and organisational sustainability leads to group instability and disintegration [collapse] of the groups. Marr concluded that when this happens it causes greater exclusion of the poor, resulting in negative impacts on their well-being (Marr, 2006). Shaw (2004, p. 1261) concluded from his

study in Sri Lanka that micro credit recipients with low human capital, hostile physical and market environments and low capacities to invest in productive activities experienced lowest income effects on their credits.

Several debates, criticisms and disagreements on the impact of microcredit espoused in earlier research have been confirmed, debunked or justified by current research in relation to methods used, assumptions made and results obtained (Roodman & Morduch, 2014). Angelucci, Karlan and Zinman (2015) found evidence to show that households in treatment areas grew their businesses both in terms of revenue and expense increases, but had no evidence of effects on profits, entry, or exit. Also, they found that government aid to borrowers had been reduced by 17%. Report by Banerjee et al., (2015) from randomised evaluation on group-lending in Hyderabad in India show that investment and profits of existing enterprises increased, but there was no significant increase in consumption. They also observed expenditure in durable goods had increased, while expenditure in “temptation goods” had reduced. Duflo and Imboden, (2013) noted that households invested more in their existing businesses when they had access to credit.

Within the Sub-Saharan African context, Ojo (2009) found that there was no significant effect of microfinance institutional activities in predicting entrepreneurial development. Olowe, Moradeyo and Babalola’s (2013) study revealed that financial services obtained from microfinance banks had a significantly positive effect on the growth of SMEs in Nigeria. Their study also showed that the loan duration had a positive impact on SMEs’ growth but this finding was not statistically significant. They concluded that high interest rates, collateral security and frequency of loan repayment stifled expansion of the SMEs (Olowe et al., 2013). In a study of aquaculture SMEs in the Ogun state of Nigeria, microfinance impact on the development of the fish farms was found to be positive represented by increased overall yield, generation of

employment opportunities and increases in farmer revenue generated (Odebiyi & Olaoye, 2012).

Mixed results have been found for the impact of microfinance on aspects of clients' development in Ghana. Afrane (2002), Adjei, et al., (2009), Afrane and Adjei-Poku (2013), Addae-Korankye (2014) and Afrane and Ahiable, (2016), conducted various studies on microfinance effects on their clientele. Afrane (2002) examined the impact of microfinance on SMEs in Ghana and South Africa and observed that there were improvements in the businesses and lives of the beneficiaries. Afrane and Ahiable (2016) claim that microfinance impacts positively on the MFIs, as well as on their clients, by creating business opportunities for them both. However, they caution that microfinance also creates some negative impacts such as stress due to loan repayments at high interest rates and short duration pay back periods (Afrane & Adjei-Poku, 2013).

The next section examines the concept of sustainability in relation to the SMEs, in order to ascertain whether the pursuit of microfinance institutional sustainability may help or hinder SMEs.

2.11 Small Business Sustainability

This section focuses on the prospects for sustainability of SMEs. The term business sustainability has developed substantially in the business world in relation to how it is recognised and valued (Labuschagne, Brent & Erck, 2007). The core dimensions of sustainability are economic, social and environmental with a recent addition of institutional sustainability. Labuschagne et al. (2007, p. 11) and Wibowo, Santoso and Deng (2013), use four criteria to describe business sustainability which are, financial health, economic performance, potential financial benefits and trading opportunities. The financial health

criterion assesses the internal financial stability regarding available funds to operate the business, profitability, liquidity, and solvency (Labuschagne et al., 2007). The author's state that economic performance assesses the business's value from the perspective of the equity holders, government and major management staff. Indicators include "profits made, share of performance in markets and contributions to GDP (Labuschagne et al, 2007, p. 11). The "potential financial benefits" criterion examines other rewards without focusing on profits per se. These rewards or benefits could include technological, social and environmental improvements due to business initiatives (Labuschagne et al, 2007, p. 11). Additionally, buying and selling opportunities are the criteria which examine the vulnerabilities of the organisations' trade networks "and the risks it is exposed to by the network" (Labuschagne et al, 2007, p. 12). Business sustainability in the context of small business requires that SMEs maintain strong ties with five key groups which are employees, customers, local community, other companies and regulators (Spence, 2012). Spence (2012) proposes that "treating employees well increases their job satisfaction and makes them more likely to stay with the firm. As part of a good learning organisation, management and staff must develop the capacity to identify problems and solve them. Customers who are aware of a firm's sustainability think better of it and are more likely to patronize it. Community connections can have multiple benefits and peer companies do value and can provide or solicit advice and collaborate on sustainability initiatives. Legal requirements can be met and subsequent compliance measures could turn out to be easier when regulators are a priority for a business interested in pursuing sustainability and growth. This current study will adopt the financial health and potential financial benefits criteria of business sustainability as espoused by Labuschagne et al. (2007) as well as the considerations of Spence (2012). Specific considerations are the sources of start-up funds and access to ongoing funds for operating an SME, profitability of the SME, liquidity, solvency,

and technological improvements in the SME. Additional considerations are stakeholder and institutional support for the SMEs.

Jarvis, Curran, Kitching and Lightfoot (2000), Miles, Covin, and Heeley (2000), and Haber and Reicher (2005) state that both objective and subjective indicators can be used to evaluate the sustainability of small businesses. Accordingly, this study examines the sustainability of the small business clientele of microfinance based on objective and subjective indicators. In most business and economic theories, the most common objective indicators of business sustainability are measured by financial success or performance factors (Jarvis et al., 2000; Olson et al., 2003; Walker & Brown, 2004). Labuschagne et al. (2007) identify these factors as profitability, liquidity and solvency, while Kuratko, Hornsby and Naffziger (1997) perceived them as extrinsic rewards in the form of monetary gains. Walker and Brown (2004) also argue that financial criteria are the most appropriate measures of business success.

In relation to SMEs, the growth is likely to be determined by the demand for their products expressed in increased sales resulting in increases in profit. The SMEs are likely to engage additional employees and purchase machinery. In relation to sustainability, Urban and Naidoo (2011) note that there has been debates on equating business sustainability with growth as the indicators used to measure these concepts may be different. Urban and Naidoo (2011) argued that growth in other dimensions of sustainability could not occur without growth in sales. Wiklund (1999) and Urban and Naidoo (2011) both suggest the possibility of increasing sales without engaging added financial or human resources.

Given the above, there are both objective and subjective approaches to measuring enterprise growth and sustainability. The subjective indicators of success point to the extent to which the enterprise owner achieves his/her social goals which are the motivations for setting up the business. These include intrinsic rewards such as personal freedom, personal fulfilment and

financial independence. Realisation of these subjective indicators serves as a measure of enterprise success/sustainability to the owner.

From their study on small business entrepreneurs' motivation in Australia, Walker and Brown (2004, p. 577) concluded that the motivation for people to set up small businesses is varied. The motivations include "financial and non-financial factors such as personal satisfaction, independence and flexibility." They argue that sometimes the non-financial motivations are more important to the enterprise owners. Walker and Brown (2004, p. 588) argue that considering the strong relationship between the business and the owner, "personal success often equates to business success." The authors argue further that "if non-financial measures are accepted as being a legitimate measure of business success and therefore business sustainability, then small businesses do make a major contribution in relation to overall economic and societal well-being."

Olson et al. (2003) suggest that the ability of SME owners to achieve their subjective goals for the business and increase household security [resilience to economic and social pressures] through the business are perceived as business success. These they argue are important in providing the entire context of business sustainability. Kuratko et al. (1997) identify extrinsic rewards, independence, and family security as motivations for entrepreneurs to sustain their business. Citing a survey in a chemical bank, the entrepreneurs' dominant reasons for starting their businesses were opportunity to be their own boss [freedom], control their own future and to satisfy their need for achievement (Kuratko et al., 1997).

Additionally, while some authors define success/failure and survival in terms of business performance, others adopt business growth as an indicator of business success (Kalleberg & Leicht, 2000; Birley & Westhead, 1990). It has been suggested that small businesses may not be the solution for employment growth, as claimed by some, because a great number of them

do not employ at all and the owners prefer to remain in that state. On the contrary, small businesses which are non-employing are still regarded as businesses engaged in legitimate business activity that provide a valid option to employment (Walker & Brown, 2004, p. 588). Urban and Naidoo (2011), using a cross-sectional design, measured sustainability over a period of two years, and in terms of growth relative to competitors. They measured growth in terms of employment, sales turnover, profits, and market value as indicators of sustainability.

The objective of small business owners in operating their business can be attributed to the need to provide income for their families (Ionita, 2012). Likewise, most small business owners have little desire to grow large or to innovate (Hurst, Pugsley, Haltiwanger, & Looney, 2011). Small business owners also aim to provide an existing service to an existing market and in most cases in most developing and emerging economies characterised by unfavourable market conditions with high failure rates of SMEs, mere survival may be equated with sustainability and success (Urban & Naidoo, 2012). Citing Kesper (2001), Urban and Naidoo suggest that small businesses may be considered successful if they have endured the first two critical years of existence and the owner has met a majority of his objectives. Accordingly, a successful business has also been equated to a business that has been in operation for more than two years, has a staff component of more than five and less than 30, makes profit and is expanding in terms of infrastructure and growth (Nieman, Hough, & Nieuwenhuizen, 2003).

Based on the discussions on SME sustainability, this current research will thus adopt a combination of various measures for assessing the effectiveness of microfinance on SMEs' sustainability. The study will focus on business survival/success/sustainability criteria of financial health based on profitability, solvency and liquidity. The study will also adopt an approach to small business sustainability which is reflected in the degree to which owner managers of small businesses perceive their business to be successful and attach importance to

the satisfaction they derive from achieving certain subjective and objective financial and non-financial goals after accessing microfinancing. In terms of enterprise growth, increased sales, acquisition of additional resources, increase in number of employees and machinery will be measured. Subjective measures of success, namely, financial independence of the SME, and other intrinsic rewards identified by the SME owners will be used. The terms sustainability, business performance, enterprise performance, success, survival or failure and growth of the firm are used in relation to SMEs in this study.

Studies of small business sustainability associated with microfinancing are limited, although research into various aspects of small business success and/or failure due to owner/manager characteristics and enterprise characteristics abound in the literature. Urban and Naidoo (2012) in a study of SMEs in South Africa found that five operational skills were positively associated with business sustainability. They argued that various business management capabilities were necessary for the SMEs to survive.¹ Urban and Naidoo concluded that for SMEs to be sustainable the owner/managers need to be trained. Furthermore, training needs to be tailored to meet the peculiar characteristics of SMEs for it to be helpful.

This study will adopt both subjective and objective measures of business survival and success as perceived by owner/managers of SMEs to determine their business sustainability (as discussed earlier). Specifically, it will observe owner/managers' perceptions of how their businesses have changed (failed, survived, succeeded or grown) before and after accessing microfinance. Other measures in the literature related to the effects of microfinance loans on recipients are asset accumulation, technology use, diversified sources of finance, increased investments and business expansion. In relation to use of SME owner/manager perceptions of

¹ The five operational skills were planning and control, operations management, inventory control,

enterprise survival, success and growth, this current study will also be guided by Goldenberg and Kline's (1999) observations and caution on how to assess small business success/failure. Goldenberg and Kline, (1999) argue that an alternative means to know the success of an enterprise is to analyse its financial records [objective or quantitative approach]. However, the challenge with this approach is that many small business owners are unwilling to provide this quantitative data. Hence, in their study they used a less threatening approach to avoid problems associated with actual "book" values. Guided by their work, this study will also ask for subjective estimations of how well the SMEs have done as an estimation of their general profitability, liquidity, solvency, expectations of growth, and expectations of expansion. Goldenberg and Kline, (1999) identify the problem of reactivity, where SMEs report exceptional/extreme or understated financial data that do not give a true picture of the state of their businesses. The "reactivity" of SME participants could be a problem when using Goldenberg et al.'s, (1999) method. However, this study will adopt the use of subjective estimation methods based on the assertion of its "superiority over methods that try to access financial data that they could obtain and even if it were available, was likely to be somewhat distorted" (Goldenberg et al., 1999, p. 371).

2.11.1 Challenges and Causes of Small Business Failure

Tushabomwe-Kazooba (2006) in his study of causes of small business failure in Uganda, attributed the failure to inadequate sales volume, wrong pricing strategies, competition, small scale operation combined with high cost of operations, poor record keeping and diversion of business funds. This, Tushabomwe-Kazooba (2006) argues tied up SMEs working capital. Tushabomwe-Kazooba (2006) also found that SMEs more often than not employ family members who have no business skills, are undisciplined and work ineffectively and inefficiently, thus making it difficult to achieve profit objectives. They also attributed SMEs'

failures to poor business locations, lack of management experience, and over-investment in fixed assets in Uganda. These factors have impacted negatively on SMEs' profitability and sustainability.

Tushabomwe-Kazooba (2006) also observed that SMEs encountered difficulties during their start-up. These constraints include lack of effective business plan to act as a compass for the whole business enterprise. The business owners also had limited knowledge of their business environment [threats and opportunities, market demands and competition]. Competitive business environment, high rent charges [pegged to the United States dollar], lack of business skills, high transportation costs, and the political environment were also identified as constraints to SMEs' survival in Uganda.

Growing urbanisation in Uganda, for instance, led to increased demand for business premises and resultant high prices which most SMEs could not afford. The adaptive strategy of most SMEs was to relocate from the city centres to the periphery resulting in low sales and low profits due to low demand (Tushabomwe-Kazooba, 2006). Poor transportation and communication networks particularly in the rural areas lead to high operation costs. Lack of business information also constrained SMEs profitability and growth (Tushabomwe-Kazooba, 2006). Tushabomwe-Kazooba (2006) also observed that in Africa in general the political environment is a threat to business success. Ihua (2009) noted that unfavourable and harsh economic conditions as a result of government policies, gross under capitalisation, lack of access to credits from banks and other financial institutions, high cost of operations, "lack of transparency and corruption and lack of support for the SMEs sector by government" have constrained the growth of the SME sector. In Nigeria, inadequate infrastructure, poor economic environment and lack of social support were the most crucial factors causing SME failure, but in the UK, poor management featured as the major problem (Ihua, 2009). In both countries,

financial failure demonstrated through under capitalisation was also identified as a cause of SMEs' failure. External factors were also identified as the key factors influencing SMEs' failure in Nigeria, whereas in the UK it was internal constraints. Adegbemi, Onakoya, Fasanya, and Abdulrahman (2013) argue that in Nigeria lack of access to credit and weak managerial capacity continues to pose a major threat to SMEs. They observed that the traditional financial institutions have not been able to meet the credit needs of the SMEs.

Seeletse (2012) states that the common causes of SME failure in the West Rand Region of South Africa include: theft of wares from SME shops; customer dissatisfaction and poor customer relations [resulting in low demand]; loss of committed employees; shortfalls in inventory; lack of appropriate training for both owner/managers and their employees; and technological deficiencies. Neneh (2012) identified low levels of an entrepreneurial mindset of SMEs in South Africa as one of the causes of SME failure. This presupposes that the SMEs fail to innovate and use new techniques in their businesses to meet changing demands of their customers (Neneh, 2012). Consistent with Lall (2001), a study by Mudavanhu, Bindu, Chigusiwa and Muchabaiwa (2011) in Zimbabwe identified inadequate knowledge in business management, lack of credit, and high cost of raw materials as the main obstacles causing SMEs' failure.

A study by Franco and Haase (2010) in Portugal revealed that the most important factors causing SME failure was limited access to finance, poor market conditions, inadequately skilled staff, lack of institutional support, lack of co-operation and networking. External factors were dominant factors affecting SMEs' growth. Qualitative analysis also identified internal factors which were rarely recognised by other studies (Franco & Haase, 2010). Franco and Haase (2010) argue that although some owner-managers showed some level of awareness of their internal problems, problems such as lack of business strategy and vision, low educational

levels, and inadequate social capital were not sufficiently recognised. An examination of SME owner–managers’ judgement of the causes of their enterprises’ low performance and failure produced an erroneous attribution result (Franco & Haase, 2010).

Temtime and Pansiri’s (2004, p. 1) investigation of the observed critical success/failure factors impacting the growth of SMEs in Botswana identified 10 factors. These include marketing action, investment analysis, working capital management, customer relationship, managerial action, socio-economic issues, human resource development, techno-regulatory changes, organisational development and managerial background as being responsible for the success or failure of SMEs in Botswana.

Their study showed that marketing activities such as product marketing, market research, and demand forecasting were perceived to have a greater impact on SMEs operating in the service industry (Temtime & Pansiri, 2004). Additionally, proper management of fixed capital was linked to the appropriate implementation of strategic plans and the proper management of working capital. Poor use of external advisors, managerial focus on routine short-term activities and little emphasis on long term competitiveness and profitability were the main managerial action factors identified (Temtime & Pansiri, 2004).

SMEs in South Africa were found to be afflicted by both micro and macro specific factors (Cain & Wiid, 2003). At the microlevel, marketing factors such as a business location, lack of knowledge about their target market, wrong pricing models, location of the business and low demand were the factors identified (Cain & Wiid, 2003, p. 714). Crime, government legislation, inflation and high interest rates were the key macro environmental variables affecting South African SMEs (Cain & Wiid, 2013, p. 714).

Lack of government policy framework and strategies aimed at developing the small business sector has been identified in some African countries such as Zambia (Chisala, 2010; UNCTAD,

2012) as causes for the underdevelopment of small business in such countries. In summary, the causes of small business failure contain both endogenous and exogenous factors. The endogenous factors are internal to the SMEs and the exogenous factors are external to the SMEs. The internal factors are management, marketing, product development, human resource management and technological lapses. The external factors include poor infrastructure, political environment, corruption, crime, and macro- economic variables such as inflation, interest rates demand and access to credit.

Notwithstanding the diversity of the factors affecting SMEs' growth and sustainability identified in the literature, Dalberg (2011) argues that finance is the main challenge affecting SMEs.

2.12 Microfinance and Small Business Sustainability

Capital is a fundamental requirement to survive and succeed in a business enterprise. Some researchers argued that small businesses are under-capitalised. This under-capitalisation is because many small business owners depend on their personal capital, savings and contributions from family members to start a business, which minimises their capital adequacy levels (Okpara, 2010). The sustainability of microfinance institutions and the financial and non-financial support they provide to small businesses can be a deterrent or a positive contribution to the sustainability of the small businesses they serve. It has been reported by some researchers that microfinance services to small businesses have been more detrimental than beneficial to their survival and success due to high interest rates charged and difficult economic circumstances in which the small businesses operate. Empirical work investigating the effects of microfinance on the sustainability of SMEs includes works such as Anane, Cobbinah & Manu, (2013), and Onyina & Turnell, (2012).

However, Anane et al. (2013) explored the role and impact of MFIs on 93 SMEs in the Juaben North District of Ghana. The authors reported that SMEs which accessed microfinance products and services had improved output performance and managed their funds more prudently than those without microfinance services.

2.13 Conceptual Framework for Microfinance and SMEs Sustainability and Growth

This section defines what the conceptual framework (CF) is. It also describes how the CF is used to understand SMEs' growth and sustainability in relation to microfinancing. The CF guided systematic analysis of the growth and sustainability of SMEs regarding access to microfinance services.

Ravitch and Riggan (2017, p. 5) defines a conceptual framework as: "An argument about why the topic one wishes to study matters, and why the means proposed to study it are appropriate and rigorous. Ravitch and Riggan (2017, p. 5) explain that it is an argument because, CF is "a series of sequenced, logical propositions the purpose of which is to ground the study and convince readers of the study's importance and rigor." They further explain that, the "appropriateness" and "rigor" of the CF "should argue convincingly that: (a) the research questions are an outgrowth of the argument for relevance; (b) the research design maps onto the study goals, questions, and context (s); (c) the data to be collected provide the researcher with the raw material needed to explore the research questions; and (d) the analytic approach allows the researcher (s) to effectively address (if not always answer) those questions" (Ravitch & Riggan, 2017, p. 5).

Miles, Huberman and Saldana (2013, p. 20) define CF in this way: "A conceptual framework explains, either graphically or in narrative form, the main things to be studied—the key factors,

variables, or constructs—and the presumed relationships among them. Frameworks can be simple or elaborate, common-sensical or theory driven, descriptive or cause.” Maxwell (2013, p. 39) also defines CF as follows: “The conceptual framework of your study—the system of concepts, assumptions, expectations, beliefs, and theories that supports and informs your research—is key part of your design.” Maxwell (2013, p. 41) posits that CF for one’s study is something that one constructs, not found. One integrates ideas [pieces] that are borrowed from elsewhere, but the structure, the overall coherence, is something one develops, not something that exists ready-made.

Marshall and Rossman (2011, p. 58) demonstrate that CF has three primary elements. First, like Ravitch and Riggan (2017, p. 5), it is an argument for the study’s significance: “It provides evidence that the study has potential significance for practice and policy and is likely to contribute to the ongoing discourse about the topic (often referred to as contributing to “knowledge”).” The focus of this first element is to convince readers that the study is significant and worthwhile and entails building an argument that connects one’s research to key theories and theoretical perspectives, policy issues, problems of practice, or social and political issues and realities that affect people’s lives and society in general. Second, Marshall and Rossman (2011, p. 58) assert that the CF reflects “the important intellectual traditions that guide the study.” They maintain that these traditions are identified through a careful and thorough literature review related to the topic. Third, they argue that a conceptual framework “identifies gaps in what is known—by critiquing previous research, by extending existing theory, or by pointing to practices and policies that are not working.” Marshall and Rossman (2011, p. 58) are of the view that these three elements “constitute the building blocks for a CF and help refine important and workable research questions.”

2.13.1 The Conceptual Framework Development Process

The conceptual framework for this study draws from these authors above. The current study seeks to identify the presumed relationships among key factors or constructs identified from literature review and my own experience. Thus, the CF consists of key concepts and elements derived from the literature review and experience.

Motivated by the compelling problem of SMEs' sustainability and growth in Ghana, the study began to review literature to identify the objectives of microfinance and SMEs, factors and concepts that might fit together in a logical way to explain the current state of SMEs in the country. Thus, the conceptual framework aims to keep the research design focused on the identified research problem. The literature review has helped to identify key concepts and ideas that constitute the key elements around which the current research is conceptualised.

The three overarching objectives of microfinance identified in the literature reviewed are sustainability/financial viability of the MFIs, their outreach performance, and impact on clients [in this case SMEs] (Zeller & Meyer, 2002). Thus, sustainability of MFIs, their outreach to the SMEs and the impact on them constitute the three key elements that underpin the development of the conceptual framework to explain SMEs' sustainability. Havers (1996), and Otero and Rhyne's (1994) levels of microfinance sustainability, the SEEP Network (2003) and CGAP (2003) framework for performance measurement in microfinance, and the microfinance delivery models and approaches (Ledgerwood, 1999; 2013; Robinson, 2001) were also used to develop the CF. Microfinance success factors (sustainability, outreach and impact), impact at the enterprise level (profitability, job creation) and measures of small business sustainability (survival, success, failure, growth) identified from the literature review were used to aid in the development of the conceptual framework.

The CF helps to unearth the challenges both MFIs and SMEs face. The CF serves the following purposes:

- a) Helped to formulate the research questions;
- b) Helped structure the findings and discussions under themes and sub-themes. Thus, it helped develop patterns in the data generated in the field for analysis. For example, themes such as microfinance sustainability, outreach, impact, small business success, and growth guided the selection of themes as well as helped to identify emerging themes. These themes guided the discussion and conclusion of the study;
- c) Helped with key concepts and elements to guide the design of interview guides for the data collection; and
- d) Served as the basis for analyses and discussion of the effectiveness of MFIs in promoting SMEs sustainability and growth.
- e) Provided a context for understanding the performance of MFIs and SMEs and in particularly SMEs' sustainability;
- f) Served as the platform to investigate gaps in MFIs' effectiveness in promoting SMEs' sustainable growth;
- g) Helped to consider many facets of the research problem and the relationships among them in order to decide research methods to use; and
- h) Served as a guide for analysis.

The next section shows the relationships between the key components underpinning the conceptual framework for this study.

2.13.2 Conceptual Framework Components and Linkages

This section explains the key concepts and elements of the CF and their linkages in relation to the effectiveness of microfinance in promoting SMEs' sustainability. In designing the conceptual framework for this study, it is acknowledged that there are several other factors that can influence the relationships and linkages, however, for purposes of this current study other factors are held constant.

2.13.2.1 MFIs' Sustainability

To understand the effectiveness [success] of microfinance institutions in promoting SMEs' growth and sustainability, the sustainability, outreach and impact of MFIs [supply-side of microfinance] are considered as important components of the CF for analysing the data and drawing conclusions for the study. Sustainability performance as defined in relation to MFIs in section 2.7 is a critical factor for ensuring their effectiveness in promoting SMEs' sustainability. What this suggests is that, in discussing the SMEs' growth and sustainability, the microfinance institutions that drive their [SMEs] growth and sustainability also need to be examined. By implication, it is assumed in this study that the sustainability of MFIs affects SMEs' sustainability [their future performance]. Thus, the equation of SMEs' growth and sustainability will be unbalanced without examining the MFIs' sustainability.

Financial viability and sustainability of MFIs is necessary for their effectiveness in promoting growth of SMEs. MFIs' sustainability impacts their ability to reach several small businesses with their financial products and services (Zeller & Meyer, 2002). As one of the major components of the triangle of microfinance, the financial sustainability of MFIs determines their ability to cover their operational costs without subsidies (Havers 1996; Otero & Rhyne, 1994; Robinson, 2001). The assumption is that sustainable MFIs would be able to deliver their services at rates and levels that will ensure growth and sustainability of their SME clients. MFIs

can offer both the financial and non-financial services that SMEs require for survival, success and growth. MFIs serve as financial intermediaries between investors and the SMEs. As the supply side of microfinance, their success is determined by their ability to reach many of their target SMEs with their products (outreach) at sustainable rates in a win-win situation (Robinson, 1998; 2001; Morduch, 2000; Woller, 2004).

The sustainability/performance of the MFIs is therefore examined based on Havers (1996) and Rhyne and Otero's (1994) levels of self-sufficiency. Also, other key concepts used by Rosenberg, Mwangi, Peck & Nasr [CGAP], (2003; 2009) and the SEEP Network's framework for measuring how microfinance institutions impact performance were also used to develop the conceptual framework for the study.

Havers (1996) and Rhyne and Otero's (1994) levels of self-sufficiency, the level of outreach, impact, and sustainability [self-sufficiency] of MFIs provide indicators of their effectiveness in promoting growth and sustainability of SMEs. The sustainability elements [factors] of MFI's in turn determine their ability to effectively promote the SMEs' growth and sustainability (Robinson, 2001; Rhyne & Otero, 2006). Table 2.1 highlights four levels of microfinance sustainability [self-sufficiency]. Each level is characterised by four elements: (i) the amount of subsidy used, (ii) the MFIs sources and types of funds, (iii) state of revolving fund/loan portfolio, and, (iv) the composition of funds used to cover operating expenses. The four key elements of Rhyne and Otero's levels of self-sufficiency as it pertains to MFIs were used in exploring and analysing the sustainability of the MFIs in relation to their effectiveness in promoting SMEs' growth and sustainability in the study. These key elements guided the design of interview questions used to generate data from the MFIs. They also guided the analysis of the data and conclusion of the study.

Table 2-2 Levels of Microfinance Sustainability

Levels	Amount of Subsidy	Source and type of funds for on-lending	State of revolving fund	Operating expenses paid by
Level 1 Traditional highly subsidised MFI	High	Grants or soft loans from donor agencies	Value erodes rapidly through delinquency and inflation	Continuing Grants
Level 2 Same as level 1 but is better managed	Some	Borrowed at concessional but near-market rates from donor agencies	Slow erosion of fund	Partly by interest income, partly by grants
Level 3 Approaching Sustainability	Approaching zero	Borrowed at concessional but near-market rates from donor agencies	Fund stable in real terms	Interest income
Level 4 True Sustainability	Zero	Raised at commercial rates from formal financial institutions and client savings	Fund stable in real terms	Interest income

Adopted from Havers (1996)

Amount of Subsidy: Variations in the amount of subsidy used by an institution defines its level of subsidy dependence and hence its level of sustainability.

Sources and types of funds: used by the MFIs determine the composition of their capital structure. Institutional debt, equity, interest income and deposits from clients are the important sources of finance for sustainable MFIs.

State of the revolving fund/Loan Portfolio: The “quality of the loan portfolio” also gives an indication of the sustainability of the MFIs. The credit risk management techniques employed by the MFI determines the quality of the loan portfolio. Debt collection techniques used by the MFIs provide insight into their ability to ensure repayment of principal and interest amounts of the loans.

Payment of Operating Expenses: The extent to which the MFI is able to cover its operating expenses without relying on subsidies and concessions is an indication of its self-sufficiency. For the MFI to be truly self-sufficient, it must cover all its expenses with interest income.

The key concepts of sustainability adapted from the Consultative Group to Assist the Poor's (CGAP) Guidelines (Rosenberg, Mwangi, Peck & Nasr, 2003; 2009) and the SEEP Network's framework for measuring microfinance institutions' sustainability and financial viability include: financial self-sufficiency, operational self-sufficiency, return on assets, return on equity and profit margin. The guidelines indicate the minimum information on MFIs' financial sustainability, loan portfolio quality and capital adequacy. Microfinance financial self-sufficiency (profitability) ratios reflect the ability of an MFI whether non-profit or for-profit to continue operating in the future (Natelson & Bruett, 2001). Their current level of performance affects their sustainability and in turn affects their level of effectiveness in promoting SMEs' growth and sustainability which also in turn affects MFIs' growth and sustainability. In effect, both MFIs and SMEs' sustainability affect one another.

The basic financial performance/sustainability indicators that were used in this study for the analysis of the sustainability of the MFIs are profitability ratios. The profitability or financial viability ratios as discussed extensively by Natelson & Bruett, (2001, p. 26-27) are listed as follows;

- a) Return on Assets (ROA);
- b) Return on Equity (ROE);
- c) Operational self-sufficiency;
- d) Financial self-sufficiency; and
- e) Profit Margin (Natelson & Bruett, 2001, p. 26-27)

The use of these indicators in determining the performance of the MFIs is explained further in the next section.

Return on assets (ROA): Natelson & Bruett, (2001, p. 26) identify that the ROA financial ratio measures the net operating income as a percentage of average total assets. It reveals how efficient the MFI has been in using its assets to generate a profit. It assesses the amount of money generated because of every asset investment made in the MFI (Natelson & Bruett, 2001; SEEP, 2003). A positive ROA gives an indication that the MFI is doing well and will continue to serve its SME clients so that they may also grow and be sustainable.

Return on equity (ROE) (Natelson & Bruett, 2001, p. 27): This financial ratio measures the net operating income as a percentage of average total equity (or net assets) (Natelson & Bruett, 2001, p. 27). In a for-profit company, this is the most important ratio (Natelson et al, 2001, p. 27). The equity is the-most prized form of financing because it can be used for any purpose. Shareholders monitor the MFIs' ROE to determine what its returns will be on its equity investment. In a non-profit organisation, the ratio becomes less meaningful, as most equity is contributed and no returns (or dividends) are paid to the contributors. Still, the ratio reveals how well the MFI has used its contributions (Natelson & Bruett, 2001, p. 27).

Operational Self-Sufficiency (OSS) (Natelson & Bruett, 2001, p.27): This indicator is the “operating revenue expressed as a percentage of operating and financial expenses.” If the ratio is greater than 100 percent, it means that the MFI is covering all its costs through its own operations and is not relying on contributions/donations/grants to survive (Natelson & Bruett, 2001, p. 27). This also determines their ability to provide credit facilities to the SMEs, hence, their effectiveness in promoting the growth and sustainability of SMEs.

Financial Self-Sufficiency (FSS) (Natelson & Bruett, 2001, p. 27): “This is similar to operational sustainability. However, the ratio also includes inflation and subsidy adjustments” (Natelson et al., 2001, p. 27).

Profit margin (Natelson & Bruett, 2001, p. 27): This measures net operating income as a percentage of total revenue. This ratio shows how much of the revenue earned goes to the bottom line. In other words, the important question is: for every dollar received as revenue, how many cents (or dollars) remain at the end of the day after all expenses are paid? (Natelson & Bruett, 2001, p. 27).

2.13.2.2 Microfinance Institutions’ Outreach

The outreach of the MFIs as defined in section 2.8 means the extent to which an MFI has succeeded in reaching its target clients. The outreach performance indicators thus show the number of SMEs reached by an MFI as well as their geographical coverage. The outreach measures that are adopted for exploring the outreach performance of the MFIs are breadth of outreach measures related to the scale of outreach to SMEs. These indicators of outreach are:

- a) number of active SME borrowers;
- b) gross loan portfolio
- c) number of loan accounts/borrowers;
- d) number of deposits/savings accounts/savers;
- e) number of branches/centres;
- f) average size of loans
- g) value of disbursed loans
- h) employee numbers

Number of Active Borrowers: Clients (number of SMEs) who have an outstanding current loan balance with the microfinance institution or are largely accountable for repaying any

portion of the gross loan portfolio. The number of active SME borrowers will provide an indication of the number of SMEs served by the MFI as compared to its competitors (benchmark is outreach performance in other countries in Africa, Asia and Latin America (Rosenberg, Mwangi, Peck & Nasr, 2003; Rosenberg, [CGAP/World Bank], 2009)

Gross Loan Portfolio: The gross loan portfolio is referred to as the “outstanding principal balance” of all a microfinance institution’s “outstanding loans”, “outstanding principal balance of all” a microfinance institution’s “outstanding loans”, which also include restructured loans, delinquent loans and all current debt except that which has been “written off” (Rosenberg et al, 2003; Rosenberg, 2009; CGAP, 2003). These indicators provide an indication of the value of funds disbursed to SMEs.

Number of Loans Disbursed: The total number of loans disbursed during the period. For MFIs using a group-lending methodology, the number of loans should refer to the number of individuals receiving part of a group loan, unless the MFI specifies a different definition (Rosenberg, Mwangi, Peck & Nasr, 2003; Rosenberg, [CGAP/World Bank], 2009).

The Number of Deposits/Savings Accounts: The total number of individuals who currently have their money deposited with an MFI whom the MFI is liable to repay. This number is only related to deposits that are held by an MFI, not to those deposits held in other institutions by the MFI’s clients. The number should be based on the individual numbers as opposed to the number of groups. There is a possibility that several depositors will be holding one deposit account. (Rosenberg et al, 2003; Rosenberg, 2009)

Value of Loans Disbursed: is the value of all loans disbursed during the period, regardless of whether they are performing, non-performing, or written off. This value should not be confused with the gross loan portfolio, which can be several times less than the value disbursed (CGAP, 2003).

Number of Employees: The number of individuals who are actively employed by an MFI. This number includes contract employees or advisors who dedicate the majority of their time to the MFI, even if they are not on the MFI's roster of employees (Rosenberg, 2009; CGAP, 2003).

The indicators of sustainability and outreach performance and their definitions and how they are calculated are shown in Table 2.2 below.

Table 2-3 Indicators of Microfinance Institution Performance

Variable	Identity	Standard Acronym used	Definition
Financial Performance	Economic Profitability	ROA	Net income after tax/Average Total Sales
	Accounting Profitability	ROE	Net Income after tax/Average Total Equity
	Operational Self-Sufficiency	OSS	Total Financial Revenue/(Financial Expense + Loan Loss Provision Expense + Operating Expense)
	Profit Margin	PM	Net Operating Income/Financial Revenue
Outreach Performance	Breadth of Outreach	NAB	Number of Active Borrowers
		GLP	Gross Loan Portfolio
		NLA	Number of Loan Accounts
		NSA	Number of Deposits/Savings Accounts Number of Deposits/Savings Accounts
		NBN	Number of Branches/Centres Number of Branches/Centres
		ALS	Average Loan Size
Organisational Efficiency	Expenses Ratio or Efficiency Ratio	OER It measures the costs necessary for an institution to provide credit	Operating Costs/Average Gross Portfolio A high efficiency is indicated by a lower ratio and vice versa (the costs are affected by the remuneration bill).
	Cost per Borrower	CPB	Operating Costs/Average Number of Active Borrowers. This ratio measures efficiency of the MFI. It highlights the average annual cost required to serve one borrower.
Solvency	Solvency Ratio or Capital Asset Ratio	CAR	Total Equity/Total Assets

Sources: Adopted from various sources: CGAP (2003), SEEP (2003), Tchakoute-Tchuigoua (2010); Microbanking Bulletin [MBB], 2009; MIX Market, (2017).

2.13.2.3 Impact of Microfinance on SMEs' Sustainability

The impacts of microfinancing on the SMEs are measured by the effects of loans on the SMEs' business processes, the ability to repay loans and remain viable. If the SMEs utilise microfinance, the expectation is that, all things being equal, they will be able to generate income and become profitable, manage their liquidity and solvency, and utilise their assets and survive and grow. The effects of microfinance on SMEs' sustainability are determined by assessing the changes in the traditional financial measures of enterprise survival, success and failure and small business owner/manager's perceived measures of success [financial independence graduation from microfinance services] before and after using microfinance. These measures are adopted as the indicators of sustainability following the work of Olson et al. (2007), Goldenberg and Kline (1999), Labuschagne, et al., (2007) as well as the impact measures proposed by SEEP (1998) and CGAP (2003). The Sustainable Family Business Model (SFBM) (Olson et al., 2007), and the SEEP Network identify sustainability measures in small businesses as well as the traditional objective measures of profitability, returns on assets, returns on equity and profit margins (Olson et al., 2007; SEEP Network, 1998). The financial measures adapted for SMEs are meant to accommodate changes/movements in: business income, levels of profit (profitability), business expansion, assets accumulated by the business, use of microfinance products and services, employee numbers/enterprise size, technology use and innovative activity.

2.13.2.4 SME Sustainability

Business financial and non-financial health indicators were used to assess the sustainability of SMEs based on SME owner/manager perceptions of business survival, success and growth. Objective measures of profitability, solvency, liquidity and turnover/asset utilisation were examined where financial records were available. Objective measures for assessing profitability, liquidity, solvency and asset utilisation and their meaning are as follows:

- a) **Profitability Measures:** Profitability measures indicate how efficiently the firm uses its assets and how efficiently the firm manages its operations. The focus is on net income. The necessary ratios for estimating profitability measures are [ROA = Net income/Sales]; ROE = Net Income/Total Equity; Profit Margin = Net Income/Sales (Ross, Traylor, Bird, Westerfield & Jordon, 2011, p. 570).
- b) **Liquidity Measures:** These measures provide information about a businesses' ability to pay, without undue difficulty, its bills as they become payable in the short term. These measures focus on current assets and current liabilities. The ratios are the; Current Ratio [Current assets/Current liabilities], Quick Ratio [Current assets/current liabilities], and the Cash Ratio [Cash/Current liabilities] (Ross et al., 2011, p. 570)
- c) **Solvency Measures:** Solvency measures provide information about the SMEs' long-term ability to meet its obligations or financial leverage (Ross et al., 2011, p. 570).
- d) **Turnover Measures:** indicate or intend to measure how efficiently or intensively a firm uses its assets to generate sales. The relevant ratios in this case are: [Inventory turnover = cost of goods sold/inventory]; [Recievable turnover = Sales/Accounts receivable] and [Total asset turnover = Sales/Total assets] (Ross et al., 2011, p. 570).

Subjective measures: These are defined in terms of the perceptions of SME owners about the success of their businesses because of microfinancing. These are non-financial rewards such as personal freedom, financial independence, self-esteem and personal satisfaction (Cohen, et al., 2003; Urban & Naidoo, 2011; Kuratko et al., 1997). The SME sustainability framework developed for the study is shown in Table 2.3.

Table 2-4 SME Sustainability Indicators

Measures	Indicators
Objective Measures of Business Sustainability	Financial Health Indicators: Profitability Liquidity Solvency Asset utilisation Growth Indicators: Employee numbers (size) Growth in sales, Technology use
Subjective Measures of Sustainability	Financial independence, Personal satisfaction, Self-esteem

Source: Author's Construct

2.13.2.5 Micro and macro-economic environment

Prevailing macro-economic conditions in a country and internal conditions of both MFIs and SMEs affect the growth and internal capacities of both SMEs and MFIs simultaneously. This in turn affects their sustainability. Microfinance regulatory framework and guidelines, the nature of exchange, interest and inflation rates, taxes and loan processing fee charges, costs of operations, sales volumes, infrastructure and competition all affect both MFIs' and SMEs' growth, expansion and sustainability. Micro variables such as internal capacities in terms of business management skills of both MFI and SMEs owners affect their effectiveness and efficiency. The combined effects of the micro and macro-economic variables therefore form key factors examined. The interactions of these variables, for example, MFIs' financing terms or conditions, SMEs' internal capacities and macro-economic policies, all impact on SMEs' growth and sustainability. MFIs terms of financing can affect SMEs' internal capacities. Further, the internal operational capacities of the SMEs can also be further affected by macro-economic variables. The resultant effect determines SMEs' inability to pay back the loans contracted which will in turn affect their ability to access new loans to inject into their businesses for growth. Every macro-economic environment presents both threats and

opportunities. Hence, the extent to which the opportunities are seized and threats minimised are important in SMEs' growth. Thus, strategic planning by the SMEs to take advantage of the emerging opportunities and being able to effectively deal with the threats the business environment poses are the keys to their growth and sustainability

2.13.2.6 Institutional Support for MFIs and SMEs

The institutional support received by MFIs on one hand, and SMEs on the other is critical for their growth and sustainability. 'Institutions' as used in the study refers to government, ministries, departments and agencies (MDAs) and private sector organisations established purposely to provide support to both SMEs and MFIs. To ensure effectiveness of MFIs in supporting SMEs, and for SMEs to act as catalysts for economic growth and development, several institutions have been established to facilitate the achievement of these objectives (refer to Chapter 3). Against this background, the forms of institutional support MFIs and SMEs receive is an important element of the equation of the MFIs' effectiveness in promoting growth and sustainability of SMEs on one hand and SMEs sustaining their growth on the other hand. Key elements that form the basis of analysis are (i) the forms of support received by MFIs and SMEs, (ii) collaborative linkages between MFIs and institutions that support SMEs. Since the MFIs and SMEs have different specific support needs, the forms of assistance received by each of them were identified and analysed differently. The key elements of support that were assessed are financial and non-financial forms of support:

Forms of Financial Support for MFIs were identified as Equity, Debt, and Venture Capital. As suggested by Aryeetey (2008), lack of linkages between formal financial service providers and MFIs limits the sources of finance for MFIs which in-turn limits the extent to which they are able to promote SMEs sustainability. The non-financial forms of support required by MFIs are:

- a) knowledge support;

- b) technical support in information systems;
- c) supportive regulatory and supervisory systems [monitoring and evaluation];
- d) collaborative linkages;
- e) Infrastructural support

2.14 Chapter Summary

This chapter reviewed the theory and concepts of microfinance, SMEs, and enterprises' sustainability. Several empirical researches on the impact and effects of microfinance on its target market were examined. Relevant factors affecting both MFIs and SMEs' growth and sustainability were identified and their relationships examined. The outcome of the literature review resulted in the development of a conceptual framework that guided the formulation of the research questions, question guides, themes and sub-themes that formed the structure of the thesis, analysis and conclusion. Thus, the main output of the chapter is the conceptual framework around which the analysis of data and conclusion of the findings revolve. The next chapter (Chapter 3) presents a review of the historical and evolutionary background of microfinance in Ghana and how the evolutionary trends serve as a basis for exploring the microfinance industry in this current study.

Chapter 3

Microfinance Evolution in Ghana

3.1 Introduction

Every country has its own history of how microfinance evolved and progressed over time. Proponents of microfinance have stressed the need to document adequately every nations' experience and put it in its context to understand the strengths and weaknesses experienced in the sector (Seibel, 2003). This chapter presents the history, evolution, microfinance policy and regulatory framework and the different institutions that support microfinance services in Ghana. The chapter will be used as a basis to assess gaps, deficiencies and impact of current initiatives in the microfinance system for the promotion of small business sustainability in Ghana.

3.2 Evolution of Microfinance in Ghana

The practice of microfinance has been an integral part of Ghana's development history (BOG, 2007). Saving for the future and borrowing from friends and family members has been a common phenomenon in all societies. Such loans were used to engage in small retail businesses, for farming activities or to solve social problems.

An innovative and low cost informal financial support system locally known as "susu" (a daily deposit collection arrangement) was an integral part of the Ghanaian traditional social and financial support system for many centuries (Osei, 2007). Similar practice occurred in other countries in Africa under different names. In Yoruba in Nigeria, it is called "ajo," "nago" in Ivory Coast, "Yesyes" and in Southern Togo (Class & Northern, 2007; Osei, 2007). The practice involves a small saving contribution paid daily by the economically active poor to the Susu collector (service provider) for an agreed period, usually a month. The "susu" system

provides a means of saving small amounts of money over a period to accumulate funds for investments or to respond to emergencies (Rutherford, 1999).

With time, a more formalised social and economic support institution, the credit union, emerged to organise more people into social groups to contribute more money to be managed and redistributed by an institution. The first Co-operative Credit Union was established in Ghana by the Roman Catholic Church in Jirapa in the Upper West region as a formal community-based microfinance institution and dates back to 1955 (Gheneti, 2007). Different branches of Credit Unions were established in other communities in other parts of Ghana. By the end of 1989 membership of credit union associations in Ghana was over 90,000 (Gheneti, 2007).

The financial sector became liberalised to allow different types of financial institutions and finance houses to be involved in the provision of financial services to the poor and small business owners. Thus, the sector became more formalised and regulated through various financial sector policies. This gave birth to many Savings and Loans companies (S&Ls) and Credit Unions (CUs) in the country.

3.2.1 Pre-Independence Period of Microfinance in Ghana

As discussed in section 3.2, prior to independence majority of the Ghanaian population depended largely on the informal financial systems for loans and savings (Botei-Doku & Aryettey, 1996). Informal community-based microfinance institutions [susu] provided social and economic support to poor households and individuals. Susu collection emerged as a customary practice mainly among women, which involved weekly meetings where they contribute an agreed amount of money to a common pot. Each member of the group took turns each week to receive part of the common pot contents. During an emergency, a member could borrow at a negligible or no interest rate to mitigate her social or economic problem. Because

of the social support objectives, the members due for their turn of the money gave up their rights to the money to those who needed it more urgently. Otherwise all members took turns to draw from the pot until everyone in the group was served.

The first cooperatives were also formed in the early 1920s and the Gold Coast Cooperative Bank was established in 1946 to provide financial services members of cocoa cooperative societies. These cooperatives were community-based and “member-owned” and operated organisations that provided finance to their members to enable them pay farm labourers and also process cocoa bean for marketing (Egyir, 2010). The purpose credit union which was introduced in Jirapa in North Western Ghana by Roman Catholic missionaries was to encourage members to save and have access to low interest loans. Accordingly, several state-led and financed loan schemes were established 1950s with similar objectives to promote local level development.

3.2.2 Post-Independence Era

After independence in 1957, the National Investment Bank, Bank for Housing and Construction and the Agricultural Development Bank were established in addition to the Ghana Commercial Bank to provide credit facilities to the poor and general population. Contrary to their original purposes, instead of providing credit to rural producers, savings they mobilised from the rural areas were used to invest in commercial and real estate sectors in the urban areas (Egyir & Akudugu, 2010). Thus, the formal institutions established to replace the informal money lenders had failed to achieve the objectives, and this led to the establishment of rural community banks (RCBs) the 1970s. The RCBs were regulated and supervised by the central bank, the Bank of Ghana (BoG). The Bank of Ghana provided technical support to the rural banks through the Association of Rural Banks (ARB) that was formed to further the interest of rural

banks. In 2002, the Apex Bank was established to complement the efforts of the BOG in providing technical support to the rural banks.

In 1983 Ghana undertook a structural adjustment programme (SAP) under the direction and auspices of the International Monetary Fund (IMF) to reform the financial sector. By 1986, the financial sub-sector was restructured to promote robust financial market (Appiah-Adu & Bawumia, 2016). The reforms aimed to deepen financial intermediation, create new instruments for investment, and encourage the establishment of new financial institutions to make the financial sector more competitive (Appiah-Adu & Bawumia, 2016).

As part of the SAP, the Financial Sector Adjustment Programme (FINSAP) was also introduced in 1987 to mitigate the bottlenecks in the financial sector (Appiah-Adu et al. 2016). In 1992 state control was abolished and the banks were allowed to develop their own credit policies including interest rates without government interference (ISSER, 2001).

Many financial as well as non-bank financial institutions were established as a result of FINSAP. As of June 2017, there were thirty-six (36) banks, of which nineteen are owned and controlled by Ghanaian nationals and the remaining seventeen (17) are foreign owned and controlled (BOG, 2017). Another outcome of FINSAP as discussed earlier was the establishment of rural banks. Rural banks had increased to about 100 after the liberalisation of the financial sector. At the time of the study, there were a hundred and forty (140) rural community banks. There were also many non-bank financial institutions as result of the FINSAP (GHANA Country Report, World Bank document, 1995). From the mid-1990s, formal and semi-formal microcredit institutions were established. At the time of the study, the number of non-bank financial institutions (specialised deposit taking institutions) had increased to 71. These included among others 37 savings and loan companies (BOG Register of Specialised Institutions, 2017). There were also 332 registered and licensed microfinance

institutions in the country at the time of the study. The Greater Accra region of Ghana has the largest number (225) of microfinance companies hence the choice of the region for the study.

3.3 Policy Framework for Microfinance in Ghana

A microfinance policy document, called the Ghana Microfinance Policy (GHAMP) was developed to guide the operations of microfinance activities in Ghana (GoG, 2006, 2007; GHAMFIN, 2013). GHAMP was developed to guide both development partners and government Ministries, Departments and Agencies' (MDAs) activities in microfinance. For effective implementation of the microfinance policy, the government partnered with stakeholders to establish an enabling environment to promote microfinance (Government of Ghana, 2008; Asiamah and Osei, 2007). According to government, there are currently several programmes developed to support the microfinance programmes (GHAMP, 2006). These include, Agricultural Services Sub-Sector Investment Project, Rural Enterprise Project, Financial Sector Improvement Project, Rural Financial Services Project, Microfinance Project, Financial Sector Strategic Plan, Social Investment Fund, the United Nations Development Programme and Community-Based Rural Development Program (Asiamah & Osei; GoG, 2006). Due to increasing growth of the SME sector and the proliferation of other forms of private sector microfinance activity, guidelines were required to supervise the microfinance industry. Therefore, the Bank of Ghana came out with guidelines for regulation and supervision of the microfinance sector in 2011, which is discussed further in section 3.3.2 of the chapter (Gyamfi, 2012; Peprah & Obeng, 2017.). In 2004, the government set up the Microcredit and Small Loans Centre (MASLOC) in 2004 with an initial seed capital of US\$50 million to promote SMEs in the country (Asiamah & Osei, 2007; Fant, 2011). MASLOC administration was charged with the responsibility to effectively manage donor and state funds received for microfinance activities in the country (Fant, 2011). Additionally, MASLOC also has the

mandate to educate non-bank micro-financial institutions on microfinance operations with a more focus on end users. Citing Ayuure (2006), Fant (2011) reiterated that the MASLOC was obligated to manage the state and donor funds for microfinance sustainably in order to provide continuous access to financial services to individuals, enterprises and cooperatives in urban and rural communities to reduce poverty. However, Fant's (2011) assessment of MASLOC shows that while the institution has chalked some successes, it has also suffered some bottlenecks, such as, politicisation of its activities, low recovery rates, fraudulent activity by clients and staff, and low interest rates that distort the overall market for microcredit (Fant, 2011). Due to these setbacks, MASLOC was unable to operate as effective and functional state instrument to carry out any significant reforms to strengthen microfinance operations in the country (Fant, 2011). This current study will therefore explore the extent to which MFIs and SMEs are supported by institutions such as MASLOC which were set up to promote their activities.

3.3.1 Promotion of Access to Microcredit

In the wake of difficult social and economic conditions in Ghana before the financial sector reforms, the poor had limited access to financial services as many could not meet requirements for loans and savings from the formal banking system (Alabi et al., 2007). Informal sources of credit were equally costly and unreliable. This prompted government and NGOs to design pro-poor development policies and programmes targeted for the core poor. These among others included microfinance programmes to reduce socio-economic disparities. The Ghana Poverty Reduction Strategy informed decisions on microfinance as a strategic instrument to keep stable macroeconomic growth with social development (Government of Ghana, 2003a, 2005).

As part of its objectives, the Ghana Shared Growth and Development Agenda (GSGDA I&II) focus on promoting access to credit from existing institutions to strengthen SMEs sector (IMF, 2012). The aim was to provide low-cost start-up capital funds to the SMEs. To achieve this, the

Central Bank was mandated to regulate the sector. Accordingly, since 2008 all microfinance operators in the informal sector have been regulated under the Non-Bank Financial Institutions Act, 2008 (NBFI ACT 673). This was amended by Act 738, and under the Banking Law, 2004 (774).

3.3.2 Regulation and Supervision of Microfinance Activities in Ghana

In response to the upsurge of unregulated intermediating savings and credit products offered by microfinance institutions in the country and the challenges they face, the BOG in 2011 issued regulations that obligated MFIs to be registered and licensed according to the type of financial services they provide (GHAMFIN, 2013). For effective monitoring and supervision of microfinance activities in the country, a microfinance department was setup within the Ministry of Finance (MOF) to support the sector (GHAMFIN, 2013). The new legal framework aimed to regulate deposit taking by specialised deposit institutions in order for them to avoid the operational challenges they face (Price Water House Coopers Ghana [PwC], 2016). For instance, some MFIs collapsed because they could not meet their capital requirements to operate as microfinance institutions (See Appendix 8 for regulatory guideline issued in 2011). There was public outcry over the failure of MFIs due to liquidity problems and the loss of funds by SMEs and other clients of MFIs (Peprah & Obeng, 2017). The difficulty some microfinance institutions had to honour customer deposit withdrawal requests had implications not only for the banking industry, but the entire financial system and the Ghanaian economy (PwC, 2016). Peprah and Obeng (2017) suggest that these happenings caused the BoG to take action to reduce the risks to the country's entire financial system. The question that arises from this discourse is: what is the sustainability of those unregulated MFIs which are now being regulated by the BOG? Another question that emanates from the issues arising is: what is the effectiveness of

such MFIs in promoting the sustainability of the SMEs they are meant to serve? The above discourse also informed the choice of tier one and two MFIs for this study

3.4 Types and Categories of MFIs in Ghana

There were three broad types of microfinance institutions operating in Ghana before the introduction of the regulatory reform in 2011. These institutions were categorised as formal, semi-formal and informal suppliers of microfinance (Steel & Andah, 2003). The formal ones are the RCBs, S&Ls and commercial banks, followed by the semi-formal category (CU, FNGOs) and the informal group which are mainly the traditional moneylenders and traditional “susu” groups.

With the implementation of the Bank of Ghana guidelines for microfinance, the financial sector was classified into a multi-tiered system with microfinance institutions being categorised into four tiers: tier one, tier two, tier three and tier four. Tier one consists of the savings and loans institutions and the rural community banks who are permitted to accept deposits and give out loans to their clients. Tier two consists of the credit unions and the microfinance companies. Tier three consists of the moneylending companies and financial non-governmental organisations delivering microfinance services, and tier four is represented by all the informal microfinance activities by individuals, susu collectors and groups which cannot be regulated due to their size and informality. The tier four level MFIs are thus self-regulated. Table 3.1 shows the four tiers, their apex bodies, as well as their capital requirements.

