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MICROFINANCE CREDIT FACILITIES AND THE GROWTH OF THE SMALL AND MEDIUM SCALE ENTERPRISES IN THE CAPE COAST METROPOLIS OF GHANA

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Abstract

Credit facilities continue to pose a major threat to the survival of the SME sector. The study sought to examine whether microfinance credit facilities contribute to the growth of the SME sector in the Cape Coast Metropolis of Ghana. Descriptive study design as well as quantitative analysis was carried out. Simple random sampling technique was used to sample 357 respondents for the study. The study revealed that most of the SMEs in the Cape Coast Metropolis have contracted microfinance credit facilities and that there was significant difference in growth of the SMEs before and after receiving microfinance credit facilities. The study also discovered that strict repayment terms, shorter repayment period, higher interest rate as well as small loan amounts were the major challenges that confronted the SMEs in the use of microfinance credit facilities to grow their businesses in the Cape Coast metropolis of the Republic of Ghana. It is recommended that government should create an enabling environment for financial institutions and other government agencies to advance more of these facilities to people in the SME sector.

Keywords: Microfinance, Credit Facilities, Small and Medium Scale Enterprises, Growth, Financing, Ghana

INTRODUCTION

All over the world, emphasis has been placed on the growth of the Small and Medium Scale Enterprise (SME) sector due to its immense contribution to gross domestic product (GDP) and for that matter economic growth. Both developed and developing economies have realized the essence of the SME sector to economic growth and development. The economic and social contributions of SMEs imply that the public is interested in the growth of SMEs (Fisher & Reuber, 2000). The growth of SMEs has become very significant to the growth of developed and developing countries alike all over the world. Policy interventions have been made by most developed and developing countries to promote the growth of this sector. Policy-makers throughout the Organization for Economic Co-operation and Development (OECD) have been keenly interested in the promotion and development of SMEs in variety of ways. In most part of the world, the growth of SMEs can be linked to the larger enterprises. In Indonesia, SME productivity has risen substantially, at rate not far from those of larger firms (Berry, Rodriguez & Sandee, 2001). This indicates prospect for growth and development of this sector in Indonesia. In recent times, many developed countries have given major recognition to small and medium scale enterprises. Since small and medium scale enterprises form majority of businesses in almost all economies, its growth and development affect, to a large extent, the growth of any economy. It is therefore essential that developing countries also give prior attention to the growth of this sector.

SMEs are preferred in developing countries for the strategic role they play in economic growth and development through their contribution in the creation of wealth, employment and income generation (Kasekende & Opondo, 2003). Developing countries must, therefore, concentrate on developing and growing the small and medium scale enterprise sector. This is because almost all developing countries are concentrated with small scale and medium scale enterprises. The ratio of SME to larger enterprises is far higher in developing economies than in developed economies. However, if developed economies have shifted attention to the growth of SME sector, then there is an incentive for developing economies for making policies towards the growth of small and medium scale enterprises as it is linked to their economic growth.

In Africa, Okpara (2011) argued out that SMEs play a momentous role in macro economy. There has been an obvious widespread of SMEs in Sub-Saharan Africa due to the continuous recognition of SMEs as the catalyst of growth and macro-economic variables booster. The Global Entrepreneurship Monitor (GEM) in 2010 on Angola, Ghana, South Africa, Uganda and Zambia indicates that the number of small established businesses is high. It has further been revealed by GEM (2010) that Ghana recorded the highest (40%) established owned businesses in Africa.

In Ghana, there has been a long history of government initiative for the promotion, finance and growth of the SME sector. There has been policy interventions over the past few years aimed at promoting the SME sector in Ghana. This is evidenced in the mandate for the establishment of the National Board for Small Scale Industries (NBSSI). The core function of the NBSSI is to extend credit facilities through its loan schemes to entrepreneurs for both working capital and acquisition of assets which is aimed at growing the businesses of these entrepreneurs. About 90% of company's registered in 2007 were micro, small and medium scale enterprises (Mensah, 2007). This means that more SMEs were registered within the year 2007. The growth of Ghana's GDP at an annual rate of 5.4% between 2001 and 2007 was evidenced by the robust growth of the SME sector (UNECA, 2010). There is therefore the need to study the growth of the SME sector as it is linked to the growth of every emerging market economy.

