International Journal of Economics, Commerce and Management
United Kingdom Vol. II, Issue 6, 2014
http://ijecm.co.uk/ ISSN 2348 0386

THE EFFECT OF MICROFINANCE INSTITUTIONS ON THE GROWTH OF SMALL BUSINESSES IN KUMASI, ASHANTI REGION OF GHANA

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Abstract

The influx of Microfinance institutions in Ashanti Region of Ghana over the past two decades and their importance to small businesses has attracted heated debate. This study reports on the effect of microfinance Institutions (MFIs) on the growth of Small Businesses (SBs). The main data collection instruments were questionnaires and interview. Twenty (20) Microfinance institutions and two hundred (200) Small Businesses respectively were sampled for the study. The study assessed the services Microfinance Institutions render to Small Businesses, how SBs manage and utilize MFI credits, and the challenges both face in dealing with each other. The study revealed that MFIs provide loans to businesses and create enabling environment to save. The study further showed that SBs use greater portion of their profit to service the loan due to high interest rate and short repayment period. The study there for recommends that MFIs should give flexible terms of repayment of loan to enable SBs raise the capital needed. The government should provide funds to SBs at no or reduced borrowing cost. It is also recommended that Microfinance Institutions initiate insurance schemes for SBs. SBs should keep proper financial records to enable them measure the growth of their businesses using profitability ratios. Finally SBs should fully implement the advices MFIs offer to them to promote their business growth.

Keywords: Microfinance, Small business, Growth & development, paradigm shift, impact analysis

INTRODUCTION

Micro Finance Institutions (MFIs) assist small businesses, the poor and households who have no access to more formalized financial institutions in accessing funds (capital) for their businesses. According to Consultative Group to Assist the Poorest (CGAP 1999), typical microfinance clients are the poor and low-income people who do not get access to formal financial institutions loans. These clients are mostly self-employed, household-based vendors who operate small retail shops, street vending, artisanal manufacture and service provision.
There had not been any clear definition of small businesses.

Microfinance businesses aim to extend microloans and other services to borrowers who typically lack collateral, steady employment and a certifiable credit history (Bureau et al 2012). But many microfinance businesses now function as independent banks and this make their effects diffuse and heterogeneous (Karlan and Zinman 2009). Microfinance is recognized as an effective and common tool for poverty reduction though it had not sufficiently penetrated the poorer strata of society (Morduch and Haley 2002). There is comparatively little convincing evidence in the grand claims about the success effects of microfinance on small businesses because high cost of over 60% Annual interest rate on microloans in developing nations means that high returns to capital is needed to improve on tangible outcomes of such business income (Zinman 2009).

The primary concern of microfinance clients has been the access to microfinance services well-suit with their requirements rather than the cost of such services. This idea had chanced microfinance operators to charge higher interest rates on microloans. This is asserted by World Bank "Strategy for the Financial Sector" (2000), which viewed improving access of low-income producers and the poor to basic financial services as an ingredient and efforts to promote economic growth and reduce poverty. The World Bank's financial sector priorities for developing microfinance focus on removing legal provisions such as interest ceilings which are inconsistent with micro finance operations.

As a common weapon in the fight to reduce poverty and promote economic growth, Microfinance institutions usually target women operating small-scale businesses and by tradition use group lending mechanisms to grant loans to these small business operators. However since micro lending has expanded and evolved into its "second generation," microfinance institutions often ends up looking more like traditional retail or small business which deals in lending for profit and extending individual's credit liability in an increasingly competitive environment (Karlan and Morduch 2009).

According to Gheneti (2007) the current form of microfinance in Ghana was first opened in Northern Ghana in 1955 by Canadian Catholic missionaries. Through different governments since Ghana's independence and Bank of Ghana strategies, the microfinance sector in Ghana had gone through various stages under various financial policies and programmes to reach its current states of being recognized as a semi-formal financial sector meant to address the failures of the formal financial sector of the economy which had neglected the poor and the small business sector.

Statement of the Problem

From UNO International Year of Micro Credit (2005) report, Microfinance institutions had received more attention in the 21st century as a major poverty-fighting tool that assists individuals and small businesses growth due to the effects of its services to Small Business. Microfinance institutions are meant to provide adequate funds to small businesses as a poverty-fighting tool to assist national growth of the economy. Otero (1999) asserts that the aim of MFIs is not only about providing capital to the poor to fight poverty but have additional roles of delivering other financial services to assist borrowers businesses to grow.

However, research had uncovered that microfinance institutions gain more from the SBs than the benefits the later gain from the former due to the high interest rates on loans and short period granted for repayment (Valentino 2008). Valentino added that inadequate financial management training, high interest rates, short period granted for loan repayments and denial of other business supporting services, microfinance clients mismanage credit supports offered to them, leaving the poor in worse conditions than before they partnered with MFIs for their services. Other writers unveiled that, Microfinance mechanism is shrinking and finally collapsing SBs that take credit facilities from them (Karlan and Zinman 2009). Due to these perceive negative effect, many observers think that Microfinance businesses operate with selfish interest to enrich themselves rather than assisting SBs to grow.

Many Small Businesses in Ghana seems to become poorer, to the extent of closing up their businesses and still remain in debt just by accepting Microfinance loans. However, Microfinance institutions keep springing up in Ghana over the preceding two decades at a faster rate. It is therefore important to research into the benefits versus the costs and effects; the responsibilities as well as the services of Microfinance operations in Ghana.

Objectives of the Study

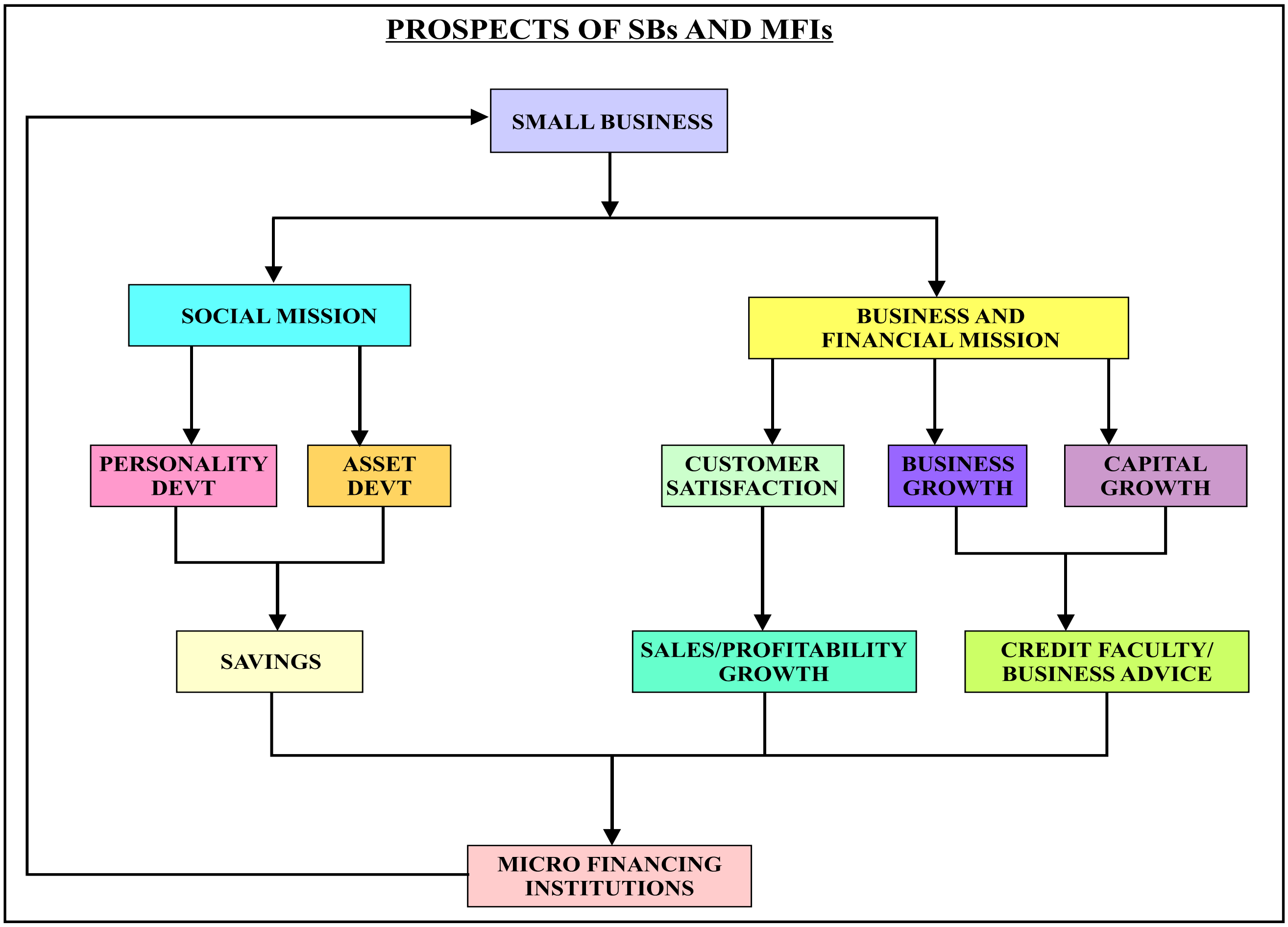
To achieve these purposes the specific objectives of this study are to:

1. Identify the core business activities and auxiliary services rendered by microfinance institutions to small businesses in Ashanti Region
2. Examine the effects of the services on the growth of Small Businesses
3. Examine how effective the SBs utilise and manage MFI services for their business growth.
4. Identify the challenges faced by both MFIs and SBs in dealing with one another.

Conceptual framework

The conceptual framework presents the key factors or variables and the presumed relationships among the variables of small businesses. To ease understanding of this research, it is important to be familiarized with the forecast/prospects of small businesses used.

Figure 1: The Prospects of Small Businesses



LITERATURE REVIEW

Small Businesses

Small Businesses (SBs) in this study refers to firms managed mainly by their owners, have relatively small capital base, limited by sales and assets value, have comparatively small market share, operates in locally and well specialized niches and is more independent from outside controls and pressure. The National Board for Small Scale Industries (NBSSI 2004) in Ghana classical definition which applies both the "fixed asset and number of employees" criteria in defining small businesses was used for this study. The NBSSI defines a small business as a firm with not more than nine workers, and has plant and machinery (excluding land, buildings and vehicles) not exceeding ten million Ghanaian cedes. However this study limited small business to firms with not more than nine workers, and has plant and machinery (excluding land, buildings and vehicles) not exceeding one million Ghanaian cedis to make it more centered on small businesses.