Table 3-1 Regulation Status of Microfinance Institutions in Ghana as at March 2014

Tier	Institution	Apex Body & Total Membership	Licensed Members	Minimum Capital	Comments on Regulatory Status
Tier 1	Savings & Loans Rural and Community Banks	GHASALC23	25	15 million	Regulated under the Banking Act by BoG
		ARB Apex Bank 136	136	300,000	
Tier 2	Credit Unions	CUA	538	Not Available	Department of Cooperatives & CUA Regulated under BoG & NBFILaw
	Microfinance Companies	GAMC638	344	GH 500,000	
Tier 3	FNGOs	ASSFIN 42	5	GH 300,000	Regulated under BoG & NBFILaw BoG & MLAG
	Incorporated Money Lenders	MLAG	45	GH 300,000	
Tier 4	Individual money lenders	MLAG 250	71	No minimum capital	MLAG, BoG oversight responsibility BoG & GCSCA,
	Individual Susu Collectors	GCSCA 472	317	No minimum capital	

Source: Adapted from Pephrah & Obeng (2017, p 8), GHAMFIN, (2015)

3.5 Microfinance Apex Bodies and Associations

The various categories of microfinance institutions that operate in Ghana belong to specific apex bodies set up to support their activities as shown in Table 3.1. The apex bodies are the: Ghana Cooperative Susu Collectors Association; Ghana Microfinance Institutions Network (GHAMFIN); Ghana Cooperative Credit Unions Association; Ghana Association of Savings and Loans Companies (GHASALC); Ghana Association of Microfinance Companies (GAMC); Microcredit Association of Ghana (previously known as Money Lenders Association

of Ghana; Association of Financial NGOs (ASSFIN); and the Association of Rural Banks Apex Bank (GHAMP, 2006; GHAMFIN, 2013; 2015). Other relevant associations include the Telecommunications Service Providers and Business Development Services Providers (TSPs/BDS) (GHAMFIN, 2013, p. 48). The relevant associations for the purposes of this current study are described briefly next.

3.5.1 Ghana Microfinance Institutions Network

Ghana Microfinance Institutions Network (GHAMFIN), formed in 1998, is a national network of microfinance institutions in Ghana irrespective of their nature, as well as business development service they provide. It is the umbrella network of all microfinance service providers in Ghana. It has the responsibility to promote the development of the microfinance industry in the country (GHAMFIN, 2013). At the end of 2011, there were 21 members of the governing council representing all the apex bodies. The network is involved in advocacy and capacity building. It serves as the information repository for the microfinance industry for its members and other stakeholders.

3.5.2 Ghana Association of Savings and Loans Companies (GHASALC)

The Ghana Association of Savings and Loans Companies (GHASALC) was formed in 2008 to bring the savings and loans category of MFIs together for advocacy and to promote their development.

The introduction of the tier system of microfinance led to the creation of a new apex body, Ghana Association of Microfinance Companies (GAMC). Its membership comprises companies engaged in microfinance services, including intermediation of loans and deposits.

The apex body was registered in 2011, with a membership of 540 MFIs from the ten regions of Ghana (GAMC, 2016).

3.5.3 Micro-Credit Association Ghana (MCAG)

The Micro-Credit Association Ghana (MCAG) previously known as the Money Lenders Association of Ghana (MLAG) was established in May 2, 2010 as an umbrella organisation for micro crediting organisations. The primary goal of MCAG is financial inclusion. It has objectives to bring its members under one umbrella to network and strengthen professional relationships with all stakeholders. It also fosters partnerships with other apex bodies and engages with government, regulatory bodies on behalf of its members to influence microfinance policies. More importantly, the apex body also has the responsibility to build effective capacities for its members.

3.5.4 Ghana Cooperative Susu Collectors Association

The Ghana Cooperative Susu Collectors Association (GCSCA) is registered under the Ghana Co-operative Societies Decree No. 252 of 1968 (GCSCA, 2017). The Association is owned by members who are expected to raise the share capital for its operations. The operations of GCSCA are guided by the Bank of Ghana's microfinance institutions rules. GCSCA has the oversight for individuals and enterprises involved in susu collection in Ghana. It also seeks the interest of clients and other microfinance stakeholders.

3.6 The Role of Microfinance in Ghana

Ghana's microfinance institutions, to the exclusion of the informal ones, reach about 1.5 million clients, members and depositors, of which less than 5000 have loans. MFIs provide financial services to an estimated 15 per cent of the country's total population compared with 10 per cent

for the commercial banking sector (Obuasi & Polio, 2010; Ntiamah, Oteng, Opoku & Siaw, 2014). Aryeetey (2005) and Anku-Tsede (2008) note that deep market segmentation characterises the credit markets in Ghana and the resultant effects are the exclusion of many potential borrowers from the financial market. Thus, all governments considered microfinance as an important economic development tool to achieve the nation's poverty reduction objectives through financial inclusion agenda (BoG, 2009; GHAMFIN, 2013). Hence, the aim is to provide access to financial services to the lower income population and SMEs, that have difficulty in accessing the formal financial sector (Adjei, 2010).

The small business sector comprising micro, small and medium enterprises constitute 90% of enterprises in the country. They operate mostly in the informal sector and constitute about 70% of the labour force in Ghana (African Development Bank, 2012; Adjei, 2010). Considering the important role SMEs play, increasing their access to financial services would help deepen the financial sector and link them to the mainstream economy (Adjei, 2010; BOG, 2009). It is also argued that microfinance can aid in the attainment of the SDGs and thus improve the well-being of the majority of Ghanaians. Owusu, Opong, Agyeiwaa and Abruquah (2015) argue that in Ghana, microfinance provides people with start-up capital and funds to expand their businesses. They argue that, with microfinance, small businesses have grown into medium enterprises and have created employment opportunities.

The Bank of Ghana (2007), citing Otero, (1999) contends that microfinance provides access to investment capital for the poor, which to engage in productive ventures and improve their well-being. It also protects them against risks and improves their social and economic standards. Accordingly, objective 8.3 of Sustainable Development Goal 8 aims to promote policies that support entrepreneurship and growth of micro-, small- and medium-sized enterprises, including through access to financial services to achieve this goal. Undoubtedly, the focus of this goal

and objective is the sustainable growth of SMEs. The United Nations, development agencies and governments have all realised that the medium through which to achieve the SMEs' growth as discussed earlier is micro finance services whose effectiveness this thesis seeks to examine. Accordingly, the aim of this study is to critically examine the effectiveness of microfinance institutions in promoting the sustainability and growth of SMEs in Ghana. Specific objectives of the study are as follows:

1. To explore the sustainability/performance of MFIs that serve SMEs?
2. To ascertain how effective MFIs in Ghana have been in promoting small businesses' sustainability
3. To examine factors affecting small businesses and microfinance institutions in Ghana.
4. To assess the impact of MFIs on small businesses
5. To ascertain the forms of support available to MFIs and SMEs

3.7 Chapter Summary

This chapter examined the historical and evolutionary background of microfinance in Ghana. The chapter examined the different phases of financial sector evolution from the pre-independence period until the formulation of the Ghana Microfinance Policy. A brief examination of the various microfinance support institutions in the country were presented. The extant role of microfinance in Ghana was identified and its current role, target market and strategies for its advancement were briefly discussed. The chapter has revealed that microfinance in Ghana has gone through several stages of development which have culminated into its current state. Particularly, the chapter showed that microfinance has served as a tool for financial inclusion for the informal sector, micro, small and medium scale enterprises and the poor. The next chapter presents the research methodology and methods used for the study.

Chapter 4

Research Methodology and Methods

4.1 Chapter Overview

This chapter examines key concepts and ideas pertinent to my study. I also scrutinised and deployed methodologies and approaches that propel the aims and purpose of my work. These concepts and ideas provide the framework for gaining deeper insights into theories that are examined during the study.

4.2 The Research Philosophy

Hesse-Biber (2017, p. 5) posits that an important aspect of research is the set of assumptions researchers bring with them to guide the research processes. Paradigm embraces a researcher's view of social reality, involving a range of philosophical elements namely ontology and epistemology (Hesse-Biber, 2017, p. 6). Accordingly, Crotty (1998) argues that the justification for a choice of research methodology and methods transcend the research purpose or question to include the assumptions one has about the reality that one brings to one's research. These assumptions are guided by one's theoretical perspectives, that reflect an individual's understanding of what constitutes human knowledge, what it involves, how that knowledge is derived and what status can be ascribed to it. Thus, one needs to ask, what kind of knowledge will be attained in one's research (Crotty, 1998) and who are involved in constructing that knowledge? What characteristics will the knowledge have? (Crotty, 1998).

Thus, the philosophical underpinnings of research relate to the development of knowledge and how it has evolved (Saunders et al., 2012, p. 128). Saunders et al. (2012, p. 128) posit that the approach one adopts for a study is frequently informed by one's ideological convictions. The outcome of one's research are therefore likely to mirror one's subconscious biases. Therefore,

the main influence is one's view of the connection between knowledge, how it evolved and the way it is divulged. The means through which the resulting knowledge is communicated is also worth noting as it impacts on its understanding. Thus, the philosophical frameworks contain different ontological (worldview) and epistemological (knowledge derivation) perspectives on knowledge and thus influence the researcher's strategies.

4.3 Epistemological and Ontological Perspectives

This part of the study throws light on important positions that continue to inform my research approach. It unpacks the concepts to reveal the contexts, to facilitate the on-going investigation [the research process] and grounds its logic and criteria. It [the study] therefore discusses the two assumptions underpinning the current research: ontology and epistemology underlying knowledge.

4.3.1 Ontology

Ontology implies the following: (i) what *exists*, (ii) what the nature of *being* is, and (iii) what the nature of *reality* is (Saunders et al., 2012; Gray, 2004; Crotty, 1998; Hesse-Biber, 2017). Referring to Blaikie (1993, p. 6), Crotty (1998, p. 11) maintains that “ontology is the claims or assumptions that a particular approach to social enquiry makes about the nature of social reality.” Similarly, Hesse-Biber (2017, p. 6) states that ontology, “is a philosophical believe system about the nature of social reality—what can be known and how.” Social researchers are confronted with the questions: is the social world patterned and predictable, or is the social world continually being constructed through human interactions and rituals (Hesse-Biber, 2017, p. 6). Hesse-Biber further explains that “the researcher's ontological assumptions impact topic selection, the formulation of research questions, and strategies for conducting the research” (Hesse-Barbie, 2017, p.6). Two main aspects of ontology identified are *objectivism*

and *subjectivism/interpretivism* (these terms are used interchangeably in this study) (Saunders et al, 2012).

4.3.1.1 Positivism

Positivism is a theoretical perspective that is closely linked to *objectivism* (Gray, 2004). In the positivist research tradition, the world is viewed as an objective entity, where *reality* is objectively documented and interpreted (Saunders, 2012). Objectivism subscribes to the view that social entities exist as meaningful realities. These realities function outside the social actors concerned with its [reality's] existence. In other words, they are external to, and independent of, social actors (Crotty, 1998). Gray, (2004, p. 18) identifies that “for positivists,

- *Reality consists of what is available to the senses – that is, what can be seen, smelt, touched, etc;*
- *Inquiry should be based upon scientific observation as opposed to philosophical speculation. It should be empirically driven;*
- *The natural and human sciences share common logical and methodological principles that deal with facts and not merely values”* (Gray, 2004, p. 18).

From the perspective of a positivist, Gray (2004, p. 18) argue that “both the natural and social worlds operate within a rigid set of rules, which the sciences have had to discover through empirical studies.” The approaches to research developed under positivism insist on scientific inquiry: use of experimentation and inductive generalisation (Gray, 2004). Therefore, research conducted from positivist viewpoints might use structured surveys employing quantitative methods of statistical analysis to facilitate replication (Gill & Johnson, 2010).

4.3.1.2 Interpretivism

Interpretivism proclaims that “social phenomena are shaped from perceptions and resulting actions of social actors concerned with their existence” (Saunders, 2012, p. 131). This is a repeated process in which social interaction and phenomena are in an endless state of

modification (Saunders, 2012, p. 131-132). Paraphrasing Blaikie (1993), Crotty (1998, p. 11) maintains that, interpretivism involves ontology in which social reality is viewed as the product of progressions by which social actors converge to agree on the meanings of actions and situations. Remenyi et al. (1998, p. 35) emphasise the need for studying the specifics of the situation to appreciate “the reality or perhaps the reality working behind them.” This is often linked with the term constructionism, or social constructionism. This is the result of the interpretive stand that it is essential to discover the subjective meanings giving rise to the “actions of social actors in order that the researcher may comprehend these actions” (Saunders et al, 2012, p. 132). Social constructionism perceive reality as being socially constructed (Saunders et al., 2012, p. 132).

Interpretivism asserts that natural reality (and the laws of science) and social reality differ thus requiring different approaches (Gray, 2004). According to Crotty, (1998) whereas the natural sciences are seeking for regularities in the data to deduce laws (nomothetic), the social sciences often deal with the actions of the individual (ideographic). As articulated by Crotty (1998, p. 68):

“Our interest in the social world tends to focus on exactly those aspects that are unique, individual and qualitative, whereas our interest in the natural world focuses on more abstract phenomena, that is, those exhibiting quantifiable and empirical regularities” (Crotty, 1998, p. 68).

Thus, within the interpretive research paradigm, knowledge is often regarded as a subjective construct (Saunders et al., 2012). The interpretivist approach seeks to comprehend the phenomenon from the perspective of participants involved with the phenomenon under study (Patton, 2002). Thus, interpretivism examines the context of the phenomenon under study (Cavaye, 1996). Hence, interpretative research does not enter a social setting with a priori

constructs, but allows constructs to emerge whilst the researcher is in the field learning about and trying to understand the phenomenon. Smith, Flowers and Larkin, (2009, p. 4) posit that interpretative phenomenological analysis (IPA) influences methodology in three ways which they identified as ideography, hermeneutics and phenomenology.

Idiography: According to Smith et al (2009, p. 29) “idiography is concerned with the particular.” The authors suggest that it operates at two levels namely the detailed level and the level where an understanding of relationships, events and processes particular people experience and describe from their own perspectives in a particular context. In Smith et al’s (2009, p. 29) view IPA studies make effective use of a single case analysis and focus on small, reasonably homogenous samples, purposively selected and carefully situated. Accordingly, in the current study small homogenous tier one and tier two MFIs and key informants were explicitly selected for in-depth analysis in order to understand SMEs’ growth and sustainability in the context of microfinancing.

Smith et al., (2009, p. 31) posit that “delving deeper into the particular also takes us closer to the universal.” They also suggest that idiography causes one to be better positioned to think about how one and others are likely to deal with the particular situation in contention. Smith et al. (2009, p. 32) conclude that “in some ways the detail of the individual also brings us closer to significant aspects of the general....and idiography is an argument for a focus on the particular.”

Hermeneutics: The term hermeneutics refers to the “theory of interpretation” (Charlick, Pincombe, McKeller & Fielder, 2016, p. 208). Hermeneutics comes from the Greek word “hermeneuein,” meaning “to interpret or translate” (Patton, 2002, p. 114). Packer (2011, p. 83) states that hermeneutics is ‘the theory of interpretation.’ Also, Patton (2002, p. 114) states that hermeneutics offers “a theoretical framework for interpretative understanding, or meaning,

with special attention to context and original purpose.” He further contends that, meaning is constructed around the cultural context in which it was initially created as well as the cultural context within which it is later interpreted.” Thus, Patton (2002, p. 113) suggests that the foundational question is: “*what are conditions under which a human act took place or a product was produced that make it possible to interpret its meaning?*” Hence, Patton (2002, p. 113) further argues that to understand these conditions hermeneutic researchers adopt qualitative approaches to understand people’s actions and the meanings they attach to it. Accordingly, the current research seeks to understand the conditions under which the MFIs provide financial services to the SMEs and how these conditions affect SMEs’ growth and sustainability. Citing Schleiermacher (1998), Charlick, et al., (2016, p. 208) maintain that engaging in a deep and extensive analytic process provides holistic and useful insights and possibilities which “include and exceed the claims of research participants.” Citing Heidegger’s (1962) work, Charlick, et al., (2016, p. 208) further state that making meaning out of the experiences of people is also linked to the interpretation of their lived experiences.

Understanding what is being communicated entails “close interpretative engagement on the part of the listener or reader” (Charlick, et al., 2016, p. 208). Based on Heidegger’s (1962) studies Charlick et al (2016, p. 208) propose that “the listener, analyst or reader bring their preconceptions to the encounter and cannot help but look at any new stimulus in the light of their own prior experience.” Furthermore, Heidegger (1962) as cited in Smith et al., (2009, p. 35) adds that readers or analysts may not be conscious of all their presumptions in advance of the reading, analysis or listening process and so reflective practices and a cyclical approach to bracketing are required in interpretative phenomenological analysis (IPA).

Citing Gadamer’s (1990/1960, p. 267) and Heidegger (1962), Smith, et al., (2009, p. 26) and Charlick et al (2016, p. 208) suggest that one only gets to know his or her presumptions during

the interpretation. Thus, the phenomenon, itself affects the interpretation, which in turn can influence the fore-structure, which can then itself influence the interpretation (Charlick, et al, 2016). The authors further suggest that “in this complex relationship between interpreter (researcher) and the research participant (interpreted) implies that one cannot separate the researcher from the researched” (Charlick et al., 2016, p. 208).

Phenomenology: The word ‘phenomenology’ derived from the Greek *phaenesthai*, which means ‘to show itself’ or ‘to appear’ (Carpenter & Suto, 2008, p. 64). It is a theoretical stance that attempts to create knowledge about how individuals’ experience things (Liamputtong, 2013; Hesse Biber & Levy, 2011). Phenomenological study aims to study “the lived experiences” of a person or several people in relation to a concept or phenomenon of interest (Liamputtong, 2013; Creswell, 2014; Daly, 2007). The intention of phenomenological research is ‘to know and describe the participants’ experiences of their everyday world as they see it’ (Daly, 2007, p. 98; see also Carpenter & Suto, 2008). It means how humans understand the world around them (Liamputtong, 2013; Saunders et al., 2012). It helps us to reflect on human experiences, identify what it entails particularly in relation to the things that are important to us and shape the world in which we live (Charlick et al., 2016, p. 20; Smith, Flowers & Larkin, 2009, p. 3). The phenomenological approach and hermeneutics discussed earlier greatly overlap and are not really two completely different approaches. The phenomenological interpretative approach therefore might suggest that our interaction with the world is always leading to continuous understanding, implying that meaning-making is likewise “becoming clearer [unfolding] for participants and researchers as the stories are being narrated and interpreted by them” (Charlick, et al., 2016, p. 207-208). Phenomenological approaches such as are described were employed during all interviews.

To examine how a specific aspect of lived reality is constructed, the researcher must bracket that reality. This means the researcher needs to suspend any prejudgments about that reality so that they may ‘see it as the participants would see it’ (Daly, 2007, p. 28; Carpenter & Suto, 2008). Thus, phenomenological studies often employ in-depth interviews to generate detailed description of this reality (Daly 2007; Patton, 2002). Nevertheless, phenomenologists use several qualitative methods, apart from in-depth interviews, including observation, life history, and narrative. Others may examine written records of experiences such as diaries, journals, art, poetry and music (Patton, 2002; Daly 2007; Creswell, 2014). In this current study, the assumption is that there are several factors that affect SMEs’ growth and sustainability. Hence, it becomes imperative to adopt and implement methodological approaches that facilitate deeper appreciation from the SMEs own expression of such experiences [SMEs’ growth and sustainability]. The phenomenon of *growth* and *sustainability* as experienced by the SME’ owners are perceived to unfold through in-depth interviews, review of documents and observations². The aim is to make sense of the SME owners’ subjective³ understanding of what constitutes *growth* and *sustainability* of their operations - because of microfinance services.

This study adopts interpretative phenomenology. Conducting interpretative phenomenological study is appealing because this work strives to explore, comprehend and [eventually] disseminate the perceptions and experiences of MFIs and SMEs in their contexts. It does this with the view to further acquiring deeper insights into the factors [conditions] that affect the delivery of their services and the growth and sustainability of the clients they serve [SMEs]. This enquiry also seeks to examine the contributions that government agencies that support MFIs and SMEs make, in order to gain a holistic understanding of issues that inform and shape

² This includes media reports availed from various platforms such as radio, television, facebook etc,

³ Interpretations and stories from SME owners on their business growth and sustainability.

SMEs' growth and sustainability. Against this background, it is appropriate for this study to adopt the social constructivist [subjectivist] approach as it enables better comprehension of the myriad of factors affecting SMEs' sustainability. To achieve this, a carefully situated sample of 5 tier one and 10 tier two [15 MFI cases] and 95 SME cases were analysed. Justification for the selection of cases and their description is provided in subsequent sections (see Section 4.6.2). A minimum of 5 and maximum of 8 SMEs were selected for each MFI cases.

4.3.2 Epistemology

Knowledge construction and beliefs about the way it ought to be obtained is what constitutes epistemology (Cavaye, 1996). In other words, Crotty, 1998, p. 8) suggests that "it is a way of understanding and explaining how we know what we know." In Gray's, (2004, p. 16) view, epistemology provides "a philosophical background for deciding what kinds of knowledge are legitimate and adequate." According to Saunders et al., (2012, p. 132) epistemology is "what constitutes acceptable knowledge in a field of study." The authors pose an epistemological question which suggests that knowledge construction in the natural sciences for instance, cannot be approached the same way as it will be done in the study of the social world (Saunders et al, 2012). Consistent with Saunders et al's view, Hesse-Biber (2017, p. 6) maintains that "epistemology includes how the relationship between the researcher and research participants is understood. A positivist perspective privileges the researcher as the authority in the research process due to his or her objective, value-neutral stance and his or her use of standardised measurement instruments. An interpretive perspective views the researcher and research participants as co-creators in the knowledge-building process and emphasises the perspective of the participants." Thus, epistemology informs the choice of method for conducting research in various fields of study.

4.4 Qualitative Research Methodology

A qualitative enquiry is interested in extracting meaning and to understand a phenomenon and is not primarily concerned with measuring and quantification of the phenomenon (Cavaye, 1996). The qualitative researcher assigns meaning to a phenomenon by describing the context and seeking an understanding of the perspectives of the people who affect or are affected by the phenomenon (Cavaye, 1996, p. 238). Cavaye, (1996, p. 238) show that “direct and in-depth knowledge of a research setting are necessary to achieve contextual understanding.” Hence, verbal information and data from observations are collected using qualitative methods and this is also associated with having “face-to-face contact with persons in the research setting” (Cavaye, 1996, p. 238). Patton (1987, p.40-42) developed a checklist of 20 questions to help decide whether qualitative methods are appropriate research strategy. Patton (1987) advised that if the answers to any of the questions is “yes,” then the collection of at least some qualitative data is likely to be appropriate. Six of the 20 questions that guided the choice of qualitative methods for this study as suggested by Patton in Patton (1987, p. 40-42):

1. “Is detailed, in-depth information needed about certain client cases or programmes?”
2. Is information needed about the details of programme implementation: What do clients of the programme experience? What are the services provided to clients?
3. Does the case need a case-specific quality assurance system?
4. Is there a lack of proven quantitative instrumentation for important programme outcomes? Is the state of measurement science such that no valid, reliable, and believable standardised instrument is available or readily capable of being developed to measure quantitatively the programme outcomes for which data are needed?;
5. Is there a need to add depth, detail, and meaning to statistical findings or survey generalisation?
6. Has the collection of quantitative data become so routine that no one pays much attention to the results anymore, suggesting a possible need to break the old routine

and use new methods to generate new insights about the programme?” (Patton, 1987, p. 40-42).

Viewing the current research through the lenses of the above questions, a “yes” response to all the above questions motivated the decision to adopt a qualitative research methodology for the current study, which seeks to explore the effectiveness of microfinance institutions in promoting the growth and sustainability of SMEs.

Understanding the effectiveness of MFIs in promoting the growth and sustainability of SMEs as the study seeks to explore can be better understood in the larger context of several factors impacting both the MFIs and SMEs. In a developing country like Ghana, access to accurate quantitative data is limited due to the culture of poor record keeping and dualism in markets. This means that gathering information to gain an understanding of the operations of MFIs vis-à-vis their impact on SMEs’ sustainability could best be obtained using qualitative research approaches rather than quantitative approaches. Many researchers studying small firms in developing countries observed that it is challenging and problematic to obtain reliable financial data on small firms (Mead & Liedholm, 1998; Bigsten & Gebreeyesus, 2007; Nichter & Goldmark, 2009). The SME researchers provided the caveat that the tendency to be “reactive” when asked to produce such records can lead to the production of erroneous data. They argued that any attempt to analyse the sustainability of small businesses using quantitative measures would not present the true picture of these businesses as they hardly keep accurate financial data on their operations. Thus, qualitative techniques have been recommended to lessen the degree of error in data produced from SMEs on their sustainability (Haber & Reicher, 2005).

Accuracy of information required to meet authenticity and sufficiency requirements of this study [quality assurance] necessitated the use of qualitative methods. In-depth interview techniques associated with qualitative studies provided an alternative approach to generate valuable data to analyse their operations within their current context. Thus, the qualitative

approach helped to explore the delivery of microfinance services within the informal settings in which they operated.

Furthermore, quantitative findings on the impact of microfinance on clients have been mixed. In Ghana, there is inadequate information about the effectiveness of microfinance in promoting sustainability of SMEs. Aryeetey (2005) acknowledged that the successes shown in other continents have not been realised in most African countries including Ghana. Therefore, this study, sought to add to the existing body of knowledge [mostly based on quantitative generalisations] by focusing on microfinance and SMEs specifically to obtain rich data. This notwithstanding, quantitative methods of analysis were not totally exempted from this study. In certain situations, quantitative analysis could not be avoided because in relation to the MFIs, financial data provided needed to be verified and reported based on financial ratio analysis which is dominantly quantitative.

Qualitative research facilitates in-depth understanding of the issue under examination (Patton, 2002; Liamputtong, 2013). Thus, it presents highly specialised methods for acquiring key informant responses to comprehend what people think and how they feel about particular issues. Morse (2006, p. 530) argues that “qualitative researchers sample for meaning, rather than frequency. Qualitative researchers “are not interested in how much, or how many, but in what.” In Liamputtong’s (2013, p. 14) view, (see also Hesse-Biber & Leavy, 2011), qualitative research seeks to analyse meanings and/or processes “that people give to their own social situations. It does not need a generalisation of findings as in positivist science).” Strauss and Corbin (1998, p. 10-11) referred to qualitative research as: “any type of research that produces findings not arrived at by statistical procedures or other means of quantification,” but rather studies that produce findings from real-world situations where the ‘phenomenon of interest unfolds naturally’ (Patton, 2002, p. 39). Qualitative data analysis involves non-numerical

assessment of observations made through open-ended questions (Patton, 2002, p. 39), using focus group discussions, participant observation, content analysis, key informant interviews, and other qualitative techniques (Babbie, 2010, p. 393). Thus, qualitative research examines the contextual aspects of human responses rather than objectively measurable behaviour and attitudes. Accordingly, Osuala (2005, p. 171) argues that the,

“task of the qualitative methodologist is to capture what people say and do as a product of how they interpret the complexity of their world, to understand events from the viewpoints of the participants. It is the lived world of the participants that constitutes the investigative field. ‘Truth’ within this context is bound to humanistic caprice”
(Osuala, 2005, p. 171).

The above description and processes of qualitative research presents marked differences and characteristics from quantitative research. Quantitative research on the other hand is concerned with a problem that calls for an explanation. Clark and Creswell (2010, p. 66) suggest that the quantitative “researcher makes decisions about what to study, what specific narrow questions to pose, collects quantifiable data from participants, analyses these numbers using statistics, and conducts inquiry in” what purports to be an “unbiased and objective manner.” Qualitative researchers on the other hand believe that it is difficult to have one objective reality that can be observed and quantified neutrally (Clark & Creswell, 2010). They do not believe human beings are homogenous and can be simplistically categorised. Golafshani (2003, p. 600) states that whilst “quantitative researchers seek causal” relationships, prediction, and generalisation of findings, qualitative researchers rather aim at illumination, understanding, and extrapolation to” better understand similar conditions.” This current study seeks to illuminate, understand and extrapolate the factors affecting the growth and sustainability of SMEs in Ghana in the light of microfinance.

Qualitative enquiry is the only appropriate way to determine how individuals see, understand, and interpret their world. According to Patton (2002, p. 112) Blumer believed that “one can only understand people being studied in their natural setting in a face-to-face interaction with open-minded inductive analysis.” Qualitative research is guided by five important assumptions about the nature of knowledge (Lincoln & Guba 1985). These assumptions establish the general ontological and epistemological positions of qualitative enquiry. These assumptions are:

1. there may be multiple constructed realities: people may perceive reality differently even when sharing the same (apparently) objective experience or event;
2. the process of inquiry changes both the researcher and the research subjects, that is, the researcher is not entirely independent of the research process;
3. the research process is value-laden as the researcher brings their values and beliefs to the entire research process;
4. knowledge is dependent upon both context and time, the ‘universal truths’ sometimes sought by quantitative research are less frequently the primary object of qualitative research which focuses on exploring the deeper meaning of social experience; and
5. it is better to describe and interpret events than to control them.

The current study is guided by the above assumptions. The choice of a qualitative research approach is underpinned by the nature of the problems being investigated. The rationale is consistent with the stance of Strauss and Corbin (1998, p. 11) who contend that “research that seeks to understand the meaning, experiences and problems of people needs to go to the field to find out what the people are doing and how they perceive and interpret their experiences. Thus, qualitative approaches to investigation are useful in exploring what little is known about to gain original understanding.”

As stated earlier in chapter one of this study, very little is known about the sustainability of SMEs in Ghana as a result of microfinancing. Earlier studies, Afrane, (2002), and Aryeetey, 1994 focused on the effects of SMEs on the national economy and individual clients without

investigating the sustainability of SMEs as a whole through microfinancing. Due to the novel nature of this study, in exploring the sustainability of SMEs served by MFIs for which the variables to analyse are unclear, an interpretative phenomenological and hermeneutic approach is employed to attempt to explain the context which lends itself to a qualitative approach. Thus, a qualitative method is more appropriate for this study.

4.5 Research Design

4.5.1 Case Study Research Method

A research design involves techniques (methods) used to collect and analyse data based on the research question that the researcher uses to ensure validity and reliability (Yin, 2009). Cavaye (1996, p. 237) suggests that a method “shows the kind of research tools and techniques employed to gather evidence. He emphasised that there are two fundamental “data collection methods: quantitative methods (based on numerical data) and qualitative methods (based on verbal data)” (Cavaye, 1996, p. 237). Four approaches to qualitative design are (a) phenomenology, (b) case study, (c) ethnography, and (d) narrative (Petty, Thomas, & Stew, 2012). The focus of each approach is different from the others (Yin, 2009). A case study is more suitable if the study involves understanding a real-life problem in more detail and there is no clear-cut boundary between the phenomenon under study and the context of the study (Yin, 2009).

The current study assumes that the context within which MFIs and SMEs operate impacts significantly on their growth and sustainability. Thus, a case study has an advantage over other qualitative designs because it helped to analyse SMEs’ operations in detail with regards to growth and sustainability in the context within which they operate. Thus, the study adopts a

multiple case study approach as the research strategy. Cavaye (1996, p. 229) states that “case study method:

- does not explicitly control or manipulate variables;
- studies a phenomenon in its natural context;
- studies the phenomenon at one of a few sites;
- makes use of qualitative tools and techniques for data collection and analysis;
- aims for in-depth understanding of the context of a phenomenon
- aims to contribute to knowledge by relating findings to generalisable theory.”

Stake (1995, p. 2) describes a case as a “specific, complex and functioning thing, that is, a bounded system.” The case is an integrated system. Therefore, people and programmes are prospective cases. Examples of systems include organisation (s), programme (s), corporation (s), group (s). Thus, in a case study instance a few carefully selected cases are studied in detail (Gilbert 2008, p. 36). Burns (1997, p. 364) states that a case study must be a bounded system or an entity and these bounded entities should be either representative or atypical. Yin (2009, p. 18) provides two-fold definitions of a case study as follows:

1. “As empirical enquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between the phenomenon and context are not clear.”

In other words, a case study method is used because one wants to understand a real-life phenomenon [in this case SMEs’ sustainability as a result of microfinancing] in its contextual conditions which this study seeks to explore. Thus, case studies explore subjects and issues where relationships may be unclear. The case study method is important when the researcher want to understand the relationship between a phenomenon and its context (Gray, 2004, p. 124), for example, SMEs’ growth and sustainability in the context of MFIs and the market in which they operate. The challenge is that the contextual variables (timing, national economic

circumstances, business environment, etc.) are so numerous that a purely experimental approach revealing causal associations would simply be unfeasible. Yin (2009, p. 18) further explains that because it is difficult to separate a phenomenon and its context in real-life situations, other factors such as data collection and analysis strategies, necessitates an extension of the first definition.

2. A case study is “an enquiry that:

- copes with the technically distinctive situations in which there will be many more variables of interest than data points,
- relies on multiple sources of evidence, with data needing to converge in a triangulating fashion; and
- benefits from the prior development of theoretical propositions to guide data collection and analysis” (Yin, 2009, p. 18)

Yin’s (2009) two-fold definition reveals the complexities involved in case study research which entails design, techniques involved in data collection, and specific approaches to data analysis.

Grinnell (1981, p. 302) argues that a case study “involves the use of flexible and open-ended techniques of data collection and analysis. The design of case study is based on the premise that what is being studied is atypical and representative.” Therefore, a particular case can elucidate what exists in the group where the case is drawn. Burns (1997, p. 365) notes that in a case study “the focus of attention is the case in its individual complexity, not on the whole population. In selecting a case, therefore, usually purposive, judgemental or information-oriented sampling techniques are used.”

The main advantage of the case study method is its ability to help the researcher to understand the complex real-life situations through which multiple sources of evidence will be gathered. It is also argued that the case study method should be considered as appropriate when: the research focus is to answer research questions about “how” something works and “why” something happens; when the researcher has little control over events; when the focus is on a

phenomenon within a real-life context, and the behaviour of the research subjects cannot be manipulated, and there is an overall attempt to cover contextual conditions (Gray, 2004; Baxter & Jack 2008; Imas & Rist, 2009; Yin, 2009).

The case study approach is compatible with the interpretive, hermeneutic approaches adopted for the study and explained in previous sections. Diesing (1972) argues that a case study methodology permits detailed analysis of a phenomenon and the interaction of individuals within and outside it. The study collected data from selected multiple cases involving microfinance institutions and SMEs in six districts of the Greater Accra region of Ghana to gain in-depth understanding of the growth and sustainability of small enterprises which gained access to microfinancing. The multiple-case study approach adopted in this study enabled me [researcher] to examine the microfinance institutions within the Ghanaian contexts. Yin (2009) agreeing with Herriott and Firestone (1983) argues that the evidence from multiple cases is often considered more convincing, and the overall study is regarded as strong. Thus, the rationale was to select information-rich cases, the analysis of which will address the research questions. The case study design was adopted to understand in detail the characteristics that defined microfinance institutions, their operations and how their activities promoted the success and growth or otherwise of small businesses. The multiple case study method was also required to enable detailed exploration and understanding of the impact effects of microfinance on SMEs and the contextual factors that impacted on both MFIs and SMEs and the resultant impact on SMEs. A review of empirical researches that employed multiple case studies further confirmed the choice of the multiple case method for this study. Kompier, Cooper and Geurts (2000) employed a multiple case study of 14 countries to examine work stress prevention in Europe. Bowler, Castka and Balzarova (2017), and Bolis, Carvalho and Morioka used 11 multiple case studies in their research studies. Faccin, Genari and Macke, (2017) selected two cases of wine producers, and surveyed 110 members of the wine producing group. Chiesa, Frattini,

Lazzarotti, and Manzini (2009) examined 15 multiple cases of Italian firms from different industries. This current study examined 15 MFI multiple cases from the microfinance industry with over 660 institutions.

This study, therefore, consists of multiple cases of tier one and tier two microfinance institutions to allow comparison of several related cases and to gain as wide a perspective as possible based on the suggestions of Miles and Huberman (1984). A case study approach is appropriate for understanding SMEs' growth and sustainability within the context of microfinancing, which is the focus of this study. The selected MFI cases give an understanding of how the MFIs operate in their context and how that could affect the SMEs' sustainable growth and also lead to the development of the MFI sector. Adoption of multiple case study method in this study meant the use of multiple methods of data collection, such as observations, personal interviews, and secondary sources (Patton, 2009; Yin, 2012; Heale & Forbes, 2013). Using a multiple case study design can provide further understanding of the factors affecting the growth and sustainability of the SMEs as it provides an opportunity to study both MFIs and SMEs in-depth in their natural contexts. It also serves to provide information that can easily be verified and confirmed enhancing the authenticity of the findings. Yin (2012) argues that a case study is adequate to answer a research question predicated on confirming the experiences of participants, which is the focus of this study.

Descriptive case studies are useful for illustrating events and their contexts. Explanatory case studies on the other hand are suitable for investigating causality and to linking an event to its effects (Yin, 2014). Exploratory case study researchers aim to define research questions and hypotheses (Yin, 2012). I adopted a multi-unit descriptive case study design as it would enable me to identify factors (context) affecting SMEs' sustainability, through interview data, documentation and observation of the operations of SMEs within context. Context is crucial to

understanding the meaning of participants' experience from their point of view (Seidman, 2013). Yin (2012) emphasises the benefit of using descriptive multiple case studies when there are multiple variables to explore, as well as multiple sources of data to provide adequate description of the phenomenon under investigation.

In conformity to Miles and Huberman's (1984) suggestions on the multi case approach, Cavaye, (1996, p. 237) also argue that the multi case study enabled analysis of data across cases and this enabled the researcher to verify that findings are not merely the result of peculiarities of the research setting. The number of cases selected for study was not predetermined but rather depended on the research questions and the data collected. The rationale was to compare the two tiers to harness the rich experiences each has in promoting SMEs growth and sustainability. Data analysis will help explain any rival explanation in the effectiveness of MFIs in promoting SMEs growth and sustainability. Yin (2009) emphasises that, in case study design, sampling logic should not be used, sample size is irrelevant. This study was based on 15 MFI cases, 12 key informant participants and 95 SMEs. The data sources and sampling techniques used are discussed next.

4.6 Data Sources and Sampling Techniques

4.6.1 Data Sources

Different data sources (primary and secondary) were used to generate information needed to answer the research questions. The data were collected from different individuals, settings and times guided by the research questions. Primary data were collected from February 2016 to July 2016 in six administrative districts of the Greater Accra Region of Ghana. Primary data was gathered from microfinance institutions (15 cases), owners of SME, key informants selected from the Bank of Ghana, Ministry of Finance, National Board for Small Scale

Industries (NBSSI), and the GHAMFIN. Secondary data was collected from MFI financial reports, SME reports and records where available, government policy documents, reports, and from GHAMFIN.

The researcher used multiple data collection techniques and multiple data sources in order to triangulate data collected to increase the authenticity, sufficiency, internal validity and reliability of the results. Data triangulation in qualitative research is the use of multiple methods of data collection in the research (Osuala 2005; Sarantakos, 2005; Taylor & Bogdan 1998) to corroborate findings from different individuals or types of data (Clark & Creswell, 2010). Each information source was carefully examined to find credible evidence to support the themes developed for analysis.

4.6.2 Sampling and Sampling Techniques

Qualitative research depends largely on using strategies such as purposive sampling techniques (Hesse-Biber & Leavy, 2011; Patton, 2002). The representatives from microfinance institutions, owners of SMEs, key informants from Bank of Ghana, and the Microfinance Apex Body were purposively sampled. The study relied heavily on purposive sampling because it provides the opportunity for researchers to select participants in agreement with the objectives of the study (Yin, 2012). According to Patton (2002, p. 230) (see also Liamputtong, 2013), the logic and power of purposeful sampling “lie in selecting information-rich cases for study in depth.” One important criteria or step in doing qualitative research is to purposively and strategically select participants guided by the research questions, rather than attempting to create a representative sample or make statistical comparison (Liamputtong, 2013; Carpenter & Suto, 2008; Patton, 2002). To generate sufficient data and gain a deeper understanding of impact effects of microfinance on SMEs, only SMEs that had operated for three years and above were purposively selected and interviewed. The SMEs were sampled through a snowball

or chain referral sampling technique. After I had identified and selected a few SME owners, I asked them to refer me to other SME owners who they knew met the selection criteria and might be interested to participate in the research. These SMEs were all situated in business centres within the operational areas of the MFI cases selected for the study.

Liamputtong (2013, p. 18) citing Mason (2002) contends that an important decision to make in qualitative research regarding sample size is whether the sample provides adequate data to allow the research questions or aims to be thoroughly addressed. Gray (2004) suggests that a sample size of eight is adequate, although a survey should then be used to verify the data. What this means is that, in a practical sense, interview data need to be analysed as they are collected, until perspectives are being repeated and data saturation reached (Gray, 2004; Liamputtong, 2013). Data saturation point is usually reached when one collects data from many groups or individuals as necessary to answer the research questions and reach a point when little new information is coming from one's observation, interviews, or focus groups discussions. At this point, Glaser and Straus (1967, cited by Ulin, Robinson & Tolley, 2005, p. 55) suggests that one can be reasonably confident that one has saturated sources of information to the point of redundancy. The sampling process adopted in this study was flexible and the number of study participants (SMEs) to be interviewed was not predetermined at the beginning of the study. I was, therefore, guided by the principle of data saturation in selecting SME respondents for the study. In the case of MFIs, the selection was informed by the number of MFIs who provided initial informed consent to be used as identifiable MFI cases for the study. The numbers obtained per tier level and in total (15 MFI cases) for a multiple case study approach was based on suitable conventions adopted from literature which will be further explained in subsequent sections. Likewise, the selection of 12 key informants was informed by their availability and readiness to provide informed consent to be interviewed as representatives of the various institutions they spoke on behalf of which were the main institutions of interest for the study.

Data analysis and interpretation began whilst I was in the field, hence data collection, analysis, and interpretation overlapped and was an iterative process. The eligibility criteria for SME sample selection included (a) the SMEs must have been operational for longer than 3 years (b) the SME must have a physical location where interviewer can relocate the SME when necessary (c) The SME must have received some microfinance support or service. MFIs are in the category of tier one and two based on the Bank of Ghana tier categorisation. The 15 MFI cases, 12 key informants and 95 SMEs provided the data required to answer the research questions.

4.6.3 Data Collection Techniques

As noted earlier, this study was approached through a social constructivist position, seeking to understand the world of the MFIs on one hand, and the SME clients' point of view on the other hand regarding their business sustainability and not as reported through traditional approaches of quantitative analysis thus the data collection process was underpinned by interpretivism. Thus, the type of data collected and instruments used were influenced by the study' objectives and research questions. The primary data collection techniques used included interviews, observations and document reviews. The researcher used multiple data collection techniques as a strategy to increase the internal validity, authenticity and reliability of the results.

4.6.3.1 In-Depth Interviews

The interview is a "specific form of conversation where knowledge is produced through the interaction between an interviewer and an interviewee" (Kvale, 2007, p. xvii). Seidman (2013, p. 7) asserts that, "I interview because I am interested in other people's stories. Stories are a way of knowing." Telling stories is essentially a meaning-making process. Heron (1981) points out that the original process of human investigation is two persons talking and asking questions of each other. Through conversation, Kvale (2007) argues, people have a chance to know others and learn about their feelings, experiences and the world in which they live. Rubin and Rubin

(2012, p. 3) assert that in-depth interviewing “helps reconstruct events the researchers have never experienced.” Thus, the information obtained through the conversation is used to develop knowledge about the reality of the participant (for this study, the growth and sustainability of SMEs) (Liamputtong, 2013). At the root of in-depth interviewing is an interest in understanding the lived experience of other people and the meaning they make of that experience (Seidman, 2013). Thus, the in-depth interview is the most commonly known and widely used interviewing technique deployed by qualitative researchers (King & Horrocks, 2010; Bryman, 2012).

Gray (2004, p. 213) defends interviewing by pointing out that when conducted well has the potential for generating quality data on people’s attitudes, views and the meanings that explain their lives and behaviours. Thus, semi-structured interviews enable the investigator to “probe” for more detailed information by asking the respondent to clarify what they have said (Gray, 2004, p. 214). This phenomenological approach to research, is concerned with the *meanings* that people ascribe to phenomena. As Arksey and Knight (1999, p. 32) comment, “interviewing is a powerful way of helping people to make explicit things that have hitherto been implicit-to articulate their tacit perceptions, feelings and understandings.”

Gray (2004, p. 214) asserts that “essentially, the interview is the favoured approach where:

- There is a need to attain highly personalised data.
- There are opportunities required for probing.
- A good return rate is important.
- Respondents are not fluent in the native language of the country, or where they have difficulties with written language.”

Gray (2004, p. 236) further maintains that “probing of views and opinions can be done using the semi-structured interview approach when it is necessary or useful for participants to elaborate on their answers.” Interviewing is essential when the researcher adopts a

phenomenological approach and the objective is to discover subjective meanings that participants give to concepts, happenings, experiences or events (Gray, 2004, p. 236). Such probing may help to divert the inquiry into novel areas which, while not initially recognised as part of the interview, help to meet the research objectives (Gray, 2004, p. 236).

This study used semi structured interview guides to collect data from the SMEs surveyed and the MFI case study participants. Smith and Osborn (2008, p. 3) state that interview questions in interpretive phenomenological studies are usually framed broadly and openly. An attempt is not made to examine a formulated hypothesis; rather an exploration of detail is conducted flexibly in the area of concern (Smith & Osborn, 2008; Seidman, 2013). This process helped to construct knowledge on SMEs' growth and sustainability (reality) as a result of microfinance within the prevailing business environment they operated in. Interviews took the form of face-to-face interactions, telephone and skype conversations. The telephone and skype conversations were used to follow up on the face-to-face interviews for further clarification on issues raised during the face-to-face interviews and to authenticate quantitative data obtained from their [MFIs] operational records. Three different groups were interviewed with a focus on different information as follows:

1. Categories of microfinance services and products provided by MFIs, their sustainability factors, and the context within which they operated were explored
2. Impacts of microfinance services and products on SMEs, their internal capacities, growth and sustainability as well as the context they operated in were assessed; and
3. Key informants comprising officials from private and public institutions that provided support to MFIs and SMEs were interviewed to understand the microfinance context as well as the institutional support they provided MFIs and SMEs. Neuman (2009) refers to key informant interviews as interviews with a person familiar with the field of

investigation, and because of their position and knowledge of the field must be interviewed to provide relevant information to the researcher. The 12 key informants selected were the number of available experts nominated by their various institutions to represent their views on topics raised in interviews.

MFI and SME Interviews: Data were generated from the management representatives of MFIs and SME owners using semi-structured questions based on the research questions, key concepts and elements. The participants were engaged in direct, face-to-face interactions in a relaxed and flexible way to enable them to respond to the questions. Because the questions were mostly the same for each participant, the data from one interview to another was comparable. This enabled the themes and patterns that emerged from the narratives across several participants to be generalisable to others. Prior to going to the field, the interview guides were checked and cross checked for construct validity by the researcher, her supervision team and some key microfinance experts. The key informant, MFIs and SMEs interview guides were piloted to ascertain their appropriateness, for construct validity and timing. It also helped to assess the interviewer's interviewing skills. The outcome of the pilot interviews was used to improve the interview guides for the actual interviews for the study.

The one-on-one interactions were aimed at understanding the MFIs and SME's perspectives on their businesses, experiences and the context within which they operate. The in-depth interview was relevant as it helped to explore the individual MFI and SME owners' worldviews and experiences in relation to MFIs' efforts to promote SMEs' growth and sustainability on one hand and SMEs' relationships with MFIs and their capacity to grow and succeed in their businesses. They could tell their own stories and experiences within their context. Ninety-five (95) SME owner/managers and fifteen (15) MFI managers were purposively selected and interviewed from six case study districts in the study area. The six case study districts that were

selected preceded by segmentation of the Greater Accra Region into three segments: Eastern, Western and Central. This was followed by the selection of 2 MFIs from each segment based on their availability to participate in the study. SME respondent selection was then finally done purposively based on the operational locations of the MFI cases. The rationale for the selection of the six case study districts is provided in-depth in Section 4.7 The snowballing purposive sampling technique was used to identify SME owners who received microfinance from the selected microfinance institutions. After interviews with an SME owner, he/she directed the researcher to another SME owner who also received credit from the same or other MFI cases selected. The snowballing purposive sampling technique was useful because it helped the researcher to identify SME owners who accessed credit from the selected MFIs within their operational areas. These challenges were anticipated, hence the adoption of multiple sampling strategies. Fifteen (15) MFI practitioner/managers and ninety-five (95) SME owner/managers were purposively selected and interviewed on their business premises. The MFIs selected for the study were initially investigated to ascertain their operational presence in the six major districts selected for the study. This information also informed the selection of SMEs sampled for the study. Table 4.1 provides a distribution of SMEs purposively selected for each MFI case study.

Table 4-1 Distribution of SMEs Sampled

MFI CASE	NUMBER OF SMEs SAMPLED PER MFI
Tier One Cases	
MFI 1	5
MFI 2	7
MFI 3	6
MFI 4	5
MFI 5	8
TOTAL	31
TIER TWO MFIs	
MFI 6	7
MFI 7	7
MFI 8	6
MFI 9	6
MFI 10	7
MFI 11	5
MFI 12	8
MFI 13	6
MFI 14	7
MFI 15	7
TOTAL	64
TOTAL (TIER ONE & TWO)	95

Key Informant Interviews: Representatives of public and private institutions that provided support to MFIs and SMEs were selected as key informants because of the wealth of their knowledge of microfinance activities in the country. They were selected and interviewed using semi-structured questions to gain insights into their understanding of MFIs and SMEs' operations in Ghana. GHAMFIN, GHASALC, GAMC, MCAG), all associations of the different categories of microfinance institutions in the study area, were contacted and invited

to participate in the study. Head staff from microfinance apex bodies were interviewed to understand the role they played in the development of the microfinance sub-sector in Ghana and the challenges they faced in supporting the microfinance sub-sector. The Bank of Ghana (BoG), Ministry of Finance and National Bureau of Small Scale Industries (NBSSI) were also interviewed to provide an understanding of the policies, regulations and supervision structures for microfinance development in Ghana. The management representatives from the BoG provided information on the historical background of microfinance in Ghana, the purpose of the sector, legal framework, regulations' roles and responsibilities of the bank towards the microfinance sector, impact of the sector and factors militating against the operations of MFIs in the country.

The key informants were purposively selected to ensure inclusion of the voices of all key stakeholders of microfinance in the study area. The inclusion criterion was willingness to provide relevant information necessary for triangulation of data provided by the MFIs and SMEs (Robinson, 2014). Informed consent to participate in the study was obtained and interview dates were negotiated. Access was negotiated and granted after several rounds of communication via phone and email between the researcher and the gatekeepers of these institutions. A total of 12 key informants were interviewed for the study. Table 4.2 shows the number of key informants selected from the various microfinance associations, government bodies and SME support agencies.

Table 4-2 Key Informant Interviews

Institutions	Description of Participant	Number
Bank of Ghana Microfinance Policy Unit	Staff of the policy unit of the OFID of the BoG	1
Bank of Ghana Regulation and Licencing Unit	Staff at the regulation and supervision unit	1
Bank of Ghana Examinations and Compliance Unit	Staff at the compliance unit	1
Ministry of Finance	Management staff on finance policy	1
GHAMFIN	Executive Secretary and Board Chairman	2
GHASALC	Executive Secretary	1
GAMC	Executive Secretary Board Chairman	2
NBSSI	Manager and staff in charge of monitoring and supervision of SMEs	2
Total		12

As argued by Patton (2002), the key informant interview method enables the researcher to obtain information directly from people who cannot be directly observed. Interviews with representatives of these institutions helped provide and clarify vital information on the current state of microfinance in Ghana, policies, regulations guiding the industry and forms of support provided to MFIs and SMEs. The information gathered from these institutions helped to triangulate data received from the MFI cases and SME participants. The key informants from these institutions also helped to negotiate initial access to some of the MFI cases. Interview guides, sample information sheets and letters used to negotiate access to interview the research participants are attached as Appendix 2, 3 and 4. Because of the flexibility offered by key informant interviews, (Khairul, & Noor, 2008; Marshall & Rossman, 1999), the method

enabled me to collect data from different participants while still covering the same areas of data collection. This helped explore the research issues under investigation in greater depth.

The researcher posed questions relating to the research questions, guided by the interview guides, to elicit information from MFIs, SME participants as well as the key informants. The questions posed to key informants reflected key microfinance issues identified through the literature review that were developed into topics. The researcher maintained an open conversation and flexible interviewing style to allow the key informants to relax and engage in a natural conversation, and to allow further probing. The researcher encouraged the participants to discuss any issue of importance to them regarding microfinance in Ghana that impacts SMEs growth and sustainability. This was to allow the participants to express their experiences, values, and expectations without constraint. Patton (2002) emphasises the importance of open-ended prompts as they yield key informant responses about people's experiences, perceptions, opinions, feelings and knowledge.

The telephone contacts of the key informants were collected after the interviews for further clarification where necessary. During data coding and analysis, some were contacted again through telephone and e-mails to clarify a few issues. This was to achieve internal validity of the data, as Lincoln and Guba (1985) have noted, in seeking the opinions of participants to be interviewed, while the participants collectively shared the same experience, their perceptions of this experience may at times differ.

The data collection instruments were interview guides. The interview guides were pre-tested with two MFIs and four SME owners. The rationale was to assess the appropriateness of the wording, order and duration of the questions. Pre-testing the study instruments also enabled the researcher to assess the reliability and validity of the questions. Thus, it assessed whether research protocols were followed and whether proposed instruments were appropriate in

answering the research questions. Interviews with key informants lasted for an hour to one and half hours each, while individual MFI and SMEs' interviews lasted between one hour to one and a half hours.

All the interviews conducted were recorded with an audiotape. Handwritten notes were also made during and after each interview so that if the recording failed the information was not lost. The notes were used to validate and clarify the recorded data transcribed.

4.6.4 Document Analysis

In addition to interviews, operational reports of MFIs and SMEs were obtained where available for analysing to ascertain quantitative information on their financial ratios. Annual reports from microfinance institutions and policy documents provided by the Bank of Ghana microfinance department were reviewed and relevant information gleaned to complement and triangulate data generated through the in-depth interviews. The financial records (quantitative data) of the microfinance institutions were obtained where possible to help analyse their financial sustainability and financial independence. This approach was necessary because of the themes that emerged from the interviews which needed further investigation and triangulation through quantitative data. In a few cases, company brochures, company online sites, written documents, annual reports and other relevant documents were provided by the MFIs to support information provided through interviews.

Thus, some minimal quantitative data was collected and analysed to triangulate the qualitative data. This approach is premised on the fact that all methods have biases and weaknesses and collection of data from different sources neutralise the weaknesses of each form. Thus, the data was triangulated to seek convergence (Creswell, 2014).

4.6.5 Field Observations

All the MFIs and SME owners were interviewed in their work places. This gave the researcher the opportunity to observe their operations directly on site. The researcher had the opportunity to interact with the MFIs and SMEs' owners, staff and the MFI clients who were present on site during the data collection. This provided the researcher an opportunity to observe the interactions between the MFIs and SMEs. At the business premises of the SMEs, the researcher observed how they kept their records and operated their businesses. The entire business environment was observed in order to understand the challenges they faced. The field observations helped the researcher to listen, question and interpret participants' responses to interview questions. Field notes were taken on their business activities to gain in-depth understanding of their operations. Thus, the observations helped to refine the interview questions and discussions during data collection. This process enhanced the researcher's analysis and interpretation of the data generated.