However, the growth of the SME sector still remains a great challenge to many emerging economies. Like huge enterprises, the availability of funds determines the possibility and chances of growth. Over the past few decades, SMEs have had difficulties financing their operations. Biekpe (2004) argues that most small businesses especially in sub-Saharan Africa fail in their first year due to lack of support from government and traditional banks. This has stunted the growth of SMEs in Sub-Saharan Africa. Prior research has noted that banks are a major source of capital to small businesses (Petersen & Rajan, 1994). However, small firms find it difficult to assess bank loans than do large firms. Bank loans account for less than a quarter of SME's total debt financing (Abor & Biekpe, 2007).

The concept of microfinance was therefore introduced to offer financial assistance to small scale and medium scale enterprises. Microfinance refers to the provision of diverse financial services to people who may have no access to such financial services from formal banks. Research indicates that funds are very accessible from microfinance institutions (Onyina & Turnell, 2013). Since banks have failed to offer financial assistance to small and medium scale enterprises, microfinance institutions have developed innovative lending products that reduce not only riskiness, but also the cost of making small loans without depending on collateral (Morduch, 2000). Collateral has been a major impediment to SMEs in contracting credit facilities from the traditional banks (Abor & Biekpe, 2007).

Microfinance programs have come in the form of formal and non-formal provision of financial assistance to small and medium scale enterprises. The formal interventions are implemented by government and the private business entities whiles the non-formal provision of financial assistance involves individuals supporting one another with certain financial assistance without any formalized procedures, records and systems. Though these interventions are aimed at reducing poverty and increasing access to funds by the poor and SMEs, empirical evidence indicate that microfinance institutions are profit oriented and aim at their own financial sustainability (Goldberg, 2005). The study, therefore, seeks to find out whether these interventions actually provide funds to the SME sector and whether these funds contribute significantly to the growth of the businesses in the SME sector.

Problem Statement

The Cape Coast metropolis is one of the few metropolises in the Republic of Ghana dominated by small and medium scale enterprises. The Metropolis is the smallest metropolis in Ghana and it covers an area of 122 square kilometers. It is surrounded by small towns and villages whose main stay is typically farming and fishing. Apart from fishing and farming, most of the businesses and enterprises located within the Kotokuraba and Abura markets areas are small scale businesses. Industrial establishment is typically low as there is only one factory in the metropolis which is the Ameen Sangari factory.

The metropolis has increasingly seen growth in the number of the establishment of small and medium scale enterprises (Mensah, 2007). However, according to Ghana Statistical Service (2015), the Cape Coast Metropolis poverty levels keep rising. This is an indication of poor growth of businesses in the metropolis. A major hindrance to SME growth is the lack of funds for business expansion and growth. Bank loans are unavailable to SMEs due to lack of collateral. Banks have failed to advance business loans to SMEs (Abor & Biekpe, 2007).

The metropolis has few commercial banks as the big commercial banks are located in those industrial metropolises in the country. The few traditional banks have concentrated on SME banking by granting small and microfinance loans to support the increasing growth of the SMEs in the metropolis. Notwithstanding that, access to credit from traditional banks continues to pose a threat to the survival of SMEs (Abor & Biekpe, 2007). This is because of the problem associated with the availability of information used to evaluate a project or information asymmetry. Microfinance institutions have become the major source of financing to the SMEs in the metropolis. Despite the intervention of microfinance institutions and other financial institutions granting microfinance credit facilities, the growth of the SME sector continues to remain a challenge. The question is whether microfinance credit facilities are accessible to the SMEs and whether they contribute significantly to the growth of the SME sector. The study also sought to access the main challenges that impede their growth in the use of these facilities.