Microfinance institutions

Microfinance is a universal term that refers to the delivery of extensive variety of services including deposits, loans, payment services, money transfers and insurance to poor and low-income households to grow their small enterprises to help develop the individuals (Khawari 2004).

Microfinance institutions for the purpose of this study, was limited to semi-formal financial institutions which are set up by private individuals as a business entity to deal directly with the poor and SBs in their immediate environment to help promote individuals and economic growth through market-driven business creativities (Khavul 2010).

Effects analysis

The effects analysis dealt with the assessment of changes that small businesses clients had experienced in their businesses since they started benefiting from the credit schemes and other services of MFIs and to further examine the extent to which these changes in their businesses have affected other aspects of their social mission in life. Impact assessment is important in that it assists the microfinance institutions and SBs to remain true to their intended mission of work (Johnson & Rogaly 1997).

Growth and development

Growth assessment is important at all levels of business entity. Small businesses are being handled by the owners themselves and scarcely think about the need of any growth strategy plan. Business growth in this study was assessed on physical factors such as an increase in stock level, sales volume and value, profitability, market share and capital. The opening of additional branches and investment in new areas of business was also assessed. Small Businesses' assets growth before and after the MFIs' intervention was again analyzed. Individual's development in increased social spending, improved lifestyle as well as consumption pattern before and after partnering with MFIs were also assessed.

Funds management by Small Businesses

Rosenberg (2009) in his assessment of whether microcredits really help poor people affirmed that most microfinance borrowers use their loans for non-business purposes. Based on the susceptibility of their income, the low income households have to borrow constantly from microfinance lenders in order to meet their consumption needs. He said his recent analysis had doubts on some of the older research studies that established that microcredit increases household income. Rosenberg concluded that many borrowers use the loan for a non-business purpose, such as repaying another loan, or meeting day-to-day household expenses.

Objectives and activities of MFIs

Generally speaking, microfinance in its different forms had been in operation for many decades. MFIs overall objective is provision of credit from constant and ample sources of funds that respond flexibly to the demand of the low income, unemployed and underemployed borrowers. Otero (1999) added that the aim of microfinance is not just about providing capital to fight poverty, but also plays the role of providing advice and security on how to manage small businesses to grow. According to him microfinance institutions assist in addressing the gap between the rich and the poor in the market using financially sustainable approach. He asserted that MFI had gradually grown to become part of the formal financial sector in many nations.

Asiama and Osei (2007) were of the opinion that the objectives of the springs-ups microfinance institutions are based on the fact that the poor need access to productive financial services to improve their conditions of life. This is because they believe and hold to the objective that, the poor also have the capability to use funds effectively to generate income, earn profit, re-pay borrowed funds and engage in savings to sustain future business and life conditions.

Mohammed and Mohammed (2007) outlined the key characteristics of microfinance institutions that can be used to explain the objectives and activities of the MFIs. According to them, the main characteristic of microfinance includes given little amounts as loans to individuals and groups to help them start some income generating activities. Encouraging and using their little savings over time as security for loan help the individuals to accrue considerable capital to overcome their capital limitations and secure additional credit to solve emergency cases (Ayertey 2008). The series of savings allows the low income earners to earn interest, enjoy higher loans or acquire assets in future (Ayertey 2008). Again, the loans given out are of short- terms basis, at most up to one year term with daily or weekly payment basis of both principal and interest.

Microfinance institutions again aim to offer micro insurance which is an important service in every aspect of life as a component of its major activities. The micro insurance is the provision of insurance to low income and Poor individuals and their households who are vulnerable to risk or disasters of regular occurrences such as illness, life, accidents; and fire and burglary against future life eventualities and small businesses respectively.

Microfinance Institutions (MFIs) raise their own financing, offer attractive schemes, recruit and retain clients, keep operating costs low, motivate clients and control the distribution and loan recovery systems (Roodman & Qureshi, 2006).As many microfinance institutions grow in their lending operations by increasing the size of faithful repeated borrowers' loans, it is vital to organize sufficient funds to sustain the process. To be able to withstand funds shortage, MFIs in Ghana had been allowed to become part of the formal financial sector to enable them access funds from the capital markets to aid their lending portfolio to increase the number of targeted poor to be reached (Otero 1999).

Microfinance contribution to economic Development

Microfinance institutions provide financial services - in the form of small amounts of loans and management services in different form of products and systems focused at low income clients. It includes loans, savings, insurance, transfer services and other relevant financial products and services (International Year of Microcredit, United Nations, 2005).

Otero, (1999) says that microfinance institutions creates access to capital jointly with education and training of human capital, addresses social empowerment to move people out of poverty and strengthened their dignity by empowering them to contribute to the economy and society. Littlefield and Rosenberg (2004) argued that the poor in society are generally excluded from the financial services sector of the economy so MFIs have emerged to address this market failure. In the very recent times researchers like Littlefield, Murduch and Hashemi (2003), Simanowitz and Brody (2004) and the IMF report (2005) have applauded that microfinance institutions are contributing greatly towards achieving the Millennium Development Goals (MDGs) which target at poverty reduction, empowering women, assisting vulnerable groups, and improving standards of living.

Simanowitz and Brody (2004) says micro financing is a major strategy in meeting the MDGs by building global financial systems that meet the needs of the most poor people. Littlefield, Murduch and Hashemi (2003), state that "Microfinance is unique among development intervention because it delivers social benefits on permanent basis and on a large scale".

The former UN Secretary General Kofi Annan during the launch of the International Year of Micro Credit (2005), pointed out that *"Sustainable access to microfinance helps alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care, and empowering people to make the choices that best serve their needs".*

Small Business Financing Initiatives in Ghana

The problem of Small businesses difficulty in accessing funds from finance providers to finance fixed assets and working capital for their operations is also paramount in Ghana. Several studies had identified an increasing gap in the financial support offered by commercial banks to Small businesses as compared to large firms. This is due to un-affordability of collateral requirements and the cumbersome lending processes (Sowa et al., 1992; Aryeetey et al., 1994; Bigsten et al. 2000; Buatsi, 2002). Hollis and Sweetman, (1998) also argued that commercial banks have refused to provide the credit needs of comparatively poor people who cannot afford loan guarantors though have achievable investment ideas on profitable ventures. Microfinance had been the main revolution means of reaching out to such people (Montgomery and Weis, 2006).

The concept of microfinance had been a practice in different forms in Ghana for decades and assist in saving funds or taking credits by individuals and families as self-help or to engage in small business. Available evidence indicates that the formal concept of microfinance in Ghana begun in the form of granting microcredit to low income earners to improve their life conditions in Northern Ghana town of Jirapa in 1955 by the Canadian Catholic missionaries. The Susu concept from Nigeria also became operational as microfinance schemes in Ghana between late 1980s and early 1900s (Asiama 2007). Under the susu scheme, the Susu collectors started given out loans from the quantum of money collected from clients for interest while using the contributed savings of clients in Susu collectors possession as collateral or insurance against any eventualities for loans (Ayertey 2008). Since its inception, the microfinance sector has gone through many stages in accordance with the various financial policies and programmes carry out by various governments since Ghana’s independence. According to history, the government of Ghana in 1950s made Provision for subsidized credits to individuals and start-ups organizations to ensure their development. In 1965 the Agricultural Development Bank (ADB) was established to specially address the financial needs of fisheries and farming sector (BOG Working Paper 2007/BOG-07/01)**.**

In 1969 the bank of Ghana under the Development Funds Department (DFD) started the Credit Guarantee for Small Borrower scheme. The PNDC Law 328 of 1991 endorsed the establishment of different types of non-banking financial institutions, including saving and loans companies.

Steel and Andah (2003) stated that Ghana later developed a National Strategic Framework to get rid of barriers to improving financial services to the small enterprises. The National Microfinance Centre (NAMFIC) was later constituted to ensure the smooth running of microfinance activities in assisting small businesses.

The Financial Institutions Law, 1993 incorporated the Savings and Loans companies under the Non-Banking Financial Institution (NBFI) law. The microfinance sector has grown from the simple Susu and credit union system into the current state where even commercial banks who under normal circumstance would not give loans without collateral, now desire to offer microfinance to small businesses

Impact assessment of Microfinance Institutions on Small Businesses

Concept

Impact assessment is a management tool used in evaluating the effects of activity on the proposed beneficiaries (Afranne 2000). The idea is to obtain whether the resources used produced the expected outcome on beneficiaries according to mission. Johnson (1998) also defines Impact assessment of microfinance as focusing on the effect of microfinance services on customers and the ability of the MFIs to provide those services and continue in business into the future. As noted earlier, the microfinance institutions (MFIs) impact assessment more importantly enabling them stay exactly to their mission of assisting the poor people and low income individuals to epitomize their income growth as well as personality development.

Before the spring-up of microfinance institutions, the SBs were borrowing from small scale lenders such as ‘sues’ collectors, family members and friends who have excess funds and were ready to lend them on short term basis at any desirable interest rates which most often were as high as between 100% to 200%. (Asiedu Mante 2011).

Hishigsuren, Beard and Opoku (2004) research on the Impact of the activities of Sinapi Aba Trust (SAT) on Clients, reported that there was a major change in sales revenue in both old and new clients who were giving loan but there was no significant change in clients’ Net profits, saving and expenditure on children. Although some entrepreneurs are well versed in determining their need for capital and know where to find it, the failure of many businesses can be traced to undercapitalization. For start-ups, simply having a good idea will not be enough to convince many investors to risk their capital in your business (Hishigsuren, Beard and Opoku, 2004).

The paradigm shift of Microfinance Institutions

Hulme and Mosley (1996) after concluding a research on micro-credit however argues that most present-day microfinance schemes are less helpful than they are expected to be. The authors argued that microloans are not a universal remedy for poverty-alleviation and that in some cases the poorest people have been made worse-off. To a very large extend, an increasing number of microfinance institutions, if not all, are now in operation for profit than serving as a means to alleviate poverty (Battilana & Dorado 2010). It had also been established that the poor person operating in SB pay higher costs for credits than businessmen operating in average large business. Researchers had interestingly noted that, though MFIs are committed to poverty alleviation, they also aim at enriching themselves from their profit gained from charging high interest rates.