4.7 Case Study Site Selection and General Description

This section focuses on the six districts and fifteen (15) microfinance cases and the SME clients (95) who were selected to participate in the study, the selection criteria used and justification for choices made. The cases were carefully selected to represent the viewpoints and experiences that reflect key issues (problems) in the microfinance sub-sector of the Ghanaian economy. The goal was to produce data that was conceptually, not statistically, representative of microfinance institutions and SMEs in the specific context (Ulin, Robinson & Tolley, 2005). By doing so, it would help in achieving external validity that allowed the findings, outcomes and lessons learned from the case studies to be relevant to both microfinance institutions and SMEs with similar contextual factors.

The choice of the study area was influenced by the fact that micro, small, and medium enterprises (MSMEs) in the formal and informal sectors play a major role in Ghana’s economy, contributing about 85% of total employment and up to 70% of GDP. SMEs also constitute about 92% of businesses in the country (Abor & Quartey, 2010). The Greater Accra Region (GAR) has the highest concentration of SMEs in Ghana due to its large population size. The purpose of selecting the case studies was to generate rich information to answer the research questions. Thus, six contiguous districts with similar characteristics, a particularly high concentration of MFIs, with both urban and peri-urban characteristics were purposively selected to provide the rich information needed. (see Figure 4.1).

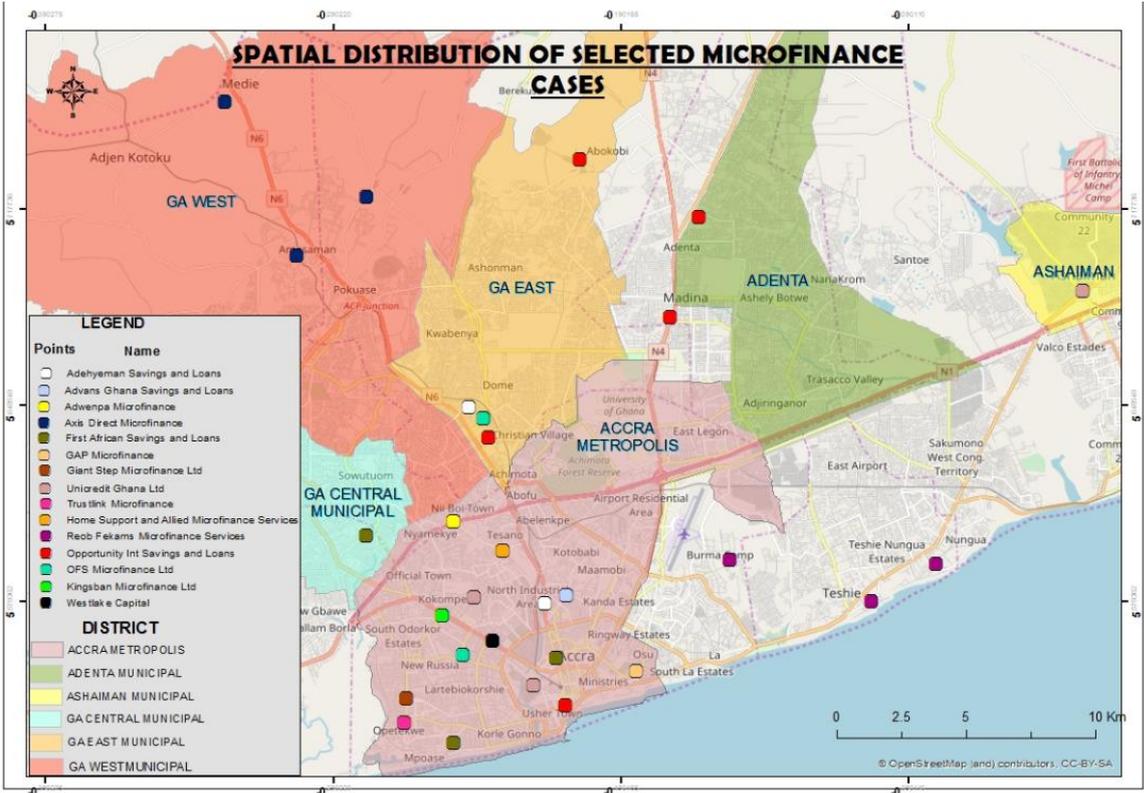


Figure 4-1 Spatial distribution of microfinance institutions sampled for the study

Thus, the main criteria used for the selection of the six districts were their urban and peri-urban nature which had allowed them to become convergence zones or growth poles attracting MFIs leading also to high concentration of SMEs. A World Bank (2015) study revealed that, in recent years, small scale enterprises are relocating from the Accra city centre to surrounding

peri-urban municipalities and districts such as Adenta, Ga West and Ga East districts, where land is relatively cheaper for commercial purposes. Thus, the selected MFIs have extensive operations in these districts.

Another reason for the choice of the Greater Accra region was language. As noted by Liamputtong (2013), the most common difficulty encountered by ‘outsider’ researchers’ is inability to speak the local or native language. Seidman (2013) asserts that language, the words we use to guide the participants and the words they use to respond, is inherently complex in seeking to understand the lived experience of interview participants. This can be problematic because ‘...different languages create and express different realities. It is difficult to understand another culture without understanding the language of the people in that culture’ (Kapborg & Bertero, 2002, p. 56). As demonstrated by Van Manen, (1990, p. 36), “the aim of phenomenology is to convert lived experience into textual expressions of its essence.” Meaning-making is heavily reliant on language. In qualitative research, language is crucial not only to the research process, but also to the resulting data and its interpretation (Liamputtong, 2010). Language allows the researcher and participants to interact to produce an understanding of the social world of the latter (Hennink, 2008). To minimise this complexity, and to enhance the interviewing process I chose the Greater Accra region of Ghana, where the local language is Ga-Adangbe, which I understand and speak fluently. Bowler (1997) suggests that at the least the researchers need to get some simple linguistic competency. Most importantly, simple knowledge of the participants’ language will make it easy for the researcher to establish rapport with them.

In the case of the microfinance institutions, they were selected based on (i) the tiering system and (ii) their reach (geographical spread) to serve SMEs’ growth in the selected districts and (3) based on their willingness and consent to participate in the study. The MFIs in Ghana were

grouped into four tiers by the Central Bank of Ghana (see Section 5.2). Tier one MFIs are made up of the Savings and Loans Companies (S&Ls) and Rural Community Banks (RCBs). Tier two MFIs were both deposit taking and lending institutions. Tier three microfinance institutions were money lenders and financial Non-Governmental Organisations (FNGOs) engaged in microfinance services. They were allowed under the regulation to engage in lending activities only and were classified as non-deposit-taking institutions. Tier four consisted of ‘susu’ groups, ROSCA’s, self-help groups and individual money lenders that were self-regulated (Chapter 3 provides a comprehensive overview). All the four different tiers of microfinance institutions belonged to the non-bank financial institutions sector.

As explained in chapter 3, the microfinance institutions were structured such that each tier caters for the funding needs of a segment of SMEs in the country. The demand for financial services by small and medium size enterprises were supposed to be catered for by the tier one institutions, while very small and micro enterprises were to be catered for by the tiers two, three and four (see Chapter 3). The researcher selected tier one and two MFIs because these two tiers engaged in both lending and deposit taking financial activities geared towards micro, small and medium enterprises. Tier one and two also constituted the greater proportion (560) of MFIs in the country at the time of the study. Recognisance study through the stakeholders’ seminars and workshops revealed that tier one MFIs were well regulated and established while tier two was regulated (from 2008) with further changes in their regulatory framework in 2011, 2013 and 2015 in response to difficulties in the sector.⁴ The operations of the tier two MFIs were affected due to the frequent changes in the microfinance sub-sector of the country.⁵ Tier three

⁴ See Appendix 8 for Bank of Ghana notifications of changes to capital requirements of MFIs in Ghana

⁵ The failure of some 30 tier two MFIs and revocation of licences of 70 tier two MFIs has been reported by the Business Community.

Source: <https://www.ghanabusinessnews.com/2013/08/19/30-microfinance-institutions-collapse-and-clients-lose-money/>

on the other hand engaged only in lending activities. Although tier four MFIs engaged in both lending and deposit taking, they constitute the informal sector that could not be easily identified and interviewed. Thus, selection of tier one and two represents all the microfinancing activities of all the four tiers and are also more formalised and relatively easy to access.

Additionally, the researcher also sought to maximise the geographic proximity and accessibility of the case study districts to enable easy access to the MFIs and SME owners due to limited resources (time and finance). Thus, contiguous districts presented a better advantage.

4.8 Geographical Location

Ghana is a West African country which shares boundaries with three countries, Cote d'Ivoire to the West, Burkina Faso to the North and Togo to the East (GSS, 2014e). Figure 4.2 shows the map of Ghana in the context of Africa.

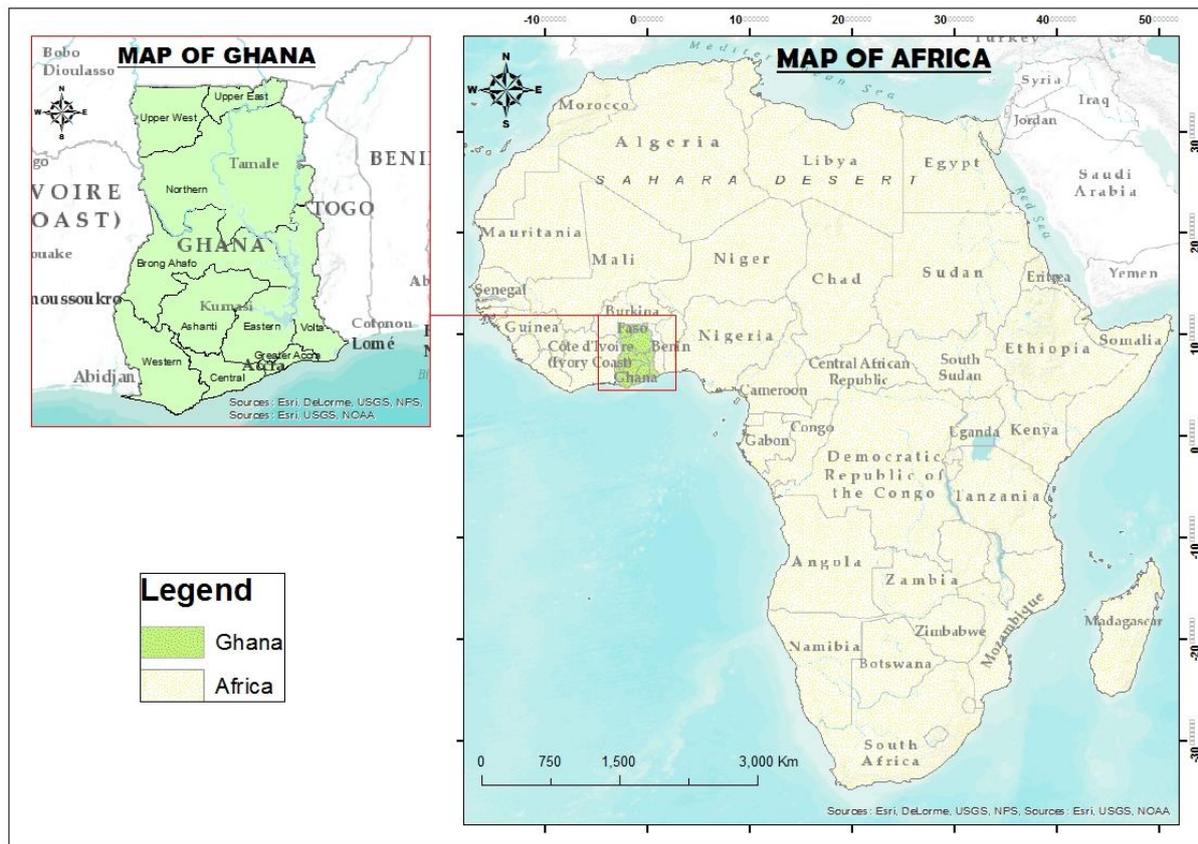


Figure 4-2 Ghana in the Context of Africa

It is bordered in the South by the Gulf of Guinea. The country's population in 2016 was estimated at 28,308,301 (Ghana Statistical Service [GSS], 2016a). With the land area of 238,557 sq km, Ghana is divided into 10 administrative regions and 216 districts. District Assemblies were established in 1988 under the Local Government Law, 1988 (PNDC Law 207), as the lowest administrative units of the decentralised local government system. The Assemblies, as local government authorities, have the responsibility for implementing national government policies, ensuring the overall development of the districts, including, including promotion of small scale enterprises development (Gyan-Baffour, 2003; Friedrich-Ebert Stiftung Ghana, 2016).

Ghana has made remarkable strides towards consolidating its democratic dividend⁶ since 1992, however, economic growth stagnation in recent years has been a concern for many because of the negative impact on employment creation and poverty reduction (AfDB/OECD/UNDP, 2016). The Gross Domestic Product (GDP) was \$42.69 billion in 2016, but economic growth declined from 4.0% in 2014 to 3.7% in 2015 (AfDB/OECD/UNDP, 2016). The services sector contributed 53.3% to GDP in 2015, followed by industry (26.6%), and agriculture contributing 20.2% (GSS, 2016b). Despite growing dominance of the services sector, Ghana's economy continues to depend heavily on the export of a small number of key primary commodities predominantly cocoa, timber and recently oil (Institute of Statistical, Social & Economic Research [ISSER], 2013). Gold is the dominant foreign exchange earner from the mining industry and contributes just under a quarter of the country's foreign exchange earnings (ISSER, 2013). The country has large deposits of diamonds, manganese and bauxite (Yelpaala & Ali, 2005). Small and Medium Enterprises (SMEs) in the formal and informal sectors play a major role in Ghana's economy, contributing about 85% of total employment in manufacturing and up to 70% of GDP. SMEs also account for about 92% of businesses in the country (Abor & Quartey, 2010).

4.8.1 The Greater Accra Region

This region (GAR) in Ghana lies in the south-eastern part of the country along the Gulf of Guinea National Population Council [NPC, Ghana], 2017). Its natural vegetation is a coastal savannah of grasslands and thickets, with a small amount of forest inland towards the East in the Ga West District. It also has many miles of coastline. Its population grew from 4,010,054

⁶ democratic dividend is captured by two variables: the actual level of liberty enjoyed by citizens, and the expectation of future liberties. Positive democratic dividend is likened to democratic progress (Flores and Nureedin, 2006)

in 2010 to 4,613,637 in 2016 (GSS, 2016a). The NPC (2017) reports that “with a growth rate of 2.5% the population is estimated to increase to 5.9 million by 2040. The age structure of the region suggests that the proportion of the population aged 0-14 (under 15 years) is 31.3%, and those aged 15-64 and 65+ are 62.5% and 3.5% respectively.

The NPC (2017) reports that the GAR “occupies a total land area of 3,245” square kilometres, making “it the smallest region of the country in terms of size.” GAR shares boundaries with the Gulf of Guinea to the South, the Volta region to the East, the Eastern region to the north and Central region to the West (GSS, 2011). Figure 4.3 shows the map of Greater Accra region in the context of Ghana.

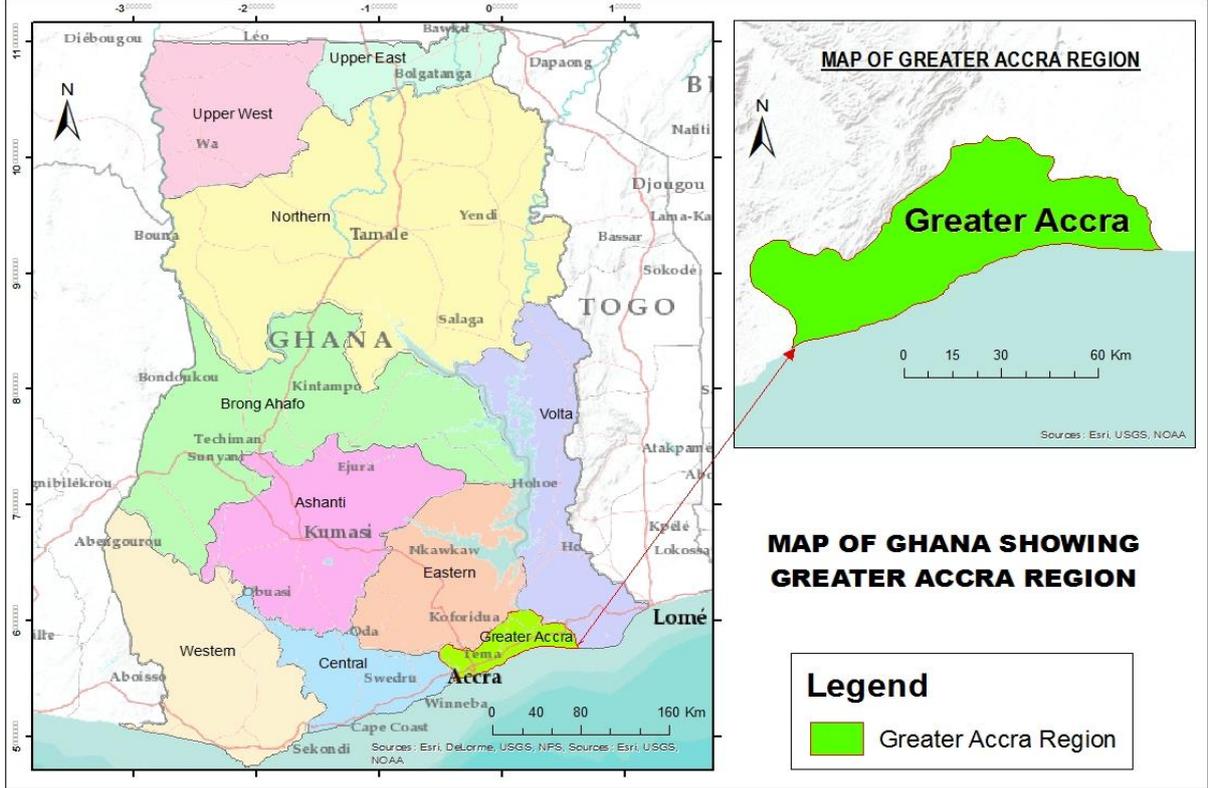


Figure 4-3 Map of Greater Accra region in the context of Ghana.

The 2010 population and housing census shows that the region is 90.5% urbanised and the majority of the economically active population are engaged in wholesale and retail trade (32%), manufacturing (15%) and only 5.2 percent engaged in agriculture (GSS, 2012). In addition, more females (69.3%) are in informal self-employment, compared to 60% of males who are in the sector (GSS, 2013). It is the most populous region in the country, in part because it hosts the national capital city, Accra. The region's population density from 2010 population and housing census was 1,236 persons per square kilometre (GSS, 2012).

At the time of the study, the region was divided into 16 administrative districts: Accra, Tema, Adenta, Ashaiman, Ga East, Ga South, Ga West, La Dade Kotopon, Ledzokuku-Krowor, Ga Central, Ada West, Dangme (Ada) East, Dangme West (Shai Osudoku), Kpone Katamanso, La Nkwantanang Madina, and Ningo Prampram. In recent years, manufacturing firms and small-scale enterprises are relocating from the Accra city centre to surrounding peri-urban municipalities and districts such as Adenta, Ga West and Ga East, where land is available relatively more cheaply for housing and commercial purposes (World Bank, 2015). The Greater Accra Region of Ghana was thus purposively chosen for the study based on the rich characteristics of the region as well as the huge population size which is noted to be important for microfinance activity to flourish.

4.8.2 Profile of the Study Districts

Limited time and funds would not allow the researcher to collect data from all the districts in the region and the entire country, thus in terms of scope the research was limited to the southern sector of Ghana. Six districts out of the 16 districts of Greater Accra region were selected. The choice of six selected districts out of 16 districts of the Greater Accra region of Ghana was informed by the time and financial constraints the researcher faced. The distinctive characteristics of the selected districts in relation to population density, MFIs' concentration

and corresponding concentration of SME activities (discussed further in subsequent sections) also made them suitable for the study. Figure 4.4 shows the selected study districts from the Greater Accra region of Ghana. The districts are described in detail next.

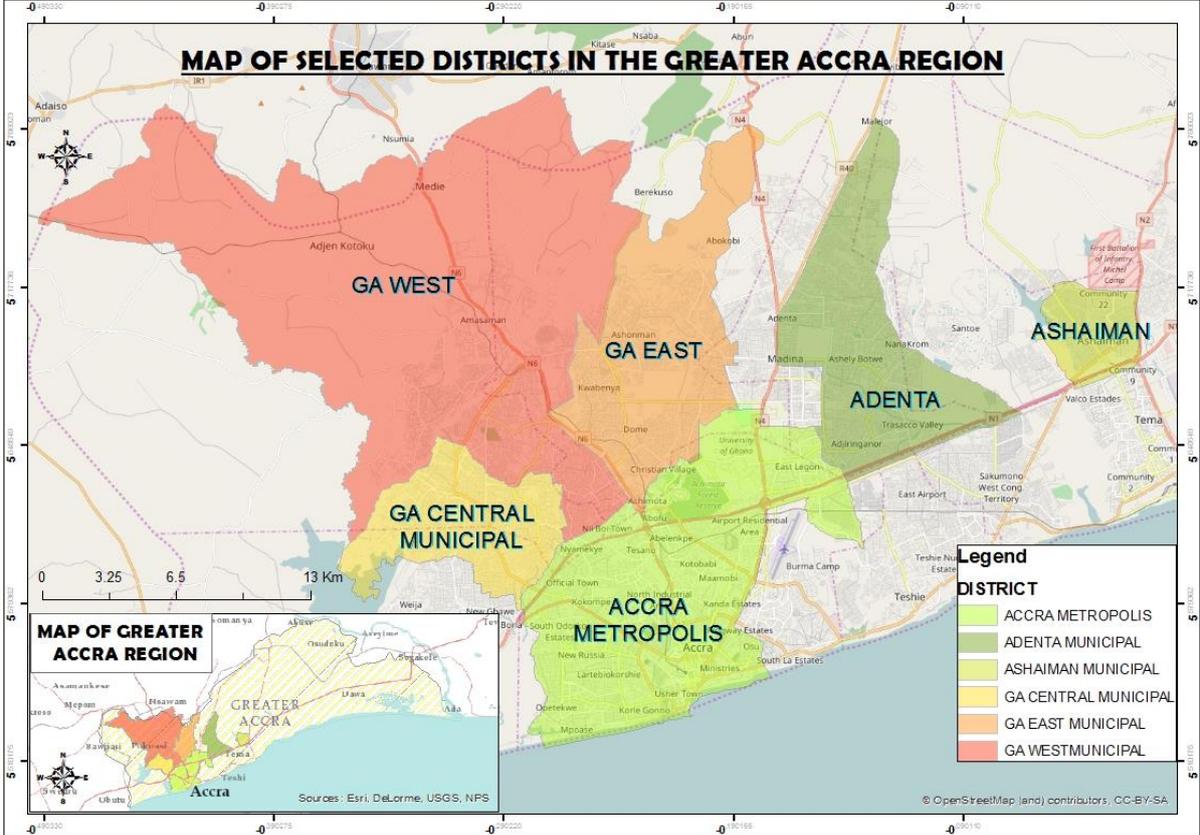


Figure 4-4 Selected districts for the study

4.8.2.1 Ga East District

The Ga East Municipal Assembly (district) is in the northern part of the Greater Accra Region on a land size of about 96 square kilometres, with Abokobi as its capital. It is an urban municipality with a total population of 198,220 (2010 population and housing census) (GSS, 2014a). The municipality is densely populated with a density of 1,214 persons per square kilometre. At the time of the study, it was sub-divided into two sub-administrative districts, namely Abokobi zonal council and Dome zonal council. It has about 52 settlements with about

82 percent of the population urbanised. The majority of the economically active population of the district are in informal self-employment in the trading and services sectors (35%), while the economically active population in rural parts of the district are mainly in farming, poultry and livestock rearing. Abokobi, the municipal capital is about 29 kilometres from Accra.

4.8.2.2 Ga West District

The Ga West district (municipality) is located to the North-West of the Greater Accra Region, occupying a land area of approximately 305.4 square kilometres. It had a total population of 219,788 in 2010 (GSS, 2014b), with Amasaman as its capital. Sixty-three (63) percent of the district's population is urban and 37 percent rural. At the time of the study, it was sub-divided into six sub-administrative districts (zonal councils) namely; Amasaman, Ofankor, Pokuase, Mayera, Ayikai Doblo and Kotoku zonal councils. Agriculture, light industry and commerce are the three major economic sectors in the district. The majority of the district's economically active population are directly engaged in farming and related activities (Ga West District Assembly, 2015). Data for this study were collected among SMEs in Pokuase town and its environs.

4.8.2.3 Ga Central District

The Ga Central Municipality (GCM) (district) covers a total land area of approximately 48.997 square kilometres, with a population of 117,220 according to the 2010 population and housing census, with inter-censal growth rate of 3.4 percent (GSS, 2014c; GCMA, 2014). This largely urban municipality was created in 2012 with the capital at Sowutuom. It shares boundaries with Accra Metropolitan Assembly to the South, Ga West to the East and North, and Ga South Assembly to the west (GCMA, 2014). There are about 52 communities in the municipality with a high population concentration mainly along the urban and peri-urban areas of the Municipality such as Ablekuma, Ablekuman-Anyaa, Anyaa and Santa Marie (GCMA, 2014).

At the time of the study, the municipality was sub-divided into two zonal councils (sub-administrative districts), which are; Anyaa and Chantan zonal councils. The local economy is dominated by the services sector, followed by light industrial establishments, mining and quarrying, retail trade, and a small proportion of the rural population in agriculture-related activities. SMEs in the Ablekuma town were recruited to participate in the study as one of the case study MFIs has extensive operations in the area.

4.8.2.4 Ashaiman District (Municipality)

The Ashaiman Municipality (district) is a completely urban, densely populated, sprawling settlement. The municipality had a population of 190,972 in 2010 and 228,310 in 2014, with a population growth rate of 4.6 percent (GSS, 2014d). It is located about four kilometres from the industrial city of Tema (a major seaport in Ghana) and some 20 kilometres east of the centre of Accra. It experienced phenomenal population and spatial growth beginning in the late 1950s due to its proximity to the Tema port and industrial hub (Development Planning Unit/University College London, 2005). The municipality is sub-divided into seven zonal councils. Ashaiman is a very important cosmopolitan melting pot of diverse ethnic groups drawn from across the country and beyond. The local economy is dominated by light industrial manufacturing establishments, commerce, services and agriculture (GSS, 2014d).

4.8.2.5 Madina/Adenta District (Municipality)

The Adenta Municipal Assembly (district) is centrally located in the Greater Accra Region, and is currently divided into four zonal councils namely: Gbentaana, Koose, Sutrunaa and Nii Ashaley. The Adenta Municipal Assembly has a “total land area of 103.44” square kilometres (GCMA, 2014). It shares boundaries with the Accra Metropolitan Assembly to the South, Ga West to the East and North, and Ga South Assembly to the west. Its population was 78,215 in 2010, with an inter-censal growth rate of 3.4 percent. About 63 percent of the district’s

population lives in urban settlements (GSS, 2014e). The local economy of the district is dominated by the services, retail trading and light industrial establishments (GSS, 2014e).

4.8.2.6 Accra Metropolis (district)

The Accra Metropolis is completely urbanised with a total population of 1,665,086 in 2010, representing 17% of Ghana's entire population GSS (2014). It is the mostly densely populated administrative district of the region. At the time of the study, it was sub-divided into 10 sub-metropolitan councils: Osu-Klottey, Ashiedu-Keteke, Ablekuma South, Ablekuma North, Ablekuma Central, Okaikoi North, Okaikoi South, Ayawaso West, Ayawaso East and Ayawaso Central (Accra Metropolitan Assembly, 2015). Apart from being the financial and economic centre of the region as well as the rest of the country, the Accra metropolis is a bustling central business district of services, and wholesale and retail trade. It also hosts some manufacturing industries (GSS, 2014f).

4.9 Steps Adopted for Data Analysis and Interpretation

The extensive notes from the data collection and transcription from the recorded tapes were the raw data for analysis. A Computer Assisted Qualitative Data Analysis (CAQDAS) software, QSR NVivo 11 Pro software was used to analyse the data. This was to aid continuity and increase both transparency and the methodological rigour of the analysis processes (Saunders, et al., 2012). The software helped to store, organise, sort, and retrieve literature sources, all administrative and documentary data related to the research study, as well as in text interview data collected from the field. The approach used for the data analysis and interpretation consists of six steps as shown in Figure 4.5 (adopted from Creswell, 2014, p. 197).

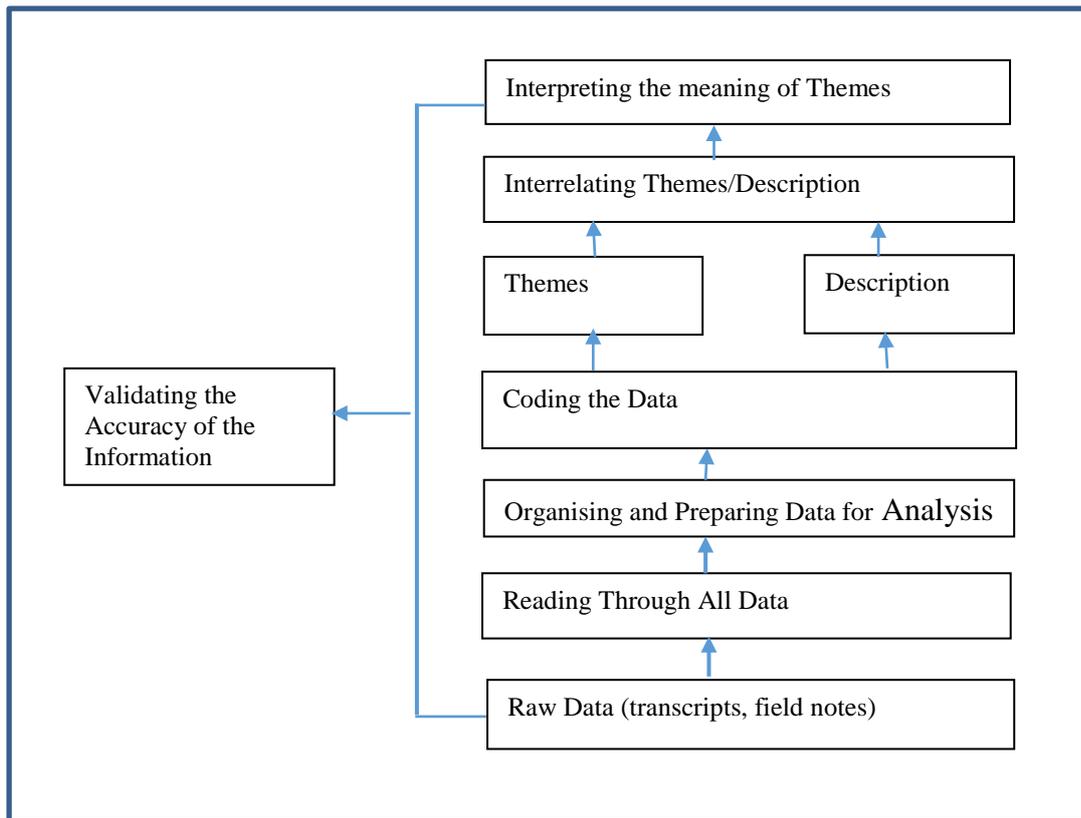


Figure 4-5 Qualitative Data Analysis Approach.

The six steps based on Creswell (2014, p. 197) are summarised as:

Step 1. Organise and prepare data for analysis.

Step 2. Read and take glossary look at the data.

Step 3. Code the data. At this stage, the data are organised by bracketing chunks of it and writing a word representing a category in the margins.

Step 4. Development of themes.

Step 5. Represent description and themes in the qualitative narrative.

Step 6. Interpretation of the results or findings.

The NVivo CAQDAS was useful for the management of the interview data collected from the 15 MFI cases, 12 Key Informants and 95 SME participants. The audio recorded interview data were downloaded from the audio recorder and transcribed verbatim into word document files by the researcher to ensure accuracy and maintain authenticity and validity of the data collected. The NVivo software has functionalities that aided in the efficient storage, organisation and management of the transcribed data to enable analysis to be made (Step 1). All the transcribed data were read, reread and reflected on to get a sense of their overall meaning (Step 2). This involved generating transcript summaries, document summaries and self-memos which were produced during this process using NVivos functionalities. Individual transcript summaries were produced for the MFI Case studies and key informants and one transcript summary was produced for the SME cases. The software supported the qualitative analyses of the transcribed text. It enabled the transcribed verbatim data to be coded (Bazeley, 2007; Saldana, 2009) (Step 3). All interview transcripts were coded based on the views, opinions, and perspectives of the participants. The coded data were used to generate themes and categories and illustrative case examples (Imas & Rist, 2009) (Step 4). Themes that emerged were compared to establish interconnectivity, diversity and to help build additional layers of complex analysis (Step 4). Coding was systematically done first into tree nodes and sub-nodes or interpretive categories using the NVivo software. Some of the codes were predetermined based on the research questions while others emerged during the data analysis. The data were further coded and recoded as patterns, meanings and significance emerged from the data through analytic reflections (Miles and Huberman, 1994) (Step 2). Figure 4.6 is an illustration of the coding system.

Nodes						
Name	Sources	References	Created On	Created By		
MF1 CHALLENGES	●	14	45	20/08/2016 3:30 AM	PEN	
Reasons for Default	●	3	4	23/08/2016 1:25 AM	PEN	
Client Challenges	●	26	44	24/08/2016 9:22 AM	PEN	
Fragmentation	●	11	14	24/08/2016 10:40 AM	PEN	
Image of Microfinance	●	13	20	25/08/2016 12:59 AM	PEN	
Threats	●	2	4	26/08/2016 9:21 AM	PEN	
Risks of lending to small businesses	●	1	1	27/09/2016 4:01 PM	PEN	
SOURCES OF MFI FUNDS	●	8	11	20/08/2016 7:02 AM	PEN	
Total Assets	●	1	1	5/04/2017 3:13 AM	PEN	
Total Liabilities	●	1	1	5/04/2017 3:14 AM	PEN	
Interest Rates	●	6	9	20/08/2016 7:07 AM	PEN	
Major Source of finance	●	4	8	24/08/2016 12:43 AM	PEN	
Operational Expenses	●	4	4	27/08/2016 4:15 AM	PEN	
MF1 SUSTAINABILITY	●	4	4	22/08/2016 4:31 AM	PEN	
Opportunities and Prospects	●	3	3	20/08/2016 3:45 AM	PEN	
Recovery Rate	●	1	1	23/08/2016 1:16 AM	PEN	
Product Characteristics	●	12	18	25/08/2016 1:10 PM	PEN	
Multiple Borrowing	●	4	4	28/08/2017 5:01 AM	PEN	
MF1 OUTREACH	●	5	7	22/08/2016 4:44 AM	PEN	

Figure 4-6 Coding System Illustrating tree and branch nodes

Emerging pattern and, interrelationships between the codes were identified and grouped under major themes and sub-themes and assessed against an existing body of knowledge from the microfinance literature and the conceptual framework developed in section 2.13 (Step 4). The analysis process begun in the field as insights emerged, hence data collection and analysis overlapped. To get a better understanding and insight on the emerging issues, further clarifications were sought from the participants by going back to interview some of them again when it was deemed necessary to do so, especially the SMEs owners and MFI representatives. Coding and memoing functionalities of NVivo also aided in reducing the data to make sense of the relevant narratives (Step 5).

Illustrations of how NVivo aided in management of source documents, coding and displays of the data are presented as Appendix 9. An inductive process was employed to examine closely

the narratives, and the use of particular words, descriptions, processes and experiences in line with MFI and SME activities (Borbasi & Jackson, 2012).

4.9.1 Data Analysis and Interpretation

There was a three-stage analysis process. One focused on the MFI case narratives, the second on the SME client narratives and the third on the key informant narratives. Key themes and interrelationships emerging from the MFI and SME case narratives were juxtaposed against documentary evidence, the microfinance literature on sustainability, outreach and impact and the conceptual framework on MFI sustainability and SME sustainability to aid in synthesising the major exploratory findings. The major themes that emerged based on the analysis of MFI cases as well as the sub themes were used to develop the results chapters of the thesis (chapters 5-9). The major themes identified are:

- a) Regulation and operation of MFIs (Chapter 6);
- b) Sustainability and financial viability of microfinance institutions; (Chapter 7);
- c) Outreach and impact of microfinance institutions (Chapter 7);
- d) SMEs' sustainability (Chapter 8);
- e) Challenges of supply and demand-sides of microfinance (Chapters 6-9); and
- f) Forms of support needed by MFIs and SMEs (Chapter 9).

The various sub-themes that emerged constituted the sub-sections of the discussion chapters in the thesis. Table 4.3 shows the themes that emerged from the data analysis and their corresponding result chapters and specific research questions they addressed.

Table 4-3 Themes and related Research Questions

Themes	Chapters	Research Question Addressed
Regulation and operation of MFIs	6	<p>How effective has microfinance been in promoting SMEs' sustainability?</p> <p>What has been the impact of MFI services on small businesses' growth and sustainability?</p> <p>What are the factors affecting microfinance institutions in Ghana?</p> <ul style="list-style-type: none"> • How do the regulatory, policy and institutional structures of microfinance institutions affect their functions/roles in promoting SMEs' financial sustainability and growth?
Sustainability and financial viability of microfinance institutions	7	What is the sustainability and financial independence of MFIs serving SMEs?
SMEs' sustainability	8	What has been the impact of MFIs' services on small businesses' growth and sustainability?
Challenges of supply and demand-sides of microfinance	6-9	<p>What challenges do SMEs face?</p> <p>What are the challenges faced by MFIs in the delivery of their services to SMEs?</p>
Forms of support needed by MFIs and SMEs	9	What forms of institutional support do MFIs and SMEs receive to enhance their effectiveness?

Throughout the analysis process, the researcher inductively searched the data to find answers to the research questions. The search also involved seeking understanding into novel findings emerging from exploration of microfinance in the context of SMEs and MFIs in Ghana as compared to other contexts and the literature on microfinance and SME sustainability. The qualitative data provided insights into the MFI's and SME's operations, strengths, profitability,

growth, challenges and level of sustainability based on the literature. Zeller and Meyer's (2003) triangle of microfinance concepts guided interpretation of the themes related to the MFIs. Havers (1996) and Robinsons' (2001) levels of MFI sustainability, microfinance delivery models/paradigms and Olson et al.s' (2003) SME sustainability concepts, among others, guided the interpretation and reflections that helped to answer the research questions. The researcher was constantly aware of her own subjectivity and made sure that it did not affect the interpretations given to the data to help maintain a high level of objectivity. Appendix 10 shows the dominantly used words by the SMEs during the interviews. The word cloud revealed "loans", "business" and "money" as dominant word themes frequently used by the SMEs. The word frequency maps, word cloud and tree maps were used to explore the data to draw out meanings and interpretations of the data. Displays such as NVivo's memoing functionality also helped to ensure transparency by keeping track of analytical ideas and connections, and authenticity by helping to keep the researcher's preconceptions separated from the analysis process (see Appendix 9-6).

4.9.2 Presentation of findings and Prevalence of Interview Responses in Discussion

The transcripts of 15 MFI participants, 95 SMEs and 12 key informants were analysed against existing literature and concepts of microfinance to provide an answer to the overarching research objective. Relevant quotations from the participants were used to illustrate key findings in Chapters 6 to 9. The results and discussions are presented together in chapters 6 to 9 to provide greater immediate interpretation and meaning to the responses given by the participants. The findings of this study are presented based on findings related to the supply-side of microfinance and that related to the demand-side represented by the SMEs, however, in some cases the findings required a discussion of both MFIs and SME findings concurrently.

Also, due to the qualitative nature of the study, terms such as ‘some’, ‘most’, ‘all’, ‘majority’, ‘minority’ were used to describe the prevalence of participants’ responses to an issue. Table 4.4 shows the prevalence level for each of the terms used.

Table 4-4 Prevalence Level of Responses

Term used	Prevalence Rate
All	100%
Majority	80%
Most	60%
Some	40%
Minority	20%

Any conflicting evidence presented by the participants were also presented and analysed to ensure internal validity and objectivity in the interpretation of the results was maintained.

4.9.3 Formatting Style of Quotations from Interview Participants

The formatting style for quotations cited within the thesis from the in-depth interview responses is illustrated in Table 4.5 and in the example provided below.

Table 4-5 Quotation Formatting Style

Quotations	Representation
Participant quotes	Italicised and indented
Identification number code for each participant	
An ' MFI ' starting means participant is representing a microfinance institution	MFI
A KI starting means participant is a key informant	KI
A GAE starting represents an SME participant from the Ga East District	GAE
An ACC starting represents an SME participant from the Accra Metropolitan District	ACC
An ADE starting represents an SME participant from the Adenta District	ADE
A POK starting represents an SME participant from the Pokuase District of the larger Ga West District	POK
An ASH starting represents an SME participant from the Ashiaman District	ASH
An ABL starting represents an SME participant from the Ablekuma District of the larger Ga Central District	ABL

Quotations from participants are indented and italicised. Each participant is represented by an identification number code. The first-two or first-three letters in the code, for example **MFI**, indicates the participant is from a microfinance institution. The prefix, '**MFI**' is followed by the microfinance institution's name, for example, Giant Steps (**GS**) and then followed by an identification number **008** (meaning the 8th microfinance institution interviewed). Thus, a quotation associated with the Giant Step microfinance institution was referenced as "**MFIGS008**" and followed by the date of the interview. All key informants are represented with an identification number code beginning with '**KI**', followed by initials of the institution and a number, for example **KIBOG067** identifies a key informant from the Bank of Ghana (BOG). Similarly, all SME participants are represented with an identification number code

beginning with the first three letters of the district from which they were selected. The identification numbered codes are bold capital letters and numbers. See Table 4.5 for details. An example of a quotation excerpt of a small business manager from Ablekuma district is provided as:

I was robbed. I was duped so I lost all my working capital. If not, I wouldn't have gone for any MFI Bank loan (**ABLSF026**, May 16, 2016).

Thus, in the quote above, '**ABL**' represents Ablekuma district and '**S**' represents SME participant, '**F**' represents a female SME participant, followed by a serial number **026**, meaning the 26th female SME owner to be interviewed. The date, 'May 16, 2016' representing the date on which the SME was interviewed is also included in the quote. This naming classification was to help identify easily the recorded tapes and transcripts for each participant.

4.9.4 Validity, Reliability of the Study

Referring to Arksey and Knight (1999, p. 52) Gray (2004, p. 219) suggests that, validity is strengthened by:

- Using interview techniques that build rapport, trust and openness and which give informants scope to express the way they see things (Arksey & Knight, 1999, p. 52);
- Prompting informants to illustrate and expand on their initial response (Arksey & Knight, 1999, p. 52);
- Not asking questions that are irrelevant to the research topic;
- Ensuring that the interview process is sufficiently long for subjects to be explored in depth; and

- Construct interviewing schedules that contain questions drawn from literature and from pilot work with respondents.

The concept of ‘validity’ is applied to the research process based on the steps outlined. Multiple methods were also used to collect data from a variety of different sources (SMEs, MFIs, key informants, documents) to enable triangulation which helps to ensure internal validity and reliability. Correct procedures have been applied to find answers to the research questions posed. The findings of this study are reliable because quality procedures were used to collect and analyse the data generated from the field to enable repeatability and accuracy. The participants’ selection process was objectively done by ensuring that MFIs in the study area had a fair chance of participating and each conclusion drawn was done to the best ability of the researcher without introducing her own presumptions and interests. The study is not without the researcher’s subjectivity as this is an integral part of her way of thinking that is ‘conditioned’ by her educational background, discipline, philosophy, experience and skills.

4.10 Ethical Procedures and Considerations

Gray (2013, p. 59) cautions that the key to ethical involvement is not just obtaining consent but *informed* consent. This includes explaining to the “participants,

- The aim of the research;
- “Who will be undertaking it;
- Who is being asked to participate;
- What kind of information is being sought;
- How much of the participants’ time is required;
- The participation is voluntary; and that
- Responding to all questions is voluntary;

- “Who will have access to the data once it is collected;
- How anonymity of respondents will be preserved; and
- Who it should be returned to and by when” (Gray, 2013, p. 59).

Steps taken to ensure ethical principles were adhered to are described as follows. This study collected data from MFI chief executives or owner/managers, MFI key informants from Government Ministries, Departments and Agencies (MDAs), the Central Bank, MFI Apexes and SME owner/managers. The researcher could predict and anticipate the ethical issues that may arise from gaining access and interviewing such high-level executives during the study. Thus, ethical principles were strictly followed and respected to protect the interests of the participants. The researcher received approval from the University of New England Human Research Ethics Committee on February 2016, with approval number **HE16-006**, to conduct this research. All appropriate measures were taken to ensure that the study posed no risks in whatever way or form to the participants. Verbal and written informed consent was sought before the start of interviews. Similarly, as stated by Mack, Woodsong, Macqueen, Guest and Namey, (2005, p. 9) informed consent is a way of maintaining that respondents appreciate what it means to participate in a research study so they can make conscious, deliberate decisions on whether to engage with the process or not.’ Thus in this study the participants were made to know (1) what to expect during the interview; (2) that they will be recorded but only with their permission; (3) that an initial agreement to participate will not commit them to continuing their involvement, and that they have the right to withdraw from the interview at any time if they wish; and (4) that they may be quoted in the research report, but if they are quoted, only those who gave consent to be identified will be identified and those who do not want to be identified will have their confidentiality maintained by identifying them with codes. In accordance with these ethical considerations codes were developed for all the participant MFIs, SMEs or key informants. A consent form was signed by each participant as evidence of their informed

consent to participate in the study (see appendix 1- 6 for sample information sheet, letters and informed consent form used to ensure that ethical principles were adhered to).

4.11 Strengths & Limitations of the Study

The strengths and limitations of the study methods employed are evaluated using both paradigm-specific quality criteria as well as meta-criteria (see the discussions and developments in Cooksey (2008)).

4.11.1 Strengths of the Study Methods

The strength of this study lies in the case study method used. As embodied in case study, the study has captured and detailed SMEs' sustainability reality by studying the selected cases in their natural contexts. The case study method approach used has allowed the study of many variable and different aspects of SMEs' sustainability and growth which were not previously predetermined or previously studied. The study also identified many areas or concepts for further study. As noted by Miles and Huberman (1994, p. 29), "multiple case sampling adds confidence to findings. It strengthens precision, the validity, and the stability of the findings." Miles and Huberman (1994:29) further argue that, "if a finding holds in one setting and, given its profile, also holds in a comparable setting but does not in a contrasting case", then the findings are "more robust". Strong procedures were in place to enhance transparency and authenticity of the qualitative findings and use of NVivo coding and memoing functionalities assisted in maintaining analytical integrity (Cooksey, 2008; Bazeley, 2007). Thus, multiple-case sampling gives us confidence that our emerging theory is generic, because we have seen it both work out, and not work out in a predictable way. While steps were taken to reduce researcher bias and SME client respondent biases, a limitation to this study is also identified as

the inability of the researcher to eliminate entirely errors in SME client responses on their financial records which could not be substantiated with documentary evidence.

4.11.2 Limitations of the Study Method

The limitations evident in this study were related to negotiating access to microfinance institutions. It was difficult to gain access to the MFIs' management staff through gatekeepers who were mainly the Human Resource Managers and Chief Executive Officers, as well as the owner/managers of the small businesses. Difficulties associated with lack of access to relevant financial and non-financial documents from the small business participants limited the extent to which the results could be triangulated. Because the research was conducted at a time when some microfinance institutions had collapsed due to fraudulent practices and were under investigation, other MFIs were reluctant to participate in the research for the fear that details of their operations might be reported to the government and law enforcement bodies. Sufficiency as a quality criterion for the interpretive research (Cooksey, 2008) was therefore not fully achieved because most of the MFI cases who were contacted to participate as information rich cases did not grant access to the researcher due to the collapse of some major MFIs in the country.

Despite the strengths of qualitative methods imparted to this study in terms of relevance and richness of the empirical evidence gathered on the growth and sustainability of SMEs, it was time consuming to generate and analyse the data collected, "as data of many types in many forms" as suggested by Cavaye (2016) were collected.

4.12 Conclusion

In this chapter, the researcher explained in detail the philosophical and paradigm foundations underpinning the choice of methods, strategies and approaches to study context selection,

sample selection, data collection, and analysis. In-depth interviews were conducted to collect data from MFI practitioners, SME owner/managers and microfinance key informants. The data were kept and analysed using the CAQDAS, NVivo Pro 11 Software. MFI cases, SME cases, key informants, historical and current documentary sources were the focus of data collection. The next chapter presents a brief description of each of the 15 MFI cases selected for analysis.

Chapter 5

Description of Selected Case Studies

5.1 Introduction

This section presents the individual characteristics of the microfinance institutions in the study. It provides a description of the MFIs in relation to their mission, vision and objectives and operational strategies. MFIs in Ghana are grouped into four categories, namely, tier one, tier two, tier three and tier four. Each tier is supposed to serve a category of SMEs. As stated in chapter 4, only tier one and two microfinance institutions were purposively selected and interviewed for the study.

5.2 Description of Tier One Microfinance Institutions

Tier one MFIs consist of finance houses, mortgage firms, savings and loan companies and rural community banks. This sub-section describes the tier one institutions relevant to this study.

5.2.1 Adehyeman (Royal) Savings and Loans Ghana

Adehyeman as it is popularly called is a Savings and Loans (S&Ls) Company located at Alajo a suburb of the Accra Metropolitan District. Adehyeman commenced operations as a tier one microfinance institution (MFI) in Ghana on January 11, 2005. It was licensed as a Non-Bank Financial Institution with the legislative right to intermediate loans and savings deposit products (Adehyeman, 2016). The mission of Adehyeman is to be a world class financial services provider through the development of innovative products and services that are customer oriented in order to maximise shareholders' returns. The vision of Adehyeman is to facilitate *“a society with access to high quality financial products and services for use to achieve their dreams and potentials and thereby help sustain the economic development of*

Ghana” (Adehyeman Savings & Loans, 2016). Hence, Adehyeman’s role in the microfinance industry in Ghana could be described as financial intermediation.

The major enterprise clients of Adehyeman are groups of individuals, micro businesses and small and medium scale enterprises (SMEs). Adehyeman has a variety of products and services on offer to businesses. All the products are tagged “royal products” bearing the name “Adehyeman” (Royal). The products are in the form of loans, savings, deposits and investments. The general eligibility criteria for prospective depositors at Adehyeman are possession of a recognized national identification (ID) such as a Voters ID, National Health Insurance Scheme (NHIS) ID, Driver’s License or Passport (Adehyeman, 2016). A minimum opening amount of GHC5 (US\$ 1.25) and one passport sized photograph are requested from clients. Adehyeman offers business loans which are basically focused on growing micro and small businesses. The institution provides quick and tailor-made loan products such as the “growth product” named “Nkosuo” meaning “progress” loan. The “Nkosuo loan” is accessible to businesses that aim at growth. Adehyeman also offers financial and business management advice to its clients and non-clients through its loan and customer relations officers. Loans are classified and named according to the volumes of loans disbursed. Thus, loan amounts between GHC 100 to GHC 1,000 (US\$ 25 – 250) are called flash loans, micro loans are loan amounts between GHC 1,001 to GHC 3,000, small loans are loan amounts between GHC 3,001 to GHC 15,000 and SME loans are GHC 15,001 and higher. The prospective clients (borrowers) must have all the approvals, licenses, authorisations and other documentations required to engage in legitimate business. In exceptional cases, Adehyeman considers licenses that are yet to be awarded, with prior approval from its credit committee. Adehyeman Savings and Loans Limited has six branches in the Greater Accra region, including Dome in the Ga East district, and Ashanti and Central regions. Thus, the institution has a presence in three regions, Greater Accra, Ashanti and Central Region. Adehyeman provides services to its clientele through

customer relationship officers and credit officers. Adehyeman's sources of funds for maintaining its loan portfolio are equity from shareholders, debt from the traditional banks, deposits and investments from individuals. The institution's effective interest rate is 60% per annum at the time of the study.

5.2.2 Advans Ghana

Advans Ghana S&Ls Limited (Advans Ghana hereafter) is a non-bank financial institution (NBFI) which was founded on 20th of November 2007 and received its license to commence operations on September 4, 2008. As a member of Advans Group, Advans Ghana benefits from its association with the group which is a growth-oriented association of financial institutions focusing on SMEs and operating in nine countries with over 550,000 clients and 4500 staff (Advans Ghana, 2015). With its head office located in Accra Newtown (Accra metropolitan district), the institution started operation on October 9, 2008 and provides credit and deposit services. The institution has fourteen branches, eight (8) in Accra metropolitan district, one in Ashaiman (Ashaiman district), two in Koforidua and Suhum (Eastern Region), one in Kumasi (Ashanti region) and one in Ho (Volta region). Advans Ghana's mission is to provide adapted financial services to SMEs (Advans Ghana, 2016). The vision of Advans Ghana is to be the preferred financial institution for MSMEs in Ghana. Its core values are transparency, integrity and professionalism. Advans Ghana focuses on entrepreneurship development as the bedrock of growth for the enterprises it serves. The clientele focus of Advans Ghana are micro, small and medium scale businesses and private school enterprises. The institution offers loans to businesses and investors in the form of working capital loans and investment products. At Advans Ghana, the working capital loans are tailor made for businesses to buy, sell and clear imported goods while the loans for investment purposes was designed to support larger businesses to purchase or rent business related fixed assets, for implementing building projects,

and for making refurbishments (Advans Ghana, 2016). Their loans at the micro-level were structured to meet the requirements of entrepreneurs and businesses interested in business expansion, fixed asset acquisition and stock purchases (Advans Ghana, 2016). Advans Ghana also offers group loan products to groups with a membership of three to six. Loan repayment periods vary between three to twenty-four months. In certain cases, fixed assets were demanded for collateral and in some cases a member from the group guaranteed for the other members of the group. Other loan products provided by Advans Ghana included personal loans, commercial car loans and loans for business enterprises to purchase generators to operate their businesses.

5.2.3 First African Savings and Loans, Ghana

The current First African Savings and Loans Company Limited (FASL), previously called First African Financial Services was established as a money transfer company in Ghana in 1992. It was the first indigenous money remittance company in the country and operated as such until 2009 when the name was changed to First African Savings and Loans Company Limited (FASL). It received a licence in 2008 to operate as a tier one microfinance institution under the backing Act 673. The company operates in 6 districts in the Greater Accra region of Ghana. The institution provides remittance services from London, Germany and America to Ghana. FASL also has a long-standing arrangement in place with Ghana Commercial Bank which makes it possible for it to provide a nationwide reach in remittance services in Ghana. Profits generated from the remittance services also serves as a source of finance for on-lending to its SME clients.

The institution's target clientele are micro, small and medium scale businesses and individual entrepreneurs. The institutions group based micro-loans are designed to serve micro-clients. The institutions target market includes shop owners and importers whose daily sale volume is

GHC 5,000 (US\$1,250) and above. FASL micro credit products include the “by day” loan which is like the “susu” product. FASL has mobile bankers who visit its clients daily to collect their deposits. A minimum of three months’ savings with the institution is required as a precondition to be eligible for a loan. Another unique product, the “*remittance loan*” is a product offered to Ghanaians living abroad who send remittances to their relatives in Ghana. The account holders transfer funds into their local accounts and withdraw it for use when needed. Those who have remittance accounts and have a sturdy flow of income are given credit facilities by FASL.

Other microfinance products on offer by FASL are business, personal, group and prestige loans.