Objectives of the Study

The main objective is to determine whether microfinance credit facilities contribute to the growth of small and medium scale enterprises in the Cape Coast Metropolis.

Significantly, the study sought to:

1. Identify the major challenges in using microfinance credit facilities to grow businesses;
2. Examine whether there is significant difference in the growth of the SMEs before and after acquiring microfinance credit facilities

Research Question

In order to achieve the specific objective one of this research, the following research question was asked:

1. What are the major challenges in using microfinance credit facilities to grow businesses?

Hypothesis

The hypothesis for the objective two is stated as follows:

HO: There is no significant difference in growth before and after receiving microfinance credit facilities

Limitations to the Study

The study was conducted in the Cape Coast Metropolis. The Questionnaires were distributed to only those SMEs registered and paying operating license fees to the Cape Coast Metropolitan Assembly. Therefore, the population of the study was limited to only those SMEs registered with the Revenue Department of the Metropolitan Assembly. This makes it difficult to generalise the findings as there are other SMEs who are not registered with the Cape Coast Metropolitan Assembly. However, SMEs have similar characteristics and therefore this may not be a major problem or hindrance to the generalisation purposes

REVIEW OF RELATED LITERATURE

A number of studies have been carried out in the area of microfinance and the growth and development of the SME sector. It is important to review the various concepts, theories and other evidences of similar works done in order to express the importance and establish the necessity for this work. Theories and other empirical works applicable to the study have also been reviewed and applied to the study.

Micro Credit Theory

The micro credit theory has been derived from the economic theory that forms the foundation of the credit business in non-communist society (Ngugi & Kerongo, 2014). The Micro Credit Theory was first conceived by Adam Smith (1937) in the eighteenth century that self-seeking individuals are always eager to employ their labour, capital and skills to their best interests, which eventually add up to the benefit of the entire society due to the work of the 'invisible hand'. Smith's micro credit theory was later popularized by Karl Marx who went ahead to describe the principle of material prosperity of the non-communist society.

Yunus (1994) advanced on the Micro Credit Theory and came out with the psychological component of the theory known as “the social consciousness driven capitalism”. The theory argues that species of profit-making private venture can be conceived that cares about the welfare of its customers. The psychological aspect of this theory looked at the impact private ventures make on their clients. By so, the clients were considered to be associated with the profit of firms. In other words, it is possible to develop capitalist enterprises that maximize private profits subject to welfare considerations of their customers.

The theory as advanced by Yunus (1994) looks at the impact of the micro credit on the clients of these private firms as their profitability is highly skewed to the welfare of their clients. The theory can be conceptualized to this study as the study looks at the micro credit facilities and the small and medium private enterprises. Financial institutions that trade in micro credit facilities and microfinance institutions must consider the welfare of the small and medium scale enterprises in other to ensure their sustainability and growth. The impact of these microfinance credit facilities depends to a large extent on the welfare considerations on these SMEs. This means that the growth of the SME attributable to the microfinance credit facilities depends on the consciousness of the welfare considerations labelled on these SMEs. Where this social consciousness is not carefully diagnosed, the growth of the SMEs attributable by micro credit facilities would be impeded.

Empirical Review of Microfinance Credits and Impact on SMEs and the Owners

Ndife (2013) studied the effect of micro credit institutions on the development of SMEs in Anambra State of Nigeria. The study was aimed at determining the impacts of micro credit institutions in start-ups, survival and growth of SMEs as well as the effect of collateral requirements in obtaining micro credit loans from microcredit institutions in Anambra South and North senatorial district of Anambra State. A sample of 450 respondents was selected for the study using the judgmental and systematic random sampling methods. The study discovered a significant relationship between microcredit institutions and SME development.