The benefits Small Business obtain from Microfinance Institutions

Daryl and Morduch (2009) opined that microfinance loans help the low income borrowers to gradually stepout from complete poverty and deal fairly with their economic circumstances by assisting them to be engaged in economic activities even though it does not help them to totally escape poverty. Daryl and Morduch also gave more credit to microfinance institutions because they seem more reliable, flexible and convenience to the borrowers than all other tools they can access to manage their daily cash flow, both in business and at home. They explained that even though most borrowers go back for microfinance loans and most inconveniently, repay the loans at exceedingly high rates, it still remain the only sector that pay more attention to small businesses growth. Borrowers rush to repay the loan when the main motive for prompt repayment is not lenders pressure or business success, but rather the desire to maintain future access to such helpful service. Another advantage of microfinance is that, it enables households and individuals and small businesses that would not nor could not raise capital to honour payment of their fixed – acquiring assets to start business to do so through borrowingto become entrepreneurs. MFIs assist borrowers to use the savings or income from their loans for investment in life-improving amenities such as housing, education, food, and health which signifies actual reduction in poverty of such clients.

Challenges of Small Businesses (SBs) in adopting MFIs Loans

Small Businesses face many challenges in undertaking their businesses operations than large organizations. The greatest among the difficulties is access to funds in financing start-up or for expansion of existing business. Lending to small businesses or entrepreneurs stay restricted because formal financial institutions feel reluctant to offer credit to the sector due to their high risk nature, small portfolios and high transaction cost of processing small loans (Schaffer and Weder 1991, Cuevas et al., 1993). Another challenge SBs face is that people who cannot manage savings and loans facilities and products have engage themselves in microfinance service, deceiving their client at the end.

Aryeetey et al., (1993) also shares the view that lenders face information asymmetry problem on borrowers and this increases transaction cost and interest rates since the probability of default is presumed to be high and provisions had to be made to combat it. This is because many studies had shown that many small businesses operate in the informal sector of the economy and operates in businesses that are mostly not registered. (Schneider 2005; Portes & Haller, 2005; Webb, Tihanyi, Ireland, and Sirmon 2009). As a result, lenders avoid lending to smaller or lesser known clients. Research had again shown that to do loan screening, credit analysis, making decision, supervising and enforcing loan contract with small businesses take longer days and cost higher than with larger businesses.

Apart from lack of access to credit to SBs, the transaction cost and risk involved in running small businesses is also very high. The successes of small firms often depend deeply on the sole ability of the entrepreneurs who at the same time the managers of their businesses, hence the probability of failure for new or an existing small business is measured to be very high (Ackah and Vuvor 2011).Cuevas et al (1993) additionally indicated another challenge of many SBs as the bad habit of using saved money as a guarantee for credits or to defray their loan accounts, but not rather using it to reinvest in their business. Changing the nature or location of small business after securing MFI credits by SBs also creates difficulties for microfinance institutions in dealing with small businesses.

Ghana Governments intervention in regulating microfinance activities

Competition as a necessary evil among MFIs lowers interest rates to be levied on credits though this had not significantly impacted on microfinance institutions in Ghana. MFIs higher interest rates signify that the poorer borrowers comparatively pay higher interest rates on smaller loan which is a digression from the intention of microfinance globally.

Ghana under the Financial Sector Adjustment Programme (FINSAP) provides direct institutions aimed at sustaining small enterprises. With World Bank assistance, the Programme of Action to Mitigate the Social Costs Adjustment (PAMSCAD) and the Fund for Small and Medium Enterprises Development (FUSMED) were formed to assist micro enterprises in the private sector to grow to avoid discrimination (Aryeetey et al 1994). Microfinance and Small Loans Center (MASLOC) under the policy framework of Ministry of Finance had also been established to strengthen microfinance operation as an effective strategy for poverty reduction.

METHODOLOGY

A sample survey was seen as the most appropriate since the research affect a large number of beneficiaries. The sources of data for the study were both primary and secondary. Primary data was collected from both Microfinance institutions and their small business clients by the use of a structured questionnaire which were designed and administered on managers and Small Business clients of some selected Microfinance Institutions (MFI) in Ashanti Region for information on the general perception of owners of Small Businesses (SBs) on the operations of MFIs in helping their businesses to grow. To ensure successful outcome of this study, microfinance institutions management team members and all other stakeholders in the study were appropriately contacted for their inputs.

Secondary relevant data were extracted from relevant textbooks, newspapers, reports / articles, journals, bulletins and documents presented by corporate financial analysts and policy issues relating to the operations of MFIs and SBs.

Purposive simple method was used in attaining the sample size, by basically concentrating on selected MFIs and their SB clients within Kumasi the capital of Ashanti Region and its environs for the study. Due to time and limited resources constraints, twenty (20) MFIs and two hundred (200) small business owners who are clients to the selected MFIs in Ashanti region were selected for the study out of the population of MFIs and their customers within the Kumasi metropolis and its environs. Statistical tools were used in both descriptive and quantitative analysis using SPSS version 17 and Microsoft excel to interpret the data..

DATA ANALYSIS AND DISCUSSION

General Information on Small Businesses

Table 1 Personal Data of Respondents

Gender of Participants			
Option	**Frequency**	**Percent (%)**	**Valid Percent (%)**
Male	76	39.6	40
Female	116	60.4	60
Total	**192**	**100.0**	**100.0**
Age Distribution			
20-29 Years	30	15.6	16
30-49 years	81	42.2	42
50-59 years	43	22.4	22
Above 60 years	38	19.8	20
Total	**192**	**100.0**	**100.0**
Marital Status			
Married	86	44.8	45
Single	51	26.6	27
Widow/Widower	39	20.3	20
Divorced	16	8.3	8
Total	**192**	**100.0**	**100.0**
Level of Education			
No Formal Education	53	27.6	28
Basic/Middle School	46	24.0	24
Senior High School	61	31.8	32
HND	22	11.5	12
Degree	10	5.0	5.0
Total	**192**	**100.0**	**100.0**

From table 1, on gender, 40% of the respondents were males as against 60% who were females. On the age distribution of respondents, 16% of the respondents were between 20-29 years, 42% between 30-49 years, 22% between 50-59 years and 20% were above 60 years. The table also showed that, 45% of the respondents were married, 27% indicated they were single, 20% were Widows / Widowers and 8% Divorcees. The data from table 1 finally showed that 28% of the respondents had no formal education, 24% had Basic/Middle School education, Senior High/secondary School education was 32% and 17% of the respondents had Certificates of tertiary institutions.

The study outcome presented in the data clearly showed that there were more females operating small businesses than males in Kumasi and its surroundings. The data revealed that most small businesses in Kumasi metropolis are run by married females between the ages of 30-39 years and most of them had no or low level of formal education. The high rate of females operating in small businesses and employing the services of microfinance institutions indicated that, most of the MFIs in Kumasi - Ashanti Region- embark on women empowerment mission apart from their general objective of supporting small businesses' growth. Hence, women were the most beneficiaries of MFIs services. The high female percentage may also have resulted from high female school dropout in Ashanti Region. The age groups of SB operators in Kumasi metropolis affirm that, small businesses employ high number of Ghana' working population who had no formal education to secure employment in the formal sector. The low education level of SB operators might be the possible cause of improper utilization of microfinance services and mismanagement of small business funds. This created the need for constant monitoring, and education and training from MFIs to SBs to overcome the small business management challenges to achieve growth.

Table 2 Kind of Respondents Businesses

Options	**Frequency**	**Percent**	**Valid Percent**
Retail Trading	77	40.1	40
Vocational Services	51	26.6	27
Manufacturing	31	16.1	16
Other Services	33	17.2	17
Total	**192**	**100.0**	**100.0**

Table 2 shows the kind of respondents businesses. From the survey, 77 (40%) of the respondents were involved in retail trading, 31 (16%) were into manufacturing, 51 (26%) were into vocational services and 33 (17%) were operated in other services which included small scale wholesale and transport services. This finding showed that, most of the respondents were involved in retail trading followed by vocational services which included hair dressing, tailoring and food vending. This result confirmed the characteristics of small businesses as indicated by (CGAP 1999), that MFIs clients are mostly self-employed, household-based vendors who operate small retail shops, street vending, artisanal manufacturing and service provision and represent the low income populace who are neglected by the formal financial sector in developing nations like Ghana. High retail shops clients of MFIs in Kumasi resulted from SBs low capital base and created the need for credit support from formidable source.

Figure 2 Nature of Business activity

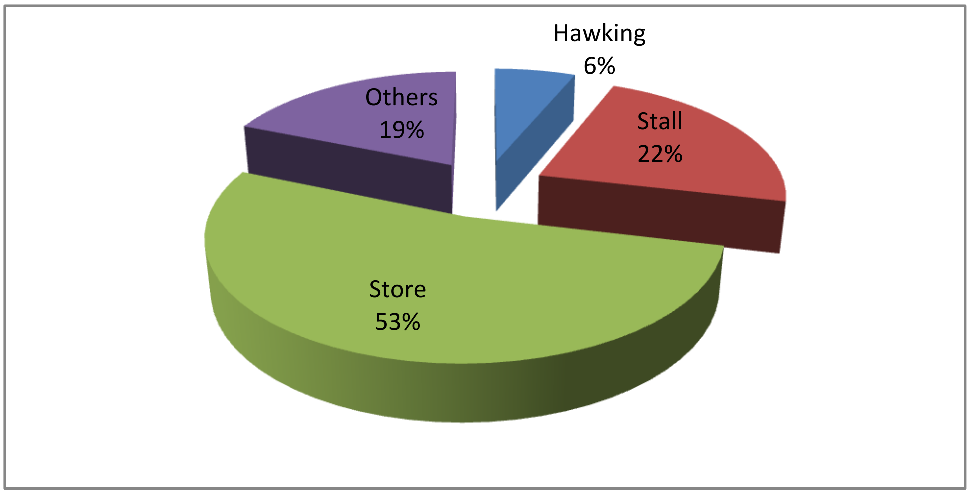


Figure 2 shows the kind of small businesses operated by respondents. 53% of them were into stores, 22% in stalls, 19% were in other businesses like food vending, hair dressing and tailoring and 6% were involved in hawking. This finding showed that, most of the respondents were operating in stores and were dealing in goods which are immediately needed by the population within their catchment areas and therefore needed adequate capital to stock their stores to meet the consumption needs of their customers. This confirmed SBs definition by Strokes and Watson (2010), which says "Small Businesses (SBs) are firms formed and managed solely by their owners with relatively small capital base, have comparatively small market share and operates in well specialized niches. However most of the respondents business of operations or sizes did not meet the requirements to qualify them to access credit from the formalized commercial banks and therefore relied on MFIs credit interventions to fund their businesses. This confirmed the assertion that Microfinance institutions aim to extend microloans and other services to clients who typically lack adequate capital, the needed collateral, steady employment and a certifiable credit history to qualify them to secure credit from formalized financial institutions (Bureau et al 2012).