5.2.4 UniCredit Ghana Limited

UniCredit as it is popularly called is one of the Savings and Loans Companies that is flourishing in Ghana. The company was licensed to operate as a NBFi in 2008. UniCredit has its head office in the Accra metropolitan district of the Greater Accra region of Ghana. UniCredit has twenty-one (21) branches in five (5) regions of Ghana. The vision of UniCredit Ghana (2016) is to be an “*efficient and effective*” *S&Ls Company*. The mission of the financial intermediary is “to create financial products and services. The mission of the company “is to develop financial products and services which can be easily accessed by their target market on the basis of flexibility, an understanding of their market; use of modern technology and systems, customer orientation and adaptation (UniCredit Ghana, 2016). The objectives of UniCredit Ghana (2016, p. 1) are four fold: 1. Provision of innovative financial services through mobilising savings deposits and delivering credit products; 2. to develop attractive product offerings suitable for various needs of clients both in the formal and informal sectors of the Ghanaian economy; 3. to reach out to a large number of clients in its target market; 4. to help

small savers and borrowers improve on the quality of their life through wealth creation and to provide business advisory services to SMEs through training and counselling (UniCredit Ghana, 2016).

UniCredit Ghana's clientele are mainly SMEs. The MFI has branded its products to reflect the culture, local dialect and language of its clientele making their services attractive to entrepreneurs in the informal sector. Typically, these branded products and services include: Adamfo pa (Good friend) Trade Loans, Dwetire (Capital) loan, U-Check (a current account service), Mmofra Yieye (Children Wellbeing) loan service, Bofo Ye Na (Scarcity of Support) loan, Daakye Nti (Future Prospects) loan, Adwumapa (Good work) Home Enhancement Locked Box Savings Account, u-Susu (susu' savings), Ebetoda (Constant Drops) Fixed Deposit Account. Other services on offer to customers involve financial planning, cashflow forecasting, business advisory services, business planning and stock management (UniCredit Ghana, 2016).

5.2.5 Opportunity International Savings and Loans Limited Ghana

Opportunity International Savings and Loans (OISL) Limited (Opportunity hereafter) is a tier one microfinance institution in Ghana. OISL is part of a worldwide membership organisation known as Opportunity International Network. The Network is a Christian economic development organisation which provides less developed nations with the financial support they require to get their people out of poverty (Opportunity Ghana, 2016). The Network had a global membership of forty-seven (47) partners. Opportunity was licensed by the Bank of Ghana in June 2004 and began operations as a S&Ls institution in the month of September of that same year (OISL, 2016, p. 2). The clients of the MFI are SMEs and the institution provides them with financial services in the form of deposits, small loans, microinsurance, and susu savings. The MFI has a presence in the Brong Ahafo, Ashanti and Greater Accra regions of

Ghana. In Accra, its head office is located in the central business district of the Greater Accra region (OISL, 2016)

The vision of the MFI is, “*life free from poverty, with dignity and purpose*” (Opportunity Ghana, 2016, p. 3). Its mission in Ghana is to provide “financial solutions, training and empower people particularly those living in poverty to transform their lives, their childrens’ futures and their communities” (Opportunity Ghana, 2016, p. 3). The institution’s corporate values are commitment, humility, respect, integrity, stewardship and transformation.

The key shareholders of Opportunity in Ghana are United states based corporate body known as Opportunity Transformation Investment (OTI), Sinapi Aba Trust (SAT), a nongovernmental organisation established in 1994, and Oikocredit, a global development financing institution, which funds development projects in the South benefiting disadvantaged and marginalised people (Opportunity Ghana, 2016). Loans from Oikocredit are channelled through a network of regional offices managed by local professionals all over the world including Africa and Ghana. ICCO is an inter church organisation for the development of co-operation (Opportunity Ghana, 2016). ICCO supports developmental work in three main areas, peace, economic development and access to primary services (Opportunity Ghana, 2016). The clients of Opportunity are mostly women because of high repayment rates among women. The large majority of their clients are petty traders, estimated to be between 60-70%. About 20% are engaged in production and manufacturing businesses and about 10% are engaged in the service sector. Only a very small percentage (2-3%) are engaged in agriculture due mainly to the institution’s concentration in urban and peri-urban communities.

The product range on offer are Savings Insurance Account, Current Account, Susu Deposit, Small and Medium Enterprise (SME) Loans, Edu Finance, and Maximum “Housing Loans for small and medium scale entrepreneurs, farmers and” salaried workers. Specific loan products

offered at Opportunity include: Goal Loans, Student Loans, Education Loans, Loans for payment of a ward's school fees, Individual Loans, and Working Capital Loans for individual business expansion (Opportunity Ghana, 2016). Opportunity also runs solidarity groups and the members of such groups are able to access the Adehye Group Loans which are for loyal group loan clients in their 5th cycle of receiving a loan product. Salary Loans, which are short and medium-term finance products are also on offer to salaried workers. As a basic requirement, new clients of Opportunity are expected to have a functioning business. These entrepreneurs often operate with very little working capital and a small first cycle loan often enables them to more than double their inventory. To reach the poorest of the economically active poor, Opportunity Ghana offers, among others, the smallest initial loan sizes. A four-month loan starts at a low amount of about GH¢ 70 (about US\$77). Such a loan is often enough to help someone who is really in need of such funds. Opportunity Ghana was identified as one of the few MFI cases in Ghana that extended continual formal training services to its clients as part of the delivery of its products and services to its clientele. As part of the drive to achieve their mission of providing financial, business development and transformational services to their clients, "Opportunity Ghana continues to explore innovative ways of delivering value added services" (Opportunity Ghana, 2016).

5.3 Characteristics of tier two Microfinance Institutions

This sub-section presents an overview of the tier two microfinance institution cases in the study. Tier two MFIs are deposit taking institutions required under the regulations to add "microfinance" to their company name. They are required to operate with a minimum paid up capital of two million Ghana cedis (US\$500,000). A description of tier two MFIs in the study are presented in the following order: 5.3.1. Adwenpa Microfinance Institution Limited; 5.3.2 Axis Microfinance Limited; 5.3.3 GAP Microfinance Limited; 5.3.4 Giant Steps Microfinance

Limited; 5.3.5 Kingsban Microfinance Limited; 5.3.6 OFS Microfinance Limited; 5.3.7 Reob Fekams; 5.3.8 Trust Link Microfinance Limited; 5.3.9 West Lake Capital Microfinance Limited; 5.3.10 Home and Allied Microfinance Limited.

5.3.1 Adwenpa Microfinance Company Limited

Adwenpa Microfinance Company Limited is a tier two MFI registered by the BOG to operate as a deposit taking microfinance business. Adwenpa Microfinance Company Limited was first registered as a tier one institution with the company name of Adwenpa Financial Services in December 15, 2010. Three years after operation in 2012, the Bank of Ghana rolled out regulations governing microfinance institutions in the country. Adwenpa which first operated as a tier one downgraded to a tier four microfinance institution in 2012 due to its low capital capacity. Later in 2013, the institution upgraded into a tier two microfinance institution under the name, “Adwenpa Microfinance Limited” when it could increase its capital. It has its headquarters at Lapaz, a suburb of the Accra Metropolitan District, and one branch office at Kaneshie, another suburb of the Accra Metropolitan District. The institution has twenty-seven (27) full time employees. It is a member of the Ghana Association of Microfinance Companies and like all members tries to follow the standards set for members by the Association. The mission of Adwenpa is to provide access to financial services for small businesses. Thus, its goal is to provide financial services mainly to urban micro and small enterprises. The institution has three main financial service products. These are investment products, loan products and the traditional “susu” a savings product. The three products are in line with the company’s objectives. The characteristics of the various loan products differ in relation to repayment periods, interest rate, eligibility criteria for access to specific products and whether the debt facility is collateralised. The company’s interest rate is 72% per annum. The cost of funds paid by the company to its creditors at the time of the study was 36%.

As a strategy, the institution does not finance start-up businesses, but focuses mainly on existing ones. The main clients of the company are micro and small businesses who are mainly street hawkers and market women operating small businesses. This notwithstanding, the company also serves a limited number of medium scale businesses. The company has individual walk-in loan clients who are not regular customers. These clients are treated differently compared to regular clients and members of the institution. These one-off individual clients are made to provide collateral. Their stores or rented premises are used to provide evidence of the existence of their businesses.

To increase its customer base and provide greater access to their financial services, the institution piloted a group based financial service, but was unsuccessful because most of the group members couldn't repay their loans and the institution suffered losses as a result.

5.3.2 Axis Direct Microfinance Limited

Axis Direct Microfinance Limited is located in the Ga West District of the Greater Accra Region of Ghana. The institution was incorporated to operate under the companies Act (673) in the year 2013. It commenced operations as a tier 3 (money lending) microfinance institution. In 2015, it received the BOG licence to commence business as a tier two microfinance institution and has since scaled up its services to include both credit and savings services to its target market. The institution serves many clients in the district and the surrounding villages through mobile bankers. The aim of the institution is to provide access to credit and financial services to small business owners who lack access to funds to operate their businesses. The mission of the company is to serve rural enterprises by providing access to microfinance services. Guided by its mission and objective, the institution focuses on rural enterprises. It considers its location as strategic as it provides increased access to rural micro enterprises. Thus, its major clientele are mainly rural microenterprises and small businesses mostly in the

food production industry and the youth involved in vocational training. Guided by this objective, Axis Direct Microfinance Limited focuses on rural enterprises.

Axis Direct Microfinance has three main products ‘susu’ savings for micro savers, normal savings which attracts interest payments, credit and investment products. As part of the services they provide to their micro and small enterprise clients they offer business advice before, during and after disbursement of their loans. They also provide informal business advice aimed at giving their clients a better understanding of their products and to ensure contract enforcement.

5.3.3 GAP Microfinance Limited

GAP Microfinance Limited is in Osu, in the Accra Metropolitan district of the Greater Accra region. It was incorporated to operate as a microfinance company in 2014. The institution is wholly owned by the Ga Presbytery of the Presbyterian Church of Ghana. GAP was primarily founded to provide access to credit to its church members, however, this has changed to include the entire population of enterprises in order to harness opportunities in the nonbanking financial services sector. The mission of GAP is to provide credit facilities to its members and the larger society based on biblical principles. GAP’s vision is to be *“a centre of excellence and choice in microfinance services in Ghana.”* It has an objective to increase access to credit facilities to its members and the public who lack access to credit from the formal banking system. GAP Microfinance Limited has loans and deposit products. GAP had nine debt-based products, each having its peculiar characteristics. They were GAP School Fees Loan, GAP Business Loan, GAP Church Loan, GAP Group Loans Scheme, GAP ‘Osofo’ Loan, GAP Personal/Employee Loan and GAP Consumer Equipment Loan. Deposit products were only three, namely, GAP Fixed Deposit, Savings Account and Susu Savings. GAP has clients from micro, small and medium scale businesses, the majority of whom are its church members.

5.3.4 Giant Steps Microfinance Limited

Giant Steps Microfinance Limited (GSMSL), is a tier two microfinance institution. It was incorporated in April, 2008 and started operations in January 2009. The institution is located at Dansoman, a suburb of the Ga Central district of the Greater Accra Region. In 2012, changes in financial sector regulations by the Bank of Ghana necessitated a change of name by the institution to fulfil the requirements of the Bank of Ghana. Accordingly, the name of the institution was changed to Giant Steps Microfinance Services Limited. The institution obtained a full license from the Bank of Ghana in 2014 to operate as a microfinance institution. The mission of the institution is to provide innovative microfinance services aimed at reducing poverty. Thus, its objective is to reduce poverty through microfinancing.

Giant Steps Microfinance Limited offers three main products, namely, investment products, savings products and debt products. The savings products are named as Giant Steps Savings Account and Giant Steps Savings Plus Account. The loan products are personal loans, business loans, project finance and commercial vehicle loans.

5.3.5 Kingsban Capital Microfinance Limited

Kingsban Capital Microfinance Limited (hereafter known as Kingsban) is a tier two regulated non-bank financial institution. Kingsban is located at Hansonic, Dansoman, a suburb of the Ga Central District of the Greater Accra Region. The MFI is licensed by the Bank of Ghana (BOG) and was incorporated on July 17, 2012. The mission of Kingsban is to provide satisfactory financial services and products to their consumers. The vision of Kingsban is to be a “relevant and efficient vehicle for credit facilities to the un-banked.” Kingsban’s core values are loyalty, professionalism, transparency, accountability and integrity. Kingsban has a micro-savings product, a specialised susu savings product, a fixed deposit investment product, SME loans,

salary loans and mobile money services as its range of products on offer to its current and potential clientele. The MFI has mobile bankers who reach out to the micro-level clients in their work places and homes to collect their daily deposits. Clients' whose accounts remained active within three (3) months, become eligible for credit based on a thorough appraisal of the client's accounts by the credit officer.

The specialised susu savings product is an interest-bearing product intended for customers who make substantial deposits without frequent withdrawals. A customer with this account qualifies for loans after three months if the account is left active and the client has a good credit history with the company. Loans given to clients holding such accounts may or may not require collateral based on the loan amount requested. The investment product is a fixed deposit account designed for investors. These investors qualify for top-up loans to meet the capital requirements of their projects. The interest payable on the client's investments is progressively graduated according to the amount invested. SME loans, as the name depicts, is designed for wholesalers, retailers, and other small and medium scale enterprises.

5.3.6 OFS Microfinance Limited

OFS Microfinance Limited is a tier two microfinance institution regulated under the Banking Act 673 of Ghana and commenced business in 2008. The institution is located at Dome in the Ga-West district. The vision of OFS is that of being a *"preferred financial services provider delivering innovative financial solutions"* The institution's mission is to provide innovative credit products and other financial services to businesses. OFS aims to achieve its vision and mission through the values of professionalism, practicality, reliability and the use of appropriate technology. OFS focuses on a market niche of the unbanked lower to middle income consumers and businesses in Ghana. The primary driving force is to provide credit facilities to micro and small business entrepreneurs who have limited access to the traditional

banks. Thus, their target clientele is the economically active segment of the Ghanaian population. The OFS microfinance institution has a policy of giving priority to women business entrepreneurs seeking access to microfinance because they are more vulnerable, yet trustworthy, and have a history of high repayment rates.

The institution has three branches, in Dome (Ga-West district) and Kaneshie (Ga-Central district) in the Greater Accra region and Kumasi, in the Ashanti region of Ghana. All the three branches are in urban areas, explaining the urban focus of the OFS microfinance institution.

The microfinance company's products are savings, loans, investment, micro leasing and micro insurance. OFS offers three main savings products, namely, one-month cycle savings, and three-month and six-month cycles respectively. The one-month cycle savings account can only be accessed after a month, hence it is named one-month savings account. Likewise, the three and six-month cycle accounts can be accessed after three and six months respectively. The institution offers short term credit to their clients. Thus, they offer loans with short maturity periods of one, three and six months depending on the needs of the loan recipient. The company institutes compulsory savings as a condition for accessing loans especially for micro-entrepreneurs who do not have any form of security or collateral and whose information asymmetry was high. OFS provides non-financial services to its clients. The most significant of them are maintenance of the sales records of their enterprise clients and business advisory services, such as development of business plans.

OFS charges interest rates on their loan products guided by the prevailing market interest rates, inflation, clients' default rates and general operational costs. The major source of funds to the institution is debt. OFS Microfinance Limited aims to serve medium and large-scale enterprises in the future.

5.3.7 Reob Fekam Microfinance Limited

Reob Fekams Microfinance Limited, a tier two institution, was founded in 2009 under the money lenders Ordinance 1941 (Cap 176) and was licensed by the Ghana Police Service, the institution mandated to regulate the sector at the time. Reob Fekams is located and operates in Accra Central district of Greater Accra region. After two years in operation, the institution obtained a license to operate as a microfinance company under the Banking Act 673. The institution's mission and objective is to bridge the financing gap for microenterprises and small businesses through the development of innovative microfinance products to cater for micro-entrepreneurs in small and medium scaled enterprises. RFML products and services include loans, savings, investments and business advisory services. It aims to become the preferred microfinance company in Ghana. The institution also has an objective to use its products to develop a strong savings culture among its current and future clients in its operation areas. The company provides training and advice to its clients on business practices, such as good financial record keeping, business planning and assets management.

5.3.8 Trustlink Microfinance Limited

Trust Link Microfinance Company Limited (TML), tier two was established in March 2013. The company was registered and incorporated on October 25, 2013. The company is located and operates in Dansoman Exhibition, a suburban area (Ablekuma West) of the Ga Central District. The mission of the company is to provide short-term cash flow solutions to enterprises. It aims to provide micro credit and services to rural business entrepreneurs. It has a vision of being a preferred financial institution in its operational areas. The company had nine permanent staff members at the time of research.

TML targets individual entrepreneurs, micro, small and medium scale enterprises. TML started its operations by giving out group loans, however, in June 2014, the model was discarded by the institution because it could not manage it properly due to high default rates among the solidarity groups they were serving. The company shifted from the solidarity groups model of microfinancing to 'susu,' the daily savings model. The business clients of TML are mainly small and medium scaled businesses. About 70% of their business clients are medium scale enterprises, with the 30% accounting for their micro and small enterprise clients. Trustlink's savings and investment products were targeted at clients in the informal sector of the Ghanaian economy. The traditional savings product is an interest-bearing savings account for individuals, groups and SMEs to save any amount on a regular basis. Minimum deposits were GHC10.00 and there were no restrictions on withdrawals from this account. This type of savings account was created for individuals, small businesses, artisans, market women and men, food vendors and petty traders in the informal sector who wanted to save towards short term projects. The institution made provision for a very liquid product that clients could access on a regular basis although the management of such a product was tedious. Another savings product on offer was the Trustlink Susu Account. This product had similar features to the traditional savings account and some additional features as well. The account attracted a monthly service charge of GHC1.00 and withdrawals could only be made once a month. A commission charge of GH¢2.00 was applied anytime more than one withdrawal was made within a given month. The Trustlink fixed deposit account was also an interest-bearing account for individuals, groups, SMEs and corporate bodies. This product required an initial deposit of GHC1,500 to be made over a minimum investment period of three months. Withdrawals could be made at any time on this account and interest accrued on the amount was discounted when withdrawals were made before the maturity date. TMLs average loan size was GHC3, 000. The least amount the

institution disbursed was GHC1, 000 and the maximum was GH30, 000 which went to its medium scaled business clients.

5.3.9 Westlake Capital Microfinance

Westlake Capital Microfinance Limited (WCML) is a tier two microfinance institution established in December 2015. The institution was registered to operate as a microfinance company that can accept deposits and investments and to engage in disbursement of credit to the public. WCML is located at Kaneshie, in the Accra Metropolitan district of the Greater Accra Region. The mission of WCML is to provide financial services to the financially excluded and unbanked in society. WCML's target clientele includes individuals, micro, small and medium enterprises. WCML has intentions of also serving SMEs, however, at the time of data collection, the institution had not yet served any medium scale enterprise client.

The institution has different types of investment and savings products on offer. The savings products are the savings plus account, the super save account, the edu-save account, the church save and normal 'susu' savings whose features are similar to those of a current account. The savings plus product, had features of a savings account and a current account. The account has a limit on withdrawal amounts and the number of withdrawals per period. The supersave product had a restriction on withdrawals and the maturity period for withdrawal was six months. Edu save was designed to suit savers who required the funds for educational purposes. These broad range of products specify the type of clients targeted by WCML. Their aim is to serve a wide range of client with different tastes and preferences in relation to financial intermediation.

WCMLs main source of funds was equity from its shareholders. Their loan portfolio was largely funded by equity because the institution was relatively new and had idle equity funds

that needed to be disbursed. The general manager intimated that as the institution matures, it will explore other sources of funding. Although the institution had mobilised some deposits, savings, investments, interest income, fees and commissions, it still relied heavily on the shareholder's equity funds to meet its short term financial obligations and operational expenses. WCML had no subsidies, grants and donations as part of its portfolio. This means that WCML operated solely as a commercial microfinance institution. The average loan size of WCML was GHC 6, 000 (US\$1500). The maximum amount disbursed by the institution was GHC 50, 000 (US\$12,500) and the minimum amount was GHc 500 (US\$125). The institution had an urban focus but has plans to roll out an agency module, which will give them presence in the rural areas.

The criteria for disbursement of loans differed for the different categories of enterprises served by WCML. Individual entrepreneurs and microenterprise clients had a basic assessment that involved an examination of; the viability of their enterprise, the consistency of cash flows and the ability of the client to repay the amount requested. The minimum debt equity ratio of a microenterprise should not exceed 50% and two guarantors were required to guarantee the loan. Next, the enterprise location, the residential address of the applicant and guarantors were also assessed and then the outcomes were considered for the final selection and a decision was made on the amount to disburse to the client.

5.3.10 Home Support and Allied Microfinance Limited

Home Support and Allied Microfinance is a non-bank financial institution. The institution is located in Tesano, a suburb of the Accra Metropolitan District of the Greater Accra Region. The institution received its license from the Bank of Ghana in May 2013 and commenced business in July 2013. The institutions' motto is "Your Dream Our Vision," meaning they are dedicated to make their customers realise their dreams.

Its key target groups are salary workers, high net worth individuals, retail clients, small scale enterprises and microenterprises or individual susu savers. The MFI was established in 2008 as a financial services provider. The savings product is designed to help their clients to save as well as to enable them to access debt funds when needed in the future. The enterprise investment product account (susu) is a special and unique investment account for enterprises who plan to build up cash for the future. Most enterprises that generated a lot of cash were illiquid because their cash was usually locked up in stock or assets. This product was created to help meet the liquidity needs of enterprises that had a lot of funds locked up in stock or unsold goods. The “loan products” offered by Home Support & Allied Microfinance Limited is to help clients clear their imported items from the port. When this loan is provided, Home Support & Allied Microfinance takes ownership of the goods in the warehouse but allows the importer to sell the goods to its customers. The goods in custody of Home Support & Allied Microfinance serve as collateral for the loan.

The SME loans are used as working capital to complete orders, or buy stocks. It also provides finance to support suppliers to pay for orders on time. Susu loan is provided based on a client’s deposit in their savings account with Home Support & Allied Microfinance. Enterprises who can deposit money into their savings account daily are eligible to borrow up to 150% of their savings once they have saved for 90 days. The savings account serves as a guarantee for the loan and the tenor should not exceed 6 months.

5.4 Chapter Summary

This chapter presents a brief description of the 15 case studies examined in the exploration of microfinance in Ghana. The description presents year of establishment of the MFIs and their regulatory status. The chapter also presents the mission, vision and objectives of the MFIs and their major products and services. Detailed analysis of findings from the individual cases

presented in this chapter form the basis of analyses and discussions provided in the result chapters in relation to the supply-side of microfinance in Ghana. The next chapter presents the first result chapter which discusses the operational structures of MFIs in Ghana and their [MFIs] effectiveness in promoting SMEs' sustainability.

PART IV

STUDY RESULTS

Chapter 6

Operational Structures of Microfinance Institutions in Ghana

6.1 Introduction

This chapter is the first of the four results chapters and it focuses on the supply-side of microfinance in Ghana [microfinance institutions]. The chapter is guided by key concepts and theories identified in chapters two and three which were distilled into a conceptual framework for analysis as presented in section 2.13. The purpose of the chapter is to understand how the operational structures and legal framework of microfinance institutions (section 3.3.1) affected their capacity in promoting SMEs' growth and sustainability. The term 'structures' as used here refers to the formal categorisation or tiering system of microfinance institutions in the country. It also determines their functions, roles, and responsibilities in providing microfinance services to Micro, Small and Medium Enterprises (SMEs). The tiering system provides the regulatory framework [macro-economic environment as discussed in section 2.13 of the conceptual framework] for the MFIs' operations in the country. The regulatory body develops policies, guidelines and legislative instruments [macro-economic factors] to guide and support each tier to enable it to function effectively. Thus, this chapter is concerned with answering the first-two main research questions, (i) *How effective has microfinance been in promoting SMEs' sustainability?* (ii) *What has been the impact of MFI services on small businesses' growth and sustainability?* It also partly answers the third research question (iii) *What are the factors affecting microfinance institutions in Ghana?* Sub-research questions addressing these three main questions in this chapter include:

1. *How do the regulatory, policy and institutional structures of microfinance institutions affect their functions/roles in promoting SMEs' financial sustainability and growth?*

2. *What are the challenges faced by MFIs in the delivery of their services to SMEs?*

These questions are also partly answered in the subsequent chapters based on findings from the demand-side (SMEs) of the microfinance sub-sector of the Ghanaian economy.

Accordingly, this chapter highlights the existing structures of MFIs in Ghana, and the extent to which they promote the sustainability and growth of SMEs. The chapter elaborates on the microfinance tiering system [structure], the functions of the various tiers, the supporting institutions and how these enable the MFIs to serve SMEs effectively. The chapter details operations of the tier one and tier two institutions in relation to promoting small business survival, success and growth. The chapter is therefore guided by microfinance institutional structures, policies and legal frameworks [enforcement and compliance] included in the conceptual framework [section 2.13].

Previous studies did not make clear distinctions between the various tiers but this chapter adds to the literature by providing a clear distinction between the operations of the different tiers of MFIs in Ghana and how they contribute to the sustainability of SMEs. Primary data obtained through in-depth interviews from key informants, microfinance institutions and field observations constitute the data which are analysed in this chapter (see Chapter 4-Methodology).

The microfinance tiers and their functions/roles are analysed in section 5.2. In terms of operations of the tiers investigated in the study (tier one and two), findings on the current microfinance products and product characteristics and the extent to which these products and services meet the needs of SMEs are examined in section 5.3. Sections 5.4 and 5.5 assess eligibility criteria and strategies used by the MFIs for disbursement of funds and post-disbursement, and communication strategies for engaging with SMEs. Section 5.6 subsequently provides answers to each of the questions posed and concludes the chapter.

6.2 Microfinance Regulatory Structures (tiers) and their Functions

Microfinance Institutions (MFIs) in Ghana are grouped into four tiers [structures or categories] by the Bank of Ghana for purposes of effective supervision. Tier one MFIs consist of the Savings and Loans Companies (S&Ls) and Rural Community Banks (RCBs) (refer to Chapter three). The savings and loans companies are required by law to operate with a minimum paid up capital of 15 million Ghana Cedis (US\$3,750,000) and to add “Savings and Loans” to their name. There were twenty-seven licensed savings and loans companies operating at the time of this study. There were two hundred rural community banks licensed to operate at the time of data collection, with a minimum capital requirement of one million Ghana Cedis (US\$250,000). Tier two MFIs are deposit taking institutions required under the law to add “Microfinance” to their company name. The tier two MFIs were required to operate with a minimum paid up capital of two million Ghana Cedis (US\$500,000). There were 660 tier two MFIs registered by the Bank of Ghana to operate as profit making microfinance companies at the time of this research. Tier three microfinance institutions are the money lenders and Financial Non-Governmental Organisations (FNGOs) engaged in microfinance services. They are mandated to engage in lending activities only and are classified as non-deposit-taking institutions. Tier three institutions are required to operate with a minimum paid up capital of three hundred thousand Ghana Cedis (US\$75,000). Tier four consists of ‘susu’ groups, ROSCA’s, self-help groups and individual money lenders that are self-regulated (see Chapter 3 for definitions of these terms and their roles). All the four different tiers of microfinance institutions belong to the non-bank financial institutions sector except the rural community banks which are classified as “Banks” based on the legislative instrument that established them. Credit unions are also considered to be exceptional. Formerly, the banking law categorised

them [Credit Unions] as tier two MFIs, but the current structure includes a new legislative instrument under the Non-Bank Financial Institutions Act, 2008, which was passed and now regulates their activities. Key informant interviews with officials of the ‘Other’ Financial Institutions Department (OFID) of the Bank of Ghana, which has oversight responsibility for the microfinance sector, indicated that the current microfinance structure is primarily designed to facilitate effective regulation of the fast- growing microfinance sector. The mandate of OFID includes the following:

1. *Establish the scope of MFIs susceptible to central bank regulation;*
2. *Review and propose guidelines for the effective and efficient regulation and supervision of the MFIs;*
3. *Set the basis for monitoring and supervising the operations of MFIs;*
4. *Help to report MFI operations to the management of the Bank of Ghana; and*
5. *Develop policies, practices and procedures for the efficient management of the microfinance sector (KIBOGP077, June, 2016).*

This mandate provides the basis upon which the microfinance sector is structured into the various categories. A key informant of the microfinance regulatory body [Bank of Ghana] explained further:

We have 4 tiers of microfinance institutions; each tier ideally serves different purposes and segments of the population or businesses. First, the Rural Banks, Savings and Loans companies are tier one, the highest micro finance institutions in the tiering structure. This is followed by the microfinance companies who are tier two and are deposit taking institutions. The third tier is non-deposit taking institutions. The non-deposit taking institutions also give out credit making the second tier and the third tier complementary to each other since they perform almost the same function, except that

the third tier do not accept savings. The fourth tier are various association, groups and individuals which are very complex to be regulated by the Bank of Ghana. The fourth tier are small scale entrepreneurs in the rural areas like Village Savings and Loans Associations and the small susu collectors (KIBOB083, May, 2016).

As explained earlier, the microfinance institutions were structured such that each tier caters for the funding needs of a segment of SMEs in the country. Tier one microfinance institutions were supposed to serve the demand for financial services by small and medium size enterprises, which could not get funding from the traditional commercial banks. The financing needs for small and micro enterprises were to be provided by the lower tiers, that is, tiers two, three and four which were composed of the deposit taking MFIs, the non-deposit taking MFIs, the individual money lenders and susu collectors.

In principle, each tier was supposed to serve a segment of SMEs, but in practice all the four tiers overlap in serving the different categories of SMEs, partly due to weak ineffective monitoring and supervision systems to enforce the regulations. A key informant at the Bank of Ghana, who is also a former Chief Executive of the Ghana Microfinance Institutions Network confirmed that the tiers, especially the tier two institutions, do not follow laid down rules in service delivery as per the regulations. The interviewee pointed out that:

The inability of the traditional banks to meet the high demand for credit by SMEs, led to the restructuring so that the Savings and Loans companies can serve the small and medium size businesses while the microfinance companies and moneylenders can serve the micro and very small business sector. However, we find that there are cross overs where even microfinance companies with a small paid up capital still try to serve medium scale enterprises. We have tried to explain to them why it is important for them not to do so, but our advice has fallen on deaf ear (KIBOB083, May, 2016).

This view was corroborated by interviews with officials of MFIs who confirmed that they serve all the various categories of enterprises except large businesses. A tier two microfinance institution manager stated that:

The Savings and Loans companies serve our customers (i.e. the micro enterprises and small businesses) so we also serve medium size enterprises as they do and I do not see anything wrong with us doing so (MFIGAP071, May 12, 2016).

This finding suggests that there are measures and regulatory frameworks in place to deal with the financing requirements of various categories of SMEs. However, lack of effective monitoring and supervision systems to enforce the regulations, lead to non-compliance with the regulations to achieve microfinance policy goals and outcomes. In response to non-compliance with the rules and regulations, the licenses of some tier two microfinance institutions were withdrawn to deter others who might be tempted to flout the rules. This action resulted in the closure of many MFIs, which invariably affected the operations of their SME clients. The causes and consequences of non-compliance to the rules were investigated through an interview with the Bank of Ghana key informant, who confirmed that:

The microfinance sector hasn't been regulated and monitored to ensure compliance with rules. What this means is that they used to operate without any regulations and therefore operated in the ways they wanted. So, we have put guidelines in place to regulate the sector and to make it effective. So now with the rules in place, with time some who cannot comply with the rules will go out of business and those who are able to comply would survive. Some are complying with the rules and some are not (KIBOGE079, June, 2016).

6.3 The Role of Microfinance Institutions

Having understood the existing structures of MFIs, their roles and functions were explored through in-depth interviews and Bank of Ghana policy and regulatory documents. Interviews with representatives of MFIs and the MFIs apex body (GHAMFIN) indicated that the main purpose of microfinance was to fill the financing gap for micro, small and medium scale enterprises that lacked access to the formal financial institutions. GHAMFIN key informants explained that the microfinance institutions were considered as tools for ensuring greater financial inclusion:

Over the years looking at what microfinance institutions have actually done and are still doing, I see them as a gap filling mechanism. They complement the major financial institutions by filling a gap or a need within the financial sector. They fill a gap in the sense that microfinance institutions exist purposely to serve those who lack access to formal financial services in the country (KIFIND084, April 08, 2016).

Basically, microfinance targets the section of the population who do not have access to formal financial services partly because the products of the formal financial services are not suitable to the needs of the economically active poor or the deprived people in the communities so microfinance comes in to fill the financing gap for the lower part of the economic ladder (KIBOB083, May 16, 2016)

What we are looking at is financial inclusion. When it comes to the level of the apex body the focus has been to concentrate on financial inclusion (KIGALC089, April 13, 2016).

An official of Ghana's Ministry of Finance interviewed emphasised that from a national socio-economic development perspective, financial inclusion, financial deepening and poverty alleviation were core pillars of the microfinance agenda.

The activities of MFIs were meant to promote financial inclusion, financial deepening and poverty alleviation in the country (KIMOF082, June 03, 2016).

Additionally, an examination of the mission, vision and objectives of the microfinance institutions in the study area revealed that microfinance institutions in Ghana were mainly set up to provide access to financial services to; (i) businesses in the informal sector, (ii) individuals who lacked access to the universal banks, (iii) economically active yet poor individuals and their households, and (iv) micro, small and medium scaled enterprises. This is consistent with the assertion of the GHAMFIN key informant interviewed. Although many studies (Harper, 2003; Mersland & Strom, 2010; Dichter & Harper, 2007) argue that serving medium-scale businesses or the upper end of the business class is outside the scope of microfinance and may be a drift from the mission of microfinance (serving the poor), this study found that the microfinance institutions in the study area also served medium scale businesses. Tied to this finding are definitional discrepancies in different countries around the concept of "micro", "small" and "medium" enterprises (SMEs) which became evident in this study. The various categories of enterprises have in most cases been classified as business/commercial clients of the MFIs in this current research or they have been classified into two groups "micro and small business-clients" and "SME" clients. Due to these definitional discrepancies, it was found that some of the MFIs grouped and served enterprises based on size of loan amounts requested, turnover levels, repayment performance and cash flow history. SMEs are operationally defined in this study as micro, small and medium enterprises. Because of the

definitional variations observed, this definition was adopted for this research project in all cases in order to ensure the reliability and clarity of the findings discussed here.

Interviews with microfinance institutions' representatives revealed that most of them focused primarily on enterprise development as their core business, through provision of credit, accumulation of savings and fixed deposit investments. These formed a major aspect of their portfolios. Short term small savings and fixed deposits that were commonly used by the majority of micro and small enterprise clients attracted no returns. In some cases, the volume of the funds deposited dictated the level of interest it attracted.

Interviews with MFIs and Bank of Ghana key informants, however, showed that there was a paradigm shift from a predominantly poverty lending approach to commercial microfinance in the study area, with a focus on profit maximisation. Although MFIs were meant to help achieve the financial inclusion policy objectives of the government, the study revealed that all the MFIs at the tier one and two levels had no interest in financing start-up businesses. This indicated that microfinance institutions in the study area were more focused on supporting existing SMEs and did not engage in new enterprise creation which could achieve the financial inclusion outcomes.

The focus of microfinance institutions is more on enterprise development and not on start-ups. The focus is more on supporting existing businesses and not on start-ups. It is the new trend now but the guidance provided by the Apex body has been to concentrate on financial inclusion (KIGALC089, April 13, 2016).

A MFI key informant explained that the decision not to finance start-up businesses was mainly due to the risks associated with new projects or start-ups. What this means is that the institutions in the study showed a strong aversion to risks associated with start-ups. This finding runs contrary to findings in other contexts, especially in Asian countries such as India and

Bangladesh and in some East African countries such as Tanzania and Kenya, where small amounts of funds were disbursed to individual members of the public for purposes of micro and small enterprise creation or start-ups aimed at poverty alleviation (Rahman & Mazlan, 2014). This also suggests that the profit-making MFIs in the study have shied away from the practice of assisting the poor to set up enterprises, which strongly compares with their NGO social enterprise counterparts, which adopt a pure social and developmental or “welfarist” approach to microfinance. The focus of MFIs on financing existing and established enterprises invariably promotes the growth of only existing SMEs rather than encouraging business start-ups. This finding is consistent with the conclusion drawn by Shahriar, Schwarz and Newman (2015) based on information gathered from 198 MFIs in 65 countries, that profit oriented MFIs were less likely to provide financial capital to business start-ups compared to their not-for-profit counterparts.

The orientation towards supporting existing and established SMEs suggests a non-financial inclusion approach which underpins financial system theory (Robinson, 2001; Kabeer, 2005). Thus, the general orientation of microfinance practices in Ghana as discovered in this study is largely inclined to the financial systems approach (Robinson, 2001; Kabeer, 2005) (refer to Chapter two) that excludes start-up capital for new SMEs. What this suggests is that the MFIs in the study area are more concerned about cost recovery and financial sustainability as advocated by proponents of the financial systems approach rather than financial inclusion, hence loans to the economically active poor in the study areas are approached by the MFIs with a commercial orientation that excluded new SMEs. This approach is opposed to financial inclusion which is the official goal of the microfinance sector policy in Ghana. Robinson’s (2001) stance on cost recovery and financial sustainability is consistent with the neo-liberal orientation to market principles (Kabeer, 2005). However, as noted in Chapters 1, 2 and 3, the market system principles implemented by traditional banking systems fail to provide access to

credit for the economically active poor, hence the desirability for microfinance to fill the missing gap.

Accordingly, as discussed in section 3.3, under the Ghana Shared Growth and Development Agenda (GSGDA I&II), access to credit from microfinance institutions was to include low-cost start-up capital funds IMF (2012). Thus, the Non-Bank Financial Institutions Act, 2008 (NBFI ACT 673) which was amended by Act 738, and under the Banking Law, 2004 (774) also mandated financial institutions to provide low cost start up-capital funds to SMEs. The current approach to microfinancing, as discovered in the study area, is unlikely to achieve the government's policy outcomes of financial inclusion and provision of start-up capital necessary for establishment and growth of SMEs, although the current approach does attempt to achieve the cost recovery and institutional financial sustainability goals of MFIs (Kabeer, 2005).

An implication of this trend could have adverse impact on MFIs' outreach performance, as they are not serving the poor who are always seeking sources for start-up funds to set up micro and small businesses. Although on the one hand this strategy could impact positively on institutional financial sustainability and the survival and growth of existing SMEs, on the other hand it limits access to start-up capital for new micro and small businesses, therefore failing to achieve the "financial inclusion" goal of MFIs. In a few cases, however, the study shows that the use of solidarity groups served as an avenue to reach-out to individual potential micro-entrepreneurs. However, there was still a need to provide evidence of some form of enterprise activity to be eligible for membership in such groups. The study also shows that in Ghana, although microfinance was not focused on new enterprise creation (except among the NGOs and FNGOs), it has expanded its function to cover a wider scope of businesses and households and as a personal finance source.

The majority of MFIs at the tier two level that were studied focused more on urban and peri-urban areas with a minimal or non-existent focus on rural areas, a strategy which is consistent with the financial system approach of achieving profit maximisation. The urban focus is explained by three factors. Firstly, it is partly due to limited funds available to the MFIs, especially those engaged at the tier two level. Secondly, there is a focus on growth of existing enterprises which are more concentrated in the urban and peri-urban areas. Thirdly, there is the need to reduce transaction costs associated with transportation and the benefits of economies of scale. The only examples of a tier two microfinance institution that has expanded its reach to rural based micro, small and medium scale enterprises in the study was Axis Direct Microfinance Limited and Gap Microfinance Limited. The rural focus of the Axis Direct Microfinance Limited is due to its location in Ga West, which is a rural part of the study area. Axis Direct Microfinance Limited has developed an effective system that enables it to expand its reach to rural communities, although the concentration of its activities is still heavily urban and peri-urban oriented. Gap Microfinance Limited has an advantage of being a church-based institution serving parishes of the Ga Presbytery which are scattered in both rural and urban areas of the study area. Limited sources of funds and risk aversion are the major factors militating against the effectiveness of the tier two MFIs to extend financial services to rural areas and new business enterprises. Thus, unavailability of funding to MFIs and risk aversion serve as major factors that impede their effectiveness in the promotion of rural SMEs. This leads to the next section that discusses the current microfinance products and services on offer, their characteristics, and suitability in promoting SMEs' sustainable growth.

6.4 Microfinance Products and Product Characteristics

A product as a marketing terminology is any want-satisfying good or service that is conceived with its perceived tangible and intangible attributes. From the consumers' point of view, a

product is a series, or a bundle of satisfaction. To meet consumers' satisfaction, producers must take into consideration the product range (breadth, depth, and mix), product features (characteristics), packaging and quality (Lancaster & Massingham, 1988). Microfinance products referred to in this study are financial products and non-financial support services. These are discussed briefly in the following sections.

6.4.1 Financial Products

Generally, the MFIs at the tier one level have similar products as those at tier two, except for minor variations in the volume, amount and size of the product range. Four main financial products are on offer to clients across the board, although they are branded differently and have slight variations to suit the individual characteristics of the MFI. The products and services also vary based on the disbursement criteria employed, and the terms and conditions associated with the product or service. The products on offer by MFIs in this study area are investment products, loan products, the traditional "susu" or "esusu" a savings product popularly known throughout West Africa, micro insurance, business training and advisory services. The study shows that although business advisory services are provided to SME clients prior to loan disbursement, this is done informally as part of the process of establishing the eligibility of clients to access the MFIs' products. Specialised business advisory services are, however, rarely provided on a formal basis by the institutions. All the MFIs in the study admitted that provision of business advisory services was informal in nature. MFIs in the study that have group based lending programmes have formal training sessions as part of the groups' formation process and ongoing existence. The characteristics of various loan products on offer differ in relation to repayment periods, interest rates, eligibility criteria used and whether the debt facility is collateralised or not. The study reveals that microfinance services in the study area have a strong savings orientation and the institutions have varied savings products branded to

suit different categories of clients. For example, OFS Microfinance Company Limited have savings, loans, investment, micro leasing and micro insurance on offer to their clients. The MFI also provides business development services such as development of business plans for its clients. OFS offers three main savings products namely; one month, three months and six month saving cycles. The funds deposited in a one-month cycle savings account can only be accessed after a month, hence named one-month savings account. Likewise, the three and six-month cycle accounts can be accessed after three and six months respectively. The MFIs offer short term credit to their clients in the form of individual loans and business or commercial loans. The General Manager of OFS Microfinance Limited when interviewed disclosed some of the characteristics of their savings products as:

Compulsory savings is a condition for accessing loans, especially for micro-entrepreneurs who do not have any form of security or collateral and information asymmetry was high (MFIOFS070, May 10, 2016).

Enforcement of compulsory savings by tier two MFIs such as OFS is a mechanism to establish a form of security for loan repayment. The use of compulsory savings as a prerequisite for credit disbursement enhances the chances of the unbanked, who lack collateral, to have access to loanable funds. The enterprise/commercial loan products offered by MFIs were found to be mostly short term in nature, hence, unsuitable for enterprises with long term objectives in mind. The maturity periods of credit products on offer varies between one, three and six months depending on the needs of the loan recipient. The short-term nature of loan products on offer has two main benefits for the MFIs. It ensures quick repayment to shorten the turnaround period and it also ensures increased liquidity of the loan portfolio. However, the practice is detrimental to loan recipients because application of the matching principle in small business financing implies that short term funds are to be used to meet short term financial obligations and likewise

long-term funds for long term financial obligations. SMEs in need of long term funds for expansion and growth take short term funds for investment in long term projects which impact on their cash-flows and sustainability in the long run. Business growth and sustainability is a long-term plan, hence short-term products do not augur well to achieve SMEs' growth and sustainability. A key informant from the National Board for Small Scale Industries (NBSSI) confirmed that the MFIs in Ghana;

Give short term notice, sometimes 3 months or a month, they are not able to give long term loans with a payback period of 2 or 3 years. The businesses on the other hand may not also be in a position to pay back such long-term loans because some of the MFIs are charging as high as 7% per month in interest on their loan products. So sometimes I ask myself a lot of questions, as to whether the micro and small businesses do the necessary calculations before they go in for these funds? (KINBS080, June 14, 2016).

There is therefore no doubt that the repayment period and high interest rates on loans disbursed by MFIs negatively impact SMEs' growth and sustainability as evident in the NBSSI officials statement above. Another peculiar product offered by MFIs and noted in the study are the investment products. Clients were given the opportunity to invest in the institution for a period of three, six or twelve months at market rates. Some SMEs took advantage of this product to invest their idle funds for a return. In relation to micro-leasing and insurance products, a manager of one MFI explained how their system works:

We purchased assets such as cars, bicycles, and fridges on behalf of clients upon request and approval. These assets are insured and held as the institution's property, and then leased to the clients, until full repayment is made. Upon full payment, the assets are then transferred to the clients as their property (MFIREF067, May 13, 2016).

The micro-insurance products on offer by some of the MFIs are delivered through collaboration between the MFI and local insurance companies (these collaborations are explored further in another section of this chapter). The discussion on ways to make microfinancing client-led has revealed that across the wide range of methodologically different microfinance institutions that exist, the industry can be seen as a limited product industry where the principal products are short-term working capital loans, involuntary savings, with a few MFIs providing fixed asset loans, voluntary savings and insurance products (Cohen, 2002; 2009). The multiplicity of needs of MFI clients and the products developed to meet such needs are evident in the MFIs' portfolios, albeit the list of needs may not be comprehensive. The views of the tier two MFIs regarding their product range are captured succinctly in the following interview quotes.

For loans we have personal and business loans, then for savings we have a normal savings, and one that bears little interest on it, and we have the fixed deposit which is an investment product (MFIGST075, May 11, 2016).

The type of products offered by MFIs indicates that they do not have capacities to meet the long-term financial needs of some of their clients, these long-term needs being critical in meeting their long-term growth objectives (sustainable business growth). What this also means is that the MFIs examined in this study focus mainly on short term financial services that may not promote the long-term business growth objectives of their clients. This may be detrimental to SMEs' long-term sustainability. Thus, the need for microfinance institutions to provide products that meet the long-term business growth objectives of the micro, small and medium scale enterprise clients are brought into focus in this research. The provision of only short-term funds by most MFIs in Ghana can be attributed to lack of adequate loanable capital on one hand, and the need to ensure a quick turnaround period to minimise the risk of non-performing loans on the other hand. This is crucial for survival and sustainability of the MFIs. By

implication, capacities of the MFIs impact on the achievement of the long-term business growth objectives of the SMEs they serve. However, the study reveals not only the multiplicity of needs of the MFIs' SME clientele but also the occasional pro-activeness that some microfinance institutions demonstrated in an attempt to meet these needs. A Manager of Trust Link Microfinance Limited reported how SMEs' needs varied and his institution's approach to proactively meeting these needs.

Most of the time we try to get a third party involved. If it is payment of goods, we try to get the supplier of the goods and pay directly to him. If it is transport business, we pay directly to the transport owner. If it has to do with rent, we would talk to the landlord and if it is true that he is owed, we pay to the landlord directly. These are some of the things we do (MFITLK062, May 10, 2016).

Other products provided by MFIs in this study were identified as non-financial services. The next section discusses the forms of non-financial services offered by the MFIs, and how micro, small and medium scaled enterprises utilised such services.

6.4.2 Non-Financial Support Services

An array of non-financial services is provided by the MFIs in the study area, although mostly carried out on an informal basis. The most significant of these services are the maintenance of SMEs' sales records, training and business advice. Micro, Small and Medium Enterprises in Ghana lack the fundamental skills of business management because most of them are owned and managed by people without formal training in business management. Business training therefore, is used to equip MFIs' clients with basic knowledge and skills on how to manage their finances, market their products and train their employees for maximum returns. The provision of structured training to enterprises prepares them and their lending institutions for

success. Interviews with management staff of Opportunity International Savings and Loans Company and document analysis indicated that they provided training on financial management to their clients.

In August, for instance, we sought and received funding from Opportunity UK which we used to deliver professional business and livelihood training to the clients. This training was delivered on our behalf by the National Board for Small Scale Industries (NBSSI.) The NBSSI specializes in delivery of professional training to Ghanaian small and medium scale entrepreneurs (MFIOPP069, April 13, 2016).

The training provided by Opportunity International Savings and Loans to its clients are funded with a grant obtained from external sources. The manager interviewed reported on the need to train clients and their employees for effective service delivery and utilisation, which, though crucial, required financial resources that they (Opportunity International) could not afford. He explained that conducting quality and regular training required additional capital, which had to be raised outside their current budget.

Business advisory services are important microfinance products that most of the MFIs studied offer to their SME clients. For instance, an interview with OFS Microfinance Company management staff showed that the company examined the financial records of their clients and assessed their financial strengths before deciding on the type of financial support to give to them. Interviews with MFIs revealed that sometimes after they had assessed the financial records of the SMEs, they may reasonably conclude that the injection of capital (more debt accumulation through loans) into the business after all will not be a prudent option for the enterprise concerned. Some of the businesses are viable and have enough retained earnings that could be channelled towards long term investment opportunities without short-term debt funds if properly managed. The MFIs stated that when they realised that their clients had enough

earnings to invest into their businesses they often decline the loan request, and rather educate the client on the pros and cons of injecting MFI loans into their enterprises. According to the MFIs, some enterprises apply for loans to finance capital intensive investment projects with low growth potentials. An OFS Microfinance Company manager interviewed explained the process they go through in educating their clients on decisions to apply for loans.

We had discussions with them (clients) and explained to them that the financing we could provide was mainly short term. We acknowledged that what they actually needed was long term finance, which we may not be able to provide them. We therefore advise them to develop relationships with the banks who could be in a position to support them. The outcomes of these discussions made them [clients] realise that they had enough funds to invest into their businesses without a loan facility from us (K.O. Boakye, MFIOFS070, May 10, 2016).

6.5 Impact of MFIs' Financial Services on SMEs

The impact of microfinance on SMEs is crucial if it contributes to the growth and financial sustainability of the SMEs. This section contributes to addressing the research question, “*What has been the impact of MFI services on small businesses' growth and sustainability?*” This question is further addressed in Chapter 7 of the thesis. A critical examination of products of the MFIs show varied impacts of their activities on SMEs. Impact indicators analysed in this study include: (i) financial management capabilities of MFI supported enterprises, (ii) enterprise growth, and (iii) asset accumulation.

6.5.1 Financial Management

As noted by some authors (Covin & Slevin, 1989; Zimmerer & Wilson, 2005), effective and efficient financial management is critical to the survival and sustainability of both large and

small business enterprises. Accordingly, financial management training is an important microfinance product offered to several SMEs in the study area. A manager of Adwenpa Microfinance Company Limited in an interview disclosed that the financial management training they give to their clients enable most of them to become financially disciplined in the use of retained earnings and credits disbursed. As a result, the SMEs that were supported tend to use monies received for the intended purposes. Most MFIs interviewed revealed that SMEs that were financially disciplined had experienced substantial growth in their businesses. These SMEs were also able to repay their loans according to the planned schedule. Most of the MFIs used the SMEs' repayment records to determine their financial performance, success and capacity to contract additional loans. This also determines the continuous relationship between the SMEs and MFIs. The sustainability of business relationships between MFIs and SMEs also determines the type and level of non-financial services received by SMEs. What this suggests is that loan repayment performance of SMEs determined the size of loans the microfinance institutions were willing to give, and to some extent also determined whether the business entity will succeed or fail in the future.

6.5.2 Enterprise Growth

As discussed in section 5.3, the focus of the majority of the MFIs on enterprise development favoured existing SMEs. Hence, the credit facilities helped some of the SMEs to progressively grow from micro into small or medium scaled enterprises. For instance, interviews with a FASL MFI manager revealed that the institution supported eight small enterprise businesses to grow into medium scale enterprises. Both financial and non-financial support provided to the enterprises enabled them to increase their employee numbers, sales levels and return on equity and investments. These findings are discussed further in chapter 7 with evidence from findings obtained from SME interviews.

6.5.3 Asset Accumulation

The MFIs also used increased asset levels as a measure of their impact on SME clients. Some of the SMEs source credit basically for the acquisition of business assets such as machine shop tools, equipment for garages and vehicles. Others use loans to acquire fridges, sewing machines and electric ovens. To track the impact of MFIs' credit products on their SME clients, loans for asset acquisition were usually paid directly to the suppliers on behalf of SMEs. A typical example is the case of Reob-Fekams Microfinance Limited. A management staff interviewed explained that the Company purchased fridges for their micro and small enterprise clients who were mainly in the food processing industry, and required the assets for storage purposes. The interviewee disclosed:

Most of these women who used the loans to purchase fridges to store their groceries have seen improvement in their sales and are actually making profit (MFIREF065, May 13, 2016).

The MFIs noted that in some cases the impact of their credit products was negative. A number of the institutions reported that in cases where an SME client did not experience any positive effects from credit products on their performance, analysis of the situation often points to some discrepancies. These may include misappropriation and diversion of funds, mismanagement, incomplete disclosure by SMEs and a lack of understanding of the operations of the MFI. The issues raised here are further discussed in portions of the next section since they are challenges the institutions face in service delivery.

6.6 General Challenges faced by MFIs in the delivery of their services

The study also explores the challenges MFIs faced in providing microfinance services to SMEs. This section therefore answers the research question, “*What are the challenges faced by MFIs in the delivery of their services to SMEs?*”

6.6.1 Challenges of Microfinance Institutions in serving SMEs

The major challenges MFIs face in service delivery to micro, small and medium scaled entrepreneurs are: (i) fraudulent business practices by some clients, (ii) multiple borrowing from different sources, (iii) diversion of funds, and (iv) poor financial record keeping.

6.6.1.1 Fraudulent Business Practices

Fraudulent business behaviours are major threats to microfinancing identified in the study area. Most MFIs interviewed report that some people pretend to own enterprises and solicit for financial support to grow their businesses. For instance, the General Manager of FASL microfinance institution disclosed that there were instances where clients took the company field staff to business premises that belonged to their friends but pretended to be owners of such businesses. However, upon thorough due diligence, it became clear in some cases that the client was dishonest. In other situations, the MFIs were unable to immediately discover the truth because these fraudsters provided authentic documentation to prove ownership of the businesses. Nevertheless, after the clients had received the funds they changed their business locations making it difficult for the MFIs to trace their whereabouts. This attitude of clients resulted in many MFIs losing the principal and interest payments on loans.

6.6.1.2 Multiple Borrowing

The acquisition of loans from multiple sources by clients of MFIs was also identified as a major challenge for the effective operations of MFIs in this study. The sourcing of loans from different microfinance institutions at the same time resulted in the over-indebtedness of some micro, small and medium-scale enterprise clients and their inability to repay the loans. It was difficult for the MFIs to know that these SMEs had borrowed from different sources for the same business until it was too late to take remedial actions. Detecting SMEs' multiple borrowing practices is problematic because of the absence of an effective credit referencing system to track all borrowers/debt holders in the financial services sector. Some credit defaulters often change their business and residential locations, thus making it difficult for the MFIs to trace them. The problem of multiple borrowing is further compounded because most micro finance institutions do not report to the licensed Credit Reference Bureaus, established to gather and maintain data on the credit history of individuals, businesses and organisations, and to make this information available to relevant end users.

6.6.1.3 Diversion of Funds

Some MFI clients also take loans and use them for different purposes, contrary to the reasons for which they had applied for it and on the basis of which the loan was approved. According to the MFIs interviewed, in some cases SME clients failed to disclose the true purpose for which they accessed loans. Because funds received were used for different purposes, the majority of such clients often default on loan repayments. Hence, diversion of funds for other purposes was identified as one of the major causes of a high rate of loan default among the SMEs. The FASL General Manager interviewed shared an experience:

We have a client who imports cosmetics from the UK. After clearing her goods, people purchased them on wholesale and retail basis. Within 2 or 3 months, half of the stock would need to be replaced with goods which will take about 2 months to arrive in the country. We increased her loan amount from GHC 1,000 to GHC 2,000 and further to GHC 3,000 and she managed to pay her creditors off with ease. It was further increased to GHC 4,000 which she paid off. And when the loan was again increased to GHC 5,000, she started struggling to repay. When we interrogated her, she told us the truth by explaining that her husband had a commercial vehicle and they needed to replace the engine so she used the money to buy a new engine for the vehicle. It became difficult for her to pay the loan back on time because the husband refused to give the money back to her resulting in default payment. So, once they don't use the funds for the purpose then there is danger (MFIFASL07, April 18, 2016).

This example is one of many cases where an MFI client had misapplied a loan resulting in payment default. The diversion of loans disbursed for business purposes to other uses is a major cause of non-performing loans. Due to the frequent occurrence of this practice, the MFIs have devised various strategies to ensure that the loans are utilised for their intended purposes. A manager of Trustlink Microfinance explained how the Company enforces compliance:

Most of the time we try to get a third party involved. If the loan is being sought to pay for goods, we try and get in touch with the supplier and pay the cost of the goods directly to the supplier. If it is transport business, we pay directly to the transport owner. If it has to do with rent, we would talk to the landlord and if it is true that you owe him, we pay to the landlord directly. These are some of the things we do to prevent the diversion of funds (MFITLK062, May 10, 2016).

Direct payments are made by the MFIs on behalf of their clients to avoid diversion of loans for unintended purposes. Interviews with the MFIs indicated that despite stringent measures to prevent diversion of funds, the fungible nature of money made it impossible for them to prevent all clients from using the funds assessed for other purposes other than those stated in the loan applications.

6.6.1.4 Lack of Financial Records

Micro, small and medium scale businesses that sought the services of the MFIs are mostly those that operate in the informal sector. Most of these enterprises are not registered and formalised. They also do not have up-to-date financial records. The lack of comprehensive financial reports was identified by the MFIs as a major weakness and a challenge in their analyses of the financial viability of SME clients, particularly the medium sized ones. A management staff member of Home Support and Allied Microfinance Limited interviewed reported that their credit officers estimated the financial position of their SME clients' enterprises by doing a full analysis of the business which required a lot of time and effort. This subsequently affected the cost of operations reflected in high levels of employee remuneration. On the same issue, the management staff for Kingsban Microfinance Limited revealed that:

We have a referral system where our SME clients come to us based on strong recommendations from existing SME clients who can attest to the financial strength of the new applicant. We however still try to use their invoices, purchasing and selling receipt books if available to track how their businesses are faring. It is a crude system but that is all we've got (MFIKIN064, May 11, 2016).

6.7 Threats to microfinance institutions' operations

The microfinance institutions in Ghana are not without internal weaknesses and external threats. Management staff of MFIs in the study identified many difficulties MFIs faced in their operations. These included: (i) the introduction of mobile money transfer, (ii) competition with traditional banks, (iii) inadequate liquidity, (iv) harsh macro-economic environment and (v) negative perceptions of the microfinance institutions.

6.7.1 The Mobile Money Transfer Product

Mobile money transfer is an inter-phone money transfer system (product) introduced into Ghana by Telecommunications Companies like MTN, Airtel and Vodafone in recent years. This product is flexible, easily accessible, cost effective and efficient. The characteristics of this product and its newness in the microfinance market make it a threat to the operations of the MFIs, particularly those operating at the tier 2 level. The Bank of Ghana policies do not permit the MFIs to include the mobile phone money transfer product in their product lines. Because of this regulation, even if they saw it as an innovation they are prohibited by the regulations from adopting it and harnessing the advantages that come with it.

The CEO of RFML in an interview shared his thoughts on the mobile money transfer platforms on MFI operations in the following words:

*The mobile money concept recently introduced into the market is a new product. We have divergent views on this product. Some consider it as a threat while others see it as an opportunity to be taken advantage of for our own benefit. Depending on the deposits accrued, a depositor was eligible for credit instantly (E. Boham, **MFIREF065**, May 13, 2016).*

6.7.2 Competition

In addition to the mobile phone money transfer threat, the traditional banks have devised a strategy to increase their deposits by downscaling to serve the target market of MFIs (micro and small-scale enterprises mostly in the informal sector). This strategy also creates increasing competition between the traditional banks and the MFIs. Competition not only exists between the traditional banks and the MFIs but also between members of the same tier, as well as between the four microfinance tiers. The tier one MFIs see the tier two microfinance institutions as their competitors and are also wary of the increasing number of new entrants into the tier one space. A tier one MFI representative interviewed in this study admitted that:

For the challenges we face, I will say it's our competitors. We do not compete with the banks like the commercial banks but we compete with the savings and loans institutions and a lot of them are springing up with similar products we offer and that poses a threat to our operations (MFIADV068, April 26, 2016).

6.7.3 Inadequate Liquidity

Another major threat to the survival of MFIs at the tier two level is lack of liquidity. The quantitative implications of this challenge are further discussed and confirmed by looking at the overall performance of the MFIs in the next chapter. Interviews with management staff of Adwenpa Microfinance Limited revealed that the liquidity crisis of the MFI become evident anytime investments mature and clients want to make claims on their investments. This was reiterated by the management representative in the statement that:

When funds are not forth coming, it is always a major problem. The stress and the pressure involved is not easy especially when a customer is coming for his investment and you don't have it (MFIADW061, May 06, 2016).

Non-availability of liquid funds for disbursement and payment of mature investment instruments puts a strain on the MFIs which impact on their effectiveness.

6.7.4 Risks in serving SMEs

The study also showed that industry players are exposed to one major and serious risk in giving loans to micro, small and medium businesses in the informal sector. This is the high risk of default due to the informal nature of the operations of their enterprise clients who have no formal documentation for tracking their legitimate activities. The management staff of Adwenpa Microfinance reiterated that,

We have some enterprise owners who take the loan, make two, three payments and run away eventually. When we trace them, we don't get them, when we call their guarantors, they don't pick. Most of them are not trustworthy! (MFIADW061, May 06, 2016).

This notwithstanding, they were able to manage the risks involved to some extent. The CEO of Adwenpa explained the strategies they used to reduce the risks involved as follows:

Good customer service, paying customer deposits on time when they demand their money and being loyal to them. Ensuring we get to them at their business centres by paying them regular visits (A. Twumasi, MFIADW061, April 06, 2016).

6.7.5 Effect of Macro-Economic Environment on MFIs' Operations

Operational restrictions imposed by the regulatory framework create an uncondusive environment for the MFIs. In an interview with a management staff member of West Lake Capital Microfinance Limited (WCML), it came to light that the regulations posed some limitations to the institution, as follows:

Currently the law doesn't allow us to do international money transfers. The law doesn't allow us to operate a current account or a checking account (O. Bonsu, MFIWLK073, May 07, 2016).

The inability of the institution to diversify its portfolio beyond lending and deposit mobilisation places the company at a disadvantage. It was also revealed that the microfinance institutions would have expanded more into rural areas if the microfinance industry players were provided with the right environment to operate which is characterised by stable economic conditions, and availability of cheap sources of funds to MFIs. Commenting further on the issue of diversification into rural areas, the management representative of WCML commented that:

A visit to my village, for instance, nobody will go and put a bank there. If you want to send money to someone there, it becomes difficult to do so. If the micro finance companies are empowered, they would be able to serve the people better in the villages. In Ghana, those institutions that are into banking are not many but we have a lot of people in the villages who need our services (O. Bonsu, MFIWLK073, May 07, 2016).

Unstable inflation and exchange rate volatility also affects the purchasing power of MFI business clients resulting in decreased demand for microfinance products and services. The outcome of this is reduced deposits and low repayment rates by the SMEs.

6.7.6 Negative Perception about Microfinance Institutions

The reputation of the microfinance sector in the country is another major challenge for the MFIs in the study. According to the MFIs interviewed, generally there are negative perceptions about the operations of microfinance institutions in Ghana. The universal banks consider the MFIs as institutions that provide inferior financial services to their clients. They were also considered in some spheres as institutions that were exploiting their clients by charging high

interest rates to maximise profits. The negative perception of the MFIs causes a large section of the Ghanaian population and enterprises to lose confidence in their services. This impacts negatively on the institutions' deposit mobilisation efforts. The management staff of Westlake Capital Microfinance Company Limited and Reob Fekams Microfinance Company Limited indicated that:

We are perceived by the Ghanaian society as companies who are providing inferior financial services to our clients (MFIWLK073, May 07, 2016).

We have been given negative publicity throughout the country and this is making it difficult for us to mobilise deposits (MFIREF065, May 13, 2016).

Having considered the challenges MFIs face in the delivery of their products the future of microfinance institutions in Ghana is discussed in the next section.

6.8 Outlook for Microfinance in Ghana

The study reveals that the microfinance sub-sector of the Ghanaian economy has gone through a lot of structural changes. Interviews with the MFIs reveal that there were several untapped opportunities that the MFIs need to explore. These include providing them with cheaper and available sources of debt and equity. The MFIs also see the untapped rural market as a great opportunity they need to harness. This they can only achieve by influencing government's microfinance policies to allow them to serve the untapped rural market.

6.9 Synthesis and Conclusions

This chapter sought to answer the following three main research questions: (i) *How effective has microfinance been in promoting SMEs' sustainability?* (ii) *What has been the impact of MFI services on small businesses' growth and sustainability?* It also partly answers the third

research question (iii) *What are the factors affecting microfinance institutions in Ghana?* To answer the main research questions, the following sub research questions were also asked:

1. *How do the regulatory, policy and institutional structures of microfinance institutions affect their functions/roles in promoting SMEs' financial sustainability and growth?*
2. *What are the challenges faced by MFIs in the delivery of their services to SMEs?*

Section 6.2 of the chapter examined the microfinance structures (tiering system of microfinance), and their roles and functions. The tiering structure provides the regulatory framework within which the MFIs operated. In other words, it defines their boundaries, scope of operation, roles and functions in promoting financial inclusion of micro, small and medium enterprises. The structure and the regulatory framework imposes financial and operational constraints on the MFIs as these determine the level at which they operate and the type of clients and businesses they serve. Thus, these constraints result in effective non-compliance with the rules. The MFIs operate outside their scope of operation which result in fragmentation of services provided to SMEs as all tiers target the same SME market segment limiting their effective service delivery to SMEs. The MFIs provide a limited range of financial products to the SMEs which in turn limits their impact on them. The start-up and long-term financing needs of SMEs necessary for their long-term survival are not met by the MFIs. The debt and deposit products offered by the MFIs are short-term in nature and cannot meet the long-term objectives of the SMEs. This obliges the SMEs to depend on short-term funds that cannot help them achieve their long-term goals of growth and sustainability. The targeting of existing enterprises as opposed to start-ups and newly created enterprises limit the outreach of the MFIs. Fraudulent business practices, high default rates, multiple borrowings and diversion of funds among the SMEs affect the effectiveness of the MFIs. Competition, inadequate liquidity, macroeconomic factors and negative perceptions about microfinance institutions also affect their operations and

effectiveness in promoting SMEs. Furthermore, the profit orientation of the MFIs result in a paradigm shift from a poverty lending approach to commercialisation resulting in high interest rates leading to high costs of MFI products that do not favour the SMEs. The outcome of this is high default rates by the SMEs and this limits their growth and sustainability.

The structure and regulatory framework of the MFIs, the short-term nature of their products, the challenges faced and their profit orientation, have limited the effectiveness of MFIs in promoting the sustainability of SMEs in Ghana. This notwithstanding, the MFI sub-sector of the Ghanaian economy has several untapped opportunities that can be explored to enhance their effectiveness in promoting the SMEs. This however can only be achieved through supportive government financial policies and regulatory framework. Thus, this chapter has answered the overall research question and sub-questions from the demand side of microfinance.

The next chapter presents and discusses the performance of the MFIs in relation to their outreach, financial viability and sustainability, and how it influences their capability to promote SMEs' sustainability.

Chapter 7

Outreach, Financial Viability and Sustainability of MFIs in Ghana

7.1 Introduction

This is the second of the four result chapters foreshadowed in section 1.8. The chapter discusses the regulatory and institutional structures [tiering system] of microfinance institutions and how these impacted their abilities in promoting the sustainability of SMEs in Ghana. It also explores the challenges microfinance institutions face in delivering services to SMEs. Building on chapter six, this chapter further explores the performance of MFIs in three core areas: outreach, loan management [collection], and financial sustainability. Theories and concepts reviewed and distilled into the conceptual framework in 2.13 show that the quality of the outcomes of these factors affect sustainability of MFIs. The resultant effect determines the capacity levels of the MFIs to provide effective services to the SMEs. This in turn affects the sustainability of the SMEs that MFIs serve as discussed in chapter six. Thus, the chapter seeks to answer the fourth research question: *What is the sustainability and financial independence of MFIs serving SMEs?*

To answer this question, the chapter explores MFIs' performance in terms of outreach, financial, operational and institutional sustainability. Outreach, as used in this chapter, refers to the breadth of microfinance services to the SMEs. Breadth of outreach refers to the total number of clients (in this study, SMEs) reached. In other words, the number of SMEs served as well as the geographical coverage. Thus, it defines the number of SMEs served (quantity) and geographical [district, region or country] coverage (spread) of MFI services. Sustainability as used in this study refers to the ability of the MFIs to continue to mobilise sufficient funds to operate and effectively promote SMEs' growth and overall success.

Although this study is largely qualitative, outreach and profitability indicators of the MFIs were analysed using financial ratios which are quantitative accounting methods most suitable for analysing the financial data collected from the MFIs [refer to section 4.4]. This was done by juxtaposing the qualitative data with the quantitative financial data obtained from the selected MFIs. The quantitative data helped to triangulate the qualitative data gathered from the MFIs to establish internal validity and reliability of the findings. Thus, both the qualitative and quantitative data complemented each other in this analysis.

The key factors determining microfinance sustainability as presented in the conceptual framework [section 2.13] form the basis for the analysis in this chapter. Key concepts relating to MFIs' profitability and sustainability such as Return on Equity (ROE) and Return on Assets (ROA) are explored in this chapter. Rosenberg's (2009) financial performance framework of the MFIs and the Small Enterprise Education and Promotion Network (SEEP) (2003) and Ledgerwood (1999) financial performance frameworks are used to guide the analysis of MFIs' financial performance. Further, Rhyne and Oteros' (1994) and Havers' (1996) classifications of microfinance institutions' sustainability is used for subjective classification of MFI sustainability levels. Additionally, the amount of subsidy used by the MFIs, their sources and types of funds for on-lending, the state of their loan portfolios [loan management] and constituents of their operating expenses, among others, are also elements explored in relation to MFIs' performance. The chapter is informed by the proposition that when MFIs are sustainable and self-sufficient they have greater capacities and are more effective in providing financial services to the SMEs, though whether this can accommodate moving from supporting existing businesses to supporting the much riskier business of start-ups remains to be seen.

This chapter is organised into 5 sections. Section 7.2 presents the outreach performance of the MFIs in qualitative terms and further integrates these findings with the quantitative financial

ratio analysis. Section 7.3 examines the financial sustainability (profitability) of the MFIs and .Ofurther discusses their performance in relation to financing, liquidity and capital adequacy. The section also examines interest income and interest rates as a major source of financing for the MFIs. Section 7.4 continues with a discussion of the MFIs’ loan collection performance or operational sustainability, credit risk management, and SMEs’ default management. It also assesses efficient use of resources by MFIs to ensure their sustainability and whether this is passed on in their effectiveness in serving SMEs. Finally, section 7.5 concludes the chapter.

7.2 Microfinance Institutional Outreach Performance

The study examines the number of SME clients served by the MFIs. Table 7.1 provides a summary of the number of loan accounts, deposit/savings accounts, active borrowers and branch networks for the 2015 financial year of the MFIs interviewed.

Table 7-1 Outreach Performance of Selected MFIs in Study Area

Micro Finance Institutions	Number of Loan Accounts	Number of Deposit Accounts
Tier One		
FASL	1322	6207
UNICREDIT	5372	
OISL	57787	530623
Tier Two		
ADWENPA	132	4500
AXIS DIRECT	400	700
OFS	200	2000
GAP	500	1219
GIANT STEPS	379	717
REOB FEKAM	900	2500
TRUSTLINK		1000

Source: Primary data from MFIs.

Table 7.1 shows the total loan and deposit accounts of each of the 10 out of the total 15 selected MFIs examined.⁷ The outreach data show that for all the individually selected MFIs, there are more depositors than debtors. What this suggests is that the MFIs provide more savings and deposit services to their SME clients than lending services. The results of the current study do not deviate from the trend observed by Aryeetey (2008) among MFIs he studied in other parts of Africa and developing countries. Aryeetey observed that the clients of MFIs had a stronger savings orientation than credit orientation. Some SME owners interviewed in the current study regard the MFIs as reliable institutions where they can bulk up their disposable incomes as well as earn returns on their savings and investments. Hence, the SMEs served by most MFIs engage in more deposit activity in order to grow and expand their enterprises. Thus, the MFIs receive more in savings than their output in providing loans to the SMEs. In an interview, an SME client confirmed this finding:

I had done savings for six months so when they calculated it the interest on the 10,000 Ghana cedis was about 2,000 Ghana cedis, so every month I went for the interest but I had taken the 10,000 there in bulk (AWOSF036, May 17, 2016).

This quote explains the savings orientation of the SMEs in the study. The savings orientation is, however, not a voluntary decision, but rather as a result of the compulsory savings rule set by the MFIs as a pre-requisite for loan disbursement to help reduce the loan repayment default rate among the SMEs. Most of the SME clients interviewed attest to the fact that they have to save for six months before they are eligible for loans. The MFIs agreed that the strategy helped to boost their outreach performance in serving more SMEs.

⁷Five of the ten MFI cases examined were unable to supply this information during interviews. Hence, only 10 cases are presented. This difficulty in access to data was anticipated by the researcher hence the selection of a high number of cases for the study.

The MFI representatives interviewed reveal that savings deposits with low interest from the SMEs serve as a cheaper source of funds for them which they loan out to debtors with higher interest rates. Borrowing at market rates to on-lend was identified as being quite expensive or inaccessible for the smaller MFIs which made them focus more on deposit mobilization as an alternative source of finance. In some circumstances, the MFIs upgraded from tier four to tier two to enable expansion of their programs but the higher tier levels provided the additional incentive of being able to mobilise liquidity from clients as well as target “better off” SMEs with huge disposable incomes for investment. This finding is consistent with the finance and microfinance literature on how MFIs finance their liquidity through demand for deposit services globally among small savers (Robinson, 2001; Cull, Demirgic Kunt and Morduch, 2007; Ledgerwood, 2010). For instance, Robinson (2001) found in Indonesia that there was a high demand for deposits. To attract more deposits, the deposit instruments were designed such that the savers found them to be secure outlets for their funds on which they earned positive real returns.

While some of the microfinance institutions in this current study rely on such deposits for on-lending to clients, others utilise it to cover their short term financial obligations. Hence, they invest in interest bearing financial instruments such as government treasury bills. Some of the MFIs use the deposit funds as investment capital for purchasing fixed assets and long-term capital investments, such as government bonds. This investment strategy rendered some of them illiquid in the short term during the time of the study. Follow-up interviews with key informants from the MFIs’ regulatory body (Bank of Ghana), the MFIs’ Network (GHAMFIN), as well as some management staff of the MFIs provided further insight into the use of customers’ savings deposits by the MFIs. A key informant from GHAMFIN revealed examples of MFIs that collapsed in the 2015 financial year due to inappropriate use of depositors’ savings. They stated that the MFIs involved invested in projects and assets that had

long term maturity periods. The investment strategies, however, rendered the MFIs illiquid leading to the closure of some of them.⁸ A key informant confirmed that:

The cause of the closure and collapse of some of the tier two MFIs reported on social media was because they breached microfinance rules. They invested the deposits they took to buy flashy cars and built offices to become more visible to the public. As a result, they didn't have enough liquidity to serve their customers. They breached the terms of the license. And once you go against the terms of the license, you face higher risk of collapse (KIBOGP077, May 23, 2016).

The findings on illiquidity and closure because of mismanagement of customer deposits, as noted above, were substantiated by some of the SME clients that were interviewed. SME clients reported that:

Around February March 2015, I went to my MFI to withdraw part of my savings to invest into my business. I asked the manager for my savings but he told me they could not pay me because they were in financial trouble. They could not pay my fixed deposit and accrued interest. When I went back a week later to request for the money again they had closed their office and were nowhere to be found. I was devastated because I had 10,000 Ghana cedis in savings with them (AWOSF036, May 17, 2016).

I went to my MFI with the intention of adding more money to my savings account only to realise that the institution was no more operating due to lack of funds. I lost all my savings and have had to start again (ABL SM023, May 16, 2016).

⁸ See reports on the collapse of some selected MFIs due to illiquidity and misuse of depositor's funds at <https://www.ghanaweb.com/GhanaHomePage/economy/Lord-Winners-Microfinance-swindles-over-5-000-customers-299140>
See also <https://www.modernghana.com/news/501699/0/westbanc-capital-swindles-customers.html>

The forced savings coupled with the risk aversion of the majority of the MFIs observed in the study further explains the shift in focus of the MFIs from traditional financing of micro and small-scale enterprises to commercial microfinancing aimed at profit maximisation. This approach as discussed in section 6.3 is consistent with Robinson (2001) and Kabeers' (2005) financial system approach to microfinance service delivery. This approach is more concerned about cost recovery and financial sustainability than provision of subsidised credit to borrowers evident in welfarist approaches. Interviews with SME participants reveal that the practice of SMEs bulking up their disposable incomes as a result of compulsory savings, as opposed to opportunities to borrow for longer term periods to invest, limit their capacities to grow and expand their enterprises. This casts doubts on their enterprise sustainability as they are not able to access credit facilities at low interest rates for long term investment. An MFI representative interviewed justified the rationale for instituting compulsory savings for SMEs as a condition for accessing loans in the following manner:

Compulsory savings is a condition for accessing loans, especially for micro-entrepreneurs who do not have any form of security or collateral and information asymmetry was high (MFIOFS070, May 10, 2016).

The risk aversion of the MFIs and the compulsory savings they demand from SMEs, especially those without collateral, make the SMEs unable to borrow any substantial amounts of funds to inject into or start new enterprises. This approach, as indicated earlier in section 6.3, is opposed to the financial inclusion drive of the Ghana microfinance sector policy. The obligatory savings deposits which are allowed to accrue to substitute for collateral, as explained in section 6.4.1, take a considerable time to reach a level where they can be financially mobilised. This limits the outreach opportunities and benefits of MFIs, as many of the SMEs cannot easily access microfinance services. Table 7.1 also shows an outreach pattern of the tier two institutions,

where the number of loan accounts below 1000 per institution for the period is compared to the tier one institutions. The low levels of outreach per tier two MFIs is partly attributed to the rapid upsurge of tier two MFIs operating in the country, particularly in the urban and peri-urban areas. It is also partly due to the high interest rates charged by the MFIs, as explained in section 6.5. While it might be expected that access to microfinance by SMEs would increase correspondingly with the increase in numbers of MFIs operating in the study area regardless of their structure [status of tiers], it is rather the case that the demand for microfinance credit services is low due to the high interest rates charged by the MFIs. Thus, the low demand for micro credit facilities by the SMEs means they have a low outreach and less deposits are therefore collected from SMEs. This in turn affects the profitability and sustainability of the MFIs interviewed.

The CGAP (2003) contends that the “best measurement of outreach is the number of clients or accounts that are active at a given point in time”. The number of active clients is considered more useful than the collective number of loans made or individual clients served during a period. Among other distortions, cumulative numbers make an MFI offering short-term loans seem better than the one giving out loans on a long-term basis (CGAP, 2003). The recommended measure counts active clients rather than “members” to reflect actual service delivery because members may be inactive for long periods of time without engaging in borrowing or deposit activity. Thus, increasing the number of active SME clients is an objective pursued by the MFIs interviewed in the study area. Outreach in terms of active borrowers as well as branch network strength of the selected MFIs is presented in Table 7.2. It was observed that the number of active borrowers for all the MFIs listed is lower than the total number of loan accounts. This phenomenon is explained by the high interest rates MFIs charge on their loans. This serve as a disincentive for SMEs to engage in active borrowing compared to depositing activity.

Table 7-2 Active Borrowers and Branch Network of MFIs

Micro Finance Institutions	Number of Active Borrowers	Number of Branches	Staff Strength
Tier One			
FASL	1171	5	***
UNICREDIT		14	***
OISL	447308	37	***
Tier Two			
ADWENPA	60	1	9
AXIS DIRECT	110	1	9
OFS	167	2	8
GAP	104	1	5
GIANT STEPS	433	1	7
REOB FEKAM	650	2	14
TRUSTLINK	90	1	7

Source: Primary data from MFIs ***Missing Data⁹

In relation to branch networks or the number of centres operated per MFI [geographical coverage], the study shows that the tier two MFIs did not have branches comparable to tier one MFIs, which had branch networks ranging from five to 37. It is probable that the limited outreach in terms of geographical spread or number of branches of the tier two MFIs is due to their being in the early developmental stages. They have limited operational capacities to establish branches. The tier one institutions on the other hand, which have been in existence for longer periods (mature in their lifecycle), have the operational capacities to establish branch networks (see chapter five for the ages of the MFIs). Therefore, the disparities in the number of branch networks (geographical outreach) observed between tier one and two MFIs can be explained by differences in the stages of their life cycle, which influence their capacity to

⁹ Data on staff strength for the 2015 financial year was not provided for these MFIs

establish and manage branch networks. Indisputably, the tiering system [MFIs structure] as discussed in chapter six affects their capacity for outreach [spread] and therefore to mobilise more deposits and to intermediate loans to SMEs in other geographical areas. This can in turn constrain their effectiveness in promoting SMEs' growth and sustainability.

Other outreach performance indicators investigated are the average loan size, the value of deposits and the gross loan portfolios of the MFIs. These indicators are presented in Table 7.3.

The value of deposits received from SMEs by FASL (GHC10,462,238), UNICREDIT (GHC162,630,000) and OISL (GHC98,749,979), all non-bank financial institutions at the tier one microfinance level, outweigh the gross value of loans disbursed to their SMEs as shown in Table 7.3. These results further explain the strong savings orientation of the SMEs discussed earlier in this section. This finding also confirms reports by MFI participants that they rely on client deposits for their operational sustainability.

Table 7-3 Value of deposits and gross loan portfolios of selected MFIs

MFI	Value of Deposits(GHC)	Gross Loan Portfolio(GHC)
FASL	10,462,238	7,836,242
UNICREDIT	162,630,000	114, 598,006
OISL	98,749,979	94,548,313
ADWENPA	1,431,059	327,000
OFS	819,795	687,016
GAP	2,483,978	433,471
TRUSTLINK	146,510	266,870
GIANT STEPS	884,934	1,436,684
REOB FEKAM	3,574,273	3,691,944

Source: Primary Data from MFIs

7.2.1 Client Targeting

The clientele base of MFIs expresses the target groups they serve. The nature of this base helps to determine whether they [MFIs] are likely to pursue commercial financial intermediation and have a profit orientation, or whether they develop a poverty lending orientation, or a combination of both (Ledgerwood, 1999, Brau & Woller, 2004). So, the nature of the clientele base gives an indication as to whether the MFIs will pursue a welfarist or a profit-making agenda. The MFIs interviewed serve a wide range of clientele from individual clients to the full range of SMEs. Generally, the MFI and SME representatives interviewed indicate that the MFIs are more profit oriented than providing ‘welfarist’ services. The MFI client segments and their characteristics are discussed next.

7.2.1.1 Individual Clients

The MFIs in the study have individual walk-in loan clients who are not regular customers or savers but required loans for various reasons. Such clients are treated differently compared to regular clients. The one-off individual clients are made to provide collateral and their stores or shops are inspected to prove their businesses are genuinely in existence and not fictional. However, in some cases, the individuals do not own businesses but require the funds for other purposes. Such individuals are considered for loans based on their circumstances.

7.2.1.2 Group Clients

Group based lending is an approach used by the MFIs to enable individual clients who cannot meet the collateral requirements of traditional financial institutions to access financial services. The group based approach is built on informal lending and savings models that rely on some group dynamics for loan repayments such as peer pressure, naming and shaming. The leadership of the groups guarantees loans for group members. In other words, the group serves

as a form of collateral for its members. The MFIs interviewed explained that the use of the group system as a form of collateral reduces transaction costs such as screening of the individual group members and monitoring their individual loan repayment performances. While group lending if well implemented has some advantages compared to individual lending in ensuring high loan repayment rates, it also has some disadvantages. Interviews with MFIs show that most of them experimented with the group liability method, but had to abandon it because of high loan default rates. It was often the case that most of the group members could not repay their loans, resulting in losses to the MFIs. The few MFIs which were successful in rolling out group lending piloted it on a small scale, and used the lessons to improve the management of their group clients. For example, the Axis Direct Microfinance Institution piloted group lending and used the lessons to develop a robust group lending portfolio over time. The Axis Direct Microfinance Institution key informant, when interviewed, disclosed that the company also provides basic financial management training to the groups and monitors performance of individual group members. This led to the success of their group lending clientele (mostly microenterprise owners). While some MFIs have experimented with the joint liability concept employed by the Grameen Bank 1, where group accountability is key to the success of the group, the concept has been modified to suit the Ghanaian context where susu contributions by individual members are encouraged to enhance repayment and reduce default.

The MFIs with very strong group lending projects were found to be tier one MFIs with strong NGO backgrounds that have been up-scaled into commercial microfinance institutions. While a study by Ledgerwood, 1999, shows that the transaction costs associated with group lending can be low, the findings of this current study suggest, to the contrary, that in the short-term group lending has high transaction costs. This is because of the costs associated with the monitoring of individual group members' performance and group training that make the participants effective and functional in the long term. In fact, without the initial investment in

training and monitoring of group members' performance, group lending can be associated with high transaction costs in the long run as the group members are likely to adopt the free rider attitude, knowing that the group would be held responsible if they default on loan payments.

7.2.1.3 Business Clients

The study shows that the majority of MFIs' clients are micro and small enterprises. To a small extent, the MFIs also serve medium scale businesses. Whereas some MFIs focused exclusively on micro and small businesses who engage in the food supply chain, production, retail and manufacturing industries, others tend to focus mainly on young people operating "table top businesses" (micro businesses) and street hawking (selling on the streets). This finding suggests that the microfinance institutions focus more on the economically active segments of the business population. The study also reveals that the medium scale enterprise clients usually require large sums of credit funds which the smaller MFIs (mainly tier two MFIs) cannot provide. Some MFIs serve small and micro enterprises with funds ranging from GHC 200 - 500 (US\$50-125) and medium scale enterprises with debt funds from GHC2,000 – 20,000 (US\$500-2,000).

While the government policy objective directs microfinance institutions to serve the poor engaged in micro and small enterprises, the MFIs also served medium scale businesses. The MFIs which serve medium scale enterprises explained during interviews that they extend their services to them to cater for losses incurred in providing small loans to small and micro businesses. The CEO of Reob Fekam Microfinance Limited explained the rationale behind their strategy in serving medium-scale enterprises as part of their credit portfolio:

Somebody can do a transaction of GHC 100,000 [US\$25,000] per month or two months, then repay it with GHC10, 000 [US\$2,500] in instalment which is able to cover

our monthly operation costs. This repayment amount can take care of our overheads expenditure. On the other hand, we need to serve hundreds of micro enterprises to be able to receive a repayment of the GHC10, 000 from one medium scale entrepreneur. So, knowing that we have challenges in doing business with the micro enterprises, we want to try and do a few big tickets just to balance (MFIREF065, May 13, 2016).

Serving medium scale enterprises provides the returns the MFIs need to cover their operational and overhead expenses. This notwithstanding, the losses the MFIs incur through default in loan repayment have significant impact on their loan portfolios. The CEO of Reob Fekam Microfinance Limited recalled:

Last year we recorded a recovery rate of 87% and the short fall was primarily because some of our big tickets (medium scale enterprises) couldn't honour their repayments (MFIREF065, May 13, 2016).

The issue of loan recovery in the quote above is further explored under the loan collection performance of the MFIs in section 7.6 of this chapter. Financial and institutional sustainability of MFIs in the study area is examined in the next section.

7.3 Sustainability of MFIs in Ghana

This section examines the financial and institutional sustainability of the MFIs studied.

7.3.1 Financial Sustainability

In the banks and other commercial institutions, the most common measures of profitability are Return on Equity (ROE) and Return on Assets (ROA). Return on Equity (ROE) measures are the returns produced for the owners or shareholders of the MFI, while Return on Assets (ROA) or economic profitability reflect the organization's ability to use its assets productively.

Financial performance of the MFIs in terms of their accounting performance were analysed based on financial ratios adopted from a combination of the frameworks presented by Rosenberg (2009), Rosenberg, et al (2003), SEEP Network (2003) and Ledgerwood (1999), whose works were presented in the conceptual framework in section 2.13, that provides the basis for the analysis of the research. The ROE, ROA and financing structure for the case study MFIs from 2012 to 2015 were calculated. The ROE and ROA models are suitable for calculating the profitability of commercial MFIs as explained by CGAP, (2003), SEEP, (2004), and Ledgerwood (1999).

The models used for calculating all the financial ratios discussed in this chapter are described and presented in Table 2.1. (See Section 2.13). All the microfinance institutions in the study are commercial orientated, hence these models were adopted and used to calculate their profitability. Models used for calculating the ROE and ROA are highlighted below:

$$\text{ROE} = \text{After-tax profits} / \text{Starting (or period-average) equity} \dots\dots\dots \text{Ratio (i)}$$

$$\text{ROA} = \text{After-tax profits} / \text{Starting (or period-average) assets} \dots\dots\dots \text{Ratio (ii)}$$

In situations where the institutions received substantial subsidies in the form of grants or loans at below-market interest rates they were treated differently. Their normal financial information was “adjusted” to reflect the impact of the presence of subsidies. Three subsidy-adjusted indicators which are commonly used are Financial Self Sufficiency (FSS), Adjusted Return on Assets (AROA), and the Subsidy Dependence Index (SDI). These measures are more complex than the indicators discussed previously, and there are slight variations in the ways each of them are calculated.

This study adopted the accounting model specified in equations (i) and (ii) above because the institutions in the study do not receive subsidies, grants or concessions but operate as

commercial microfinance institutions (further explanations are provided in Chapter four of the research). Table 7.3 presents the results of the analysis of the MFIs' financial sustainability (profitability) for 2012 to 2015. The ROE and ROA's for some institutions could not be analysed for 2012 and 2015 financial years because they could not provide financial data for those years and the previous years to enable a calculation of the average variables in question.

Table 7-4 Profitability of Selected Microfinance Institutions in Study Area

MFIs	2012		2013		2014		2015	
	ROE	ROA	ROE	ROA	ROE	ROA	ROE	ROA
TIER ONE								
FASL	***	***	***	***	22.4	9.9	7.5	3.2
UNICREDIT	***	***	8.0	1.5	10.6	1.8	***	***
OISL GHANA	***	***	1.8	0.3	6.4	1.2	1.7	0.3
TIER TWO								
ADWENPA	***	***	***	***	1.1	-0.4	0.2	-0.2
OFS	4.3	0.9	1.8	0.7	0.8	0.5	***	***
GAP	**	**	**	**	**	**	**	**
KINGSBAN	**	**	**	**	**	**	**	**
TRUSTLINK	**	**	**	**	**	**	**	**
GIANT STEPS	***	***	23.6	18.6	19.9	17.1	***	***
REOB FEKAMS	***	***	-1.7	-0.4	9.7	1.6	11.6	1.3

Source: MFI Primary Data

***Incomplete data to calculate averages for denominator values **Data not available

Generally, the return on equity ratio provides investors with information on the rate of returns earned on the invested equity. When the MFIs make returns on their investments, these returns can be ploughed back into the institution as retained earnings for lending. The univariate analysis of the MFIs' ROEs shows that they are generating positive returns on their equity investments in most cases. A critical analysis of the 2014 financial year ROEs shows that all the MFIs are profitable, hence financially sustainable within the period specified. While Giant

Steps Microfinance shows the highest ROE of 9.9 percent (i.e. for every one Ghana Cedi invested, the MFI makes a return of almost ten Ghana Cedis). OFS Microfinance on the other hand shows the lowest ROE of 0.5 percent. Reob Fekam Microfinance stands out as an MFI that recorded successive losses in 2012 and 2013 and therefore was financially unsustainable during that period. However, it picked up later and recorded a sharp increase in profitability with an ROE of 9.7 percent in 2014. The negative ROEs recorded in 2012 and 2013 are attributed to defaults in repayment by major SMEs the company funded during the period. The positive ROEs recorded support earlier findings that the institutions pursue profitability agenda by charging of high interest rates on loans given out to their clients. On the other hand, they pay out low rates on deposits received from their clients. The MFIs are found to be sustainable because they charge high interest rates to cover all financial and non-financial costs as well as their operational risk. In addition, the returns on assets ratios (ROAs) of the selected institutions are overall equally positive, giving an indication that the MFIs are generating positive returns on their assets. The most striking pattern, however is the absence of a significant pattern overall. The indicators seem to show that a particular year's result is independent of other years' which implies there was no impact of microfinance on microfinance recipients. This assertion could be subject to error due to the presence of missing data for some financial years.

The institutional sustainability of microfinance institutions and their financial independence is determined among other things by their capital structure and hence the sources of funds available to them and the extent to which the MFIs depend on donor, concessional and subsidised funds. This determines the degree to which the institutions are operationally and financially sustainable (Havers, 1996). Accordingly, the study explored the sources of funds for MFIs' operations, maintenance of loan portfolios and general administrative costs to ascertain their institutional sustainability. The approach adopted in this section is not as objective as when mathematical calculations of sustainability indices are used. The method

used here is based on an analysis of the MFIs' level of dependence on subsidies, grants and concessionary funds, which to some extent is subjective. This subjective analysis of MFIs sustainability is based on Rhyne and Otero's (1994) and Havers (1996) classifications of sustainable microfinance institutions. These sustainability classifications were elaborated extensively in Chapter two. It emerged from interviews with MFIs' management staff that varied sources of funding streams are available to the microfinance institutions.

Our sources of funding are mainly from shareholders and depositors' funds ... and bank loans (MFIGST075, May 11, 2016).

Our major source of funding comes from our shareholders. Deposits and savings help us to take care of unexpected withdrawals but it doesn't constitute our main source of funding. From the onset, our main source of operational funds came from our shareholders but as time went, interest from loans, investments and commissions became our source of funding (MFITLM061, May 10, 2016).

For most tier one MFIs, their main source of funds is from shareholders' equity investments, investments from net worth individuals and institutions, and borrowings from commercial banks at market rates. Interviews with MFIs' management staff indicated that the sources of funding have direct bearing on the extent to which MFIs support the growth and sustainability of the SMEs they serve. The CEO of Adwenpa Microfinance Company Limited, a tier two MFI, summarises the general views and assertions expressed by majority of tier two MFIs when he said:

Funding has always been a major limitation to our growth and effectiveness because funds from individual investors are costly to maintain (MFIADW061, April 06, 2016).

Funds mobilised from savings and fixed deposits from clients are found to be relatively cheaper than those sourced from wealthy individuals at all tiers of the microfinance industry. Notwithstanding the high costs [interest charge] of financing through these sources, they remain critical because of the limited access to funds from the traditional banks to the tier two MFIs. They do not have access to the capital markets due to size limitations as well as their inability to meet the legal obligations to source equity funds from the public. Emphasising the importance of the existing sources of funds to the survival of the MFIs in serving SMEs, a management staff member of Adwenpa Microfinance stated that:

It is an investment and requires a repayment. It gives us the opportunity to invest it and make profit. We solely depend on the individual investments and so without it we cannot carry out our operations and give out enough loans (MFIADW061, April 06, 2016).

It's actually borrowings. We borrow from other financial institutions, and then from high net worth individuals (MFIOFS070, May 10, 2016).

In some cases, the MFIs depend more on debt funds than equity sources. A typical case is that of OFS Microfinance Limited as explained in the quote above. The high dependence on debt funds by most of the MFIs is attributed to the difficulties they encounter in raising funds from cheaper sources. As observed by Havers, 1996; Congo, 2002; and Ledgerwood, 1999, 2010, institutions that focus on debt use become highly leveraged and for them to be sustainable and financially independent they require effective strategies to manage costs and reduce the levels of non-performing loans.

It was observed in the current study that the main sources of revenue for the MFIs are fees, charges and interest income which are used by the MFIs to cover their operational expenses. To be sustainable businesses, the MFIs must cover all expenses with their own revenues (Gonzalez, 2008). If revenues are more than expenses, the MFI is sustainable and can keep

operating without subsidies. However, if revenues are less than expenses, the MFI needs subsidies to cover all its costs.

The finding of the current study, however, shows that the institutions depended largely on revenues generated from loans. By this, any erratic increase in expenses can be covered in only one of two ways: 1) by increasing the interest rates, fees or commissions, all paid by the SMEs who borrow from them, or 2) from subsidies. The degree of operational self-sufficiency (OSS) of the institution is related to their ability to cover their operational costs through their operational revenues over time. Table 7.4 shows the trends of the Operational Self Sufficiency (OSS) of the institutions over a period of four years. Some of the institutions have been in operation for less than four years and do not have data covering the entire period investigated. The degree of OSS of the institutions was measured using the ratio of total revenue to total expense which is expressed as:

$$\text{Degree of OSS} = (\text{Total Revenue}/\text{Total Expenses}) \times 100 \dots\dots\dots \text{Ratio (iii)}$$

An operational self-sufficiency (OSS) of 100% is considered as the break-even point hence OSS above 100% is a sign of operational self-sufficiency.

Table 7-5 Degree of Operational and Financial Self-Sufficiency of MFIs (%)

MFI	OSS 2012	OSS 2013	OSS 2014	OSS 2015
Tier One				
FASL	***	***	***	***
UNICREDIT	-	107	108	-
OISL				101
Tier Two				
ADWENPA	-	83	55	77
OFS	***	***	***	***
GAP	***	***	***	***

MFI	OSS 2012	OSS 2013	OSS 2014	OSS 2015
GIANT STEPS	132	130	124	***
REOB FEKAM	92	123	113	111
TRUSTLINK	***	***	***	100

Source: Primary data from MFIs.

*** data not available from the MFI.

The majority of the MFIs stated that high overhead costs related to electricity supply have impacted negatively on their cost of operations. Savings mobilisation has also dropped significantly due to instability in the microfinance subsector and impacts negatively on the overall sources of funds available to the MFIs. Grants, subsidies and donor support are not part of the funding mix of most MFIs in the study. The demerits of heavy dependence on savings deposits and individual investments for financing loan portfolios of the MFIs was made clear during interviews with MFIs' management staff:

Hmmm....., for now I have a very big challenge. I am facing liquidity crisis because my money has been eroded through losses. Investment from many people into my business has matured, but I can't get the money to pay them. This year, I tried to invite people to buy shares in the company but all my efforts proved futile. I wish I am not in the industry any more, but I have found myself in it already. Due to my indebtedness, I have spoken to people who can purchase some assets that I have so that I can raise some money to settle some of the debts I owe (MFIADW061, April 06, 2016).

The quote above explains the challenges associated with the heavy dependence on individual sources of investment capital to MFIs. Erosion of investment capital obtained from individual sources emerged as one of the challenges MFIs face in trying to manage costly sources of financing, hence individual investment is not a sustainable source of funding stream for the microfinance institutions. What this finding suggests is that individual savings deposits and

fixed term deposits mobilised by MFIs are short term liabilities that decrease the liquidity of their portfolio. As inferred from the above quote, savings deposits and fixed term deposits are not a viable and reliable source of sustainable financing for the MFIs. Lack of sustainable funding sources for MFIs implies that their effectiveness in promoting SMEs' growth and sustainability cannot be guaranteed. Interviews with the MFIs' management study participants revealed that refinancing MFI portfolios through the formal banking sector, the Central Bank or through venture capital funds is not easily accessible. In a few cases where bank credit is accessible, they obtain it at the prevailing market interest rates with a premium due to the perceived risk associated with MFIs in the study area.

As argued by Ledgerwood, (1999), Haver (1996) and Rhyne and Otero (1994) microfinance institutions' ability to cover their operational costs without depending on subsidies and grants from external sources is a measure of self-sufficiency. A microfinance institution's ability to cover its costs without donor support is also a measure of its financial sustainability and financial independence. The types of funding sources available to MFIs to cover operational costs are, therefore, important in determining their survival. This in turn further impacts on the microfinance products and services made available to SMEs. These indicators were also examined to determine the extent to which MFIs depend on grants, subsidies and concessionary funds to cover their operational costs. The results show that the MFIs depend heavily on internally generated operating and interest income. Based on Otero and Rhyne's (1994) classification of levels of MFI sustainability, the current study shows the tier two MFIs are operating between levels three and four [see 2.13 of the conceptual framework] because they do not depend on donor or concessional funds. Most of the MFI cases are operating at the third level with a dependence on interest income to pay off operational expenses, whereas some operate at the fourth level where their main sources of funds are client savings and commercial bank debt at market rates. Otero (1999), Rhyne and Otero (2006) and Robinson (2001) posit

that when microfinance institutions become part of the financial system, they can access capital markets to fund their lending portfolios which would allow them to increase the number of poor people they reach. On the contrary, in this study, sources of funds to the MFIs at the tier two level are found to be limited even though they had become part of the financial system through regulation. In cases where the funds are available, high costs make those sources unattractive to the MFIs.

7.3.2 Interest Income, Interest Rates and Sustainability of MFIs

Interest income serves as a major source of finance for covering operational costs and expenses of the MFIs studied. Operating in a free market economy, the MFIs set their own interest rates based on their product lines and services. The MFIs take into consideration certain factors that determine the effective interest rates on offer to their clientele. Cost of funds, prevailing economic conditions, prevailing industry rates and the risk levels of clients are key factors that influence the setting of the effective interest rates. Interviews with management representatives of MFIs in the study reveals varied interest rates ranging between 72% and 100% per annum. The cost of funds to MFIs fluctuates between an effective rate of 36% and 40% depending on their sources. For the MFIs to breakeven or maximise profit, and achieve financial self-sufficiency (FSS) they determine their interest charges that allow their clients' payments to cover the full cost of services and products. Thus, the MFIs charge relatively very high interest rates as an operational strategy to cover the high administrative and training costs. It also emerged from the study that the economies of scale available to the selected MFIs especially those at the tier two level is small and did not cover their fixed costs due to the small principal amounts they disbursed as loans as well as limited outreach. Because of this, high interest rate charges are crucial for the overall sustainability of the MFIs. This was further confirmed by

their positive ROE ratios analysed and the large number of deposit accounts maintained as noted in Table 7.1.

7.4 Loan Collection Performance of the MFIs

MFIs' competence in ensuring repayment of loans and reducing the risk of default is reflected in their loan collection performance (CGAP, 2003). Repayment of MFI loans may be seen as a crucial indicator of performance. Poor collection of loans can be attributed to management and system weaknesses. The strongest repayment incentive for uncollateralised microloans is probably not peer pressure, but rather SME clients' desire to preserve their future access to a loan service, which is very valuable to any business. In other words, healthy repayment rates are strong signals that the loans are of real value to the SMEs. High delinquency on the other hand makes financial sustainability impossible (Ledgerwood, 1999). Thus, these factors were explored to further determine the institutional sustainability of the selected MFIs in their service delivery to SMEs and the findings are discussed in the next section.

7.4.1 Post Loan Disbursement Strategies

The way MFIs manage loans to SMEs was identified to be crucial to their overall performance and effectiveness. One way of ensuring that repayment rates are kept at a high level and non-performing loans are reduced to the barest minimum is for the MFIs to develop and implement effective post disbursement strategies. The study establishes that all the MFIs have some form of post loan disbursement strategy in place, although there are some variations. It became clear that the institutions have mechanisms in place to ensure continuous interaction between the MFIs and their SME clients. The use of field officers, mobile bankers and/or credit officers who pay regular visits to the entrepreneurs at their enterprise locations is a common feature. A management representative of West Lake Capital disclosed that:

We do business with them at the field and so whatever problems they have, they let us know. Apart from the field officers, we also have monitoring officers who go around to find out whether they [clients] are satisfied with what they are getting from the field officers. The few that come to us with complaints, we try to address them based on an individualised approach (MFIWLC073, May 07, 2016).

This study reveals that MFIs that establish solidarity groups for lending purposes record low default rates from the groups. In some cases, the repayment rate is hundred percent. However, repayment of group loans is gender sensitive. Groups with a higher proportion of women are found to have higher repayment records. Women are generally considered as being more cautious in the use of microcredit obtained from MFIs. Group sizes on average are limited to five or six subgroups in a larger group of between thirty to seventy members. The data indicate that effective monitoring, and pre-and post-disbursement training contributed to the effectiveness of group lending and repayment. The management representative of Adehyeman explained how their institution managed group lending:

We group them for the convenience and for the efficiency but the loans are disbursed to the clients as individuals (MFIADH067, April 5, 2016).

In the case of Adwenpa and TrustLink Microfinance Institutions however, the picture is quite different. Because of poor monitoring of the groups, group members defaulted and the MFIs recorded losses. This phenomenon is attributed to diversion of loan funds for other purposes not previously communicated to the MFIs as discussed in sub-section 6.6.1.1 of Chapter six. Interviews with management staff of TrustLink Microfinance Company Limited stated that this phenomenon occurred because of their poor management of the groups.

The MFIs adopt various approaches to manage default. Three approaches emerge as prominent strategies for managing default. The first approach involves re-evaluation of the client's

enterprises and the lending relationship. The MFIs usually invite the client to discuss the reasons for the default in payment. This is done either through visits to the business premises of the clients or at the MFIs branch office. The MFIs also carry out internal analysis (re-assessment) of their own previous evaluation processes of the client to identify any weaknesses that are overlooked during the process. Any lapses identified are addressed accordingly. Sometimes, the re-assessments indicate that the initial projections of the clients' cash flows and financial viabilities are inaccurate. In a few cases, customers' sales records are found to have been manipulated, resulting in the taking of wrong decisions regarding the loan amount to be granted as well as its terms and conditions. The management representative for Reob Fekam Microfinance Limited mentioned steps taken by his Company to rectify the misrepresentation of facts about clients' credit worthiness as follows:

*We go back to ascertain what really went wrong. If the customer was billed to pay 100 Ghana Cedis per week, the repayment amount was reduced to say, 40 Ghana Cedis. The business patronage was also assessed by a field staff's visit to the clients' enterprise location. An assessment of the clients' cash inflows and outflows are also conducted and in many cases, we reschedule the whole repayment plan for the loan. Sometimes we even move from weekly collection to daily collections, so that it helps them pay (E. Boham, **MFIREF065**, May 13, 2016).*

The monitoring and verification processes enumerated by the MFI management representative above appear to have helped the institution in its loans collection, and have compelled their clients to comply with repayment agreements. The second approach use entails debt recovery by the MFIs. The approach involves consistent monitoring, putting pressure on the guarantors, using the police and paying in cheques issued by guarantors into the institution's account to cover the amounts owed by the defaulting client. These loan recovery instruments are used by

most MFI study participants to retrieve loans. Alternatively, extra money popularly known in Ghanaian parlance as ‘a top up’ is injected into the customers’ business, to increase the clients’ investment capital and increase their cash flows to enable them to pay off the existing debt. Another strategy employed by the microfinance institutions is the use of debt collectors. They engage professional debt collectors, who follow up on difficult defaulters to retrieve loans for a fee. Most of the MFIs studied hardly use this option because of the difficulties and legal complications involved, such as tracing the houses of clients and identifying their assets to seize for sale to repay the loan. In addition, financial and business management support is provided to clients to ensure that their businesses thrive and enable them to meet their debt obligations. This additional support is considered helpful, but is delivered informally to clients.

Loan repayment periods are scheduled daily, weekly, fortnightly and monthly. Susu-based loans are commonly associated with micro and small sized enterprises. These loans are repaid on a daily basis and mobile bankers or field officers of the microfinance institutions go to the clients to make the collections. Repayment of other loan products such as personal loans, car loans and retail loans are collected on a weekly basis. Despite the loan repayment and recovery monitoring systems put in place by the MFIs, it emerged that default rates on loan repayments can range between 25 percent and 40 percent for some of the institutions. In the case of Adwenpa Microfinance Limited, the institution experienced high default rates for three consecutive years (that is 2013, 2014 and 2015), resulting in losses during the period. The management representative for Adwenpa Microfinance Limited explained:

As at 2015, we had a loss of five hundred and fourteen thousand (Ghc 514,000). In 2014, we had a total loss of three hundred and seventy-three thousand Ghana cedis (Ghc 373,000) and in 2016, as it stands now, we have about six hundred and fort- five thousand (Ghc 645,000) as a loss (MFIADW061, May 06, 2016).

7.4.2 Loan Portfolio Quality

CGAP (2003) observes that some pitfalls are associated with self-reported debt collection performance of MFIs. Reported repayment rates are calculated differently based on the policies of the MFI. They suggested that some indicators of debt collection performance blur rather than clarify the true picture due to inconsistencies in calculation methods. Rosenberg et al, (2009) and Rosenberg (2009) identified that the core of a delinquency report is usually a ratio or ratios that summarise the condition of the portfolio in percentage terms and many different ratios are used to measure delinquency. They caution that the terminology used by MFIs is not consistent, thus interpreting a reported ratio is impossible unless the report is completely clear about what is being measured in both the numerator and the denominator of the fraction. The CGAP (2003) therefore suggested that any self-reported loan repayment, delinquency, default, or loss must be accompanied by precise explanation of the numerator and denominator of the ratios. They further observed that MFIs' self-reported collection performance often understates the extent of problems, because of information system weaknesses rather than intent to deceive. Based on the CGAP (2003) observation and caveat provided, the self-reported loan collection performance of the MFIs in the study was also assessed based on portfolio quality indicators. This section presents results on the analysis of the loan collection performance of the MFIs using the standard international measure of portfolio quality in banking, which is Portfolio at Risk (PAR) beyond a specified number of days. The model for analysing the PAR is defined as follows:

$$\text{PAR (x days)} = \frac{\text{(Outstanding principal balance of all loans past due more than x days)}}{\text{(Outstanding principal balance of all loans)}} \dots\dots\dots \text{Ratio (iv)}$$

In microfinance, 30 days is a common breakpoint. If the repayment schedule is other than monthly, then one repayment period (week, fortnight, quarter) could be used as an alternative. Many young or unsophisticated MFIs such as those in this study (tier two MFIs) do not have strong loan tracking systems to produce a PAR figure. Most of them, however, are able to calculate Loans at Risk (LAR), a simpler indicator that counts the number of loans instead of their amounts. If repayment is roughly the same for large loans and small loans, LAR will not differ much from PAR (CGAP, 2003)¹⁰. In this study, the MFIs were found to be mostly simple commercial MFIs and therefore the LAR was adopted. This notwithstanding, indications were provided where the institution have a PAR.

LAR (x days) = (number of loans more than x 30 days late)/ total number of outstanding loans.....Ratio (V)

Table 7.5 presents the portfolio quality results followed by a brief discussion of the findings.

Table 7.5 MFI Loan Collection Performance (30 days %)

MFIs	2012 PAR	2013 PAR	2014 PAR	2015 PAR
TIER ONE				
FASL	***	27	20	15
UNICREDIT	***	***	4.5	***
OISL GHANA	3.97	5.37	5.51	4.46
TIER TWO				
ADWENPA	***	***	***	25
GAP	***	***	0	1.5
OFS	***	25	15	***

¹⁰ When an MFI “writes off” a loan, that loan disappears from the MFI’s books and therefore from the PAR or LAR. Each institution was made to provide information on their MFI’s write-off policy. (For instance, “the MFI doesn’t write off loans,” or “the MFI writes off loan amounts that remain unpaid more than 6 months after the final loan payment was originally due”. (www.cgap.org; SEEP Network, 2003).