Cores and Auxiliary Services of Microfinance Institutions Small Businesses.

Table 3 Small businesses Main Objective of Working with MFIs.

Respondents Main Objectives for Working with MFIs	Frequency	Percent	Valid Percent
To secure credits to run Business	84	43.8	44
To Save funds to expand Business	56	29.2	29
To Save funds for Personal Projects	24	12.5	13
To Receive Business Advice externally	18	9.4	9
Others	10	5.2	5
Total	**192**	**100.0**	**100.0**
Number of MFIs the SBs work with			
One institution	63	32.8	33
Two institutions	87	45.3	45
Three institutions	34	17.7	18
Four and above	8	4.2	4
Total	**192**	**100**	**100**
Satisfaction with MFI services			
Yes	102	53.1	53
No	90	46.9	47
Total	**192**	**100**	**100**

From Table 3, respondents were assessed on their Main Objectives of Working with MFIs. 84 (44%) said to secure credit facility to run their Business, 56 (30%) indicated to save to improve business, and 24 (13%) said to save funds for personal projects. Meanwhile, 18 (9%) said to receive business advice and 10 (5%) indicated others which includes for funerals, and for their children education. On the issue of number of MFI institutions save with, the respondents indicated that they save with One, Two Three and four or more institutions in corresponding percentage of 33%, 45%, 18% and 4% respectively. The subsequent question to determine whether respondents were satisfied with doing business with MFIs, 102 representing 53% said they were satisfied doing business with the MFIs and 90 (47%) of them said they were not satisfied with the services MFIs provide to them.

This finding demonstrated that most of the respondent's main motive for working with two or more MFIs was to save funds in order to secure credit to run their businesses or save to accumulate funds to increase and expand business activities. The results also indicated that, many microfinance clients are satisfied with the MFI services. As a result, many of the respondents were in business with two or three Microfinance institutions to increase their benefits. However, there were still high numbers of clients who were not satisfied in doing business with the Microfinance Institutions (MFIs) because most of the MFIs mismanage funds saved by the SBs and were unable to pay back the savings when the need arose. This presupposes that MFIs had not been able to improve the lives of many of the poor or the low income earner in the society. Those who operated with more than one microfinance institutions may also be doing so to abuse the credit opportunity and secured more loans than the capital needs of their businesses to create over capitalization. Others also abused the offer by securing credit from one institution to finance other credits secured in other MFIs to end them in default payment to block their future credit chances. The data from collected from the microfinance institutions affirmed this when they indicated that the greatest they face in dealing with SBs was default payment and was gradually pushing some MFIs to shift their much attention from granting credit to SBs to that of civil servants

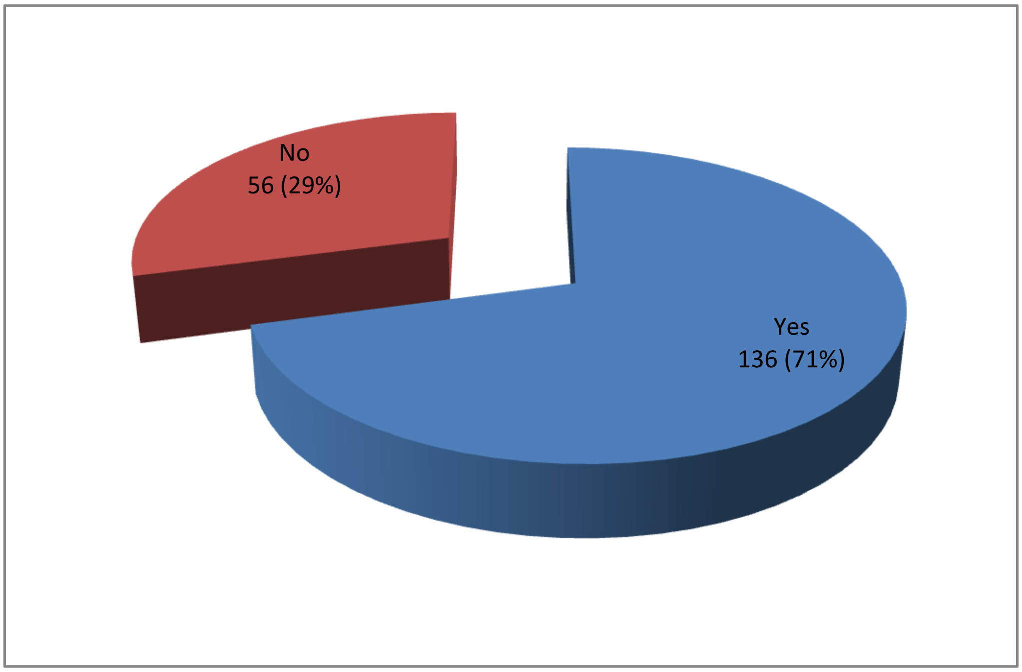
Table 4 Respondents thoughts on objectives of MFIs

Respondents thoughts on Why MFIs are Set up	**Frequency**	**Percent**	**Valid Percent**
For Poverty Alleviation of the Working Poor	70	36.5	37
For Profit Making	92	47.9	48
For Women Empowerment	30	15.4	15
Total	**192**	**100.0**	**100.0**

Table 4 shows respondents thoughts on why MFIs are set up. 92 (48%) said that they know microfinance institutions to be Profit Making business organizations, 70 (37%) indicated for Poverty Alleviation of the Working Poor and 30 (15%) said for Women Empowerment. The outcome might be due to the high interest rate charged on MFIs credits.

This indicates that, though MFIs provides many services to the poor and small businesses, they had not educated their clients that they are not set up to make profit but rather for poverty alleviation and women empowerment as indicated by Karlan and Zinman (2009) who asserted that, many microfinance businesses are now known to be functioning as independent banks which operate for profit.

Figure 3 MFIs Sending Personnel to Monitor the Progress of Small Businesses



From figure 3, respondents were asked whether MFIs send personnel to monitor the progress of their small businesses. Out of the 192 respondents, 71%responded that yes, the MFIs do monitor them and only 29% indicated No to express that MFIs do not send personnel to monitor the progress of their businesses.

This finding revealed that MFIs keep eyes on the progress of small businesses who partner with them for their services especially those the MFIs had offered loans to support their businesses. It was ascertained that the monitoring were done by the MFIs credit/loans facilitators or the daily savings or 'susu' collectors. This assists the MFIs to offer appropriate services to their various clients to overcome their business challenges and to assure their clients comfort and satisfaction for their services. It also probably assisted the MFIs to determine or have convincing idea on the quantum of credit needs of their SB clients

Figure 4: Major/Core Services Small Businesses (SBs) Benefit from MFIs

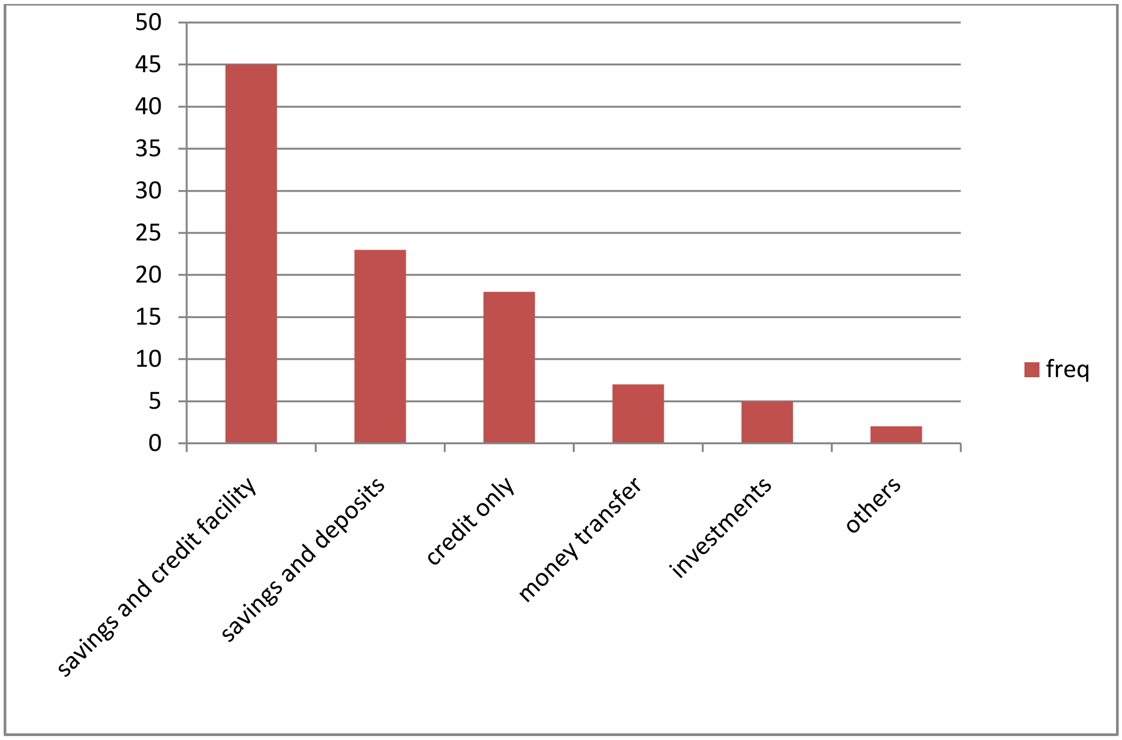


Figure 4 displays the Major/Core Services Small Businesses Benefit from Microfinance Institutions. 45% of them said they benefited from the savings and Credit Facility, 23% benefited from savings and deposits facility and 17% of them indicated for only credit facility.7%, 5% and 2% of the respondents indicated that they benefited from money transfer, investment and others which include funeral and car loans respectively. This finding showed that, most of the respondents benefited from savings and credit facility as the core services of microfinance institutions in the Kumasi metropolis. This presumed that MFIs in Kumasi encourage and assist the low income earners and the poor to save and they also offer the necessary financial management support to promote small businesses growth. However the MFIs had not adequately marketed their other beneficial services such as money transfers and investments facilities to make them attractive enough o their clients probably because they generate no or low benefit to the microfinance institutions. This finding also showed that MFIs in Kumasi offer most of the services to their own greater benefits. This finding agrees with the UN International Year of Micro Credit (2005) report that microfinance institutions are meant to provide adequate funds to small businesses as a poverty-fighting tool to assist national growth and individuals developments.