MFIs	2012 PAR	2013 PAR	2014 PAR	2015 PAR
TRUSTLINK	***	***	***	44.4
GIANT	***	***	***	***
STEPS				
REOB	***	***	***	***
FEKAMS				

Source: Primary data from selected MFI

*** MFI missing data

7.5 Synthesis and Conclusion

This chapter explored the performance of selected microfinance institutions in the study area to answer the fourth research question, “*What is the sustainability and financial independence of MFIs serving SMEs?*” To enable an in-depth exploration of the performance of the selected MFIs, qualitative findings obtained through interviews were juxtaposed with quantitative analysis of financial ratios of the MFIs, which were benchmarked against global industry standards to add validity and reliability to the qualitative findings.

The chapter examined the outreach performance of the microfinance institutions by focusing on the breadth of outreach in terms of the number of clients served, the number of active borrowers, the number of savings and deposit accounts, the number of loan accounts, the branch network coverage of the MFIs as well as their gross loan portfolio and value of deposits. The analysis reveals varying levels of performance of tier one and tier two microfinance institutions in the study area. Micro, small and medium sized enterprises alike are served by all the MFIs. However, the branch network performance of tier two microfinance institutions are limited and this accounted for their small size and low operational capacities. The tier one microfinance institutions on the other hand, have higher levels of outreach, bigger loan

portfolios and higher numbers of branches and gross loan portfolios showing high sustainability. However, the degree of outreach per tier two MFIs is limited due to the high interest rates charged by the MFIs. The loan collection performance of the MFIs is generally found to be above 80% with portfolios at risk ranging between 5 percent and 15 percent for the tier one institutions and above 20 percent for the tier two institutions. Operationally, the MFI area was found to be self-sufficient recording operational self-sufficiency ratios above break-even point, indicating that most of the MFIs are sustainable, with only two showing trends of unsustainability. Thus, the microfinance institutions show varied degrees of financial sustainability (profitability) with most of them showing positive returns on assets and equity.

This notwithstanding, as elucidated in section 6.3 of Chapter six, the MFIs provide a limited range of financial products to the SMEs mainly because of a paradigm shift from a predominantly poverty lending approach to commercial microfinance in the study area, with a focus on profit maximisation. The start-up and long-term financing needs of SMEs necessary for their long-term survival are not met by the MFIs. The debt and deposit products offered by the MFIs are short-term in nature with high interest rates and cannot meet the long-term objectives of the SMEs. Profit maximisation strategy is motivated by cost recovery and financial sustainability objectives of the MFIs. Lack of sources of funding for MFIs and high market rates paid and their inability to access equity market investment opportunities further explains their cost recovery and sustainability drive which indirectly impacted negatively on the SMEs' growth. As noted in Chapters 1, 2 and 3, adherence to the market principles implemented by traditional banking systems failed to promote the growth and sustainability of SMEs, hence the promotion of microfinancing as an alternative policy strategy to address credit gaps experience by SMEs.

This phenomenon invites the question: “to what extent has government policy of financial inclusion and growth of SMEs been achieved to realise intended outcomes?” The policy implication is that MFIs’ financial sustainability alone cannot make the microfinance equation balance without the growth and sustainability of SMEs. Indisputably, MFIs financial sustainability appears to occur at the expense of SMEs’ growth and sustainability because of neglect of start-ups and high interest rates charged by the MFIs. This trend also explains the low outreach, especially among the tier two MFIs. The current trend in microfinancing, as discovered in the study area, is unlikely to achieve the government’s policy outcomes of SME growth to achieve the socio-economic development of the country.

The next chapter (Chapter eight) examines the impact of microfinance on SMEs’ growth and sustainability. The chapter is based on the perceptions that SMEs have about the effects of microfinance on their business, strategies, their start-up, survival, success and growth which serve as the operational definition of sustainability in this study.

Chapter 8

Sustainability of Micro, Small and Medium Size Enterprises

8.1 Chapter Overview

Chapter seven examined the general performance of the MFI in terms of their outreach, loan collection, and financial sustainability and how these impact SMEs' sustainability. Chapter eight is the third of the four result chapters. The chapter examines the impact of microfinance on SMEs' sustainability and the challenges SMEs face. The chapter partially answers the second research question: "*What has been the impact of MFIs' services on small businesses' growth and sustainability?*" and the fifth research question, "*What challenges do SMEs face?*"

Business and economic theories suggest that every business operates under either favourable or unfavourable micro, meso or macro-economic environments. The macro-economic environment presents both threats and opportunities to all businesses. As articulated in the conceptual framework (section 2.13), the prevailing macro-economic conditions and internal conditions [micro] of both MFIs and SMEs can affect internal capacities of both SMEs and MFIs and therefore their growth and sustainability. Thus, important macro-economic variables, such as microfinance regulatory framework and guidelines, exchange, interest and inflation rates, competition, taxes, technology, are assessed in relation to SMEs' performances. It is assumed that the combined effects of the micro and macro-economic variables influence both MFIs and SMEs' capacities, hence form the core of the analysis in this chapter.

Specific to the SMEs, the impact measures described and proposed by Olson et al. (2007), Goldenberg et al. (1999), Labuschagne, et al., (2007) as well as by SEEP (1998) and CGAP, (2003), are used in the analysis in this chapter. Also forming the basis of the analysis are the Sustainable Family Business Model (SFBM) (Olson et al., 2007) and the SEEP Network

sustainability measures in small businesses and measures of profitability, returns on assets, returns on equity and profit margins (Olson et al., 2007; SEEP Network, 1998). These measures comprise business income and profit levels [profitability], business expansion, assets, use of microfinance products and services, employee numbers/enterprise size, technology use and innovative activity. Subjective measures defined in terms of the perceptions of SME owners about the success of their businesses (Cohen, et al., 2003; Urban & Naidoo, 2011; Kuratko et al., 1997) are also examined.

The chapter is organised as follows. Section 8.2 discusses findings on the characteristics of the SMEs studied and how these influenced their ability to access financial services. Section 8.3 examines the SMEs' financial structures and sources of funds. Section 8.4 analyses the SMEs utilisation of financial products and services obtained from MFIs to promote their objectives and section 8.5 assesses the impacts of MFI products and services on the SMEs. Section 8.6 investigates the challenges SMEs face and section 8.7 concludes the chapter.

8.2 Characteristics of SME Clients that Accessed MFI Services

Small business study participants who had accessed MFI products and services were interviewed. A total of 95 SMEs in total were interviewed. The majority (n=75) of the SME participants were women, with men being in the minority (n=20). The age distribution of the SME participants ranged between 25 and 65 years. The dominance of women is attributed to the preference of women by the MFIs due to the trust they repose in women to pay back loans as compared to men. Most of the SME owner managers had no formal education or had only attained basic education (primary or middle school leaving certificate). Very few of them had tertiary education. The majority of the SMEs had over five years' experience in their line of

business. Most of them operated in the retail industry, with a few in the services and manufacturing industries. While some of the SMEs were not formally registered with the Registrar General's Department as formal businesses operating in the country, a few were registered and held licences to operate legally and were obliged to pay taxes and market tolls. A majority of the SME managers did not keep financial records of their transactions and the few¹¹ who had financial records did not present them in any standard format.¹² They were also not consistent in making records of their transactions in a chronological manner making it difficult to perform trend analysis of their financial performance. The average loan size accessed by the SMEs was 2,000 Ghana Cedis (\$500) per transaction. All the SMEs interviewed operated in leased shops or spaces located in the market or business centres of the selected districts. The characteristics of the SME owner/managers and their enterprises as described in section 8.2 had a major influence on their interaction with the MFIs and were used as criteria by the MFIs to assess their risk levels and credit worthiness.

8.3 Financial Structure and Sources of Funds to SMEs in Ghana

The majority of the SME participants interviewed in the study explained that their businesses were either started with the enterprise owner/managers' equity injections; equity or debt funds from family members, friends, colleagues or a combination of owners' equity funds; supplier credit, "work, pay and own schemes", and employees' end of service benefits. SME owners interviewed in the five selected districts had this to say:

¹¹ Appendix 11 shows excerpts of financial records kept by an SME client interviewed

¹² Appendix 12 shows excerpts of incomplete inventory records kept by an SME client. interviewed

My classmate who has been a long-time friend gave me some cash. I also had some little savings which I added to it. My elder brother also provided some cash to add to it. I started with about GHC 7,000 (ACCSM019, April 19, 2016).

I got the funds to start from my pension benefits, and my mother added some money to it as well as my dad (ACCSF015, April 19, 2016).

I started my business with a little money. Because the initial capital was very small, running the business became difficult. Fortunately for me a friend came to my shop to buy things and to her surprise my shop was almost empty. She asked to find out why the shop was almost empty. After I explained to her that I did not have enough money to buy all the goods I needed to stock my shop, she then introduced me to a group from whom I could borrow money to purchase the goods I needed at the time (ASHSF005, April 21, 2016).

The bulking up of savings into lump sums, dependence on friends, as well as additional capital investment from family members were the sources utilized by the entrepreneurs to accumulate their start-up capital. Other participants showed that their source of start-up capital was suppliers' credit sales. Interviews with two participants from Dodowa and Ablekuma districts remembered their experiences as follows:

Well, at the start, I bought the goods on credit (DODSF047, June 15, 2016).

I purchased some of the tools we are using at the workplace from retailers from the little "pocket money" I saved when I was an apprentice. I continued to save to buy the additional tools I would need to set up my own business when I completed apprenticeship. I was able to buy all the tools I needed because I had the opportunity to buy them on credit and pay gradually from the savings I made from my pocket money.

I had all the tools I needed to set up my own garage by the time I graduated (ABLSM030, May 16, 2016).

Although the tools for the trade were purchased based on suppliers' credit, the tradesman also invested "out of pocket" cash in the purchase of other items he required to setup the business. Many of the microenterprise participants indicated that their sources of start-up capital were obtained through savings schemes ("susu" clubs, MFI "susu" savings programmes) and personal savings. Most of the small enterprise participants interviewed referred to their spouses as the primary contributors to their start-up capital. The findings on the sources of start-up funds to SMEs in the study suggest that despite the upsurge of microfinance institutions in the study area, start-up investment capital needs remain unmet by MFIs. Thus, the SMEs still rely heavily on family, friends, owners' savings and supplier credit for start-up capital due to the risks MFIs associate with start-up credit. The risks associated with start-up capital are lack of investment readiness, poor business management skills and information asymmetry between the SMEs and the MFIs. Thus, factors from both the demand and supply-side of the microfinance industry contribute to the ineffectiveness of MFIs in serving start-up SMEs.

Interviews with micro-level enterprise owners showed that they could access loans from the MFIs only after they had joined microfinance solidarity groups and after having saved with the MFI for the required period (3-6 months). During this period, start-up SMEs received some business and financial management training from either the MFIs or from group members. The period also enabled the MFIs to gather enough information on the SMEs, and helped reduce the information asymmetry. The majority of the SME participants interviewed stated that once they became established over time, access to MFI products and services became easy.

8.4 Utilisation of MFI Products and Services

SMEs generally require equity and debt to meet their short and long-term business objectives. These motivations influenced decisions of owner managers for accessing funds from MFIs and how such funds are utilised. The majority of SME owners interviewed explained that engagement with microfinance institutions enabled them to access loans to restock, import goods and acquire business assets. Working capital management, asset acquisition and business expansion were the main motivations for seeking microfinance products and services in the study areas. The quest for survival, profitability, innovation and growth were also identified as drivers for assessing loans from the MFIs. During interviews, SME participants revealed how they utilised the funds they obtained from MFIs.

My shop in the market was razed down by fire. I lost most of my goods in the shop and was devastated but I didn't want my business to collapse so I went for the microfinance loan to start again. Without the loan my business would have collapsed because all my working capital was locked up in my stock of goods (POKSM059, June 01, 2016).

The SME participant stated that access to the MFI loan was necessitated by the need for him to salvage his business that was on the verge of collapse after his goods were destroyed by fire in the market. These findings reveal the multiplicity of needs of the SMEs.

I went for the loan mainly because I needed the goods a supplier brought to me. The supplier demanded an amount I didn't have. I realised that I would make a lot of profit if I was able to purchase the goods from the supplier so I contacted UNICREDIT to lend me some money to add to what I had to be able to purchase the goods (ACCSM019, April 19, 2016).

“I realised it wasn’t cost-effective to travel to China with small amount such as US\$10,000 to buy goods. A few times I went to China with a small amount of money and I made losses. I realised I needed a larger sum of money such as US\$100,000 to be able to purchase enough goods to make profit. That was why I took the loan from the MFI bank. The loan helped me increase the quantity of goods I could import (ASHSF004, April 14, 2016).

SMEs harnessed the advantages of economies of scale to maximise profit through obtaining substantial amounts of debt to use as working capital. This enabled them to spread fixed costs over a larger number of goods bought for sale thus enhancing their profit margins. In the absence of debt funds from MFIs, the SMEs depended only on retained earnings which in most cases were locked up in unsold stock or inventory. Interviews with the SMEs showed that MFI loans were also used to mitigate cash defaults, incidental and unforeseen contingencies common to micro, small and medium businesses. A small-scale timber merchant revealed that he was defrauded by his supplier who ran away with money paid to him to supply him goods. Similarly, a grocery retailer reported that she was defrauded by a supplier she could not trace after making payment for goods to be supplied. The SME participants narrated their experiences:

I was robbed. I was duped so I lost all my working capital. If not, I wouldn’t have gone for any MFI Bank loan to help save my business (ABLSF026, May 16, 2016).

Capital injections from a microfinance institution helped salvage some of the SME owners’ businesses as indicated in the quote above.

This finding on how SMEs use MFI services explains the multiplicity of needs that MFIs meet in serving SMEs.

8.5 Transformation, Financial Viability and Sustainability of SMEs in Ghana

Transformation refers to the series of changes that micro, small or medium scale enterprises go through after injection of microfinance loans/debt into their financial structure. The transformation could be positive or negative. Viability is defined as the ability to survive in a business. The ability to survive is ultimately linked to financial performance and position (ATO, 2017). A business is viable when it makes a profit that is sufficient to provide a return on investment to the business owner while also meeting its commitments to creditors. A business is also viable when it has sufficient cash resources to sustain itself during periods when it is not making enough profit. Sustainability in relation to micro and small enterprises is defined in accounting terms as changes in profitability, changes in return on assets, returns on equity, liquidity, growth in stock levels, employee numbers and assets (Olson et al., 2003; Haber & Reicher, 2007). However, based on the characteristics of the entrepreneurs and enterprises in this study, the indicators of sustainability were not analysed using quantitative methods. As observed by other researchers it is difficult to obtain reliable financial data on small firms (Mead & Liedholm, 1998; Bigsten & Gebreeyesus, 2007; Nichter & Goldmark, 2009). Hence, they contend that any attempt to analyse the growth and sustainability of small businesses using quantitative methods would not present the true picture of these businesses as they hardly ever keep accurate financial data on their operations. Undoubtedly, most SME managers interviewed gave an indication of their financial position based on recall from memory without documented evidence for reference and verification. The few who kept good records were also reluctant to give out their financial information which they considered to be sensitive and confidential. In view of this challenge in obtaining valid and reliable financial performance data, it was difficult to analyse the financial sustainability of SMEs quantitatively.

In anticipation of these challenges the qualitative approach has been adopted for this study. Hence, SMEs' financial sustainability was analysed qualitatively based on perceptions of business transformation and performance, and based on the business owner's own predetermined indicators derived through their own experiences. The sustainability of SMEs was determined from primary interview data collected and analysed based on the conceptual and analytical framework developed by the SEEP Network (SEEP, 2010). This section engages the research question: *'What is the impact of microfinance products and services on sustainability of the SMEs served?'* The absence of financial records by a majority of the SMEs made it difficult for the MFIs to statistically predict parameters for the long-term viability of the enterprises in order to inform decisions about providing financial services to them. The use of compulsory savings by the MFIs and repayment histories from previous financiers therefore served as a better mechanism for establishing SMEs' cash-flow trends.¹³ Sections 8.5.1 to 8.5.5 discuss findings related to the transformational changes experienced by the SMEs. The areas of transformation assessed include asset growth, employment generation, expansion, profitability/income generation, operations and strategy, technology use and graduation from the use of MFI services.

8.5.1 Asset and Consumer Goods Growth

The study found that many of the enterprises required MFI loans for: the purchase of fixed assets, leasing and acquisition of a market stall or shop, and purchase of capital intensive equipment. They also required funds to purchase goods to stock their shops for wholesaling and retailing. An SME owner who received loans from MFIs stated that:

¹³ Appendix 13 shows an excerpt of MFI passbook records of an SME. The records in the passbook served as the only method to track the financial transactions of this SME.

I had an old machine that broke down frequently and gave us a lot of problems. Because of that, I knew my machine couldn't process a large amount of raw materials, hence limiting our production. Because of this, I spent a lot of money repairing it which increased our operational cost and reduced our efficiency. This affected our production and profit margins. Because of this, I took a loan from the MFI to purchase two new machines and now my production and profit have quadrupled (ACCSF019, May 04, 2016).

The replacement costs of fixed assets of SMEs are often unmet needs which usually prevent them from achieving efficiency and productivity in their operations, as illustrated in the above quote. The loan obtained from MFIs to replace aged equipment provided operational capacity that increased productivity, efficiency and profitability. Thus, the loan rejuvenated the SME and transformed it so that it was able to survive. In other interviews, SME participants had this to say:

I used to incur high costs on transporting raw materials from my farm to the processing plant and distributing the processed goods to my clients. To reduce transportation cost, I took a loan of GHC 17,000 to purchase a KIA vehicle to run my business. The KIA truck has helped to reduce the transportation costs. Because of this, I now make a lot of profit. I was able to pay off the loan within the scheduled period (ACCSM018, April 14, 2016).

I've been able to import this machine at a cost of GHc7200 for my vulcanizing business. I used to have only this small second hand one but after taking the loan I purchased a bigger one. Because I have a new machine, I have established another vulcanizing shop on the other side of the road (POKSMO58, June 01, 2016).

I took a loan of GHc12, 000 to rebuild my warehouse when the original one got burnt. This has helped me to re-establish my business (ASHSF004, April 14, 2016).

This shop looks completely different from what it was in the past. When I first came here, this place was in a deplorable state, but with the little support I received from one microfinance institution I've been able to reconstruct this place. I now have a better place to run this business (POKSF053, June 01, 2016).

Despite the positive results of tangible asset acquisition and growth expressed in the quotes above, there were isolated negative impacts for some of the micro-entrepreneurs and small business owners. The entrepreneurs who have had some bad experiences explained that the loan they took to purchase assets was too small so they could not purchase the assets for which they took the loan, hence they did not achieve the intended purpose for which the loan was taken out. In some cases, some of these entrepreneurs divided the loan amounts received and either deposited part into their savings account, or used it for household consumption and/or invested the remaining part into their businesses, which last investment was partially beneficial. However, as the loans acquired were not used wholly for the intended purposes (investing into the business) they could not derive the full benefits of the loan. The result was their inability to pay back the loans since the part not invested in their business did not accrue any profits.

Employment generation by SMEs is identified as a key factor of MFI impact on SMEs. This is examined next.

8.5.2 Growth in Employee Numbers

Some studies argue that SMEs are the engines of growth and contribute significantly to development of entrepreneurial capabilities and indigenous technology which may result in employment generation in developing countries (Aremu & Adeyemi, 2011; Abor & Quartey,

2010; Beck & Demirguc-Kunt, 2006). A critical examination of employment generation and growth of the SMEs in the study area revealed mixed results. The majority of small enterprise owners did not show any increase in employee numbers, although they injected microfinance loans into their businesses. All the small enterprises studied relied on friends and relatives (family members) to help them in their businesses at little or no cost. The medium sized enterprises in the study were careful not to engage any additional employees. They would rather downsize, instead of recruiting additional employees. However, only a few enterprise owners who injected loans into their businesses and managed them well experienced growth and employed additional people to support them in their businesses. Only a few of the SMEs recruited casual labourers to support them for a few hours. The majority of the enterprise owners interviewed explained that the high cost of operations was the main reason for their inability to increase employee numbers, even when the need arises after injecting more debt into their businesses. Thus, the high cost of operations and risk averse survivalist instincts were the disincentives for recruiting additional employees. This finding is consistent with Hulme and Mosley (1996) and Buckley (1997) that most of the enterprise schemes they studied had shown very little effects on employment. The experiences of some SMEs who experienced growth and generated additional employment beyond themselves are stated in the quotes below:

When I started, I was working with only one person, now we are four in all (ABL5F021, May 04, 2016).

I had only one employee in the beginning but now I have 9 employees. We also have about 3 “kayayes” (head porters who are casual workers) who help us do the work, so 12 in all (ACCSF016, April 19, 2016).

Before the loan, I had 4 part-time and 2 permanent employees but after the loan I engaged 8 part-time and another 2 permanent employees (ACCSM018, April 21, 2016).

I started with just 1 or 2 employees. Now, I have 6 employees. So, I have 2 employees in each of my shops. They are all full time (ASHSF008, April 14, 2016).

Currently, we are six people working here but I started with only one person (AWOSM034, June 01, 2016).

I had the need for more employees because the business was expanding (ACCSF014, April 14, 2016).

The quotes above gave an indication that these SMEs experienced growth in their businesses and therefore increased the number of employees after investing MFI loans in their businesses. Thus, these successful SMEs may be considered as engines of growth and of employment generation, as the literature seems to suggest should happen, but this finding cannot be generalised to all the SMEs in this context. These positive and negative findings (mixed findings) regarding the likelihood of employment generation by SMEs reveal a trade-off between employment growth and sustainability.

What these mixed findings suggest is that the concept of SMEs as the engines of growth and employment generation appears to apply only in aggregate terms where several SMEs are operating, and applies mainly to the larger enterprise owners and their current ratio of employees. The majority of the existing SMEs in the study did not create any significant additional employment for others, except in the informal labour market by sometimes employing family member's part time. The ability of SMEs to create employment was conditional on their profitability levels and their ability to create a rate of expansion sufficient

to make the recruitment of new paid employees necessary [employment generation]. The expansion and profitability of SMEs in turn depended on the amount of debt they could inject into the business and how well it was managed.

Thus, the common trend regarding SMEs' capacity to generate employment was largely determined by individual enterprise owners. What this suggests is that SMEs' employment generation capacity and growth is better realised when new entrepreneurs emerge and establish SMEs, but not necessarily from existing SMEs creating additional employment, as observed in this study. This is because the conditions for accessing loans to expand and employ additional people are not favourable. Therefore, the inability of MFIs to finance start-ups, as observed in this study, means that the ability of SMEs to provide growth and employment generation as espoused in the literature has been limited in the study area. Also, the difficulties that existing SMEs have to survive because of high interest rates, diversion of loans and poor management skills also implies that the expected growth and employment generation outcomes of SMEs may be difficult to achieve. Therefore, the high interest rates set by MFIs are likely to have prevented SMEs from making enough profit to enable them to grow and generate employment, as advocated in the literature. Thus, the ability of SMEs to become engines of growth and generate employment depends on several contextual factors. This may partly explain the high incidence of unemployment in Ghana, with the current unemployment rate estimated at 8.9 percent (GSS, 2013). Thus, the SME owners studied who successfully sustained their own businesses and provided employment for themselves and others were considered successful in facilitating a growth in employment generation. Section 8.5.3 addresses the business expansion efforts of the SMEs in the study area.

8.5.3 Business Expansion

This section explores the extent to which loans accessed from MFIs by SMEs resulted in expansion (growth) of SMEs in the study area. Some of the SME owners interviewed confirmed that they experienced growth (expansion) in their business after injecting loans into their businesses. Summary of responses from these SME owners are stated below:

After I received the loan, I established another branch of the business in two different locations. So now I have Adabraka and Osu branches (ACCSM018, May 04, 2016).

I used to sell only two types of gas products, but now I sell about 5 different products.

When I started the business, I used to buy the products from companies here in Ghana.

Now I import these products myself (ASHSM001, April 13, 2016).

Although all the SMEs had plans to expand their enterprises, harsh macro-economic conditions such as high inflation (18.7%), interest rates (33.1%) and taxes in the country eroded profits on investments and made most of the SMEs unprofitable (BOG, 2016)¹⁴. This was further compounded by factors internal to the SMEs' businesses, such as poor business management strategies of the SMEs, low sales volumes, high overhead costs and specific MFI related constraints of short loan maturity periods, illiquidity and collapse of MFIs. These macro-economic variables and other factors rendered many SMEs unproductive and unprofitable. Because of this, some of the SME owners could not repay their loans, preventing them from accessing additional loans to expand their businesses. This led to limited growth and expansion. The effects of these variables on SMEs' expansion and growth are explained differently by the SME owner participants interviewed.

¹⁴ See Appendix 14 for macroeconomic indicators for the fiscal year 2016.

All the SMEs complied with the mandatory savings culture established by some MFIs as a condition for accessing loans and while repaying their loans. However, some of the SMEs could not recover the monies saved as the MFIs with whom they saved went into liquidation and had to close shop. The loss of savings affected such SMEs' growth and expansion as their investment capital was lost, as it emerged from this interview with an SME owner.

Sometimes, some of the MFIs we save with abscond with our money. One day I went to the office of my MFI I saved with to withdraw part of my savings, but when I went to their office they had stopped operations. A lot of people who saved with them also came to withdraw their money, but they were nowhere to be found (POKSM057, June 01, 2016).

I had difficulty collecting my own money I saved with them. I experienced this twice and I could not retrieve my money (POKSF052, May 26, 2016).

These findings seem to suggest that the unsustainability of MFIs because of liquidation and other factors might have impacted not only on the growth of MFIs but also on the SMEs' growth (expansion) negatively since they could not retrieve the monies saved to inject into their businesses.

Another factor influencing SME expansion was short loan maturity periods. Responses from interviews with SMEs on loan maturity are summarised as follows.

The loan repayment duration is too short. I think they don't factor in certain risks. For example, if someone takes a loan of GHc1,500 with an interest rate of 6% per month and you give him 3-4 months to repay, certainly he will have a challenge paying back, unless everything goes well (ABL SM036, June 01, 2016).

I usually take the loan with repayment duration of 6 months. But I could not pay back the recent one I took at the end of the 6 months so I had to negotiate for 3 months' extension due to low sales I experienced (ACCSF014, April 14, 2016).

An SME owner manager interviewed indicated that, because he wanted to maintain good reputation with his MFI, he had to take another loan from another MFI to pay off the money he owed the first MFI. This practice is consistent with the proverb, “*robbing Peter to pay Paul.*” This phenomenon put most of the SMEs in a vicious cycle of debt, hence they could not expand their businesses.

Because of fear of paying penalties on default in loan repayment we take loans from different MFIs and use the second loan to pay the first one when it becomes difficult to pay back the first loan on time. This happens when we are not able to make good sales to enable us pay the loans back on time (DODSF050, June 15, 2016).

Unfavourable macro-economic variables such as high inflation and exchange rate and high taxes impacted negatively on the turnover and cash-flows of the SMEs. This made their operational costs high and eroded expected profits as well as working capital. This in turn made it difficult for them to pay off loans and expand. In addition, low sales volumes experienced by the SME owners reduced their profit margins significantly; hence they could not accumulate adequate capital to expand. The ramifications of these unfavourable economic variables were expressed differently by the SME participants in the following quotes.

Gradually, due to inflation and rise in exchange rates of the US dollar and British pound sterling, the value of the money I had reduced. Previously I imported two or three container shipments of goods, but now I can only import one in. High exchange rate is killing our businesses. I can't do much with the money I have now (AWOSF036, June 01, 2016).

I face many problems in running the business. The interest rates and import taxes keep increasing all the time. Because my goods are imported from overseas I always pay a lot of money to stock my shop. In addition to this, we keep experiencing low sales due to the low purchasing power of our customers. These problems impact negatively on my business (ASHSF010, April 19, 2016).

The challenge we have currently is not about access to credit, but low sales. If I were making good sales as I used to, I could have paid off the loan and use the profit to expand my business. Nowadays, it is difficult to take a loan. If you go for a loan, you may have difficulty paying back as customers are not buying. We are very careful not to take a loan during these periods. We are monitoring the economic conditions to see which time would be a better season when customers will purchase goods as they used to (ACCSM020, May 04, 2016).

Thus, SMEs were faced with difficulties of accumulating enough capital to expand their businesses because of high interest, exchange and inflation rates, low sales volumes, high utility costs, taxes and short loan maturity periods. Also, liquidation of some MFIs that SMEs saved with meant that savings intended for injection into their businesses for expansion were lost. These factors among others hindered the growth of the SMEs in the study area. What these findings suggest is that the growth and expansion of SMEs depends not only on the availability of credit from MFIs, but on a multiplicity of factors, including the prevailing micro and macro-economic environment in the country.

8.5.4 Profitability and Income Generation

The study examined returns on investment, profitability or growth in retained earnings of the SMEs before and after injecting MFI products and services into their businesses. Mixed results

were obtained from SME owners interviewed. Statements on SMEs' profitability and return on investment by some SME enterprise owners who had contracted microfinance loans suggest that the loans were eating away their profit margins.

To be honest with you, since I started taking loans from MFIs, I don't make profit, just losses (ACCSM020, May 04, 2016).

A careful analysis of my business shows that I don't realise much profit. This is because the interest rates we paid on the loans are too high. The interest rates eat up the profit. Hence, the profit is very marginal. I used almost all the profits I made to pay off the loan and interest. I feel I am better off when I don't take the loan. Sincerely, in the past without a loan, our profit margins are high. The loan only helps you purchase more goods to sell, but all the profit goes to pay the interest charge leaving nothing to save for working capital. Thus, the negative impacts of the loan outweigh its benefits (ASHSM002, April 13, 2016).

I think in a way the loan is not helping me generate more profit. I concluded that we are only working for the MFIs, due to the high interest rates they charge. For instance, we purchase goods with the loan with the intention to make a profit. But high interest charges do not make us realise the projected profit at the end (ADESF041, May 04, 2016).

The above qualitative data on profitability of SMEs from interviews of enterprise owners indicate that their profitability goals were either not achieved or were very marginal and could not sustain enterprise growth and sustainability. High interest rates charged by MFIs were a major inhibiting factor to the SMEs' profitability and financial soundness. Whereas studies using quantitative methods in other contexts (Colombage, Ahmad & Chandrabose, 2008; Wang, 2013) found that the profitability of businesses supported by microfinance was

enhanced, this study found that microfinance plays a negligible role in the revenue and profit growth of the SMEs studied. This study showed mixed results on the impacts of microfinance on profitability of the SMEs interviewed. It emerged that profits realised because of MFI loans were marginal and losses were significant, inhibiting SMEs' growth and expansion as illustrated in earlier sections. A few SME owners who experienced significant profits in their businesses due to microfinance explained that microfinance credit helped increase their production, stocks and profit margins. They also reported that microfinance enhanced their savings capability and invested incomes. These findings are reflected in the statements as follows:

The MFI helped me through the compulsory savings. I was able to build up a fixed deposit which counts as my profit. In addition, I obtained a loan and this has helped me improve my business (DODSF045, June 07, 2016).

If the MFI had not supported me, my business will still be very small and the funds I get from selling would have eroded because of the high inflation which makes our operations tough (AWOSF032, May 31, 2016).

Changes in business operations and strategies are examined in the next section.

8.5.5 Changes in Operations and Business Strategy

Some SME owners interviewed stated they benefited from essential non-financial services (NFS) provided by MFIs such as business planning and managerial skills development. Access to these NFS helped improve their business management skills and in turn improved their business operations, entrepreneurial attitudes and profitability. These SMEs were trained in business vigilance, business environment scanning and improvements, ambience creation,

product and service marketing, financial records keeping, customer services and basics of human resource management. These benefits are stated in quotes below:

Before taking the loan from microfinance institutions, I wasn't strategic and vigilant enough in conducting business. But through the training from my MFI to prepare me to use the funds effectively and efficiently, I was schooled on strategic business planning. After contracting the loan, I applied the knowledge and skills in my business. I am now more cautious in conducting my business and this has improved things (ACCSF016, April 21, 2016).

I have used the knowledge acquired to improve my business environment. It made this place look attractive and now a lot of customers come in to do business with us. We also now provide our customers with good customer care services. I also motivate my employees with a lot of benefits such as overtime payment, bonus etc. They are happy and their productivity has increased which I in turn see in increased profit levels (ABLSF021, May 04, 2016).

With increased knowledge in business vigilance, I no longer make credit sales to individuals who could avoid repayments. I strategically now do credit sales only to reputable companies whom I know have the capacity to pay-up. As a result of the product marketing training, instead of selling only two gas products, I have increased my product line to six (ASHSM001, April 13, 2016).

Thus, knowledge and skills acquired by SMEs on operational strategies, marketing, financial management and customer service improvement through the MFIs indicate that NFS in the form of business development services may be critical to the survival and growth of the SMEs. Thus, growth and sustainability need of SMEs cannot be limited only to the availability of financial services, but also access to non-financial services which are crucial for success. It is

not surprising that some of the MFIs are increasingly providing NFS to help their clients succeed in business. As Richardson (2016) has noted, banks and other financial institutions, especially in developed economies, have long been delivering NFS to corporate clients, and the practice is gradually catching up in emerging markets like Ghana because of increasing demands from clients. A 2013 report on SME development in South Africa reported a strong unmet demand for NFS amongst SME owners (Morgan, 2013), while a more recent research report on financing SME growth in Kenya documented the desire by entrepreneurs for similar support (Bennett, Mungai & Richardson, 2016).

It is worth noting that the provision of NFS by MFIs presents a direct cost to the institutions, as they tend to offer these services either virtually free or at a hugely subsidised cost. However, the benefits accruing to MFIs are that they used NFS to raise their profiles, attract new clients and as “bonuses” to retain existing clients. In addition, MFIs may use NFS with a developmental focus aimed at helping some SME clients grow their businesses, and in doing so enable them to uptake a wider range of the financial products that MFIs can offer (Richardson, 2016). The findings of this study and the supporting literature suggest that the survival and growth of SMEs can be improved through the provision of non-financial services which will in turn enhance the effectiveness and efficiency of e MFI products and service delivery in a win-win situation. Thus, providing effective non-financial services to SMEs by MFIs turns out to greatly benefit MFIs as well.

8.5.6 Savings and Use of Other Microfinance Products

This section investigates the savings pattern of the SME owners and its impact on their businesses. The results obtained showed that the majority of the businesses were engaged in various savings schemes with more than one microfinance institution and savings clubs. These enabled them to accumulate investment capital. The study showed that daily “susu” savings

collections by mobile bankers for the MFIs enhanced their desire to bulk up savings as the mobile bankers increased access to financial services. An SME owner/manager shared his savings experience in the quote below:

A mobile banker comes to collect money for saving. I have the current, “susu” and savings accounts. The “susu” is the daily payment plan. I am also consistent with the savings accounts so they always honour my loan request. I think my savings records gave me the opportunity to access the loan (ASHSM001, April 13,2016).

The use of compulsory savings by most of the MFIs was complied with and adopted by most of the SMEs. They considered it as an incentive and motivation to save-up. Some participants observed that without the opportunity to save, their businesses would have collapsed as they could not have access to any external funding to inject into their businesses. In an interview with an SME participant she revealed the positive impact of compulsory savings on her business:

Do you see the size of my business today? It wasn't always like this. Because of the motivation of my MFI mobile banker I saved up a greater part of the profit I made and ploughed that back into my business. Consequently, I have moved away from a small stall like that one over there [reference to another market stall] into this big shop. I couldn't have expanded my store without saving through the mobile banker. Now, I don't even take loans, I just rely on my saved-up profit (ACCSF015, April 19, 2016).

The SMEs stated that their savings deposit records enabled them to access microfinance institutions' services and financial products from other institutions as it served as a proof of their financial history and performance. Access to microfinance savings opportunities increased their operational capacities, productivity and growth. Thus, the savings mobilisation component of MFI services had a positive impact on SMEs. The impact of savings mobilisation

on SMEs confirms Buckley's (1997) assertion that microfinance loans alone could not make SMEs financially sustainable, based on his study on selected SMEs in sub Saharan African countries. He suggested that a better way to make SMEs financially independent was to encourage SME owners to accumulate capital through savings accumulation.

This notwithstanding, the illiquidity of some MFIs made some SMEs unable to access their saving deposits to inject into their businesses. Other useful MFI products that impacted positively on the SMEs were the micro insurance products. The micro insurance products protect the SMEs against loss of goods or assets purchased with MFI loans. Two SME participants interviewed, whose goods were destroyed through fire and flood, reported having benefited from the micro insurance product offered by their MFIs.

8.5.7 Innovation and Technology Use

Access to financial and non-financial support and opportunities to purchase technological tools for business was expected to stimulate product innovations and the use of technology by the SMEs. However, this study did not find any significant innovative products, and use of technology to enhance business operations among the SMEs, except a few isolated cases where computers were used for book keeping. Most of the SMEs still used manual systems for book keeping. Insufficient use of computers for book keeping explains the lack of statistical data on the SMEs, which would have been useful in analysing important financial ratios to assess their profitability and sustainability statistically. However, all the SME owners had mobile phones which facilitated effective communications between them, their clients, suppliers and MFIs. It had also reduced costs of operation particularly transportation costs to follow up on customers, suppliers and the MFI officers from whom they accessed financial products and services.

8.5.8 Graduation from Microfinance Services

The graduation of SMEs from financial services provided by MFIs to those offered by traditional banks was considered in this study. The graduation of SMEs to the traditional banks is a proof of their credit worthiness and therefore ability to access financial services from traditional banks (Adjei et al., 2009). Accordingly, this study assessed this as a measure of their survival, sustainability and growth. The study revealed that the majority of the SME owners interviewed were not yet ready to graduate from MFI financial services to those offered by the traditional banking institutions, due to varied reasons. Many of the SMEs interviewed had long-term plans to build-up their retained earnings to enable them to access loans from the traditional banks. The study observed that the majority of the SMEs did not have adequate assets and capital to use as collateral for accessing loans from the traditional banks. As discovered in earlier sections (8.5.1, 8.5.3 and 8.5.4) both micro and macro-economic conditions hindered the growth and profitability of the SMEs significantly, hence made it difficult for them to build up adequate capital to graduate from MFIs. Because most of the SMEs were indebted to the MFIs and still depended largely on the MFIs, they had no capacity to manage loans from the traditional banking system. Thus, the study shows that most of the SMEs had depended largely on microfinance loans for growth, although this could not be assured through microfinance, as revealed in earlier sections (8.5.1, 8.5.3 and 8.5.4). The current study shows that the MFIs currently have a comparative advantage over the traditional banks because of the varied financial and non-financial products they have that meet the needs of the SMEs served by them. What this current phenomenon (the SMEs heavy reliance on MFIs) suggests is that the MFIs have large market opportunities to take advantage of regarding the development of innovative and competitive financial and non-financial solutions to capture a larger SME market share. One implication of the SMEs' high dependence on MFIs is that they (SMEs) could become vulnerable to exploitation by the MFIs in the absence of dependable alternative sources of

funding. Therefore, until there are alternative funding sources available to the SMEs; they remain vulnerable and would continue to be exploited by the MFIs through the charging of higher than normal interest rates and the provision of short-term loans that inhibit their growth, profitability and expansion.

8.6 SME Challenges and Constraints to Accessing MFIs Products and Services

The preceding sections have shown mixed findings regarding the positive impact of microfinance services and products on SMEs. Both positive and negative impacts have been discussed extensively in the earlier sections. Hence, this section summarises the operational challenges that SMEs faced in trying to access MFI products and services, and the implications for their growth, profitability and sustainability. Thus, this section focuses on answering a broad research question, “*what challenges do the SMEs face?*” This broad research question is broken down into two specific questions as follows:

- (a) What challenges do SMEs face in accessing microfinance products and services?
- (b) What operational challenges do SMEs face?

8.6.1 Challenges SMEs Faced in Accessing Microfinance Products and Services

The challenges faced by SMEs have been discussed throughout Chapters five, six and seven and earlier sections of the current chapter. Hence, to avoid repetition, this section summarises these challenges just to answer the research question posed.

The SMEs interviewed explained that loan application processing and disbursement durations were usually too long, and therefore delayed the availability of funds for planned business operations. Because of this, loans were typically granted to SMEs at the wrong time, which affected their operations. What this means is that some of the SMEs missed business opportunities because of delays in loan application processing. An SME client participant attested to this when he said:

The only problem I have with them [MFIs] is that the duration for processing the loan applications is too long. I applied for a loan and it took me 3 months to get it. That is not good (ASHSM003, April 21, 2016).

Apart from the time taken to process loans, the MFIs also have a policy to deduct significant amounts of money from the loans as a processing fee, apart from the high interest rates charged. Additional deposits were also requested from the SME owners. Most of the time the required deposit amount and loan processing fees were all deducted from the loan and the remaining amount was what the applicant received. An SME owner shared his experience as follows:

I applied for GHC 500 loan but all the GHC 500 was not given to me. They deducted GHC 40 as loan processing fee. Besides that, I was asked to pay a deposit of GHC 75. Because I did not have the deposit to pay, the GHc75 was also deducted from the loan. Meaning, a total of GHc115 was deducted from the loan. Only GHc385 was given to me. Meanwhile, I was charged an interest on the full GHc500. The fact that they don't give us the full amount we request is worrisome (ASHSF008, April 21, 2016).

Thus, the quote above which represents most other SME study participants' experiences means that approximately 23% of the total loan requested may be deducted upfront before disbursement, besides the unbearable high interest rates of between 72 to 100 percent per annum charged. Because the MFIs had no competitors they can take advantage of the

vulnerability of the SMEs to exploit them. What this suggests is that, the amounts received usually could not meet the needs for which the funds were sourced.

Other challenges SMEs faced in accessing microfinance products and services, as discussed extensively in previous sections (8.5.3-8.5.4), include liquidation of MFIs, short loan maturity periods, and the high interest and loan processing fees charged. These challenges as discussed earlier affect the growth and expansion of the SMEs as they find it difficult to mobilise adequate working capital to inject into their businesses. The consequence of this is the continuous dependence on MFIs which threatens the SMEs sustenance and graduation from MFIs to other sources of finance such as the traditional banks.

8.6.2 Operational Challenges Faced by SMEs

The results showed that majority of the SME owners worked under very difficult micro and macro-economic conditions and this impacted negatively on them. High exchange, interest and inflation rates, high taxes and loan processing fee charges, high costs of operations, low sales volumes, poor infrastructure and competition were all major constraints to capital accumulation needed for SMEs' growth, expansion and sustainability. Most SMEs also lacked the business management skills needed to be effective and efficient. The combined effect of the challenges faced by SMEs is depicted in Figure 8.1. The interactions of these challenges, that is, the financing conditionality of MFIs, SMEs' inadequate internal capacities, and general macro-economic policies, impacted negatively on SMEs and limited their growth and sustainability.

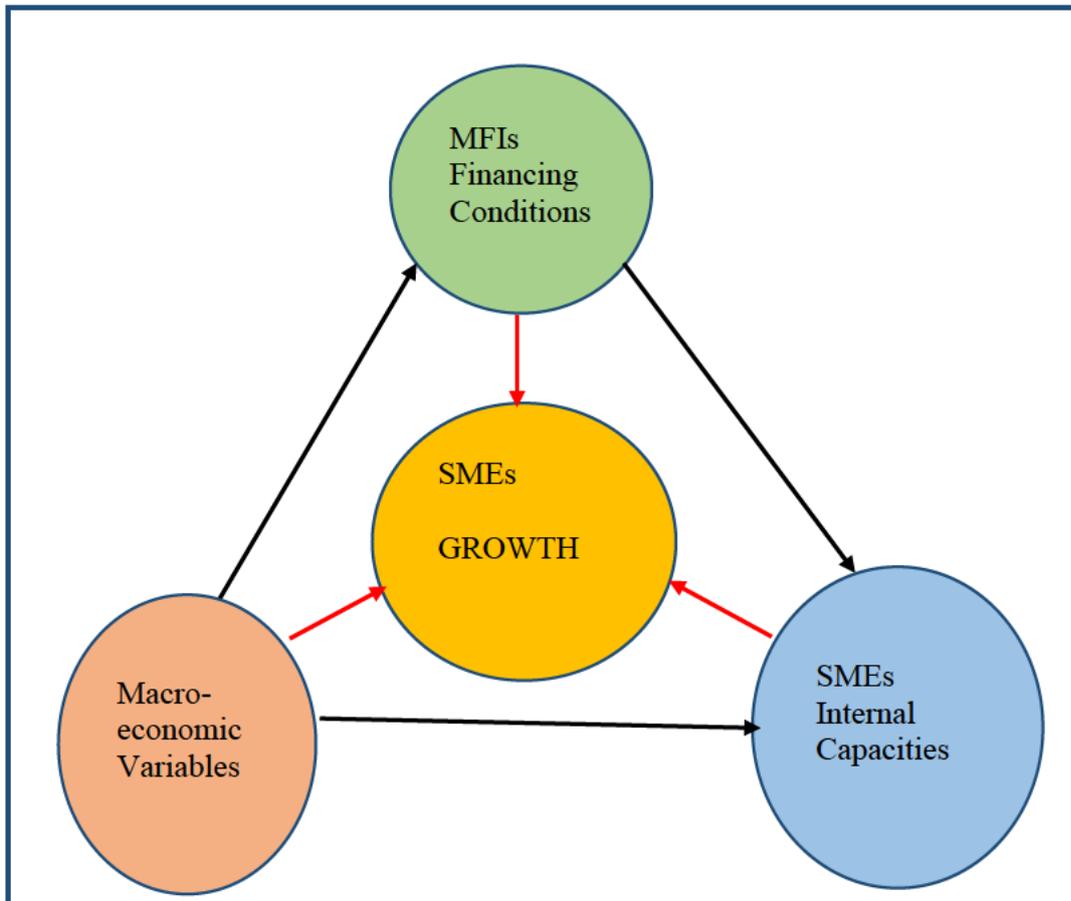


Figure 8-1 Combined challenges faced by SMEs

MFIs' financing condition affected SMEs' internal capacities. Further, the internal operational capacities of the SMEs were further affected by macro-economic variables. The result is low growth and poor sustainability for the SMEs. The consequences of these myriad of problems is their inability to pay back the loans contracted, which prevented them from accessing new loans to inject into their businesses. The result as explained earlier is limited growth and expansion. These challenges were cited by most SMEs interviewed as factors that hindered their overall development. What these suggest is that the SMEs lacked the requisite capacities to cope effectively under the current unfriendly business environment in which they operate. To be able to survive under the harsh business environment requires SMEs to adopt effective strategic planning, taking advantage of the emerging opportunities and being able to effectively

deal with the threats the business environment posed. In most cases, however, this is difficult for SMEs, limiting their sustainability. Prevailing macro-economic conditions in the country and internal conditions of both MFIs and SMEs need to be transformed to promote the growth and internal capacities of both SMEs and MFIs simultaneously. The next section synthesises and concludes the chapter.

8.7 Synthesis and Conclusion

This chapter sought to answer the research questions: “*What is the impact of microfinance on SMEs’ sustainability?*” and “*What challenges do SMEs face?*” To answer the second research question exhaustively, two sub questions were posed to explore the operational challenges faced by SMEs and the challenges SMEs encountered in accessing MFI support. The chapter explored the characteristics of SMEs, their current sources of funds and the utilisation of microfinance products and services. It also assessed the impact of microfinance on SMEs’ growth, expansion and sustainability. The findings show mixed results for the impact of microfinance on SMEs’ sustainability. While microfinance loans did not increase the profitability of the SMEs significantly, the savings deposits of the SMEs were enhanced by the savings mobilisation efforts of their MFIs, which increased savings accumulation for working capital purposes. All the SMEs studied reinvested the savings accumulated into their businesses. Non-financial services provided to the SMEs impacted positively on their entrepreneurial skills. Some of the SMEs reported acquiring business management, marketing and customer service improvement skills through the MFIs. Returns on investment, growth and expansion of the SMEs were however limited due to the collapse of some MFIs; high exchange, interest, and inflation rates; taxes; and short maturity periods of loans. The survival and sustainability of the SMEs were also threatened by their continuous indebtedness to the MFIs. Therefore, the majority of the SME owners worked mainly to repay the debts resulting from

the loans acquired. Also, any positive effects of microfinance were further eroded by prevailing macro- economic conditions (external effects) and operational challenges (internal effects) faced by the SMEs. Their inability to make profits to accumulate as working capital to inject into their businesses made them dependent on MFIs. Thus, high interest loans received by most SMEs from MFIs may not necessarily result in SMEs' expansion, growth and sustainability unless government financial policies relating to interest and inflation rates, as well as taxes and charges by MFIs, and also the internal conditions of SMEs and MFIs (micro environment) are transformed to stimulate both SMEs' and MFIs' growth and effectiveness simultaneously. Both external and internal effects thus compromised the positive impacts of microfinance services on SMEs' growth and sustainability. MFIs did not, therefore, have the significant and positive impact on SMEs' sustainability in the study area that might be expected. Chapter nine follows next and it represents the last results chapter. It examines the forms of institutional support received by MFIs and SMEs alike in the study area.

Chapter 9

Institutional Support to MFIs and SMEs in Ghana

9.1 Chapter Overview

This is the last chapter of the four results chapters outlined in section 1.8. The chapter examines the institutional support received by MFIs and SMEs. Institutions here refer to government, ministries, departments and agencies (MDAs) and private sector organisations established purposely to provide support to both SMEs and MFIs as discussed in the conceptual framework [section 2.13.2.6] and Chapter three. To enhance the capacities of MFIs in supporting SMEs effectively, and for SMEs to act as catalysts for economic growth and development, several institutions have been established as instruments to pursue these policy objectives. Against this background, the chapter is designed to answer the sixth research question:

6. What forms of institutional support do MFIs and SMEs receive to enhance their effectiveness?

The chapter is structured as follows: Section 9.1 analyses the forms of support received by MFIs and SMEs, while section 9.2 examines the collaborative linkages between the supporting institutions that support MFIs and SMEs. Section 9.3 summarises and concludes the chapter.

9.2 Institutional Support to MFIs and SMEs

It emerged from the interviews that the Bank of Ghana (BoG), the Ministry of Finance (MoF), and the Microfinance and Small Loans Centre (MASLOC) were the statutory bodies established to support and help regulate the operations of MFIs in Ghana. The Ghana Association of Savings and Loans Companies (GHASALC), Ghana Association of Microfinance Companies (GAMC) and Ghana Microfinance Institutions Network (GHAMFIN) are institutions established to support tier one and two MFIs and SMEs. This

section assesses the support these public and private sector institutions provided to both MFIs and SMEs to enhance their capacities for growth and sustainability. Since the MFIs and SMEs have different functions as well as industry specific support needs, the forms of assistance received by each of them are assessed and analysed differently.

9.2.1 Institutional Support to MFIs

Despite the large number of institutions established by government and the private sector to support MFIs, interviews with the MFIs revealed that only GAMC, GHASALC and GHAMFIN, which are mainly MFI Apex bodies (private institutions), provided some form of support to the MFIs. They received training on various topics pertaining to microfinance institution management, risk analysis, reporting and technology adoption for microfinance delivery. These Apex Institutions also kept member MFIs abreast with new developments in microfinance regulations and discussed issues concerning the microfinance sub-sector during MFIs' annual meetings and workshops. Unfortunately, however, the focus of GHASALC and GAMC activities were more on support to tier one and tier two microfinance institution members. All other MFIs not registered with these institutions did not receive any support from them. GHAMFIN was identified as the only institution that catered for all the different categories of microfinance institutions in the country irrespective of their level. GHAMFIN occasionally organised seminars, workshops and training programmes for all the MFIs. There are, however, other private sector technical services providers supporting MFIs in Ghana. Responses on institutional support received were expressed as:

We have regular annual meetings to discuss microfinance issues. We also sometimes receive information on government policies and regulations when we participate in training workshops and conferences organised by GHAMFIN and GHASALC (MFIFIA063, March 31, 2016).

We received training on how to prepare our reports to be submitted to Bank of Ghana. We attended workshops organised by GAMC. During these training sessions we met other microfinance institutions from other parts of the country. These meetings and workshops created forums for us to share ideas and discuss issues (MFIAXI072, May 13, 2016).

We do interact a lot through the platform created for us by GAMC, our apex body of microfinance institutions. Now, all GAMC members have WhatsApp accounts through which we have been discussing issues concerning microfinance in the country (MFIGST075, May 07, 2016).

GAMC supported us to purchase locally manufactured software which we are currently using to manage our information (MFIAXI072, May 13, 2016).

When we need to borrow funds, sometimes it is easier to go to the members of MCAG than the traditional banks because they see us as doing similar things and some of the moneylenders have capitalization equal to some of the banks (KIFINC084, April 08, 2016).

These findings show that the MFIs received some training, and had platforms to discuss important issues regarding microfinance in the country. It also created avenues for communication and interaction among the MFIs. Thus, if well resourced, the Apex bodies, associations of MFIs and other private sector technical services providers could build the capacities of MFIs in order to be effective in promoting SME growth and sustainability.

The institutional support from statutory public-sector institutions is crucial to enhance the effectiveness of the MFIs in the delivery of services to SMEs. The MFIs had indirect support from the Bank of Ghana in the form of the rules and regulations set regarding microfinance

activities in the country. They noted that the Bank also sometimes monitored their activities to ensure that they adhere to the regulations, although not adequately and regularly. This creates a legal and regulatory environment that encourages market entry and competition in microfinance in the country. The MFIs interviewed explained the specific indirect support they received from the Bank of Ghana as follows:

The Bank regulates the sector. That is all! They set the operating capital requirements and the rules of the game which all of us have to comply with. That is the only support we receive from them (MFIWLK073, May 07, 2016).

You know the government does not really support anybody. I think we are left on our own. Yes, we are on our own. The Bank of Ghana only sets the rules of engagement. That is all. They do not help anyone!! (MFIADH067, April 05, 2016).

Although the Bank provides regulatory services through the rules and guidelines to the MFIs, they [MFIs] however felt provision and compliance with the rules and regulations alone were not sufficient to build their capacities to be effective in providing support to the SMEs. They observed that the Bank of Ghana was not able to provide adequate supervision, monitoring, and enforcement of the regulations set for the subsector. The study observed that the Bank's supervision capacity was limited and ineffective. Although the upsurge of microfinance institutions created competition in the microfinance market, there was the need for effective monitoring of compliance to microfinance sector rules and policies.

Ineffective supervision and monitoring of compliance render the rules and regulations irrelevant and non-functional, hence they have limited impacts on effective microfinance service delivery to the SMEs. The lack of effective monitoring and enforcement of rules and regulations explain the upsurge of fraudulent microfinance activities and uncontrolled high interest rates charged by MFIs. The high interest rates and other uncontrolled harsh payment

conditions set by the MFIs erode SME profits and prevent them from building up enough working capital for expansion and growth. It also slows down their graduation from MFIs to the traditional banks, as discussed extensively in chapters six and seven. What this suggests is that the ineffectiveness of supporting institutions [microfinance regulatory bodies] contribute to malpractices among the MFIs which in turn impede the growth of SMEs.

Contrary to the responses from the MFIs regarding support from the Bank of Ghana, interviews with officials from the Supervision and Examinations Unit of the Microfinance Department of the Bank revealed that the Bank provided indirect support to the MFIs through their Apex bodies. The support provided by the Central Bank to the Apex bodies was in the form of training and capacity building, and funds to support their administrative costs. Besides the microfinance regulations and guidelines which appear to be ineffective due to lack of enforcement and compliance, the MFIs also expect some form of institutional financial support from the government to help them meet the SME financing needs. The majority of the MFIs interviewed considered this as a major gap in the institutional support that they need to enhance their capacities to support SMEs. The missing financial support was expressed as a concern by some tier two MFIs as:

There is no microfinance development fund or institution that could promote the growth of microfinance institutions in the country. We don't have any specific institution taking care of our capital needs as tier two microfinance companies (MFIREF065, May 13, 2016).

These opposing statements regarding the Central banks' support, and demand for institutional financial support by the MFIs from the government to help them meet the SMEs financing needs, suggest that the MFIs do not fully understand the Bank's role in the microfinance industry. Although the MFIs consider this as a need, the microfinance literature, to the contrary,

argues that government interference in the microfinance sector in relation to transfer of funds to microfinance institutions for disbursement proved to be more detrimental than useful for the sustainability of the MFI recipients of such funds (Duflos & Imboden, 2004). Thus, the role of Central Banks, ministries and agencies as suggested in the microfinance literature is to provide regulation, supervision and monitoring to the sector and not to engage in money transfers (Duflos & Imboden, 2004). What this implies is that non-financial input from supporting institutions is important in building the capacities of the MFIs to provide the required financial services to the SMEs. Thus, it is imperative that the supporting institutions prioritise MFIs' capacity development and enforcement of microfinance rules and regulations to achieve the desired impacts on SMEs.

Furthermore, the expectation of the MFIs is that government will establish a specialised microfinance fund or venture capital fund to take care of their funding needs. However, this expectation, they complained, has not been met. In addition, the expectation is that private institutions and banks will ensure private fund inflows to the microfinance institutions by investing in share capital of MFIs. The MFIs however expressed the view that there had been a failure of the banks and government support institutions to support them in this regard.

The banks have the money, but their target is not the MFIs. The funds are there but are not made available to us, for on-lending. There are two institutions [MASLOC and REP] which I think were initially established for that purpose, but now it is difficult to know exactly the role they are playing because they are lending directly to SMEs (MFIAXI072, May 13, 2016).

MASLOC, the Government of Ghana's microfinance institution was established purposely to provide credit to MFIs for on-lending at market rates. However, this study found that MASLOC is instead providing credit directly to their clients and this impacts negatively on the activities

of the MFIs, as MASLOC's loans are disbursed at lower interest rates than that of the MFIs interviewed. The MFIs interviewed explained that MASLOC's low interest rates create distortion in market. The MFIs' representatives interviewed felt MASLOC created an unfavourable environment for them to operate in. This finding is consistent with the Ministry of Finance report in the Financial Sector Strategic Plan (FINSSP II, p. 31) which states that:

Government's [Ghana government] measures to provide essential and sustainable finance to enhance micro and small enterprises development in the country through facilities such as the GH¢81 million (US\$50 million) facility through the Microfinance and Small Loans Centre (MASLOC) have been a failure with respect to sustainability. The MASLOC facility did not stick to its original plan to channel the funds through existing private sector financial institutions (MOFEP, 2012, p. 31).

These findings therefore show that the MFIs did not receive any form of support from MASLOC. MASLOC was supposed to be a government institution established to support the MFIs rather than operate parallel to the MFIs as a competitor (MOFEP, 2012, p. 31). Its activities are now regarded by MFIs as detrimental to their sustainability. This phenomenon is seen as having repercussions on the MFIs' ability to effectively promote the growth and sustainability of the SMEs. Therefore, while some form of support is being provided, the MFIs (especially those at the tier two level) believe it is ambiguous and still inadequate, and their real needs are not being met.

9.2.2 Institutional Support to SMEs

The SME literature emphasises the importance of business development support services to the SMEs to enable their growth and sustainability (ILO, 1997; Mazanai & Fatoki, 2011; Otieno, Olomi & Kiraka, 2013). The findings of this study on institutional support to SMEs show that

the SMEs have very limited knowledge about governmental and private institutions that can provide such support. However, some SME owners admitted that they receive financial and business management training from the MFIs but not from any established government institutions.

Sometimes the financial institutions organise programs and invite us to attend. Through this, we learn how to manage the loans they give us (POKSF051, June 01, 2016).

They come here to provide me with more education or advice on how to successfully manage my business (POKSF053, June 01, 2016)

All the SME participants in this study have little knowledge of the existence of government institutions that can support them. The Greater Accra Regional manager of the National Board for Small Scale Industries (NBSSI), a government agency, when interviewed explained that although it is their responsibility to provide support to the SMEs, they lack the financial and human resource capacities to provide any meaningful support due to inadequate funding and other logistical constraints. This partly explains the knowledge and skills gaps the SMEs have in managing their enterprises for growth and sustainability, as explained in chapter seven. Thus, the necessary support required to promote SMEs as engines of growth and avenues for employment generation, as advocated in the literature, is not being provided by the institutions established to help them realise this effectively. The SMEs also identified some forms of support they need to sustain and make their businesses more robust. Examples are identified in the following quotes.

I would like them to explain bookkeeping to us, how to keep the books, how to keep record of the things we've bought and how to differentiate our profits from other things, this would help (ABLSF021, May 16, 2016)

Those of us who usually engage in this business have a lower level of education so the institutions are supposed to help us on how to keep our receipt books and receipts because if you go to the embassy right now (to obtain a business visa to go and purchase goods overseas) they are concerned with the receipts of your goods and the taxes you pay (ACCSM020, May 19, 2016)

Awareness created about professionally managing my business well (DODSF048, July 06, 2016).

9.2.3 Linkages and Collaborations among MFI Support Institutions and between SME Support Institutions

Interviews with representatives of the support institutions (i.e. Bank of Ghana (BoG), MoF, GHAMFIN, GHASALC and GAMC) regarding interactions and collaboration among them to support the MFIs and SMEs, reveal a limited level of collaboration and interaction. They however collaborated to draft the Ghana Microfinance Policy document (GHAMP) and the Microfinance Operating Guidelines. Interviews with these institutions show that, apart from the microfinance policy and guidelines, there had not been any collective action among them designed to support the MFIs and SMEs. Thus, interaction among these institutions to promote SMEs' growth is limited. A GHAMFIN key informant revealed that interaction between GHAMFIN and the Apex bodies is not effective at some levels. He explained this as follows:

Some of the board members of the Apex bodies are represented on the GHAMFIN board, but we realised that decisions taken at our meetings are not communicated to the MFIs. This created an information gap (KIFIND084, March 18, 2016).

Additionally, the support institutions also indicated that there is lack of clarity regarding the roles of each institution as to what forms of support to provide the MFIs and SMEs. They

explained that the existence of many institutions who claimed to have been set up to provide support to the MFIs make it difficult to identify gaps in existing support to the MFIs and SMEs. What this suggests is that there is also some lack of effective coordination and harmonisation of the activities of MFI and SMEs by an effective central body.

The current phenomenon presents a lack of coordinated effort to effect synergy in supporting the MFIs and SMEs to achieve their objectives. Effective interactions between GHAMFIN, the umbrella body of the MFIs and the MFIs' Apex bodies on one hand and between MFIs and SME support institutions on the other hand, could be an effective mechanism through which information could flow between the various support institutions to the MFIs and SMEs. However, the study also shows very little or no interactions and collaborations existing between the SME support institutions and the MFI support institutions as expressed in the quote below.

Not at the moment. No! We do not have any interaction; rather the MFIs themselves do their own thing. They organise meetings with the SMEs and only invite us to attend. This is what I can say about the level of interaction (KISALE086, April 01, 2016).

Hardly!!! We don't have any such collaboration (KINBS080, June 20, 2016).

One would expect that the SME and MFI support institutions would support both SMEs and MFIs to be effective. However, very little of this support exists among them. These findings suggest a lack of effective interaction and collaboration among the SME and MFI support agencies on one hand and among the support institutions in general on the other hand. This compromises the synergic effect they might achieve in SME development in the country.

9.3 Conclusion

This chapter assesses the forms of institutional support MFIs received to enhance their capacities to serve SMEs effectively. It also assesses the institutional support SMEs receive to survive and grow. The chapter also examines the linkages and collaborations that exist between the institutions supporting MFIs and SMEs. This chapter answers the research questions: *“What forms of institutional support did MFIs and SMEs receive to enhance their effectiveness?”* The study shows that the MFIs and SMEs receive no direct support from the government established statutory institutions. The MFIs however did receive indirect support in business and financial management training from their Apex bodies and microfinance networks. Other indirect support they received from the Bank of Ghana were microfinance rules and guidelines, but they perceived these as inadequate due to ineffective enforcement and compliance. The lack of adequate institutional support to the MFIs contributed to the low performance of MFIs which in turn contributed to their inability to effectively promote SMEs’ growth and sustainability. Thus, it is important that the supporting institutions invest in the MFIs’ capacity development by enforcement of microfinance rules and regulations in order to achieve the desired impacts on SMEs.

Finally, linkages and collaborations among the support institutions for the microfinance and SME development sub-sector were found to be weak, limiting the gains that may accrue in terms of increased liquidity for the MFIs and increased funds to the SME clients to enable their survival and growth. This chapter therefore concludes that support to MFIs on one hand and SMEs on the other is inadequate to enable MFIs to be effective in promoting the growth and sustainability of SMEs. Inadequate institutional support to the SMEs also impedes their growth and sustainability, as they lack adequate entrepreneurial skills for effective business management for growth and sustainability. Thus, there is the need for on-going institutional

support for both MFIs and SMEs as the effectiveness of each reinforces the other. It is important for the support institutions to collaborate per their respective strengths to synergistically provide support to the MFIs and SMEs. The next chapter summarises the findings, draws conclusions, identifies limitations and makes recommendations for policy and further research.

PART V

**CONCLUSIONS, RESEARCH LIMITATIONS, RECOMMENDATIONS AND
SUGGESTIONS FOR FURTHER RESEARCH**

Chapter 10

Conclusions, Research Limitations and Recommendations for Further Research

10.1 Introduction

Within the last two decades microfinance institutions (MFIs) have emerged rapidly across the world, and their products and services accessed by millions of micro, small and medium scale entrepreneurs (Banerjee, Duflo, Glennerster & Kinnan, 2015). Their impacts have been acknowledged in relation to income generation, asset accumulation, poverty reduction and enterprise development (Afrane, 2002; Littlefield, Morduch & Hashemi, 2003; Dunford 2006; Hermes, Lensink & Robert, 2011; Adjei, et al, 2009). This notwithstanding, there are divergent views regarding the effectiveness of microfinancing due to the relative paucity of evidence as well as the lack of rigorous research methodologies to back microfinance performance findings (see Sample, 2011; Dichter, 2006; Brau & Woller, 2004). For instance, Dichter (2006) contends that 1) there is a dearth of research evidence showing the impact of microfinance in terms of causality; 2) microfinance may help with cash flow smoothing and boosting the confidence of the poor who access services, but not much more; and 3) it is more impactful for MFIs to lend to small and medium businesses capable of creating jobs than to micro business and the subsistence activities in the informal sector. From the available anecdotal evidence, Banerjee et al. (2015) concluded that microfinancing has produced two contrasting results: i) it has established some successful entrepreneurs and ii) it has heavily indebted some clients. Although some investigations have been conducted and documented on the MFIs and their impact on poverty alleviation and enterprise development (see Rahman & Mazlan, 2014; Kinde, 2012; Yahaya, Osemene & Abdulraheem, 2011), there is still a gap in understanding the effectiveness of microfinance in promoting the growth and sustainability of SMEs in the context of West Africa and Ghana in particular. Yahaya et al. (2011) studied the effectiveness

of microfinance banks in alleviating poverty in Kwara State in Nigeria and found that microfinance enhanced provision of financial services to the active poor to enable them to establish small businesses. Adjei et al. (2009) studied the financial sustainability of Sinapi Aba Trust and its impact on households in Ghana and discovered that it had positive impacts at the household level. Using Ghanaian case studies, this current study explores the effectiveness of microfinance institutions in promoting micro, small and medium enterprises' growth and sustainability. The chapter presents a summary of findings derived from the research objectives and answering the research questions that were addressed in chapters six to nine. Thus, the chapter provides a deeper understanding of the findings as well as giving a comprehensive explanation of the implications of the findings in addressing the main research objective, which is: *"To explore the effectiveness of microfinance institutions in promoting SME sustainability."*

The specific research objectives are to:

1. *Ascertain the sustainability of microfinance institutions;*
2. *Examine the factors affecting small businesses and microfinance institutions;*
3. *Critically examine the impact of MFIs on SMEs' growth and sustainability;*
4. *Ascertain the challenges MFIs face in serving small businesses; and*
5. *Assess the forms of institutional support MFIs and SMEs receive to be effective.*

The summary presented here forms the basis for the conclusions and recommendations of the study. The chapter is organised as follows. Section 10.2 describes the processes used for the summary and section 10.3 presents the summary. Section 10.4 provides recommendations for further studies. Section 10.5 examines implications of the findings for microfinance and SME theories. Section 10.6 discusses the implications of the findings for policy. Section 10.7 makes recommendations arising from the findings and section 10.9 outlines the research limitations. Section 10.10 gives the final conclusions for the thesis.

10.2 The Summary Processes

The results chapters (chapters six to nine) are summarised to draw out key findings that address the research objectives and questions. Chapter six examines the operational structures of microfinance institutions in Ghana. Chapter seven analyses the outreach, financial viability and sustainability of MFIs. Chapter eight examines sustainability of micro, small and medium size enterprises served by MFIs, and chapter nine assesses the institutional support received by both MFIs and SMEs. All the chapters (chapter 1 to 9) were reviewed to take a critical look at the research statement, objectives, theoretical framework, concepts, research methodology and the case studies. The findings in chapters six to nine were guided by the research objectives, the overarching research question, and the conceptual framework used for the study. The summary was done by identifying the main themes emerging in answer to the research questions across the result chapters and discussing them in line with the concepts, prior studies and theories. The key findings were organised under the specific research questions they addressed and summarised accordingly in this chapter.

10.3 Summary of Major Findings

Summary of the main findings presented in chapters six to nine are discussed according to the research questions raised.

10.3.1 How effective has microfinance been in promoting SMEs' sustainability?

Microfinance institutions in Ghana are categorised into four tiers by the Bank of Ghana for regulatory purposes. Tier one and two MFIs are the deposit taking institutions, whereas tier three MFIs are money lending establishments and non-deposit taking financial Non-

Governmental Organisations (NGO). Tier four MFIs are individual money lenders and ‘susu collectors’, which are many and diverse, hence difficult to regulate. Each MFI category (tier) is characterised by a minimum level of capitalisation which defines their size of operation and the acceptable activities they can engage in. The categorisation of MFIs into tiers helps to facilitate regulation of the microfinance subsector and enhance financial inclusion. Financial inclusion, financial deepening, enterprise development and poverty reduction were identified as the driving force behind microfinance activities in the study area, although development of existing enterprises dominates the activities of most of the MFIs. The structure and regulatory framework acts as a double-edge sword in its effect on the MFIs. On the one hand, they bring credibility to the activities of the MFIs, especially those at the lower tiers, and raise some level of awareness of their activities. On the other hand, the structure and the regulatory framework impose financial and operational restrictions on the MFIs which determine the level at which they operate and the type of clients and businesses they serve, hence the extent of their outreach. Non-compliance with the rules by the MFIs led to malpractices among some of them which negatively affected the capitalisation of SMEs as some [SMEs] lost their deposits. Also, uncontrolled high interest and administrative charges and harsh loan repayment conditions set by the MFIs erode SMEs’ profits and investment capital. Thus, weak regulatory frameworks and operational structures to some extent limited the effectiveness of the MFIs in promoting the growth and sustainability of the SMEs. This is because the regulatory and operational structures of the MFIs do not translate into increased products and services to, in particular, start-up businesses.

MFIs to a large extent have been ineffective in promoting the growth and sustainability of SMEs. Five factors are identified to have contributed to the ineffectiveness of MFIs in promoting growth and sustainability of the SMEs. These are (i) inability to meet the start-up funding needs of SMEs, (ii) short term nature of loans provided by MFIs, (iii) high transaction

costs of MFI products and services, (iv) low operational and technical capacities of the MFIs (mostly at the tier two level, (v) high interest rate charges on loan products and (vi) limited sources of funds for disbursement to SMEs. SMEs categorised in this study as micro, small and medium businesses (SMEs) who have accessed MFI products and services were sampled from five districts of the Greater Accra Region and interviewed. The age distribution of the SME respondents ranged between 25 and 65 years, were mostly women and were engaged in retail, manufacturing and service delivery. Majority had no formal education but had over five years' experience in their line of business. Most of these SMEs indicated that despite injection of microfinance products and services into their businesses they have not observed any significant change in terms of increased profits, growth and expansion due to erosion of profits caused by high interest rates and administrative cost charges. Many of the SMEs were highly indebted, hence could not operate profitably and sustain their businesses. In relation to employment creation, the majority of SMEs created only informal employment opportunities [engaged unpaid or less paid family members to support their businesses] in order to reduce transaction costs. Therefore, there was limited creation of new formal employment opportunities [paid employees]. The purported link between microfinance and SMEs' employment generation capacity, expansion and growth is found to be weak in this study. Although microfinance is considered as the engine of growth, which is supposed to promote business creation through the financing of start-ups, on the contrary, the majority of SMEs in this study did not start their enterprises with MFI funding. At best, many of the SMEs were found to be satisficing as against growing or attaining high levels of sustainable growth.

10.3.2 What is the sustainability and financial independence of MFIs serving SMEs?

Sustainability of MFIs in the study was analysed in terms of outreach, financial profitability, and operational and institutional sustainability. Outreach performance indicators investigated reveal mixed results. In terms of the number and volume of loans disbursed, and total savings deposits and investment funds mobilised, tier one MFIs performed better than the tier two MFIs because the tier one institutions have stronger operational capacities, wider branch networks and access to equity funds from shareholdings. Generally, the MFIs perform better with mobilised savings deposits compared to the gross loans disbursed in terms of number of loans and volume of funds disbursed. The low levels of outreach performance among tier two MFIs is attributed to increasing competition for the same SME clients and the exorbitantly high interest rates charged on credit which deters SMEs from accessing loans from them. This shows a clear departure from the welfarist approach to microfinance service delivery which emphasises the depth of outreach, rather than breadth of outreach (numbers of clients served). Micro, small and medium scale enterprises are found to be the major clients of the MFIs. Medium size enterprises comprise a minority, because they require loan amounts that the tier two MFIs cannot easily supply. The majority of MFIs qualify as financially sustainable because they recorded positive Return on Assets (ROA) and Return on Equity (ROA) ratios. However, lack of adequate funding sources to the MFIs hinder their growth and expansion as well as limit the extent to which they promote the survival, growth and sustainability of the SMEs they serve. However, the MFIs themselves, partly because of their policies of risk avoidance in not financing SME start-ups, are found to be financially, operationally and institutionally self-sufficient [sustainable]. Overall, the majority of the MFIs are approaching level four status in terms of sustainability and financial independence because they raise funds at commercial rates

from formal financial institutions and individual investors, and rely on interest income and client savings based on Havers, (1996) levels of MFI sustainability.

10.3.3 What are the factors affecting MFIs in Ghana?

The factors affecting the capacities of the MFIs to be effective in promoting the growth and sustainability of the SMEs identified are of three types: (1) factors external to the MFIs, (2) factors internal to MFIs and (3) factors related to the category and characteristics of the enterprises they served. The external factors include limited sources of investment capital to the MFIs, competition, high exchange, interest, tax and utility rates and negative perceptions about microfinance institutions. These all affect their operations and effectiveness in promoting SMEs. Internal factors identified are inadequate liquidity, high administrative costs, and high employee turnover. These affect their operations and profitability, in other words capacities to effectively provide microfinance services to propel SME growth and sustainability. SME clients' practices such as multiple borrowings, diversion of funds and high default rates erode MFIs' expected profits and increase their operation costs, hence limiting their capacity to serve SMEs effectively.

Poor record-keeping practices of SMEs make it difficult for the MFIs to statistically predict the long-term viability of any given SME. The inability of MFIs to analyse their SME clients' financial performance based on the available financial records influence decisions on the type and form of financial services that the SMEs can access. It also influences decisions on interest rates and administrative charges and terms and conditions set by the MFIs for the SMEs to comply with, which because of this operational uncertainty are in many cases unfavourable for the SMEs. Some of the SME clients operate in the informal sector without permanent business premises, thus making it difficult for the MFIs to trace them for loan recovery. The transitory nature of small businesses and lack of permanency in terms of business location make it

particularly difficult for MFIs to follow-up SME clients for repayment. Many of the SMEs also engage in fraudulent business practices which put their businesses and the MFIs' financing them at risk. The diversion of business loans for use in non-business-related activities results in many unpaid bad loans for MFIs, negatively affecting their profitability. The combined effects of the characteristics of SMEs impact strongly on MFIs' profitability and capacity to provide optimum financial services to SMEs that may be able to nourish their growth and sustainability. Thus, the difficulty of sustaining SMEs in turn impacts MFIs' capacities and effectiveness in serving SMEs effectively.

10.3.4 What has been the impact of MFI services on SMEs' sustainability?

Mixed results are obtained when examining the impact of microfinance on SMEs' sustainability and growth. Microfinance services are rarely provided to meet SME start-up requirements, which in turn limit the establishment of new SMEs [numerical growth of SMEs collectively]. This has negative impacts on the SMEs' ability to start new ventures. However, national employment creation is thought to be tied to the "birth" of new SMEs, which are considered "engines of growth and employment generation."

Microfinance positively impacted some SME owner/managers' ability to accumulate stock and business assets. Microfinance loans enable the SMEs to have access to working capital. Available capital enables the SMEs to take advantage of benefits associated with bulk purchases, thus enabling them to make profits which can be ploughed back into their businesses, stimulating at least minimal growth.

While a few SMEs experienced growth in terms of increased employee numbers [through informal employment of mostly unpaid or less paid family members] and increased operational

capacity, the majority of the SMEs did not experience any significant changes in business after using microfinance loans. Unfavourable macroeconomic conditions and factors internal to the SMEs limit their return on investments and profitability following the use of microfinance loans. In a few cases where the SMEs made profit, the margins were low and were easily eroded by high costs of operation resulting from high inflation, interest rates and administrative charges by MFIs, thus limiting their growth and long-term sustainability. For those enterprises that depend on retained earnings deposited at MFIs in the form of savings, the value of the retained funds erodes quickly and in some cases, is devalued, due to inflation and fluctuations in interest and exchange rates in the country as a whole.

In contrast to the above, non-financial support to the SMEs impacts positively on their terms of business vigilance, business environment scanning, ambience creation, product and service marketing, financial records keeping, customer services and human resource management. Non-financial services enhance SMEs' use of MFI products and services for their growth and sustainability.

In many cases, SMEs have little intention of graduating to the traditional banks due to their current low operational and financial capacities. They are mainly concerned with family subsistence and a relatively static place in their local communities. Many adhere to a position of satisficing, aiming not at a risky course of economic maximisation, but only the most satisfactory result for their wellbeing in a macro climate of excessively high interest rates, inflation, and taxation. Where they have borrowed, the high level of indebtedness to the MFIs limits their capacities to grow and graduate to the traditional banks, hence they are forced to remain at their current level servicing debts to the MFIs. Thus, their current investment level that would allow them to graduate to the traditional banks remains low, hence their continuous

dependence on MFIs. Thus, microfinance appears to have a limited impact on most SMEs' sustainability as growing enterprises.

10.3.5 What challenges do SMEs face in accessing MFIs' services?

The challenges faced by micro, small and medium enterprises in accessing MFIs' products and services as well as the operational and external challenges they face are threefold. These are: (1) challenges imposed by characteristics of the products, services and processing conditions of MFI loans; (2) challenges imposed by the operational capabilities of the SMEs and (3) challenges that relate to the external business environment in which the SMEs operate. The short-term nature of MFI loans and other products are a major challenge to the SMEs, which require long term funds for their survival as growth institutions. Loan processing durations and disbursement periods take too long for them to be leveraged into effective business opportunities, hence SMEs often only receive disbursed funds when they no longer need them and the opportunities have passed. Therefore, the debt received is either misused or misapplied by the SMEs, and paying for high administrative costs and interest rates make future repayment difficult. Total fees charged, excluding the interest on the loans, are regarded as exploitative by the SMEs with their limited options, hence they are obliged to accept the unfavourable terms of loans. Likewise, interest, exchange, inflation and tax rates are high, making access to MFI funds not especially productive, as they continuously erode their profits which affect their chances of sustainable growth. Furthermore, high costs of operations, low sales volumes and low profit margins make it difficult for the SMEs to repay their loans, decreasing their repayment capacity and increasing the rate of default. Consequently, damaged credit histories as a result of default payments make it difficult for some of the SMEs to access repeat loans and that limits their capacity to expand and grow. In relation to the business environment, poor infrastructure and competition are also major constraints to capital accumulation needed for

sustainable growth and expansion. Other difficulties include lack of business management skills and poor record keeping.

10.3.6 What forms of institutional support do MFIs and SMEs receive to enhance their effectiveness?

The sustainability of MFIs and their effectiveness in promoting the survival and success of SMEs is also dependent on the kind of support they receive from supporting institutions and the extent to which the supporting institutions of both MFI and SME sectors collaborate. The Ministry of Finance and the Central Bank provide guidelines to regulate the operations of MFIs. The Central Bank to some extent monitors the activities of the MFIs to ensure compliance with regulations and guidelines. On the other hand, the Microfinance Apex Institutions—GHAMFIN, GHASALC and the GAMC provided some training to the MFIs on data management, reporting and compliance with the microfinance rules and guidelines. They also train member MFIs on risk management, technology adoption and client management. There is, however, no specialised financial institution established purposively to lend to MFIs at special interest rates. The MFIs identified this as a missing gap in operations of the microfinance industry. There is a lack of collaborative linkages between the MFI and SME support institutions for synergic collective actions required to promote the MFI and SME sub-sectors effectively. The weak collaborative linkages and collective actions among the support institutions limit the gains that could accrue through increased liquidity and the internal capacity for the MFIs to increase both financial and non-financial services to support SME clients. Thus, support to MFIs is inadequate to be effective in promoting the growth and sustainability of SMEs. The SMEs are also not aware of institutions established to promote their activities, hence do not solicit any support from them. This is explained by their informal nature and lack of access to information about the possibility of improving their wellbeing. Inadequate institutional support to the SMEs

impedes their growth and sustainability because by themselves they lack the requisite entrepreneurial skills needed to survive and succeed.

10.4 Originality and Contribution to Knowledge

The original contribution to knowledge of this study to microfinance and small business sector is its ability to establish a relationship between SMEs and microfinance institutions in relation to financial sustainability of both institutions as an outcome. Thus, the study sought to understand whether microfinance is able to boost the sustainability of SMEs. That is whether microfinance can assist SMEs to become more sustainable. To achieve this, the study examined microfinance sustainability ratios and their impact on financing SMEs growth and sustainability. Previous studies have not linked the sustainability of MFIs and SMEs to the relationship that exists between them. Thus, this study made important original contribution to knowledge trying to understand the MFIs-SMEs' relationship and if that has resulted in the sustainability of both enterprises in Ghana and more broadly. The study identified the limitations of microfinance in supporting SMEs growth and sustainability. This is a critical finding because microfinance has been touted globally as panacea for SMEs' growth and sustainability. This study discovered that there are limitations to microfinance supporting SMEs growth and sustainability. Thus, the study raises an important question: how can MFIs support enterprises if they are not themselves sustainable?

The study also highlighted the importance of institutional support in promoting MFIs and SMEs sustainability. The importance institutions as a critical factor has been ignored in previous MFIs and SMEs studies. The study as a whole constitutes original contribution to knowledge in the microfinance sector at large. It also constitutes a substantive original contribution to the microfinance scenario in Ghana in promoting small business sustainability through microfinance institutions.

10.5 Further Research

These research findings highlight further research questions in the following areas.

1. Further research is needed to quantitatively examine medium scaled businesses that access microfinance products and services and the impact of such services on their productivity.
2. Further research is required on the impact of microfinance regulations and policies on sustainability of MFIs.
3. Further research is needed to assess the impact of financial literacy programs and business development services on SME owners, their households and the communities in which they live
4. A second part of this current research is needed to quantitatively assess the sustainability of the SMEs using a longitudinal approach.

10.6 Answers to the Overarching Research Question

This section summarises the answer to the overall research question: *“How effective is MFIs in promoting SMEs’ sustainability?”* The answer to the overall question is underpinned by the summary of findings in all the result chapters. The study shows that MFIs have not been effective in promoting SMEs’ sustainable growth to enable them to achieve the national policy objectives of being employment creators and engines of economic growth. Not enough SMEs obtain the start-up capital they need from MFIs to establish their enterprises to lay a foundation for growth. While the growth and sustainability of SMEs is dependent on the extent to which they have access to cheap, short and long-term debt/loans, MFIs provide only short-term loans. In addition, funds are provided at exorbitantly high prices, which erode SME profits, limit their capitalisation and impede growth, making their long-term sustainability difficult.

The structural and regulatory framework of microfinance to some extent contributes negatively to the effectiveness of the MFIs in promoting the success of SMEs. The structure and regulatory

framework limit the extent to which the different categories of MFIs at the different tiers can operate, as the framework determines the volume of capitalisation required for operating at specific levels of the MFI ladder. These restrictions limit capacity, especially of the tier two MFIs, which are the majority, to be effective in promoting SMEs' sustainable growth. Also, inadequate supervision and enforcement of the microfinance sector rules and regulations by government agencies result in non-compliance to the rules. The ineffectiveness of the rules allowed malpractices to develop among the MFIs, which in turn impact negatively on SME sustainability. Also, there was a lack of effective monitoring and evaluation capacities of the government agencies to assess the performance of MFIs in relation to appropriateness of their services and their abilities to stimulate SMEs' sustainable growth.

The trade-off between poor outreach performance observed and positive financial sustainability of the MFIs confirm that much MFI thinking is dominated by a short-term motivation of profit maximisation to achieve shareholder profit. SMEs' access to the services of MFIs and the size and volume of loans disbursed per MFI is relatively low, pointing to the fact that they [SMEs] have not received adequate financial services to enhance their growth. The quantity of funds required by SMEs is not met, hence they have limited funds to acquire assets, and invest in business growth. Lack of adequate support from the MFI support institutions also contributes to the ineffectiveness of the MFIs. The absence of synergistic collaborations between the MFIs and SME support institutions to provide the needed capacities to the MFIs also contribute to the inability of the MFIs to effectively promote SME growth and sustainability. The MFIs require guaranteed affordable finance from the government and support institutions for on-lending to the SMEs. The impact of unfavourable macroeconomic variables such as high interest, exchange, inflation, tax and utility rates results in high operation costs for the MFIs. Inevitably, high interest rates on debt acquired for on-lending lead to high administrative and interest rate charges, thus making the cost of loans to SMEs expensive. The

resultant effect is erosion of retained earnings and working capital and difficulty in repayment of MFI loans, leaving little or no room for growth and sustainability. While some positive results were shown for the impact of MFI products and services on SMEs in terms of income generation, asset accumulation and business expansion, the negative impacts of reduced profitability, erosion of working capital, loss of retained earnings in MFI deposit accounts, absence of changes in formal employment generation, and loss of trust in MFIs significantly outweighed the positive impacts. The interactions of all these factors limit the capacities of MFIs in promoting the growth and sustainability of SMEs.

10.7 Implications for Microfinance and SME Theories

The commercialisation of microfinance aims at making financial resources available to a greater number of those excluded from the traditional financial institutions. The MFIs are predominantly pursuing an institutionist approach to microfinance (Brau & Woller, 2004). Their focus to achieve self-sufficiency and increased breadth of outreach takes precedence over depth of outreach. The focus on self-sufficiency presents a trade-off between reaching more SMEs as compared to reaching more poor people, which latter entails pursuing a welfarist approach and providing funding at cheap rates.

Due to the dominance of the institutional approach to microfinance, there are few if any subsidised funding programmes for on-lending available to the MFIs. The expected business creation, formal employment generation, enterprise growth stimulation and sustainability through microfinance have not been achieved. The theory of microfinance also suggests that when MFIs are co-opted into the financial system through regulation, they should have access to more sources of funding for on-lending. Although the MFIs are part of the financial system through regulation their sources of funding have not increased to provide more funds to on-lend to SMEs, hence limiting their capacities. This compels the MFIs to rely on debt sourced

from the traditional banks at high interest rates which impacts on the interest rates and administrative costs of loans charged to SMEs. This makes MFI services too expensive for most SMEs and reduces their effectiveness. What this implies is that more context specific measures have to be explored to help make sources of finance accessible at reasonable rates to MFIs in a developing country context. This study also demonstrates that despite the efforts of the BOG to regulate the MFIs' activities, enforcement of the rules remains a problem. Thus, inadequate resourcing for efficient supervision and monitoring, and non-compliance of MFIs contribute to the MFIs' ineffectiveness. The theory on regulation and supervision of MFIs, although if well applied could result in an effective microfinance sector, for its successful implementation appears to require effective strategies and adequate human and financial resources.

Inadequate support from MFI and SME support institutions, and lack of linkage and collaboration between the various MFI and SME sector institutions also contribute to the ineffectiveness of the MFIs in promoting SME sustainability. Collective actions are required from all microfinance sector stakeholders to build the capacities of MFIs and SMEs in financial and business management skills necessary for enterprise growth and sustainability goal.

10.8 Implications of the Overall Findings for Policy

The policies that inform the evolution and development of microfinance in Ghana are the Financial Sector Strategic Plan (FINSSP II), the Ghana Microfinance Policy (GHAMP) and guidelines issued from time to time by the Bank of Ghana. To achieve expected policy impacts requires effective policy implementation strategies that include building the capacities of microfinance sector enforcement agencies to enforce microfinance sector laws and regulations effectively. Government and stakeholder guaranteed sources of funds to the MFIs for on-lending to SMEs at reasonable rates would obviously be an important policy implementation

strategy. If MFIs are to be effective to deliver services to promote SMEs for growth and sustainability as envisaged in the existing policy, measures must be put in place to facilitate easy access to funds for on-lending to them. To achieve this, incentives must be given to financial institutions and private investors to resource the microfinance sector. Microfinance support institutions may need to be well resourced to effectively develop training programmes that meet the training needs of MFIs and SMEs. Effective implementation of microfinance policies is crucial in achieving microfinance objectives and outcomes. Microfinance policy research may need to be an integral part of policy implementation strategies aimed at unearthing contextual challenges that bedevil the subsector. Appropriate context specific solutions may need to be developed in the light of the various theories and prevailing macroeconomic conditions.

10.9 Recommendations

The effectiveness of MFIs in promoting sustainable development of SMEs can be improved if the inhibiting factors identified by the study are mitigated. Thus, policy recommendations are made based on the research findings. The recommendations are as follows:

1. Maintenance of macroeconomic stability
2. Effective regulation and supervision mechanisms
3. Protection of SMEs from predatory behaviour of MFIs
4. Infrastructure to attain an effective financial system
5. Government and development partners collaborative support

10.9.1 Maintenance of Macroeconomic Stability

Unstable macroeconomic indicators such as inflation, interest, exchange, and tax and utility rates were identified as factors that increased the cost of operations of the MFIs, thus limiting their effectiveness in promoting the sustainability of the SMEs they are meant to serve.

Formulation of appropriate government monetary and fiscal policies is critical in reducing the cost of microfinance. The market rates at which MFIs borrow for on-lending largely determines the interest rates they charge the SMEs, which in turn affects the profitability and growth of SMEs. Thus, high inflation, interest, exchange, tax and utility rates erode working capital of both SMEs and MFIs. Thus, both MFIs and SMEs benefit greatly from low inflation, interest, exchange, tax and utility rates to ensure their financial sustainability. Maintenance of macroeconomic stability would also create the right business environment that would encourage microfinance market entry and boost competition among the different players in the financial and SME sectors of the Ghanaian economy.

10.9.2 Effective Regulation and Supervision Mechanisms

The result of weak supervision and weak enforcement of laws and monitoring of compliance to guidelines because the Bank did not apply enough resources to the task encourages non-compliance with the rules by some MFIs. The human and institutional capacities of the Department or the Bank with oversight responsibilities for microfinance should be enhanced for effective regulation and supervision. This would help ensure adequate supervision, monitoring and enforcement of the microfinance rules and guidelines. The microfinance apex bodies should also be resourced to play greater roles in supervising and monitoring MFI activities. This would involve the Bank of Ghana seeding off some of its supervision and monitoring obligations to the apexes. To achieve this, the government and its development partners must invest in strengthening institutional structures for effective monitoring and supervision to enhance growth of the MFIs. Programmes and projects with strong monitoring and supervision components tend to stay on track. Additionally, effective supervision problems may be detected earlier and resolved before any adverse effects occur. Thus, effective monitoring and supervision of MFI activities can play a major role in enhancing their

effectiveness in promoting SMEs. Effective monitoring and evaluation will help the bank learn from past successes and challenges of the MFIs and inform their decision making so that current and future activities of MFIs are better able to promote SME growth and sustainability and become the engine of growth and employment generation as espoused in the development and finance literature.

10.9.3 Protection of SMEs

The losses in savings deposits and investments made by SMEs through sudden disappearance, collapse, or illiquidity of the MFIs can be prevented by enforcement and compliance of microfinance laws. Enforcement and compliance with the laws would control the predatory behaviour of some MFIs who take advantage of the SMEs by defrauding them.

The interest rate charges on MFI loans should be reasonable to enable the SMEs to repay the loans while still being able to make profits and be viable. This would enhance the outreach performance of the MFIs and reduce the trade-off between profitability and outreach that currently exists. Standardisation of interest rates is essential to ensure that MFIs are serving the best interests of their SME clientele while also remaining sustainable. Opposition to interest rate ceilings on MFI loans have been attributed to its counterproductive effect on the sustainability of the MFIs. However, if market rates are charged by all MFIs in the industry, there would be some level of protection for consumers against higher than normal interest rates being charged by some MFIs.

10.9.4 Infrastructure for an Effective Financial System

Establishment of a credit reference bureau could help in information dissemination among the financial institutions in the country to prevent fraudulent and corrupt practices by SMEs. The costs involved in accessing these services should be made affordable for the MFIs, as they are

largely unable to use the services of these facilities because of the high costs involved. Supporting affordable infrastructure that facilitates information dissemination among MFIs and other sectors of the financial sector is crucial in eliminating fraudulent practices among the SMEs.

10.9.5 Strengthen Government and Partners Collaborative Support

There is a need for the government to partner with development partners effectively to strengthen the micro financial system in the country. The collaboration should focus on designing effective policies and programmes to promote the microfinance sector of the economy. As indicated in the current study and by many other researchers, access to finance is one of the most common obstacles faced by SMEs. Public-Private-Partnership (PPP) has been viewed as an innovative mechanism to leverage resources to finance SMEs for growth and sustainability (OECD, 2006; INNO GRIPS, 2009; Hussain, Farooq & Akhtar, 2012). PPP involves partnership between the private and government agencies to deliver public services (Broadbent & Laughlin, 2003, p. 334). Thus, PPP could address SMEs' growth problems through the combined public-private efforts for synergic effects if well implemented. The PPP platform could create effective relation-based governance mechanisms that could improve microfinancing policy interventions in the microfinance sector for sustainable growth of SMEs. For long- term success of microfinance through collaborative efforts, it is important to establish an effective, credible and transparent legal framework to enhance cooperation between the different actors involved. There should be a political climate that promotes private and public-sector efforts as a prerequisite for real and functional partnerships to be formed. Jutting (1999) provides a caveat that PPP should not be perceived as provision of subsidies, but as a collaboration between government and private organisations to achieve a collective action [in this case, SMEs' growth and sustainability]. The Hong Kong Special Administrative Region

Government (Efficiency Unit, 2006) emphasises complementarity and shared responsibility between government and the private sector. Indisputably, complementarity and shared responsibilities are required through government and private sector collaboration to develop effective and well monitored and evaluated strategies targeting the development of MFIs with capacities to effectively enhance the growth and sustainability outcomes of the SMEs they serve.

10.10 Research Limitations

This study is an attempt to document the current state of microfinance delivery in Ghana and the effectiveness of MFIs in promoting the sustainability of micro, small and medium size enterprises using case studies. The findings of this study reveal valuable insights regarding the effectiveness of MFIs in promoting SMEs' sustainability and growth with far reaching implications for theory and policy in the microfinance and SME sub-sectors. *This study is strictly an exploratory study and further research is required to consolidate the findings.*

This notwithstanding, the current study has certain limitations worth acknowledging.

While it was easy to obtain a comprehensive list of the MFIs in the study area, it was difficult gaining access to interview MFIs representatives. Thus, much time was lost in gaining access to MFIs who were willing and available to be interviewed. Originally, the aim was to interview four different categories of MFIs (tier 1 to 4), however, initial investigations revealed that only tier one and two MFIs were engaged in deposit taking activity, whereas the other lower tiers only engaged in money lending activity or informal savings activity. Thus, only two tiers were involved in this study.

Due to the absence of a list of all SMEs in the study area who had access to MFI products and services from the MFIs selected, and the difficulty of identifying entrepreneurs who were

willing to participate in the research, a snowball sampling technique was used to identify and interview the SMEs in the study. Due to time constraints and strategic considerations, the selection of sub-sectors and case studies was also done through personal and institutional contacts.

The weakness of the study is partly inherent in the weaknesses of the case study method used and partly the interpretive philosophical approach adopted. The interpretive approach adopted in this study, where the participants were purposively selected, analysis and interpretation of data is inevitably influenced by the researcher's world view and experience. By asking thematic questions, it is assumed that the researcher influences the participants. In turn, the responses of the participants and the progressive knowledge gained by the researcher iteratively influence his or her understanding and perspectives. Heidegger (1962) points out that in interpretive phenomenology the reader, analyst, or listener comes to the interview with their preconceptions and cannot help but look at any new stimulus in the light of their own prior experience. This means that the knowledge gained through the study may be regarded as substantially a subjective construct.

One of the most problematic issues faced by the case study approach is external validity. That is, whether its findings can be generalised beyond the study itself. Gomm, Hammersley and Foster (2000) point out that the problem faced is that the data collected in the case study may not be representative of the population (or at least representative of those features that are the focus of the research).

Lieberson's (2000), referring to a small number of cases used in case studies, warns that it is a bad basis from which to generalise. Because the population study is limited to few MFIs and SMEs, it is not possible to generalise the findings statistically. Also, the researcher has no control over the independent variables and this therefore limits the internal validity of the

conclusions drawn. However, the researcher used multiple sources of data and methods to triangulate the data collected to enhance the internal validity of the findings and conclusions.

Although Yin (2009) acknowledges the problem of universal acceptability of case studies by researchers as reliable, objective and legitimate, hence the danger of over-generalisation of findings. However, in defence of case studies, Yin points out that most scientific inquiries have to be replicated by multiple examples of the experiment, and case studies too can be based upon multiple cases of the same issue or phenomenon. To minimise this problem, Gray (2013) suggests the use of a systematic selection of cases for study, that is, making efforts to ensure, if possible, that cases are typical of the population. The absence of reliable documentary financial data from SMEs and also from some selected tier two MFIs is also considered as a limitation of this study in spite of the provisions made to accommodate the problem.

Altogether, the data collected provides very interesting and relevant insights into potential for MFI and SME sustainability. The data helps to identify the challenges the two sectors face and provides some conclusions about how MFIs could be better supported to foster the development of SMEs in Ghana.

10.11 Final Conclusions

The study provides insights into the effectiveness of microfinance institutions in Ghana in promoting SME growth and sustainability using case studies from the Greater Accra region of Ghana. Several factors including macroeconomic variables and industry specific factors hinder MFIs ability to effectively promote the SMEs' growth and sustainability needed to propel desired economic growth in Ghana. Four crucial factors are observed in this study as the main obstacles reducing the capacities of the MFIs to promote the growth and sustainability of

SMEs. These include: market failure, Government failure, corruption and the low internal capacities of MFIs and SMEs. These are explained below.

10.11.1 Market Failures

Microfinance came into existence as a result of widespread local market failure in meeting micro credit needs of the poor and small businesses. Hence, as noted by Egyir and Akudugu (2010), formal institutions established since post-independence in Ghana to replace the informal money lenders have failed to achieve their objectives of financial intermediation to the poor and SMEs. Thus, microfinance has been established as a means of correcting market failure in addressing the needs of small businesses. However, high interest rate charges by MFIs are inevitably, given the informal nature of their clientele and the weak economic power of MFIs, much higher than traditional banks. MFI interest rates and administrative cost charges combined are higher and other conditions are tougher than the banks, making microfinance often less beneficial than they might be to the SMEs, indicated by the fact that many of them end up in debt. The accumulated debt of some of the SMEs tends to bankrupt them because of huge interest charges forced on them by micro financiers leading to small business failures. This vicious cycle amounts to another serious market failure. The competitive prices at which MFIs borrow from the open market for onward lending to SMEs does not encourage or allow them to charge low interest rates, or to take the risk of providing low-cost start-up capital funds as directed under the Ghana Shared Growth and Development Agenda (GSGDA I&II) (IMF, 2012). On the contrary, it appears that microfinance fails to create access to productive low-cost capital for the SMEs [mainly low-income entrepreneurs], which together with their human and social capital is supposed to enable them to move out of poverty (Bank of Ghana, 2007; Otero, (1999). The outcome of this may be observed in the lack of small business growth in the study area. The implication is that Sustainable Development Goal 8

(SDG8), (UN, 2015, p. “to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all” may not be achieved. The SDG 8 encourages the formalisation and growth of SMEs through access to financial services. The current level of capacities of MFIs (especially at the tier two level) cannot propel SMEs' growth as anticipated in SDG8. Thus, competitive market lending to MFIs to on-lend to SMEs has not achieved a beneficial result of effective help to small business. The market mechanisms have failed to critically meet the local SMEs' growth and sustainability needs.

Undoubtedly, this phenomenon also explains the other important finding: why most small business owners tend to engage informal family members as employees at no or little cost, so as to reduce operation costs to avoid being trapped in a vicious cycle of stunted growth and unsustainability which is likely to happen if they employ paid labour. Hence, it appears the SMEs are not creating the expected formal employment through paid labour, but rather they use the untapped capacities of their own family and local informal networks.

10.11.2 Government Failure

Compounding market failure is what can only be called government failure. The challenges of microfinancing in Ghana seem to be compounded by Government's [Bank of Ghana] failure and inability to enforce micro finance rules, especially among tier two MFIs. The failure of Government and state agencies to enforce microfinance rules, and build the capacities of MFIs, weakens the foundations of the microfinance sub-sector of the economy. The expected outcomes of microfinancing, SME growth and employment generation as the engine of growth, are not forthcoming. Undoubtedly, the government needs to enforce microfinance laws and strengthen its institutions to monitor and evaluate the overall operations of microfinance institutions in the country.

Additionally, the failure of MASLOC to effectively make sustainable financial services available to MFIs for on-lending to SMEs for growth as stipulated in its mandate (Fant, 2006; 2011) due to politicisation of its activities, low recovery rates, and corruption among its staff (Fant, 2011), suggests that effort is lacking in government or government agencies to establish state guaranteed micro finance vehicles to lend money to the micro finance institutions at reasonable rates of interest. In so far as market forces or principles applied by the traditional institutions and conditions of microfinance institutions seem not to meet the needs of SMEs, state guaranteed micro finance banks need to lend money to the micro finance institutions at reasonable rates of interest for on-lending to SMEs. This might provide an alternative solution to microfinance challenges in the country. The failure of MASLOC and other government institutions and the ineffectiveness of MFIs in promoting growth and sustainability of SMEs in the country suggest that the existing local credit unions, mutual societies and faith-based credit guarantee institutions may still play important roles in microfinancing by providing credit at low interest rates to meet the needs of SMEs. Perhaps government policy might be better directed to supporting these traditional mutual societies, rather than the re-badged ‘money lenders’, now dubbed ‘microfinance’, but colloquially if perhaps sometimes unfairly regarded as ‘loan sharks’. The mutual societies may be able to play seminal roles in bringing just and reasonably priced credit to the common people and small businesses. A well-regulated pawnshop industry might also supply an alternative method of obtaining readily available small amounts of finance. But of overall importance would be the provision of a safe and secure service to the poor for the deposition of small savings, the deposits guaranteed by government control or regulation, and the funds available to microfinance companies subject to strict controls, if not directly lent to depositors. Such a desirable development may not be easy, however, in an economic and social environment where enforcement of regulation does not seem to be part of the cultural ethos.

10.11.3 Subtle Corrupt Practices of MFIs and SMEs

Corrupt practices expressed in the form of fraudulent business practices, multiple borrowing from various sources, and diversion of funds pose serious threats to microfinancing in Ghana. The sourcing of loans from different microfinance institutions at the same time results in over-indebtedness of some of the SMEs and their inability to repay the loans which reduces available funds and in turn reduces the capacities of some MFIs to effectively provide financial services to SMEs. Diversion of funds results in high default rates among SMEs which poses serious risks in serving them. This influences MFIs' decision to apply high interest rates, tough loan repayment conditions and strict rules set by MFIs which affect SMEs' profitability levels and in turn affect their growth and sustainability. Related to corrupt practices of SMEs is illiquidity and closure of MFIs because of mismanagement of SMEs' deposits. The inappropriate use of SMEs' savings such as investment in projects and assets that have long term maturity periods which render the MFIs illiquid leads to the widespread closures. Inability of SMEs to retrieve their deposits compounds their indebtedness and reduces their investment capital for growth and sustainability.

10.11.4 Low Internal Capacities of MFIs and SMEs

Besides unfavourable macroeconomic conditions, internal weaknesses such as limited managerial, low operational and technical capacities, lack of business strategies and vision, low educational levels particularly among the SMEs limit their returns on investments and profitability from using microfinance loans. The MFIs in particular have limited sources of funds for on-lending to the SMEs. Thus, generally, the MFIs perform better with mobilised savings deposits than utilising gross loans disbursed in terms of number and volume. Lack of adequate funding sources for the MFIs hinder their growth and expansion as well as limiting

the extent to which they promote the survival, growth and sustainability of the SMEs they are meant to serve.

The combined effects of market and government failures, widespread corrupt practices by both lenders and borrowers and the general limited internal capacities of MFIs and SMEs are the debilitating obstacles that hinder microfinance institutions in promoting SMEs' growth and sustainability in Ghana. Thus, these factors necessitate policy reviews to broaden the variety of MFIs and strengthen their operations by well targeted government action. This should aim to break the vicious cycle induced by risk and its cost in order to effectively promote SMEs' growth and sustainability to achieve national economic growth.

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APPENDICES

Appendix 1: Information Sheet for Participants



UNE Business School
Armidale NSW 2351, Australia
Phone 02 6773 3453
Fax 02 6773 3596

INFORMATION SHEET For SME PARTICIPANTS

I wish to invite you to participate in my research project, described below.

My name is Patience Eyra Nanedo and I am conducting this research as part of my PhD in the School of Business at the University of New England. My supervisors are Professor Gabriel Donleavy and Doctor Michelle Goyen.

Research Project	The title of the project: Microfinance in Ghana: Promoting SMEs Financial Independence
Aims of the research	The research aims to explore the role of microfinance in Ghana in promoting small businesses financial independence.
Interview	I would like to conduct a face-to-face interview with you at your office. The interview will take approximately one hour. With your permission, I will make an audio recording of the interview to ensure that I accurately recall the information you provide. Following the interview, a transcript will be provided to you if you wish to see one.
Confidentiality	Any information or personal details gathered in the course of the study will remain confidential. No individual will be identified by name in any publication of the results unless they give consent to do so. All names will be replaced by pseudonyms; this will ensure that you are not identifiable. If you agree I would like to quote some of your responses. This will also be done in a way to ensure that you are not identifiable unless you consent to being identified by your name.
Participation is Voluntary	Please understand that your involvement in this study is voluntary and I respect your right to withdraw from the study at any time. You may discontinue the interview at any time without consequence and you do not need to provide any explanation if you decide not to participate or withdraw at any time.
Questions	The interview questions will not be of a sensitive nature: rather they are aiming to enable you to enhance my knowledge on microfinance in practice, challenges and prospects of the industry in Africa and Ghana and its role in promoting small enterprises financial independence. The questionnaire is divided into 8 sections and each section has a number of questions that seek to determine the enterprise characteristics; sources of enterprise finance and loan repayment characteristics; enterprise performance and financial independence; nonfinancial and support services provided by

	microfinance institutions to the enterprise; barriers to acquisition of funds from microfinance institutions and the future orientation of your enterprise.
Use of information	I will use information from the interview as part of my doctoral thesis, which I expect to complete by February, 2017. Information from the interview may also be used in journal articles and conference presentations before and after this date. At all times, I will safeguard your identity by presenting the information in a way that will not allow you to be identified unless you consent to be identified.
Upsetting issues	It is unlikely that this research will raise any personal or upsetting issues but if it does you may wish to contact your local Community Health Centre (phone number: +233 302 776 111)
Storage of information	I will keep hardcopy notes and recordings of the interview in a locked cabinet at the researcher's office at the University of New England's School of Business. Any electronic data will be kept on a password protected computer in the same School. Only the research team will have access to the data.
Disposal of information	All the data collected in this research will be kept for a minimum of five years after successful submission of my thesis, after which it will be disposed of by deleting relevant computer files, and destroying or shredding hardcopy materials.
Approval	This project has been approved by the Human Research Ethics Committee of the University of New England (Approval No HE16_006, Valid to 16/02/2017).
Contact details	Feel free to contact me with any questions about this research by email at pnanedo@une.edu.au .
	You may also contact my supervisors'. My Principal supervisors name is Professor Gabriel Donleavy and he can be contacted at g.don@une.edu.au or 02 6773 4523 and my Co-supervisors name is Doctor Michelle Goyen and she can be contacted at mgoyen@une.edu.au or 02 6773 4594.
Complaints	Should you have any complaints concerning the manner in which this research is conducted, please contact the local contact or the Research Ethics Officer at: James Hottor 26 2nd Macroni Close Ogbojo, Accra.



UNE Business School
Armidale NSW 2351, Australia
Phone 02 6773 3453
Fax 02 6773 3596

INFORMATION SHEET
For SME
PARTICIPANTS

Tel: +233 242 231 139.
jameshottor@netscape.net

Mrs Jo-Ann Sozou
Research Services
University of New England
Armidale, NSW 2351
Tel: (02) 6773 3449
Email: ethics@une.edu.au

Thank you for considering this request and I look forward to further contact with you.
regards,

Patience Nanedo

Appendix 2: Information Sheet for Management Participants



UNE Business School
Armidale NSW 2351, Australia
Phone 02 6773 3453
Fax 02 6773 3596

INFORMATION SHEET FOR MFI MANAGER PARTICIPANTS

I wish to invite you to participate in my research project, described below.

My name is Patience Eyrá Nanedo and I am conducting this research as part of my PhD in the School of Business at the University of New England. My supervisors are Professor Gabriel Donleavy and Doctor Michelle Goyen.