Table 5 Other Auxiliary Services that Small Businesses Benefit from MFIs

Auxiliary Services of MFIs	**To a large extent**	**To some extent**	**Not at All**
Loans Management Advice	**28 (15%)**	**154(80%)**	10(5%)
Financial / Bookkeeping Advice	18 (10%)	**131(68%)**	43(22%)
SB Management Advice / Training	**25 (13%)**	**147(77%)**	20(10%)
Short Term Loans To meet Emergencies	08(4%)	**148(77%)**	36(19%)
Provision Of Insurance On Loans	--------	--------	**192(100%)**
Provision Of Insurance On Business	------	--------	**192(100%)**
Provision Of Interest On Savings	16 (8%)	**43(22%)**	**133(70%)**
Provision Of Pension Schemes	-------	**44(23%)**	148(77%)

Table 5 displays the other auxiliary services that small businesses (SBs) benefit from MFIs. Results from the Respondents showed that: About 182 respondents representing(95%) said they benefited from MFIs loans management advice, 149(78%) said they have benefited from the financial / bookkeeping advice service of MFIs, 172 representing 90% stated they have benefited from the SB management advice / training service from MFIs and 156 (81%) indicated that they have benefited from emergency loan package of MFIs. Meanwhile, on the issue of provision of insurance on both loans and business respectively, all the 192 (100%) respondents stated Not at all to both services. On the provision of interest on savings and pension schemes, 133 (70%) and 148 (77%) respectively stated that they had not benefited from such provisions at all since the time they partnered with their respective MFIs.

This result revealed that, MFIs offer other services to small businesses to ensure proper utilization of funds and management of SBs with the objective of promoting such businesses growth and SB owners' personal welfare except with the provision of insurance services. They offer such services to encourage savings to accumulate funds from their clients and reimbursed it to them as credit or loan facility for interest to the MFIs.

This finding agrees with Otero (1999) who assert that the aim of micro-finance is not just about providing capital to the poor to fight poverty but has additional role at an institutional level of delivering financial services to assist borrowers. It again confirmed Morduch and Haley (2002) assertion that though microfinance is recognized as common effective tool for poverty reduction, it had not sufficiently penetrated into the poorer strata of society.

Effects of Microfinance Core and Auxiliary Services on the Growth of SBs

Figure 5 Assessment of the Growth of Small Businesses.

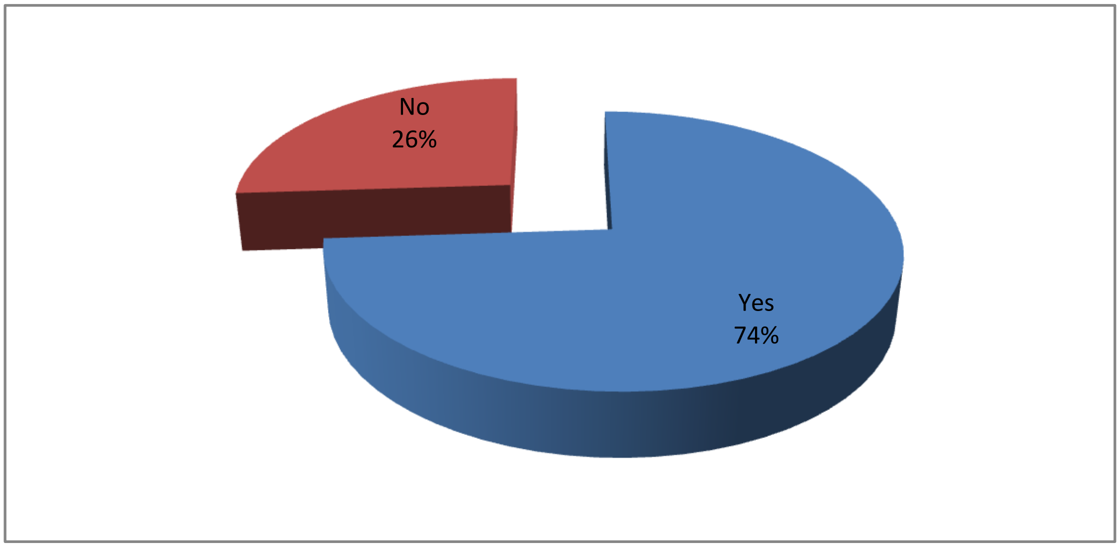


Figure 5 displays responses of whether SBs owners assess the growth of their small businesses. 74% of them said yes, and 26% of them indicated that they do not assess their businesses growth. Those who said they assess their businesses indicated that physical tools such as increased stock levels increased sales value, increased cash at hand, increased customers, expanded business size and infrastructure base and when there is an increase in income levels in assessing their small businesses. This finding revealed that most SBs assess their small businesses using only the physical appearance factors of their business. These may not be credible enough in assessing business growth. Some SBs also used the amount of savings made within the period as profit and scarcely prepare financial statements or final accounts for their business. Unfortunately, the same tools were used by the MFIs in assessing SB growth. This finding showed that SBs does not use credible methods such as profitability ratios as a means in assessing their business due to lack of financial statement.

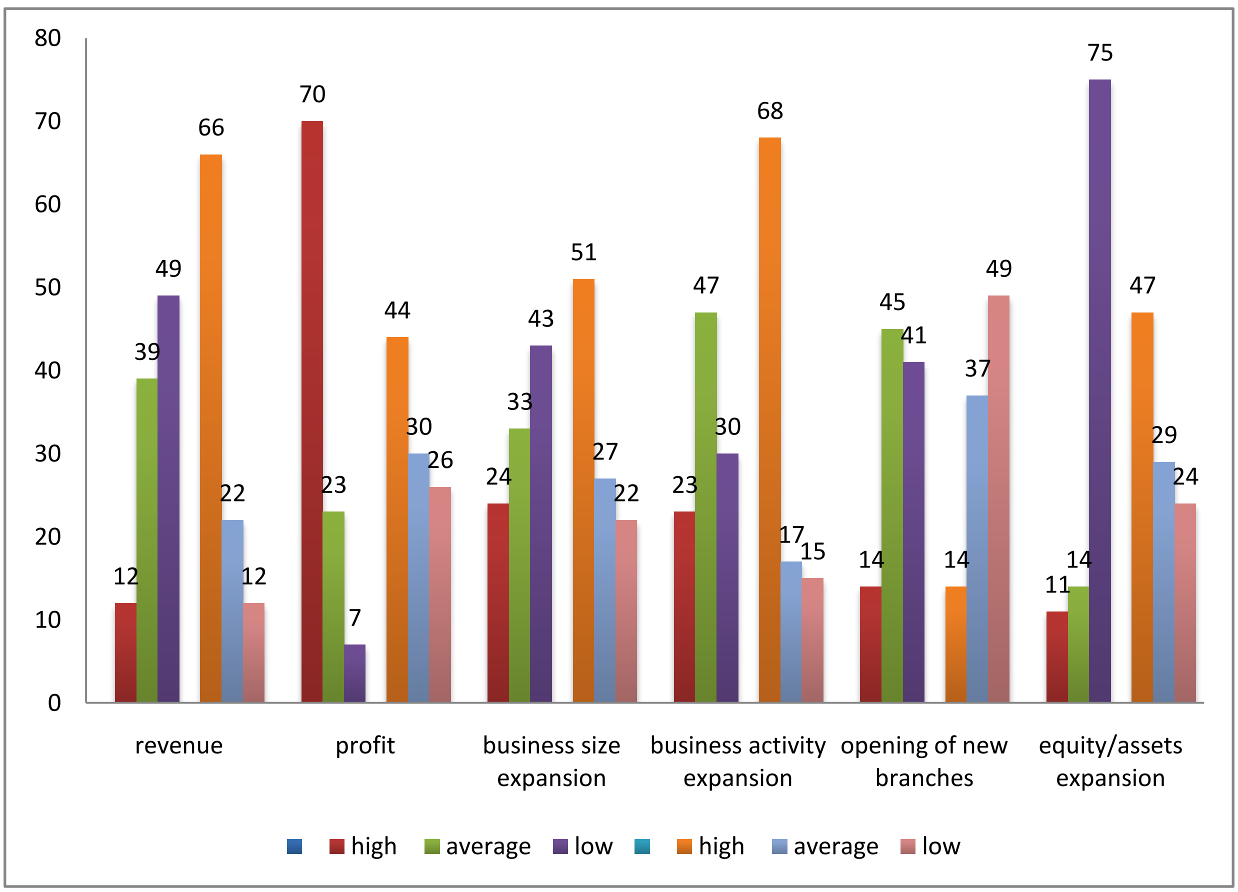
Table 6: The extent the Core and Auxiliary Services of MFIs Assist SBs to Grow

Options	**Frequency**	**Percent**	**Valid Percent**
To a high Extent	84	44	44
To a Normal Extent	66	34	34
Not at All	42	12	12
Total	**192**	**100.0**	**100.0**

On Table 6, respondents were asked the extent to which the core and auxiliary services of MFIs assist them to grow their small businesses. 44% and 34% of the respondents said the auxiliary services of MFIs assist their SBs growth to high and normal extent respectively whilst 12% said microfinance services does not contribute to small business growth at all respectively. When respondents were further asked whether they would advise other small businesses to partner with microfinance institutions to grow their businesses, 107(55%) of the total respondents indicated yes they would advice other small businesses to partner with microfinance institutions to grow their businesses but 85 (45%) responded that they will not offer such advice probably because they were not satisfied with MFIs services.