Research Project	The title of the project: Microfinance in Ghana: Promoting SMEs Financial Independence
Aims of the research	The research aims to explore the role of microfinance in Ghana in promoting small businesses financial independence.
Interview	I would like to conduct a face-to-face interview with you at your office. The interview will take approximately one hour. With your permission, I will make an audio recording of the interview to ensure that I accurately recall the information you provide. Following the interview, a transcript will be provided to you if you wish to see one.
Confidentiality	Any information or personal details gathered in the course of the study will remain confidential. No individual will be identified by name in any publication of the results unless they give consent to do so. All names will be replaced by pseudonyms; this will ensure that you are not identifiable. If you agree I would like to quote some of your responses. This will also be done in a way to ensure that you are not identifiable unless you consent to being identified by your name.
Participation is Voluntary	Please understand that your involvement in this study is voluntary and I respect your right to withdraw from the study at any time. You may discontinue the interview at any time without consequence and you do not need to provide any explanation if you decide not to participate or withdraw at any time.
Questions	The interview questions will not be of a sensitive nature: rather they are aiming to enable you to enhance my knowledge on microfinance in practice, challenges and prospects of the industry in Africa and Ghana. The questionnaire is divided into 10 sections that seek to determine the following: microfinance institutional characteristics; sources of finance to microfinance institutions; support to SMEs and the uses of loans by businesses; loan repayment issues; enterprise growth; external factors and relationships with formal banking institutions; knowledge of other

	financial institutions; other nonfinancial services being provided to businesses and challenges being experienced by microfinance institutions in general and your institution in particular.
Use of information	I will use information from the interview as part of my doctoral thesis, which I expect to complete by February, 2017. Information from the interview may also be used in journal articles and conference presentations before and after this date. At all times, I will safeguard your identity by presenting the information in a way that will not allow you to be identified unless you consent to be identified.
Upsetting issues	It is unlikely that this research will raise any personal or upsetting issues but if it does you may wish to contact your local Community Health Centre (phone number: +233 302 776 111)
Storage of information	I will keep hardcopy notes and recordings of the interview in a locked cabinet at the researcher's office at the University of New England's School of Business. Any electronic data will be kept on a password protected computer in the same School. Only the research team will have access to the data.
Disposal of information	All the data collected in this research will be kept for a minimum of five years after successful submission of my thesis, after which it will be disposed of by deleting relevant computer files, and destroying or shredding hardcopy materials.
Approval	This project has been approved by the Human Research Ethics Committee of the University of New England (Approval No HE16_006, Valid to 16/02/2017).
Contact details	Feel free to contact me with any questions about this research by email at pnanedo@une.edu.au . You may also contact my supervisors'. My Principal supervisors name is Professor Gabriel Donleavy and he can be contacted at g.don@une.edu.au or 02 6773 4523 and my Co-supervisors name is Doctor Michelle Goyen and she can be contacted at mgoyen@une.edu.au or 02 6773 4594.
Complaints	Should you have any complaints concerning the manner in which this research is conducted, please contact the local contact or the Research Ethics Officer at: James Hottor 26 2nd Macroni Close Ogbojo, Accra.



UNE Business School
Armidale NSW 2351, Australia
Phone 02 6773 3453
Fax 02 6773 3596

**INFORMATION SHEET
FOR MFI MANAGER
PARTICIPANTS**

Tel:+233 242 231 139.

jameshottor@netscape.net

Mrs Jo-Ann Sozou
Research Services
University of New England
Armidale, NSW 2351
Tel: (02) 6773 3449
Email: ethics@une.edu.au

Thank you for considering this request and I look forward to further contact with you.
regards,

Patience Nanedo

Appendix 3: Information Sheet for Microfinance Expert/Key Informants



UNE Business School
Armidale NSW 2351, Australia
Phone 02 6773 3453
Fax 02 6773 3596

INFORMATION SHEET FOR MFI EXPERT PARTICIPANTS

I wish to invite you to participate in my research project, described below.

My name is Patience Eyra Nanedo and I am conducting this research as part of my PhD in the School of Business at the University of New England. My supervisors are Professor Gabriel Donleavy and Doctor Michelle Goyen.

Research Project	The title of the project: Microfinance in Ghana: Promoting SMEs Financial Independence
Aims of the research	The research aims to explore the role of microfinance in Ghana in promoting small businesses financial independence.
Interview	I would like to conduct a face-to-face interview with you at your office. The interview will take approximately one hour. With your permission, I will make an audio recording of the interview to ensure that I accurately recall the information you provide. Following the interview, a transcript will be provided to you if you wish to see one.
Confidentiality	Any information or personal details gathered in the course of the study will remain confidential. No individual will be identified by name in any publication of the results unless they give consent to do so. All names will be replaced by pseudonyms; this will ensure that you are not identifiable. If you agree I would like to quote some of your responses. This will also be done in a way to ensure that you are not identifiable unless you consent to being identified by your name.
Participation is Voluntary	Please understand that your involvement in this study is voluntary and I respect your right to withdraw from the study at any time. You may discontinue the interview at any time without consequence and you do not need to provide any explanation if you decide not to participate or withdraw at any time.
Questions	The interview questions will not be of a sensitive nature: rather they are general, aiming to enable you to enhance my knowledge on the evolution of microfinance in Ghana and Africa. The questions are focused on microfinance in practice, challenges and prospects of the industry in Africa and Ghana. You will have the freedom to expand my knowledge on microfinance services in Ghana, the different categories of microfinance institutions available, the regulatory and policy environment for microfinance activities in Ghana; challenges and future outlook of microfinance in Ghana. You

	will also have the opportunity to give your own additional comments on the evolution of microfinance in Ghana and its future prospects in promoting small enterprise financial independence.
Use of information	I will use information from the interview as part of my doctoral thesis, which I expect to complete by February, 2017. Information from the interview may also be used in journal articles and conference presentations before and after this date. At all times, I will safeguard your identity by presenting the information in a way that will not allow you to be identified unless you consent to be identified.
Upsetting issues	It is unlikely that this research will raise any personal or upsetting issues but if it does you may wish to contact your local Community Health Centre (phone number: +233 302 776 111)
Storage of information	I will keep hardcopy notes and recordings of the interview in a locked cabinet at the researcher's office at the University of New England's School of Business. Any electronic data will be kept on a password protected computer in the same School. Only the research team will have access to the data.
Disposal of information	All the data collected in this research will be kept for a minimum of five years after successful submission of my thesis, after which it will be disposed of by deleting relevant computer files, and destroying or shredding hardcopy materials.
Approval	This project has been approved by the Human Research Ethics Committee of the University of New England (Approval No. HE16_006, Valid to 16/02/2017).
Contact details	Feel free to contact me with any questions about this research by email at pnanedo@une.edu.au .
	You may also contact my supervisors'. My Principal supervisors name is Professor Gabriel Donleavy and he can be contacted at g.don@une.edu.au or 02 6773 4523 and my Co-supervisors name is Doctor Michelle Goyen and she can be contacted at mgoyen@une.edu.au or 02 6773 4594.
Complaints	Should you have any complaints concerning the manner in which this research is conducted, please contact the local contact or the Research Ethics Officer at: James Hottor 26 2nd Macroni Close Ogbojo, Accra.



UNE Business School
Armidale NSW 2351, Australia
Phone 02 6773 3453
Fax 02 6773 3596

**INFORMATION SHEET
FOR MFI EXPERT
PARTICIPANTS**

Tel: +233 242 231 139.

jameshottor@netscape.net

Mrs Jo-Ann Sozou
Research Services
University of New England
Armidale, NSW 2351
Tel: (02) 6773 3449
Email: ethics@une.edu.au

Thank you for considering this request and I look forward to further contact with you.
regards,

Patience Nanedo

Appendix 4: Letter of Introduction to Microfinance Institutions



School of Business, Accounting and Finance
Professor Gabriel Donleavy
Armidale NSW 2351
Australia
Phone +61 2 6773 4523
Fax 61 2 6773 3596
g.don@une.edu.au
www.une.edu.au

February 9, 2016

The Manager/Owner

Dear Sir/Madam,

RE: PERMISSION TO UNDERTAKE RESEARCH IN YOUR ORGANISATION

Patience Nanedo is a Doctoral Candidate at the University of New England, Australia. As part of her research project, she is exploring microfinance in Africa with particular reference to Ghana. We are requesting permission to carry out the research in your organisation.

The aim of the research is to explore the role of microfinance in Ghana in promoting micro, small and medium enterprises financial independence. Patience is also keen on finding out the problems, challenges microfinance institutions face in the delivery of their services as well as the impact of microfinance on businesses in Ghana. She will be interviewing management members of your organisation.

Patience has a two member supervision team, Professor Gabriel Donleavy and Dr Michelle Goyen, both academics at the University of New England. Professor Donleavy can be contacted by email at g.don@une.edu.au or by phone on +61 2 6773 4523 and Dr Goyen by email on mgoyen@une.edu.au. Patience can be contacted by email at pnanedo@myune.edu.au and on 0206357393

Your participation in this research will enable Patience to explore microfinance in Ghana with the view of providing a wealth of information that can be used for further research to promote the sector and the businesses they serve. Thank you for considering this request and we look forward to receiving a favourable response from you.

Regards



Gabriel Donleavy
On Behalf of Patience Nanedo
Accounting and Finance
School of Business
University of New England
Armidale NSW 2351, Australia

Appendix 5: Letter of Introduction to the Bank of Ghana



School of Business, Accounting and Finance
Professor Gabriel Donleavy
Armidale NSW 2351
Australia
Phone +61 2 6773 4523
Fax 61 2 6773 3596
g.don@une.edu.au
www.une.edu.au

March 23rd, 2016

The Head
Secretary Department
Bank of Ghana
1 Thorpe Road
P. O. Box GP 2674
Accra.

Dear Sir/Madam,

RE: PERMISSION TO UNDERTAKE RESEARCH IN YOUR ORGANISATION

Patience Nanedo is a Doctoral Candidate at the University of New England, Australia. As part of her research project, she is exploring microfinance in Africa with particular reference to Ghana. We are requesting permission to carry out the research in your organisation.

The aim of the research is to explore the role of microfinance in Ghana in promoting micro, small and medium enterprises financial independence. Patience is also keen on finding out the problems, challenges microfinance institutions face in the delivery of their services as well as the impact of microfinance on businesses in Ghana.

Patience has a two member supervision team, Professor Gabriel Donleavy and Dr Michelle Goyen, both academics at the University of New England. Professor Donleavy can be contacted by email at g.don@une.edu.au or by phone on +61 2 6773 4523 and Dr Goyen by email on mgoyen@une.edu.au. Patience can be contacted by email at pnanedo@myune.edu.au.

Your participation in this research will enable Patience to explore microfinance in Ghana with the view of providing a wealth of information that can be used for further research to promote the sector and the businesses they serve. Thank you for considering this request and we look forward to receiving a favourable response from you.

Regards



Professor Gabriel Donleavy
cc: Dr. Michelle Goyen
On Behalf of Patience Nanedo
Accounting and Finance
School of Business
University of New England
Armidale NSW 2351, Australia

Appendix 6: Consent Form for Participants

CONSENT FORM FOR PARTICIPANTS

Research Project: Microfinance in Ghana: Promoting SMEs Financial Independence

I,, have read the information contained in the Information Sheet for Participants and any questions I have asked have been answered to my satisfaction. Yes/No

I agree to participate in this activity, realising that I may withdraw at any time. Yes/No

I agree that research data gathered from me for the study may be quoted and published Yes/No

Either

so long as my name is not explicitly quoted without my separate written and signed agreement

Or Yes/No

I agree to be identified in this research. Yes/No

I agree to the interview utilising audio recording and transcribed. Yes/No

I would like to receive a copy of the transcription of the interview. Yes/No

I am older than 18 years of age. Yes/No

.....
Participant Date

.....
Patience Nanedo Date

Appendix 7: Interview Guides

INTERVIEW GUIDE: MICROFINANCE INSTITUTION MANAGERS INTERVIEW

Time at beginning of interview..... Time at end of interview.....

Date of interview.....

Location Name

SECTION 1: BASIC DETAILS OF THE MICROFINANCE INSTITUTION

1. Name of the institution
2. Year microfinance institution was established
3. Year microfinance operations begun
4. Legal form of the microfinance institution
5. Number of loan accounts.....
6. Number of currently active borrowers.....
7. Number of savings accounts.....
8. Total number of members.....
9. Total number of groups.....
10. Total number of staff members.....

SECTION 2: FINANCIAL PERFORMANCE

1. What was your gross loan portfolio in cedis for the financial year ending 2014/15?
2. What was your total assets for the year ending 2014/15 and 2015/2016?
3. What was your total liabilities?
4. What was your total return on equity?
5. What was your total return on assets for the year ending 2014/15 and 2015/2016?
6. What was your average loan size?

SECTION 3: SOURCES OF MFI FINANCING

1. What is your main source of funds for lending to your clients?
2. Which of these sources is your major source of financing?
3. Do you receive grants and/or subsidies for your revolving fund?

If yes, how important is this source of funding in your financing mix?

4. How do you finance your operational expenses?
5. What is the percentage of your operating expenses to your total loan portfolio at the end of 2014?
6. What types of savings and investment products are on offer to your clients?
7. Do you make compulsory savings a requirement for giving out loans?

SECTION 4: SUPPORT TO SMEs

1. What types of clients do you have?
2. What is your main area of intervention (rural, urban or both)?
3. Which category of clients (enterprises) does your institution support?
4. Which development objectives does your institution specifically pursue through its provision of financial and nonfinancial products and services?
5. In deciding to give out loans to SMEs, what factors do you usually take into account?
6. Which of these factors is the MOST important to your MFI and why?
7. What is the extent of your operations (national, regional or specific districts)?
8. How many clients/enterprises/groups have you supported in the last two years?

9. What is the current effective interest rate of your main loan product?
10. How do you determine your effective interest rates?

SECTION 5: USE OF LOANS BY CLIENTS

1. What are the typical reasons for which your clients borrow money?
 1. What measures have you put in place to ensure that money borrowed is used for the intended purpose?

SECTION 6: LOAN RECOVERY STRATEGIES

1. What is your current loan repayment/recovery rate?
2. What is your average annual loan default rate?
3. How do you deal with clients/customers who default in loan repayments?

SECTION 7: ENTERPRISE GROWTH AND DEVELOPMENT

1. How many businesses have you supported since you started operations?
2. How many of these small businesses would you say have been very successful?
3. What general reasons do you think account for their success?
4. For those that have not fared well, what do you think could have been the general reasons for their failure?
5. How do you track the performance of SMEs that you support?
6. How is the information on your clients' performance captured and stored?

SECTION 8: GOVERNMENT REGULATIONS AND MARKET INFRASTRUCTURE

1. What external factors in the economy affect the development of MFIs in Ghana?

2. Do government regulations create a favourable operating environment for MFIs in Ghana
3. What are these regulations?
4. What market infrastructure (e.g. credit bureaus) are available for the proper functioning of MFI?
5. To what extent does competition among MFI foster or hinder the development of the sector?

SECTION 9: CLIENTS/CUSTOMER RELATIONS

1. Does your MFI have a grievance procedure for clients that is explained to them?
2. Do you/your credit officers explain customer's rights, responsibilities and the collections process before the loan is disbursed?
3. Do you ensure transparent communication with clients about prices, terms and conditions of financial products?

SECTION 10: KNOWLEDGE OF OTHER FINANCIAL INSTITUTIONS

38. Are you aware of microfinance activities in other parts of the country?
 39. How similar or different are microfinance activities in other parts of the country?
 40. Are you aware of microfinance activities in other parts of West Africa?
 41. Please explain the extent to which the microfinance activities are similar or different?
 42. Are you a member of any MFI Apex body? Yes [] No []
- If yes, what is the name of the apex body?
43. To what extent do you interact with other MFIs in the country?
 41. To what extent do you interact with other MFIs in West Africa or elsewhere?

SECTION 11: NON-FINANCIAL SUPPORT

1. What additional services do you provide to your clients as part of your lending program?

2. List as many as you can?
 - a. Business advisory services
 - b. Training programs
 - c. Insurance programs
 - d. Business development services

SECTION 12: CHALLENGES OF MFI OPERATIONS

1. What challenges and threats are faced by the microfinance business?
2. How are you dealing with these challenges?
3. What are the major risks involved in financing SMEs?
4. How do you minimize these risks?
5. In what ways do you think MFIs can better serve SMEs in the country?

SECTION 13: MANAGEMENT INFORMATION SYSTEMS

1. What systems do you use in the management of the savings program?
2. What systems do you use in the management of the lending program?
3. Please outline the benefits and demerits of various systems you have employed since inception of the:
 - a. savings programme
 - b. lending programme
4. What criteria do you use to track the activities of depositors and investors?
 - a. Computerised system
 - b. Manual tracking
 - c. Field Officers (Please explain)

Thank you for Participating

KEY INFORMANT INTERVIEW GUIDE

Time at beginning of interview..... Time at end of Interview.....

- A. Date of Interview:
- B. Participant Code:
- C. Participant Gender:
- D. Participant's Representative Apex or Institution:
- E. Position Description of Participant:

GENERAL PERFORMANCE OF MFIs & SMEs

1. In your view what is the main purpose of MFIs in Ghana?
2. In your view to what extent is this purpose being pursued by MFIs in Ghana?
3. In opinion, how do you view the performance of MFIs in fulfilling their roles and responsibilities so far as financing SMEs is concerned?
4. Are MFIs able to provide adequate financial support to ensure sustainable growth of SMEs?
5. Do you think MFIs are able to provide financial and non-financial support to ensure sustainable growth of SMEs?
6. What do you consider as factors affecting the effectiveness of MFIs in fulfilling their roles and responsibilities?
7. In what ways can MFIs become more effective in promoting growth of SMEs in Ghana?
8. What do you think are the major factors hindering the growth of SMEs in Ghana?

SOURCES OF FUNDS TO MFIs IN GHANA

9. What are the sources of funds for MFIs in Ghana?

RULES AND REGULATIONS

10. Who sets the interest rates charged by MFIs?
11. To what extent are the rules and regulations governing MFIs activities enforced?
12. What role does your office play in enforcing these rules and regulations?
13. To what extent are these rules complied with by MFIs in Ghana?
14. Have there been cases of non-compliance with the rules?
15. How do you deal with non-complying MFIs in the country?
16. What monitoring mechanisms do you have to ensure that the rules are complied with?

COMPLAINS FROM MFIs and SMEs

17. Are there any complaints by MFIs regarding government policies and laws regarding their operations?
18. Do you consider these complaints as legitimate? Please explain.
19. Are there complaints about the SME clients of MFIs?

INSTITUTIONAL SUPPORT TO MFIs

20. Which policies do consider as providing enabling environment for the operation of MFIs?
21. Are there any government policies that you consider not effective in supporting MFIs operation? Are there any plans to review these policies?
22. Is your unit adequately equipped to support the MFIs to become more effective?
23. Are there systems to ensure effectiveness of MFIs in promoting SMEs growth?

INSTITUTIONAL INTERACTION AND COOPERATION

24. In what ways do you interact with MFIs?
25. In what ways do you interact with SMEs to meet their needs?
26. How often do you interact with MFIs?
27. How often do you interact with SMEs?
28. How effective are these meetings?

FUTURE OUTLOOK OF MFIs AND SMEs IN GHANA

29. What do you think the MFIs and SMEs sector of the economy will look like in 5 years' time?
30. What plans do you have in place to achieve this goal?
31. What is your opinion on recent occurrences in the microfinance industry?

ENTERPRISE INTERVIEW GUIDE

Time at Beginning of interview..... Time at end of interview

Date of interview Name of interview location

Name of SME Industry Sector:

Code Number of Participant:

Characteristics of SMEs

1. Gender of Participant

Male []

Female []

2. Age of participant []

3. Marital Status of participant

Married [] Remarried [] Never Married []

4. Number of Children

5. Number of people in household

6. Years of experience in this business as an owner.....AND/OR manager.....

1-3 yrs [] 4-6 yrs [] 7-9 yrs [] 10 and above [] No experience []

7. What is the age of your primary line of business?

8. Number of Businesses owned?

9. Level of Education?

Primary [] Secondary [] Post-Secondary [] Please Specify..... University []

Business Characteristics

10. Legal Form of Business?

Sole proprietor [] Partnership [] Private Limited []

11. How long have you been running as a business?

12. Is your business registered? Yes [] No [] Please identify the registering body

Sources of Enterprise Financing

13. How did you fund the start-up of your business? Please identify all the sources of finance you used to support your business.

14. Did you receive any loan from any MFIs? No [] Yes [] If yes, name the MFIs

15. How did you get to know of the services of the MFIs that you have sought loans from?

16. What was your primary motive for seeking loans from the MFI?

17. When did you apply for a microfinance loan?

18. How long did it take to receive the loan?

19. What was the interest/ cost of the loan?

Loan Repayment Period

- 20. How long did it take to pay back the loan?
- 21. Where did/will you obtain funds to pay off the loans?
- 22. What difficulties did you face in paying back the loan?
- 23. What accounted for the difficulties in paying back the loan?

Other sources of finance

- 24. Did you have any savings account with the MFI
- 25. Did your savings record influence your ability to access loans from the MFI
- 26. Have you tried to receive financial support from other sources before going to the MFI? If yes, please identify all of them.....
- 27. Why did you seek financial support from these other sources?
- 28. Have you tried to receive financial support from other sources after receiving loans from MFI? If yes, please identify all the sources
- 29. Did you succeed in receiving financial support from the sources identified?

Enterprise Sustainability and Financial Independence

- 30. How many employees did you have before receiving the loan?
- 31. How many employees did you have after you received the loan?
- 32. What was your total sales before receiving the loan?
- 33. What was your average total sales after receiving the loan?
- 34. On average what was your monthly net Profit (before tax) before receiving the loan?
- 35. On average what was your monthly net Profit (after tax) after receiving the loan?
- 36. Did you purchase any new equipment or materials for use in the business before receiving the loan? Yes [] No []
 - a. If yes, please explain?
 - b. If no, please explain?

37. Did you purchase any new equipment or materials for use in the business after receiving the loan? Yes [] No [] If yes, please explain

38. Have you introduced any new production methods, techniques or strategies after you received the loan? Yes [] No [] If yes please explain

39. Did you produce/add a new line of products after receiving the loan?

40. Did you see any significant difference in your business after receiving support from the microfinance institution in relation to

a. Liquidity

b. Profitability

c. Revenue Growth

d. Employment Growth

e. Growth in Assets

41. Do you see any differences between your business and household after receiving microfinance support?

42. Did your business expand in any way after receiving microfinance support?

43. Does your business have a deposit/savings account with the microfinance institution?

44. Does your business use other products/services provided? Please mention as many as you can remember?

45. Can you provide documentary evidence on the financial state of your business before and after you received the loan from the MFI.

Non-Financial Support Services

46. Did you receive any non-financial support from the microfinance institution?

Yes [] No [] If yes please identify all that apply

Training in the areas of:

a. Business Planning

b. Financial Management

c. Book Keeping

d. Human Resource Management

e. Any other

47. What other non-financial support services did you receive?

48. What non-financial support services do you need to improve your enterprise performance/sustainability?

Barriers to acquisition of loans from MFIs

49. On a scale of 1 to 10 where 1 is very bad and 10 is excellent, what is your perception of the quality of services provided to you by your microfinance institution?

50. Did you encounter any difficulty in acquiring loans from MFIs?

a. If yes, name the difficulty/s?

b. If no, name the strengths you identified?

51. Will you seek financial support from MFIs in the future? If yes, why? If no, why not?

Future Orientation

52. What plans do you have for this enterprise?

53. Do you have any enterprise growth plans? If yes, what are they?

54. Do you plan to seek for loans from other sources in the future? Please name these sources

Thank You for Participating

Appendix 8: Bank of Ghana Rules and Guidelines

REQUIREMENTS FOR MICROFINANCE INSTITUTION OPERATING LICENCE

Application for a licence to operate the business of microfinance, money lending and FNGO shall be in writing and addressed to the Head, Other Financial Institutions Supervision Department, Bank of Ghana, Cedi House, Accra. The application should indicate which of the three tiers of licences is being applied for.

1. Restricting Eligibility to Licensed Corporate Bodies

No person other than a body corporate incorporated in Ghana shall be eligible to apply for a licence to carry on the business of deposit taking microfinance institution.

2. No person shall carry on the business of micro finance unless the Bank of Ghana licenses it.

Restrictions on shareholding

i) Shareholding of deposit taking microfinance institutions such as microfinance companies, Susu companies, (TIER 2 institutions) shall be restricted to only Ghanaians.

ii) Shareholding in non-deposit taking microfinance institutions such as money lenders and Financial Non-Governmental Organisations (FNGOs) (TIER 3 institutions) may be exclusively Ghanaian, exclusively foreign or jointly Ghanaian and foreign. Foreign capital should be registered at the Ghana Investment Promotion Centre.

iii) There shall be at least two (2) shareholders with none of the shareholders holding not less than 10% of the total number of shares. The Bank of Ghana has the right to request for dilution of the shareholding.

3. Interview

The Other Financial Institutions Supervision Department located at the Cedi House [Bank of Ghana Annex] may first interview the applicant. A licensing fee of GH¢1,000.00 [one thousand Ghana Cedis] or so determined by Bank of Ghana, would be paid if the application is approved for the issuance of the licence.

4. Application for Licence

Every application for a licence shall be made in writing to the Head, Other Financial Institutions Supervision Department Bank of Ghana, Accra for consideration and shall be accompanied by:

- [a] A certified true copy of the Certificate of Incorporation and company's Regulations or other Instrument, relating to the proposed business, or by or under which any person proposing to carry on such business was established. The registered name of the company should include either '**Microfinance, Money Lending, or FNGO**' as the case may be or the type of licence being applied for.
- [b] full particulars of and detailed and clear definition of activities it proposes to carry out.
- [c] details of registered place of business, principal place of business accessible to the public and suitable for the services contemplated and a description of other places where it proposes to do business and the areas it proposes to serve.
- [d] Names, addresses, occupations and corporate affiliations of persons who hold or would hold significant shareholdings directly or indirectly in the proposed venture and the respective values of such holdings or proposed holdings.

5. **Minimum Paid-Up Capital**

Tier 2 and 3 Companies

All Tier 2 and 3 entities (comprising microfinance companies and moneylending companies) excluding FNGOs shall require not less than GH¢2,000,000 [Two million Ghana cedis only] as minimum paid capital.

All FNGOs shall require not less than GH¢300,000 [Three hundred thousand Ghana cedis only] as owners' contribution or donor funds (minimum capital) and shall provide evidence of same.

NOTE: Not more than 25% of the initial paid-up capital shall be invested on property, plant and equipment (capital expenditure). That is at least 75% of the initial paid up capital shall be in liquid cash resources to support operations.

6. **Approval in principle**

The Bank of Ghana may issue an 'approval-in-principle' for a period of six months to the applicant on such terms and conditions as it may consider necessary and appropriate, if it is satisfied that:

[a] the applicant would carry on the business with integrity, prudence and the required professional competence; and

[b] the applicant has the capacity to raise the initial paid-up capital required to hold a licence.

NOTE: Approval in Principle is a conditional approval and DOES NOT CONSTITUTE an operating licence.

7. **Pre-operating Conditions**

The Central Bank may issue the final approval and licence to the applicant after satisfying itself that the following pre-licensing conditions have been met;

i. Minimum paid-up capital – the company has raised the minimum paid up capital

ii. Premises: The company

[a] has provided evidence of title deeds/lease agreements

[b] has approvals by relevant authorities

[c] has adequate business premises, staff operating area, ventilation, lighting, etc.

[d] Display of name of company as contained in the certificate of incorporation and logo where appropriate

iii. Has demonstrated security of the premises, including adequacy of alarm systems, fire extinguishers, vaults or safes, etc.

iv. Has in place up to date insurance covers – fire, burglary, fidelity guarantee, cash, etc.

v. Has in place up to date serviced fire extinguishers supported by a fire certificate.

- [e] Profile of the corporate shareholder(s) including its directors and shareholders and three (3) years audited accounts of the company.
- [f] Duly completed Personality Note Form (PNF) by at least five [5] directors (two (2) of whom should be independent directors), shareholders and key management staff of the said business, The majority shareholder should not be the board chairman and the Chief Executive Officer of the company. PNF can be downloaded from the Bank of Ghana website

(www.bog.gov.gh/supervisionandregulation/licensingandpolicyguidelines)
- [g] Tax Clearance Certificate of Directors, shareholders and key management personnel.
- [h] Curriculum Vitae of Directors, Shareholders and Key Management Personnel.
- [i] Financial data including financial statement and feasibility reports which should contain among others.
 1. a business plan and financial projections (income statement, balance sheet and cashflow) for the first five (5) years of operations.
 2. Details of assumptions upon which the financial projection has been made.
 3. Objectives and aims of the proposed Microfinance Institution.
 4. Justification for the establishment of the Microfinance Institution
 5. Organisational structure of the company setting out in detail the functions and responsibilities of the top management team.
- [j] Other information that relates to the viability of the business.
- [k] Information on capital and documentary evidence of sources of funds;
- [l] Information on other matters that applicant considers relevant for the determination of the application and
- [m] Such other additional information or particulars which the Bank of Ghana considers relevant or may require for the determination of the application and
- [n] Evidence of payment of a non-refundable processing fee of GH¢500.00 or as determined by the Bank of Ghana.
- [o] Evidence of request for Police clearance for shareholders, directors and key management staff.

PLEASE NOTE that submission of the above requirements does not constitute an APPROVAL.

- vi. Possesses Operational plans and policies approved by the Board.
- vii. Has accounting and operating manuals, appropriate management information systems, (computers, appropriate software), internal controls and training manual etc.
- viii. Has in place adequately trained and sufficiently experienced staff as well as competent key personnel;
- ix. Has submitted its first year pre - operating financial statement of affairs and budget.
- x. The minimum paid up capital/shareholders' funds of the relevant category being applied for is acceptable and the source is verifiable and found to be satisfactory to the Bank of Ghana.
- xi. Has met any other conditions imposed by the Bank of Ghana

8. Fees

Tier 2 and 3 microfinance institutions shall pay the following fees, or as may be determined by Bank of Ghana:

- a. Non-Refundable Processing fee: **GH¢500.00**
- b. Non-Refundable Licensing fee: **GH¢1,000.00**
- c. Annual licence renewal fee: **GH¢500.00 which should be paid by January 31 of each year.**

TIER 4 OPERATORS

- 1. Application and Licensing Procedure

Tier 4 operators shall:

- i. Obtain and complete a preliminary registration form for licensing as a Susu collector or money lender (individuals or enterprises)
- ii. Register as a member or affiliate with the umbrella organization for Susu collectors or money lenders
- iii. Submit the completed preliminary form, together with a personality profile form endorsed by the executives of the umbrella association to the Bank of Ghana.
- iv. Be licensed after obtaining satisfactory reports on background checks undertaken.

- 2. Fees

- i. Application processing fee: **GH¢100.00**
- ii. Licensing fee: **GH¢500.00**
- iii. **Annual licence fee GH¢500.00**

ENTITIES AND INDIVIDUALS ENGAGED IN THE ABOVE ACTIVITIES ARE REQUIRED TO JOIN AN UMBRELLA ASSOCIATION.

9. CHANGES IN LICENSING CONDITIONS

- [a] It should be noted that the above conditions for licence are subject to review, and could affect an application in process.
- [b] The Bank of Ghana relies on other agencies both local and external in the processing of applications, and this could cause delays in the processing of applications.
- [c] Information submitted by applicants shall be subject to verification by the Bank of Ghana.

Please note that:

The Bank of Ghana may revoke a licence granted to a company if it is satisfied that:

- (a) it has, in connection with the application for the licence, been provided with false, misleading or inaccurate information by or on behalf of the applicant company or that material information has been suppressed, or
- (b) the company has failed to fulfil or comply with the terms and conditions stipulated in the licence, or
- (c) the company has failed to commence business within one year from the date the license was issued.
- (d) licences granted by Bank of Ghana are **NOT** transferable or assignable.

FOR FURTHER INFORMATION PLEASE CONTACT:

**THE HEAD.
OTHER FINANCIAL INSTITUTIONS SUPERVISION DEPARTMENT
BANK OF GHANA
8TH FLOOR CEDI HOUSE
P.O.BOX 2674
ACCRA**

**TEL: 0302-665252
FAX : 0302 662038**

EMAIL : ofisd@bog.gov.gh

Website : www.bog.gov.gh

Source: Bank of Ghana Public Document

BANK OF GHANA

NOTICE TO RURAL BANKS, MICROFINANCE INSTITUTIONS AND THE PUBLIC

NOTICE NO. BG/GOV/SEC/2015/08

RURAL BANKS AND MICROFINANCE INSTITUTIONS: REVISION OF THE MINIMUM PAID-UP CAPITAL

Further to Bank of Ghana Notice No. BG/GOV/SEC/2013/05 DATED 30th August 2013 and Notice No. BG/GOV/SEC/2013/08 DATED 30th December, 2013, the Bank of Ghana announces for the information of Rural/Community Banks and Microfinance Institutions (TIER 2 and Tier 3 Microfinance Institutions), the revised minimum capital requirement for the industry applicable to both existing and new entrants, in accordance with Section 6(2) of the Banking Act, 2004 (Act 673) and Section 11 of the Non-Bank Financial Institutions Act, 2008 (Act 774) as follows:

1.0 RURAL/COMMUNITY BANKS

- 1.1 Minimum paid-up capital requirement for obtaining a Rural/Community banking licence is GH¢1,000,000.00 (One Million Ghana Cedis).
- 1.2 All existing Rural and Community banks as well as Rural and Community banks which have been granted provisional approval by the Bank of Ghana are advised to take steps to enhance their capital, to meet the revised minimum paid-up capital requirement.
- 1.2 New applicants or entrants into the industry should note and comply with the new minimum paid-up capital requirement.

1.4 TRANSITIONAL ARRANGEMENTS

All licensed Rural/Community Banks are to raise their minimum paid-up capital to GH¢300,000.00 (Three Hundred Thousand Ghana Cedis) by 31st December 2015, GH¢500,000.00 (Five Hundred Thousand Ghana Cedis) by 31st December 2016 and GH¢1,000,000.00 (One Million Ghana Cedis) by 31st December 2017.

2.0 TIER 2 AND TIER 3 MICROFINANCE INSTITUTIONS

- 2.1 The minimum paid-up capital requirement for obtaining a Tier 2 (Deposit Taking) and Tier 3 (Non-Deposit Taking) Microfinance Institution Licence is GH¢2,000,000.00 (Two Million Ghana Cedis).
- 2.2 Microfinance Institutions which have been granted provisional approval by the Bank of Ghana, shall comply with a minimum paid-up capital requirement of GH¢500,000.00 (Five Hundred Thousand Ghana Cedis) and submit a credible capital plan to raise the minimum paid-up capital to GH¢2,000,000.00 (Two Million Ghana Cedis) in accordance with the transitional arrangements set out in paragraph 2.5 of this Notice.
- 2.3 Applicants who have not been granted provisional approval and new applicants shall comply with the new minimum paid-up capital requirement of GH¢2,000,000.00 (Two Million Ghana Cedis) with immediate effect.
- 2.4 Evidence of capital contribution shall be subject to verification by the Bank of Ghana before inclusion in the paid-up capital and registration with the Registrar-General's Department.

2.5 TRANSITIONAL ARRANGEMENTS

- i. All licensed Tier 2 Microfinance Institutions are to raise their minimum paid-up capital to GH¢250,000.00 (Two Hundred and Fifty Thousand Ghana Cedis) by 30th July 2015, GH¢500,000.00 (Five Hundred Thousand Ghana Cedis) by 30th June 2016 and GH¢2,000,000.00 (Two Million Ghana Cedis) by 30th June 2018.
- ii. All licensed Tier 3 Microfinance Institutions are to raise their minimum paid up capital to GH¢ 150,000.00 (One Hundred and Fifty Thousand Ghana Cedis) by 31st December 2015, GH¢300,000.00 (Three Hundred Thousand Ghana Cedis) by 31st December 2016 and GH¢2,000,000.00 (Two Million Ghana Cedis) by 31st December 2018.

3.0 FINANCIAL NGOS

The minimum paid-up capital of Financial NGOs remains at GH¢300,000.00 (Three Hundred Thousand Ghana Cedis).

- 4.0 Microfinance Institutions which fail to comply with the revised capital requirements shall have their operating licenses revoked.

Shareholders, Directors and Operators of Rural/Community Banks, Microfinance Institutions, prospective investors/applicants and the general public are to take note of the above and be guided accordingly.

This notice supersedes earlier notices issued in relation to the minimum paid-up capital requirements for Rural/Community Banks and Microfinance Institutions.

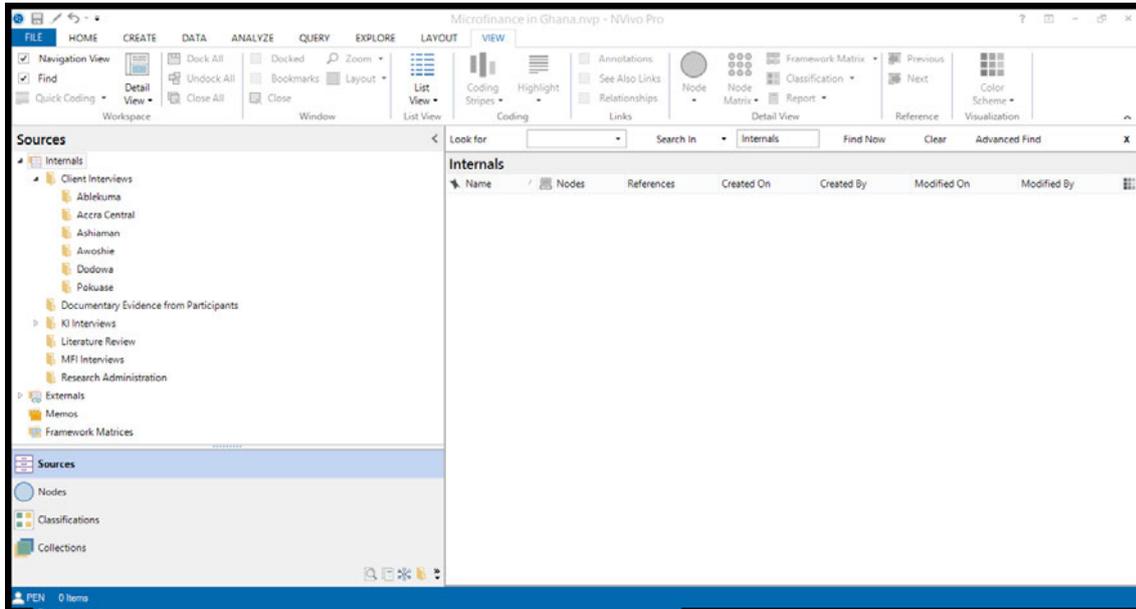
CAROLINE OTOO (MRS)
THE SECRETARY

3RD JULY, 2015

Appendix 9: Excerpts showing Analysis with NVivo

The screen shots below show excerpts of analysis with NVivo

Appendix 9-1 Sources Coded in Analysis



Appendix 9-2 Microfinance Institution Interviews

The screenshot shows the NVivo Pro interface with the 'MFI Interviews' table populated. The table lists 20 individual interview entries with their respective node counts, reference counts, creation dates, and user information.

Name	Nodes	References	Created On	Created By	Modified On	Modified By
MFIADH067	10	20	20/08/2016 2:50 A	PEN	24/08/2016 12:24	PEN
MFIADV068	6	10	20/08/2016 2:50 A	PEN	20/08/2016 6:53 A	PEN
MFIADW061	10	14	20/08/2016 2:50 A	PEN	27/09/2016 6:37 P	PEN
MFIAX072	5	7	20/08/2016 2:50 A	PEN	20/08/2016 2:50 A	PEN
MFIQA063	6	8	20/08/2016 2:50 A	PEN	24/08/2016 12:57	PEN
MFIGAP071	5	6	20/08/2016 2:50 A	PEN	22/08/2016 4:05 A	PEN
MFIGST075	24	36	20/08/2016 2:50 A	PEN	2/10/2016 4:47 A	PEN
MFIQSD070	23	48	20/08/2016 2:50 A	PEN	23/08/2016 2:32 A	PEN
MFIQPP069	0	0	20/08/2016 2:50 A	PEN	20/08/2016 2:50 A	PEN
MFIQAN076	2	3	20/08/2016 2:50 A	PEN	23/08/2016 5:09 A	PEN
MFIQAT064	0	0	20/08/2016 2:50 A	PEN	23/08/2016 5:09 A	PEN
MFIREF065	5	9	20/08/2016 2:50 A	PEN	23/08/2016 6:18 A	PEN
MFIUK062	14	17	20/08/2016 2:50 A	PEN	28/09/2016 12:01	PEN
MFIUN074	2	2	20/08/2016 2:50 A	PEN	23/08/2016 12:12	PEN
MFIWLK073	5	6	20/08/2016 2:50 A	PEN	20/08/2016 2:50 A	PEN
MFIWWB066	0	0	20/08/2016 2:50 A	PEN	20/08/2016 2:50 A	PEN

Appendix 9-3 Excerpt of All Client Interviews

Microfinance in Ghana.nvp - NVivo Pro

FILE HOME CREATE DATA ANALYZE QUERY EXPLORE LAYOUT VIEW

Navigation View Find Quick Coding Detail View Workspace Dock All Undock All Close All Docked Bookmarks Close Window Zoom Layout List View List View Coding Stripes Highlight Coding Links Annotations See Also Links Relationships Node Node Matrix Framework Matrix Classification Report Previous Next Reference Visualization Color Scheme

Collections

Look for Search In All Client Interv Find Now Clear Advanced Find

All Client Interviews

Name	In Folder	Created On	Created By	Modified On	Modified By
ABLSF021	Internals\Client Interviews\Ablekuma	20/08/2016 2:36 AM	PEN	11/09/2016 2:47 AM	PEN
ABLSF022	Internals\Client Interviews\Ablekuma	20/08/2016 2:36 AM	PEN	11/09/2016 2:36 PM	PEN
ABLSF024	Internals\Client Interviews\Ablekuma	20/08/2016 2:36 AM	PEN	11/09/2016 2:57 PM	PEN
ABLSF025	Internals\Client Interviews\Ablekuma	20/08/2016 2:36 AM	PEN	11/09/2016 11:29 PM	PEN
ABLSF026	Internals\Client Interviews\Ablekuma	20/08/2016 2:36 AM	PEN	11/09/2016 11:29 PM	PEN
ABLSM023	Internals\Client Interviews\Ablekuma	20/08/2016 2:36 AM	PEN	29/08/2016 10:10 PM	PEN
ABLSM027	Internals\Client Interviews\Ablekuma	20/08/2016 2:36 AM	PEN	12/09/2016 12:01 AM	PEN
ABLSM028	Internals\Client Interviews\Ablekuma	20/08/2016 2:36 AM	PEN	8/09/2016 11:27 AM	PEN
ABLSM029	Internals\Client Interviews\Ablekuma	20/08/2016 2:36 AM	PEN	12/09/2016 12:44 AM	PEN
ABLSM030	Internals\Client Interviews\Ablekuma	20/08/2016 2:36 AM	PEN	8/09/2016 4:15 PM	PEN
ACCSF011	Internals\Client Interviews\Accra Central	20/08/2016 2:41 AM	PEN	30/08/2016 11:05 AM	PEN
ACCSF012	Internals\Client Interviews\Accra Central	20/08/2016 2:41 AM	PEN	20/08/2016 2:41 AM	PEN
ACCSF013	Internals\Client Interviews\Accra Central	20/08/2016 2:41 AM	PEN	30/08/2016 12:19 PM	PEN
ACCSF014	Internals\Client Interviews\Accra Central	20/08/2016 2:41 AM	PEN	30/08/2016 2:25 PM	PEN
ACCSF015	Internals\Client Interviews\Accra Central	20/08/2016 2:41 AM	PEN	20/08/2016 2:41 AM	PEN
ACCSF016	Internals\Client Interviews\Accra Central	20/08/2016 2:41 AM	PEN	30/08/2016 2:54 PM	PEN
ACCSM017	Internals\Client Interviews\Accra Central	20/08/2016 2:41 AM	PEN	30/08/2016 11:29 PM	PEN
ACCSM018	Internals\Client Interviews\Accra Central	20/08/2016 2:41 AM	PEN	20/08/2016 2:41 AM	PEN
ACCSM019	Internals\Client Interviews\Accra Central	20/08/2016 2:41 AM	PEN	31/08/2016 12:23 AM	PEN
ACCSM020	Internals\Client Interviews\Accra Central	20/08/2016 2:41 AM	PEN	1/09/2016 2:20 AM	PEN
ASHSF004	Internals\Client Interviews\Ashiaman	20/08/2016 2:42 AM	PEN	12/09/2016 1:16 AM	PEN

Appendix 9-4 Excerpt of Client Interviews in one district: Ablekuma District

Microfinance in Ghana.nvp - NVivo Pro

FILE HOME CREATE DATA ANALYZE QUERY EXPLORE LAYOUT VIEW

Navigation View Find Quick Coding Detail View Workspace Dock All Undock All Close All Docked Bookmarks Close Window Zoom Layout List View List View Coding Stripes Highlight Coding Links Annotations See Also Links Relationships Node Node Matrix Framework Matrix Classification Report Previous Next Reference Visualization Color Scheme

Sources

Look for Search In Ablekuma Find Now Clear Advanced Find

Ablekuma

Name	Nodes	References	Created On	Created By	Modified On	Modified By
ABLSF021	18	23	20/08/2016 2:36 AM	PEN	11/09/2016 2:47 AM	PEN
ABLSF022	11	12	20/08/2016 2:36 AM	PEN	11/09/2016 2:36 PM	PEN
ABLSF024	12	18	20/08/2016 2:36 AM	PEN	11/09/2016 2:57 PM	PEN
ABLSF025	7	7	20/08/2016 2:36 AM	PEN	11/09/2016 11:29 PM	PEN
ABLSF026	12	15	20/08/2016 2:36 AM	PEN	11/09/2016 11:29 PM	PEN
ABLSM023	8	12	20/08/2016 2:36 AM	PEN	29/08/2016 10:10 PM	PEN
ABLSM027	9	12	20/08/2016 2:36 AM	PEN	12/09/2016 12:01 AM	PEN
ABLSM028	14	23	20/08/2016 2:36 AM	PEN	8/09/2016 11:27 AM	PEN
ABLSM029	8	10	20/08/2016 2:36 AM	PEN	12/09/2016 12:44 AM	PEN
ABLSM030	18	22	20/08/2016 2:36 AM	PEN	8/09/2016 4:15 PM	PEN

Appendix 9-5 Excerpt of Nodes Coded

Name	Sources	References	Created On	Created By	Modified On	Modified By
CHALLENGES	15	43	20/08/2016 3:30 AM	PEN	30/09/2016 4:28 AM	PEN
Client Educational Background	33	33	29/08/2016 8:07 AM	PEN	12/09/2016 4:43 PM	PEN
Client I.R Perceptions	25	31	29/08/2016 8:34 AM	PEN	12/09/2016 3:50 PM	PEN
Client Motivations	40	56	28/08/2016 10:17 PM	PEN	12/09/2016 4:45 PM	PEN
Client Repayment	14	15	29/08/2016 3:39 AM	PEN	12/09/2016 4:01 PM	PEN
Client repayment scheduling	24	35	29/08/2016 11:06 AM	PEN	12/09/2016 3:04 PM	PEN
Client Startup Funds	46	52	28/08/2016 9:44 PM	PEN	12/09/2016 4:43 PM	PEN
CLIENT TRANSFORMATION	14	20	29/08/2016 4:11 AM	PEN	11/09/2016 3:12 PM	PEN
Clientele	7	12	20/08/2016 4:13 AM	PEN	30/09/2016 4:03 AM	PEN
Communication	6	7	23/08/2016 1:30 AM	PEN	28/09/2016 10:51 AM	PEN
Competition	1	1	23/08/2016 2:19 AM	PEN	23/08/2016 2:19 AM	PEN
Default rate	2	2	23/08/2016 1:19 AM	PEN	28/09/2016 10:51 AM	PEN
Forms of Non Financial support	27	36	23/08/2016 1:43 AM	PEN	30/09/2016 4:03 AM	PEN
Fragmentation	13	16	24/08/2016 10:40 AM	PEN	12/09/2016 1:30 PM	PEN
Future Outlook	4	5	24/08/2016 9:05 AM	PEN	8/09/2016 3:50 PM	PEN
Government Intervention	2	2	25/08/2016 1:20 AM	PEN	25/08/2016 1:49 PM	PEN
Graduation	30	51	29/08/2016 4:02 AM	PEN	12/09/2016 4:48 PM	PEN
Growth of MFIs	1	2	25/08/2016 5:41 PM	PEN	25/08/2016 5:48 PM	PEN
Image of Microfinance	13	20	25/08/2016 12:59 AM	PEN	12/09/2016 4:46 PM	PEN
Importance of Microfinance	7	9	29/08/2016 8:53 AM	PEN	28/09/2016 11:48 AM	PEN
Industry Sector of Small Business	16	20	5/09/2016 4:07 AM	PEN	12/09/2016 3:34 PM	PEN

Appendix 9-6 Excerpt of Memos Created

Name	Nodes	References	Created On	Created By	Modified On	Modified By
Business Experience	0	0	8/09/2016 11:46 AM	PEN	10/09/2016 2:17 PM	PEN
Economies of Scale	0	0	10/09/2016 2:03 PM	PEN	21/09/2016 10:45 AM	PEN
Licensing requirements for MFIs in Ghana	0	0	21/09/2016 12:42 PM	PEN	21/09/2016 2:04 PM	PEN
Multiple Relationships	0	0	11/09/2016 1:55 AM	PEN	21/09/2016 10:47 AM	PEN
Reference to MFIs as Banks	0	0	8/09/2016 1:53 PM	PEN	10/09/2016 2:14 PM	PEN
Revision of paid up capital	0	0	21/09/2016 2:05 PM	PEN	21/09/2016 2:10 PM	PEN
Rules and Regulatory Framework	0	0	21/09/2016 11:48 AM	PEN	21/09/2016 12:31 PM	PEN

Appendix 9-7 A Typical Client Interview Analysis

The screenshot displays the NVivo Pro software interface for analyzing client interviews. The main window is titled "Microfinance in Ghana.nvp - NVivo Pro". The interface is organized into several key areas:

- Menu Bar:** FILE, HOME, CREATE, DATA, ANALYZE, QUERY, EXPLORE, LAYOUT, VIEW.
- Toolbar:** Includes options for Navigation View, Find, Quick Coding, Dock All, Undo All, Close All, Docked, Zoom, List View, Coding Stripes, Highlight, Annotations, See Also Links, Relationships, Node, Framework Matrix, Classification, Report, Previous, Next, and Color Scheme.
- Sources Pane (Left):** A tree view showing the project structure under "Internals", including "Client Interviews" (with sub-items like Ablekuma, Accra Central, Ashiaman, Awoshie, Dodowa, Pokuase) and "KI Interviews" (with sub-items like Microfinance Apex Bodies, Policy Regulation and Licencing, Literature Review, MFI Interviews, Research Administration).
- Client Interviews Table (Top Center):**

Name	Nodes	References	Created On	Created By	Modified On	Modified By
ACCSF011		9	13/09/2016 12:09 PM	PEN	30/08/2016 11:05 AM	PEN
- Main Text Area (Right):** Displays the content of the selected interview (ACCSF011). The text includes:
 - "next morning. Within some few days I got my money. They used my savings with the collateral and they also came to assess my workplace."
 - "In the first instance, I took a loan of GHC 1,000, then later took GHC 2,000 then GH for the next one and the recent loan was GHC 4,000. In all cases, I dictate the amount wanted to take."
 - "They did explain rules and regulations about taking a loan from them. They told me pay daily, weekly, or monthly. I pay the loan off from the daily sales I make. There is flexibility in making payments and I like their terms of payment as compared to other financial institutions who come here."
 - "The difficulty I face is that unlike previously, sales have reduced. Otherwise, it would..."
- Vertical Axis (Far Right):** A coding scheme visualization showing categories like "Age of SME", "Client repayment", "Loan Utilization", "Graduation", "Client repayment scheduling", "Client O...", "Requirements for Disbursement", "Knowledge of MFIs", "Client Motivations", and "Coding Density".
- Status Bar (Bottom):** Shows "PEN 10 Items Nodes: 9 References: 13 Read-Only Line: 1 Column: 0" and a 100% zoom level.

Appendix 11: Excerpts of Record of Inventory Stock Kept by SME Participant

CS.

MID BYREN CO. LTD.						
						TALLY CARD
Name of item: 4 (b)						
Cost Price GH¢ 54						
Item No.: 54 Authorize Sign _____						
Date	Invoice No.	Quantity in	Quantity out	Damages	Balance	Sign.
21/1/14			20		34	
22/1/14			34		F11	
17/1/14		100			100	
17/3/15			6		94	
23/4/15			1		93	
24/4/15			8		85	
4/5/15			28		57	
25/6/15			25		32	
15/7/15			2		30	
1/8/15			1		29	
1/8/15			7		22	
10/8/15			2		20	
21/8/15			2		18	
27/8/15			5		13	
27/9/15		150			150	
9/10/15			6		144	
23/10/15			4		140	
01/11/15			2		138	
20/11/15			10		128	
2/12/15			4		124	
15/12/15			25		99	

P 10

Source: Primary Data on SMEs

Appendix 12: Excerpts of Financial Records Kept by SME Participants

FOOD

RANDBURG CHART

MONTH JUNE 2015

DATE	ITEMS - COSTS	OTHER COSTS	SALES	SIGN
01	102	+ 20 6.70p	164	<i>[Signature]</i>
02	83	5 slices 3.00	151	<i>[Signature]</i>
03	122		153	<i>[Signature]</i>
04	85		120	<i>[Signature]</i>
05	98		133	<i>[Signature]</i>
06	270		140	<i>[Signature]</i>
07	70		370	<i>[Signature]</i>
08	128		270	<i>[Signature]</i>
09	80		167	<i>[Signature]</i>
10	94 0		980	<i>[Signature]</i>
11	102		145	<i>[Signature]</i>
12	250		102	<i>[Signature]</i>
13	100		154	<i>[Signature]</i>
14	45	10.00	300	<i>[Signature]</i>
15	45	8.00	135	<i>[Signature]</i>

Source: Primary Data on SME Sales Inventory Records

Appendix 13: Excerpts of MFI Passbook Entries as financial records of SME Participants

Date	Details	Withdrawal	Dep. amt	Bal. amt	Sign
21/11/15	Comm. Charge	150.00		6192.00	
22/11/15	Dep		4.51	6187.49	
23/11/15	Withdrawal	5000.00		1187.49	
24/11/15	Dep		60.00	1127.49	
25/11/15	Dep		60.00	1067.49	
26/11/15	Dep		60.00	1007.49	
27/11/15	Dep		60.00	947.49	
28/11/15	Dep		60.00	887.49	
29/11/15	Dep		60.00	827.49	
20/11/15	Dep		60.00	767.49	
21/11/15	Dep		60.00	707.49	
22/11/15	Dep		60.00	647.49	
23/11/15	Dep		60.00	587.49	
24/11/15	Dep		60.00	527.49	
25/11/15	Dep		60.00	467.49	
26/11/15	Dep		60.00	407.49	
27/11/15	Dep		60.00	347.49	
28/11/15	Dep		60.00	287.49	
29/11/15	Dep		60.00	227.49	
20/11/15	Dep		60.00	167.49	
21/11/15	Dep		60.00	107.49	
22/11/15	Dep		60.00	47.49	
23/11/15	Dep		60.00	-13.49	
24/11/15	Dep		60.00	-73.49	
25/11/15	Dep		60.00	-133.49	
26/11/15	Dep		60.00	-193.49	
27/11/15	Dep		60.00	-253.49	
28/11/15	Dep		60.00	-313.49	
29/11/15	Dep		60.00	-373.49	
20/11/15	Dep		60.00	-433.49	
21/11/15	Dep		60.00	-493.49	
22/11/15	Dep		60.00	-553.49	
23/11/15	Dep		60.00	-613.49	
24/11/15	Dep		60.00	-673.49	
25/11/15	Dep		60.00	-733.49	
26/11/15	Dep		60.00	-793.49	
27/11/15	Dep		60.00	-853.49	
28/11/15	Dep		60.00	-913.49	
29/11/15	Dep		60.00	-973.49	

Source: Primary Data on SME Client Passbook