This finding therefore means that, about 78% of the small businesses surveyed achieve their growth from the core and auxiliary services of MFIs. Hence their willingness to advise other small businesses to employ MFI services to grow their business. This again adds to the reasons why the respondents were satisfied with doing business with MFIs. This therefore implied that any SBs which apply the MFI services fully or partly in their rightful manner would realize growth in their business. However some SBs were no longer willing to partner with or advice other SBs to partner with MFIs probably due to the pressure they went through in repaying their MFI credit because of its high interest rate and short repayment period granted for the credit facility.

Figure 6: Growth of Small Businesses Before and After Accessing Loans from MFIs



Note:Percentages at the Top of Bars

Figure 6 shows respondents views on the areas of growth of their small businesses before and after accessing loans from microfinance institutions. On the question of revenue before and after accessing microfinance credit, 94(49%) of the respondents said their revenue level was low before accessing credit and only 12% said revenue was high. With revenue growth after the microfinance credit, 127 (66%) of the SBs responded to high growth. This indicated that the credit facility affected the growth of their business positively.

With regards to profit of SBs before accessing microfinance credit, 134 (70%) responded that profit growth was high before the credit but after accessing the microfinance credit, 86 (44%) of the SBs indicated that their high profit growth had declined. This reduction in profit growth attests to the fact that though SBs experienced growth of revenue when they applied the MFIs credit but the increased revenue does not results in increased profit and therefore confirms statement made by Hishigsuren, Beard and Opoku (2004) in their research on the impact of the activities of Sinapi Aba Trust (SAT) on Clients, that there was a major change in sales revenue in both old and new businesses of clients who accessed credit from MFIs but there was no significant change in clients' Net profits, saving and expenditure on children. This may had resulted from high interest rates charged by MFIs on the loans which consumed larger proportion of their profit as interest on loans to MFIs. This again probably discouraged such SBs clients from inviting other SBs to partner with the MFIs for any support.

On the issue of business size and expansion, 84 (43%) of the respondents indicated that the growth of their SBs size was low before assessing the loan but after assessing the microfinance credit, 97 (51%) of them said expansion rate was high when they applied the MFIs loan. This showed that SBs which accessed and invested the microfinance credit into their businesses achieved expansion of their small businesses than those who used the funds to secure assets to the business. Another issue was the business activity expansion of small businesses. 90 (47%) indicated that their businesses had experienced low activity expansion before accessing credit but after accessing the credit the business activity expansion grew high. This was indicated by 130 (68%) respondents who indicated business activity expansion in areas such as expansion of product lines to satisfy customers' needs, was high after accessing credit from microfinance institutions.

On the issue of small businesses opening up new branches, about 41% of the respondents indicated that it was low before accessing the loan and 59% said they were able to open up new branches before accessing loan from microfinance institutions. After assessing the loan, 51% were able to open new branches as against 49% who could not. This indicates that there was no material change after the application of the MFI credit with regard to opening of new branches. This may be due to the fact that small businesses are managed by the owners themselves and do not entrusted to the hands of people with good business management skills.

Finally, with equity/assets volume of small businesses before accessing credit from microfinance institutions, 11% and 14% said assets growth was high and normal respectively while 75% said assets growth was low before they accessed the credit from microfinance institutions. However after assessing the credit, 72% of the respondents indicated their equity/asset base grew high as against 29% and 24% respectively who said microfinance institution loans did affect the growth of their small businesses assets to high and normal extent. The findings revealed that some SBs invest most of the loans secured in assets. This accounted for the decline of profit after the application of the MFI loans since the loans were not invested in the recurrent activities of their businesses to generate profit within the short term. The loans invested in assets also delayed the loan repayment rate, hence denied them of further loans.

Small Business Management and Effective Utilization of MFIs Loans.

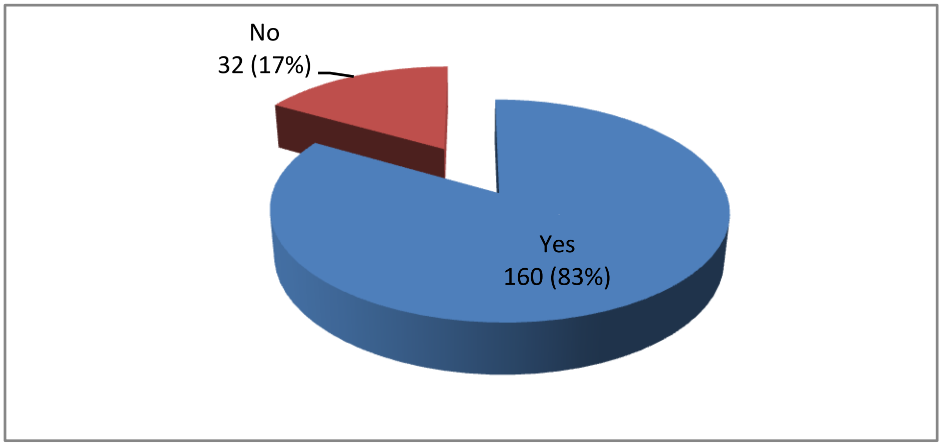
Table 7: Separate Manager/Advisor to Small Business

Options	Frequency	Percent	Valid Percent
Yes	53	27.6	28
No	139	72.4	72
Total	**192**	**100.0**	**100.0**
Applied the MFI Advice in the Running of Business			
Fully Yes	25	13.0	13.0
Partly Yes	87	45.3	45
Not at all	80	41.7	42
Total	**192**	**100.0**	**100.0**

Figure 7 displays responses of whether SBs had separate managers/business advisors to their small businesses. 72% of them said No, and only 28% of them indicated Yes, The few who said they have separate managers/business advisors to their small businesses further added that, they normally obtained advice from them on how to secure and manage business funds including credits and how to separate their business funds from their personal money. They also received advice on how to price their goods and services, marketing of products and managing their businesses to make profit. The responses from the MFIs also confirmed offering such advice to the SBs with the aim of assisting their businesses to grow. On the application of the advice in business, only 13% could apply the advice fully, 45% applied it partly and 42% could not use such advices at all.

This finding revealed that most respondents do not have separate managers/business advisors to their small businesses and only the few that had, are those who could apply most the MFIs advice fully in running their business. Majority of the SBs applied the advices partially or could not apply them at all possibly because such SBs are not separate from their owners. This might probably be among the key causes of Small Business failure in developing nations like Ghana.

Figure 7 Used Loan for business Purposes



In figure 5, respondents were asked whether the credit facility they secured was used for the purpose it was borrowed, and 160 (83%) said Yes they used the credit for the main reason they secured it and 32 (17%) of them indicated No, they used the credit for other purposes such as payment of other credit, performing funerals, payment of school fees of their wards and payment of other loans rather than the main reason they secured the credit. This finding however meant that, most of the respondents used the credit for the purpose it was secured and this might had accounted for the increased business size and revenue.

Table 8: Activities of Business the Loan was used for

Activities that SBs used the Microfinance Loan For	**More Applicable**	**Applicable**	**Not Applicable**
To start a new business	-----	36(19)	**156(81)**
To Expand an existing business	**57(30)**	**95(50)**	40(20)
To increase Working capital	**84(44)**	**90(47)**	18(09)
To acquire business assets	**58(30)**	**88(46)**	46(24)
To advertise/market business products	------	52(23)	**140(77)**
To pay default loans	**15(08)**	**49(26)**	128(67)
To pay other business debt	14(07)	45(24)	**133(70)**
To solve personal problems.	**42(21)**	**49(25)**	103(54)
Others (marriage, funerals, school fees, etc.)	08(04)	39(20)	**145(76)**

Note: **Percentages (%) in Brackets**

Table 8 sought to assess the specific activities on whichthe microfinance credit to small businesses was applied. Respondents indicated that, the microfinance credit were applied in these areas; to expand an existing business (80%), to increase Working capital (91%), to acquire business assets (72%), to start new business (31%) to pay default loans (33%), to solve personal problems (46%), advertise/market business product (12%), pay other business debt (38%) and others (24%)such as marriage, funerals school fees (46%).Meanwhile, only 19% of the respondents indicated that the credits were used to start a new business.

These results showed that, most SBs applied the microfinance loan for expansion of existing businesses, increasing working capital, and for acquisition of business assets. Nonetheless, others mismanage the funds by using it in payment of default loans and other business debt, or to solve their personal problems. This finding partly support Rosenberg (2009) that, many borrowers of microfinance credit use the credit for a non-business purpose, such as repaying another loan, buying a television or meeting day-to-day household expenses. The finding also revealed that MFIs are not interested in doing business with starters in business and this confirms Hishigsuren, Beard and Opoku, (2004) publication that, “For start-ups, simply having a good idea will not be enough to convince many investors to risk their capital in your business”.

Challenges Faced by Small Businesses in Dealing with Microfinance Institutions

Table 9 Saving in Order to Secure Loan

Options	**Frequency**	**Percent**	**Valid Percent**
Yes	162	84.4	84
No	30	15.6	16
Total	**192**	**100.0**	**100.0**
Adequacy of Loan Capital			
Yes	76	39.6	40
No	116	60.4	60
Total	**192**	**100.0**	**100.0**

Table 9 displays responses on whether the respondents were forced to save in order to secure loan. From the responses, 84% of them said yes, to show that they were forced while 16% of them indicated No to mean that they were not forced to save in order to secure loan. When respondents were further asked whether the loan capital secured from MFIs was adequate to und the activities of their businesses, only 40% of the respondents said Yes, whilst the remaining 60% of them said no, it was not enough for the running of their businesses.

This finding revealed that, though most of the respondents were forced to save in order to secure loan because their savings was used as the only asset that served as collateral in addition to the social collateral of trustworthiness which cannot be quantified in monetary terms. The savings was also used as a basis in determining the amount of credit that SBs could secure from the MFIs. On the issue of adequacy of the loans to SBs, 60% indicated that the loan capital was not adequate to meet the needs of their businesses and 40% said it was adequate. The inadequacy of the loan may be as a result of low savings by such SBs and fear of mismanagement of the credit by SBs due to lack of trust.

Table 10 What is the Highest Amount your Small Business Secured as Microfinance Loan

Highest Amount SBs Secured from MFIs as Loan	**Frequency**	**Percent**	**Valid Percent**
From GHC 100.00 to GHC 2,000.00	38	19.8	20
From GHC2,001.00 to GHC 4,000.00	72	37.5	38
From GHC4,001.00 to GHC6,000.00	44	22.9	23
From GHC6,001.00 to GHC8,000.00	31	16.1	16
From GHC8,000.00 to Above GHC10,000.00	7	3.4	3
Total	**192**	**100.0**	**100.0**

Table 10 displays respondents who responded to the question on the highest amount secured as microfinance credit.38 (20%) indicated between GHC 100.00 to GHC 500.00. 72(38%) of them said between GHC600.00 to GHC1, 000.00, and 44 (23%) indicated between GHC1, 000.00 to GHC5, 000.00. However, 31 (16%) said between GHC5, 000.00 to GHC10, 000.00 and only 7 (3%) indicated the highest amount they received was above GHC10, 000.00.

This finding revealed that the microfinance loan secured by most SBs in Kumasi was between GHC600.00 to GHC1, 000.00 and that the loan capital was not adequate and did not also meet the capital requirement of running small businesses in Ghana. This indicates that MFIs entertained fear in lending to SBs that the SBs may mismanage the funds and cause default in repayments. However loyal clients were granted the full amounts needed to run their businesses

Table 11 How Small Businesses Repay their Microfinance Loan

How SBs Repay the Microfinance Loan	Frequency	Percent	Valid Percent
Daily	120	62.5	63
Weekly	60	31.2	31
Monthly	12	6.2	6
Total	**192**	**100.0**	**100.0**
Grace period up to two weeks			
Yes	65	31.8	32
No	127	68.2	68
Total	192	100.0	100.0
Total period for loan repayment			
Three months	23	12.0	12
Six months	64	33.3	33
One year	89	46.4	47
Two years and above	16	8.3	8
Total	**192**	**100**	**100**
Average interest rate on MFIs loans			
Between 20% to 50%	55	28.6	29
Between 50% t0 72%	101	52.6	52
Above 72% or no idea on interest rate	36	18.8	19
Total	**192**	**100**	**100**

Table 11 shows how small businesses repay their microfinance credits. From the data, 63% of the respondents indicated that they pay their loans daily, 31% of them pay weekly and 6% indicated they pay their microfinance loans monthly. On the question of what was the average interest rate on the loan per annum, 29% of the respondents said it was between 20%-50%;52% of respondents said between 50%-72%, whilst 19% of them paid either above 72% rate or had no idea about the interest paid. The responses showed that, most SBs paid between 50% to 72% interest on loans taken from MFIs and this contributed greatly to the decline of profit after taking the MFIs as well as delay or default repayment. These findings confirmed Karlan and Zinman (2009) assertion that the global average interest and fee rate of microloans is estimated at 37%, but the average interest and fee rate is as high as 60% per annum in Ghana though the formalized commercial banks charge 32% average rate per annum. The high interest rate was probably as results of high administration cost or default risk experienced and indicated by the responses from the Microfinance Institutions. The comparison of the number of years the MFIs had been in business and the interest rates charged on credit facilities revealed that the MFIs which had been in operation for longer years offer higher amounts as credits to SBs and charged lower interest rates than the newly set up ones. This is because; the MFIs which had been in operation for longer years had accumulated enough savings from their clients and therefore no longer borrow from commercial banks at high interest rate to run their businesses. However, the newly set up ones borrow from commercial banks to meet the capital requirement of running MFIs and therefore lend to clients including small businesses at a comparatively high interest rates.

These finding again showed that, most of the respondents pay their microfinance loan in either daily or weekly and the maximum periods given to most of the SBs to repay their loans was one year with no adequate grace period before payment began. This caused the SBs who took the loans to start new businesses to face problem with the repayment schedules since there will be no income at the initial stages of the business' life to start the loan repayment. These probably resulted in SBs either paying back the credit with the borrowed capital to secure their future credit chances, or default or delay in repayment and in effect may deny such clients of future credit package. This might probably be among the reasons why MFIs are not interested in granting credits to startup SBs. The credit package many also be unfavorable when invested in assets rather than recurrent activities of the business. However the short time and daily repayment schedule favored vocational service providers whose early and daily revenue did not incur a lot of expenditure.

Table 12 challenges SBs Faced in Repaying Loans and their effects on SBs Growth

Problem	Effect on Repayment of Loan			Effect on Growth		
	Strongly Agree	**Agree**	**Disagree**	**Strongly Agree**	**Agree**	**Disagree**
Short Duration for Repayment	**60(31)**	**88(46)**	44(23)	**51(26)**	**103(54**	38(20)
High Interest Rate	**80(42)**	**96(51)**	16(09)	**74(39)**	**72(36)**	46(25)
No Knowledge on Interest Rate	24(13)	96(50)	**72(37)**	24(13)	**96 (50)**	72(38**)**
Demand of Collateral for High Amount	**60(31)**	**76(39)**	56(30)	58(30)	55(29)	79(41)
Denial of Auxiliary Services	**61(32)**	**99(52)**	32(16)	29(15)	74(38)	**89(46)**

Note: **Percentages in Brackets**

Table 14 shows respondents views on the problems SBs faced in repayment of credits and their effect on the growth of their small businesses. On the question of short duration for repayment, 148 (77%) respondents agreed that it was a problem and only 44 (23%) disagreed. On its effect on business growth, about 154 (80%) of the respondents added that it affected the growth of their small businesses negatively but 38(20%) of the respondents disagreed.

On the problem of high interest rate on loan repayments, about 91% of respondents alluded that it was a problem faced by SBs in loan repayment and only 9% disagreed and indicated that it was a problem. About 75% respondents further agreed that the high interest rate is affecting the growth of their business and 25% again disagreed. Again, about 63% of the respondent agreed that they had detailed knowledge on the interest rate charged by MFIs and 57% indicated that they had knowledge on how the interest rate charged on loan had effect on the growth of their businesses.

On the demand of collateral for high amounts, 70% agreed that MFIs demanded collateral before granting them with high amount of loans and about 59% of them agreed that it has effect on the growth of their small businesses. However, 30% of the respondents stated that their MFIs did not demand any collateral before granting them high amount of loan,

Finally, 84% respondents agreed that, MFIs denial of some core auxiliary services was a problem to them, and about 67% of them agreed that it affects the growth of their small businesses.

These findings show that there are a number of policies provided by MFIs to SBs that either affects their credit repayment or retard the growth of their businesses. Low knowledge on interest rate might had affected the pricing of SB products/goods; high interest rate resulted in low profit, demand for collateral and low savings limited the amount of loans SBs could access since most SBs possessed low level of valuable assets and operates on low daily returns. Absence of enough grace period reduced the working capital of the small businesses and might be the cause of the collapse of some small businesses in the Kumasi metropolis

Table 13: Regression and correlation analysis of the effects of microfinance Credit on Small Businesses.

	CORRELATIONS				
		Credit Facility	**Revenue Growth**	**Profit Growth**	**Business Expansion**
Pearson correlation	Credit Facility	1.000	0.133	-0.089	0.079
	Revenue Growth	0.133	1.000	-0.114	0.097
	Profit Growth	-0.089	-0.114	1.000	0.106
	Business Expansion	0.079	0.097	0.106	1.000
Significant (1-tailed)	Credit Facility		0.033	0.110	0.138
	Revenue Growth	0.033		0.058	0.091
	Profit Growth	0.110	0.110		0.072
	Business Expansion	0.138	0.091	0.072	

Dependent variable: credit facility

Table 13 shows the correlation and effect of microfinance credit / loan facility on small businesses' (SBs) revenue, profit and business expansion. From the data, microfinance credit shows effect of 0.133, -0.089 and 0.079 on revenue, profit and business expansion respectively. The outcome from the simple regression analysis performed demonstrated that the effect of microfinance credit facilities on SBs is positive as the coefficient for determination is 0.835 or 83.5%. In the respective matrix, the correlation between credit facility and revenue growth was 0.133, though positive but not very significant due to the small size of the credit granted. This means that if higher amount of credit is granted, the higher will be the SBs revenue growth. There was also insignificant positive correlation between MFIs credit and Small businesses expansion of 0. 079. However, there was negative correlation of -0.089 between MFIs credit and SBs profit despite the fact that, that of revenue was positive which affirmed that MFIs credit increase SBs revenue but reduces profit due to its high interest rates. The 0.097 and 0.106 correlation between revenue growth and business expansion and profit growth and business expansion respectively indicates that SBs reinvest only small amount of their profit into their business and uses the remaining for private or non-business purposes. The correlation also means that most SBs in Kumasi metropolis go for credit facility from MFIs anytime additional fund was needed to grow their businesses instead of reinvesting their profit earned from business activities. In summary, the total effect of microfinance credit on small businesses was positive and significant since the significant factor was 0.135.

Figure 8 Targeted customers of Microfinance institutions.

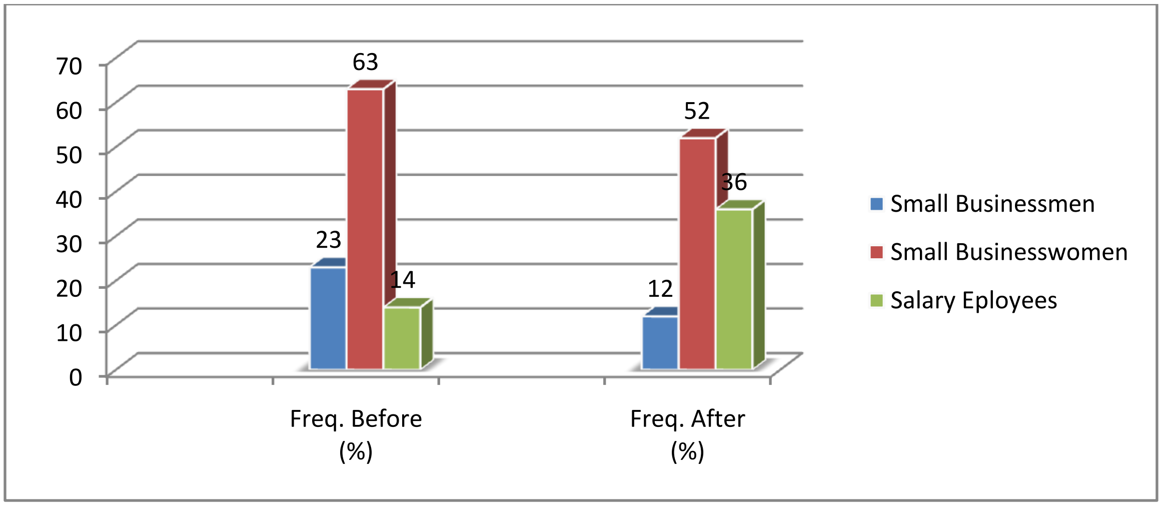


Figure displays the gradual shifting of microfinance activities from small businesses to salary employees. The results shows a reduction of microfinance institutions focus on small businesses from 63% to 52% as that of salary workers increased from 14% previously to 36% currently due to high default repayment rate of credits granted to small businesses.

SUMMARY OF KEY FINDINGS

General Information on Small Businesses

This section presents the findings of the field research with respect to general information regarding participants of the survey. In all 200 questionnaires were given out of which 192 were retrieved representing a response rate of 96%. Gender, age distribution, marital status and education were assessed under this section. The outcome of this study clearly showed that there are more females operating in small businesses than males in Kumasi metropolis and its surroundings. The gender distribution indicated that women were the most beneficiaries of MFIs services and affirmed that most MFIs serve as women empowerment tool. These findings had demonstrated, that most small businesses in Kumasi metropolis are run by married females between the ages of 30-39 years who also had no or low level formal education. The age group of SB operators in Kumasi metropolis affirmed the high contribution of small businesses to the employment of Ghana's working population. It was again obtained that SBs absorbed the section of Ghana's population who had no formal education to gain employment to the formal sector. However,it was also found that, the low education level possibly caused inadequate utilization of microfinance services and mismanagement of small business funds. This accounted for the constant monitoring, education and training by the MFIs to assist them to overcome their small business management challenges in order to achieve growth.It was also revealed that, most of the respondents are involved in retail trading and greater number operated in stores. Finally most present-day microfinance schemes to small businesses in Kumasi are less helpful than they are expected to be because the microloans are not a universal remedy for poverty-alleviation and that in some cases the poorest people have been made worse-off. To a very large extend, an increasing number of microfinance institutions, if not all, are now in operation for profit

Core and Auxiliary Services Small Businesses Received from MFIs

The outcome of the research identified that the core services microfinance institutions in the Kumasi metropolis offer to clients including small businesses are savings opportunity and grand credit to clients. This finding shows that most of the respondent's main motive for working with MFIs was to save in order to secure loans to run their businesses. This outcome indicated that, most of the respondents benefited from the loans and credit facility as the core services of microfinance institutions in the Kumasi metropolis of which most of the respondents clearly indicated that they were satisfied with doing business with the Microfinance Institutions. The result revealed that MFIs send personnel to monitor the progress of respondent's small businesses and this service was specially rendered by the credit/loans collection officers or the daily savings collectors who also do the assessment on the SBs which needed loan.

On the other auxiliary services that small businesses (SBs) benefit from MFIs, the study revealed that SBs have benefited from the loans management advice, financial / bookkeeping advice service of MFIs, and the SB management advice / training service from MFIs. However MFIs short term loans to meet emergencies of SBs, provision of insurance on loans and on businesses were yet to be implemented to benefit the SBs. Also the MFIs provide no or low interest on the savings from the SBs and charge high interest on the loans given to them because the MFIs believe in the principle of "Doing well by being good to others".

Contributions of Microfinance Core and Auxiliary Services on the Growth of Small Businesses

In an attempt to assess whether SB owners assess the growth of their businesses; the finding revealed that most respondents assessed their small businesses used tools like; an increased stock level, increased business size, increased business infrastructure, increased customer base and when there is an increase in income levels. Findings further showed that, the core and auxiliary services of MFIs such as credit and savings facilities; business and financial management advice assisted small businesses to grow in revenue and business expansion and respondents are willing to recommend or advice other small businesses to partner with microfinance institutions to grow their businesses.

On the growth of their small businesses before and after accessing credit from microfinance institutions, the result shows that; Profit before accessing microfinance loan was higher than after accessing loan from microfinance institutions and the correlation analysis from table 13 indicated that microfinance credit had negative effect on small businesses profit which was due to the high interest paid from profits on the credits.

On the issue of business size and expansion, most of the study outcome indicated marginal expansion because off the negative effect of credit on profit and the SBs owners reinvested small proportion of their marginal profit into the business and put the rest into private use before but became high after the applying the loans. There was also an increased level of the business activity/expansion of small businesses in areas such as introduction of new products and services to meet customers demand after accessing the microfinance credit. On the issue of small businesses opening up of new branches; there was no significant change in growth in comparing before accessing the loan from microfinance institutions and after accessing loan from microfinance institutions and respondents attributed this to the fact that they had no trust worthy people to manage new branches for them. Finally, with equity/assets value of their small businesses grew higher after accessing credit from microfinance institutions than before the loan.

Small Business Management and Effective Utilization of MFIs Loans

The result shows that, SBs do not have separate managers/business advisors to their small businesses, but the few that had, alluded that they were advised to separate their business funds from their personal money, taught how to price their goods and services, marketing of products and managing their businesses, such small businesses also applied the MFI advice in the running of their small businesses. The result added that most of the respondents used the credit for the purpose it were secured. The study further revealed that, the microfinance loan were applied in areas such as to; expand an existing business, increase working capital, acquire business assets, pay default loans, and also solve the small business owners' personal problems. The study also demonstrated that most SBs resulted to Microfinance credit facility as the primary means of expanding business despite its repercussions instead of reinvesting profit accumulated through 'susu' savings.

Challenges Faced by Small Businesses in Dealing with Microfinance Institutions (MFIs)

The finding revealed that, most of the respondents were forced to save in order to secure loan to meet the needs of their businesses. Moreover, the result further shows that, the loan most respondents secured from MFIs was between GHC600.00 to GHC1,000.00 which was not adequate to meet the capital requirements of running of running small businesses in Ghana since the credit to be granted depended on the amount of savings. The low amount offered as credit also indicates that most MFIs are now operating the start-up and scale-up stages and had not reached the sustainable stage where adequate capital had been accumulated to offer higher amount as credit at low interest rate as well as provision of insurance packages to clients. The finding also shows that, most of the respondents pay their microfinance loans on daily and weekly basis at average interest rate of 50%-60% per the short period given which was too high to use such und to run a small business. Hence most respondents had been denied of microfinance loan because of delays or default in paying previous loans,

The use of savings to determine loans to be granted to small businesses also threw challenge to SBs in ascertaining adequate capital to operate their businesses. Small savings base withno additional collateral security to pledge denies SBs from obtaining higher amount of loans. The respondents were not also allowed to withdraw their savings to support their working capital since it served as guarantee for the loan. However no significant interest was earned on such savings.

On respondents views on the challenges SBs faced in repayment of loans and their effect on the growth of their small businesses; Short duration for repayment in the form of daily or weekly installment, high interest rate, demand of collateral for high amounts, and denial of auxiliary services were problems of loan repayment and have also affected the growth of their small businesses. It was again identified that some of the MFIs are now shifting their attention from supporting small businesses to granting loans to formally employed individuals with guaranteed monthly salaries instead of increasing the value of loans to the small businesses due to SBs frequent default in repayment. This is likely to affect SBs chances of securing loans from MFIs to support their businesses in the long run.

The study finally discovered that many of the microfinance institutions are now shifting their attention from doing business with small businesses to doing business with civil servants who earn monthly salaries since their ability to repay the credit on time is guaranteed to achieve the objective of being well by favouring others.

CONCLUSIONS

In conclusions, microfinance loans and other service plays major roles in the operations of small businesses and should not relent in the provision of their services to alleviate people from poverty, empower the working poor (i.e. the rural women)and to also enhance their living standards and supporting small businesses to grow. Microfinance institutions should be regulated in more pragmatic ways to be seen as a viable tool for helping small businesses growth through both the core and auxiliary services offered. Finally MFIs in Ghana should come together as a unified body so that the stabilized ones could assist the grey ones to grow through proper regulations.

SUGGESTION FOR FUTURE RESEARCH

The research has brought to fore the services microfinance institutions in Kumasi renders to small businesses and the effects of such services on small businesses. To increase the benefits of small businesses gain from microfinance services especially the loan facility in future, more research should be conducted on how micro finance institutions can reduce their administrative costs in order to reduce interest rates on loans to small businesses.

Furthermore the population size should be increased to cover most of clients in different regions regards to the relevance of microfinance services and their challenges since larger samples are more representative of the population than a smaller sample.

RECOMMENDATIONS

Repackaging of Microfinance Products and Services

The study recommends that, microfinance institutions should repackage their products and services to make them more attractive in other to serve the main purpose for which they had been established - poverty alleviation and women empowerment. This should be done by reducing their interest rates, reducing the requirements for collateral and the mode of paying loans by small businesses. This will enable the working poor secure loans from them to run their businesses rather than SBs seeing them as solely for profit making entities.

Monitoring and Evaluation

The study also revealed that MFIs should employ more qualified persons to ensure regular monitoring on the progress of small businesses so that loans collected are put to rightful use and they should offered proper business advice so that their businesses will flourish thereby enabling them to pay loans secured and also improve upon their living conditions. It is also recommended that MFIs should develop proper mechanisms and tools to assess small business growth which partner with them since the use of physical features such as stock level, savings and loan repayment rate may be deceptive.

Loan provision

The study again recommends that, MFIs should provide more short term loans to meet emergencies of SBs, provide insurance on loans and businesses and also provide interest on the savings of small businesses. The value of the loan should also be adequate enough to meet the capital requirements of the SBs.

The study further recommends that, microfinance institutions should assist SBs to assess their small businesses so that they attest whether their businesses are growing or not this will lure them to become permanent members and also advice other small businesses to partner with microfinance institutions to grow their businesses.

The study recommends that, the problems SBs faced in repayment of microfinance loans such as; short duration for repayment, daily/weekly/monthly repayments, high interest rate, demand of collateral for high amounts, and denial of auxiliary services and their effect on the growth of their small businesses should be looked at, especially those factors which negatively affects the growth of small businesses.

Small Business Management

It is also recommended that, operators of MFIs should have separate managers/business advisors to small businesses, to give the proper business advice as how to manage their businesses, the need to separate their business funds from personal money, proper ways of pricing and marketing of products, goods and services. It was also recommended that, SBs should recruit qualified personnel to help manage their businesses.

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