Siyad (2013) also studied about the effect of microfinance institution lending on the growth of small and medium scale enterprises in Somalia. The objective was to find the effect of microfinance lending on the growth of small and medium scale enterprises in Somalia. He employed descriptive design to gather descriptive and numerical data to assess the relationship between the variables. The study employed stratified probability sampling technique to select a total of sixty SME’s as the sample size. The study discovered that microfinance institution loans lead to improvement in productivity among the beneficiaries of SMEs as well as profitability and high number of entrepreneurs starting up new ventures. It was also found out that there is a positive relationship between return on assets and accessibility of credit in microfinance institutions, a negative one between return on assets and the collateral of microfinance institution lending as well a positive one between return on assets and group lending and individual lending.

However, other empirical evidence indicates that microfinance institutions do not increase the productivity and profitability of small businesses in Ghana (Mintah, Attefeh & Amoako-Agyeman, 2014). They sampled twenty microfinance institutions and two hundred small businesses in the Ashanti Region of the Republic of Ghana. The study assessed the services microfinance institutions render to small businesses and how small businesses manage and utilize the credits from microfinance institutions. The study revealed that microfinance institutions provide credit facilities to small businesses. More so, they found out that greater microfinance institutions. These affect the growth of the small businesses in the Ashanti Region of the Republic of Ghana.

Onyina and Turnell (2013) researched about the effects of microfinance lending scheme on clients of Sinapi Aba Trust (SAT) in Ghana. The objective of the paper was to evaluate the effects of microfinance lending on the clients of SAT in Ghana who have received loans from the company. The paper centred on interviews conducted with loan clients of Sinapi Aba Trust. Data was collected from the clients between the period of July and September 2009. Loan clients were categorized into old clients and new clients using the Cohort approach. Old clients were clients that had borrowed for more than three years whiles new clients were those that had borrowed for less than three years.

Analysis of the data indicates that old clients are more likely to purchase assets, expand their businesses, and spend larger amounts on their children's education than new clients. The study also found out that microfinance contributes to the betterment of livelihood of the loan clients of Sinapi Aba Trust.

The Concept of Small and Medium Scale Enterprises

Small and Medium Scale Enterprises have been defined by various bodies and individuals. Definitions vary from country to country depending on the thresholds in respect of sizes, turnovers, assets and number of staff employed. Some writers prefer to use capital assets whiles others prefer using turnover or labour in defining SMEs. However, others do not depend on any thresholds. The Bolton Committee (1971) was the first to formulate an "economic" and "statistical" definition of small firm. In this regard, they categorized the definition into "economic" and "statistical".

Under the "economic" definition, a firm is said to be small if it meets the criteria as outlined below:

- It has a relatively small share of their market place;
- It is managed by owners or part owners in a personalized way, and not through the medium of a formalized management structure;
- It is independent, in the sense of not forming part of a large enterprise.

The "statistical" definition was also conceptualized under the following criteria;

- The size of the small firm sector and its contribution to GDP, employment, exports, and many more;
- The extent to which the small firm sector's economic contribution has changed over time;
- Applying the statistical definition in a cross-country comparison of the small firms' economic contribution.

The definition as categorized into 'economic' and 'statistic' was independent on thresholds in respect of sizes, turnovers, assets and number of staff employed. In the 'economic' definition, they considered the economic environment of a firm to determine it as small or large. In the 'statistic' definition, they considered the contribution of the firm to the economy by statistical comparison to determine how small or large a firm is.

In employing thresholds, the Committee defined small firms in terms of number of employees, monetary turnover, and number of assets and relating it to the particular sector of the industry. Firms in manufacturing, construction and mining were defined as small firms if the number of employees were 200 or less. More so, firms in the retail, services, wholesale and many more were defined as small firms if their turnover is within the range of 50,000 to 200,000 British pounds. Also, the Committee classified firms in the road transport industry as small firms if they have 5 or fewer vehicles.

It must be emphasized that the Bolton Committee ought to have faced quite a number of criticisms in their definition due to its inconsistencies on the number of employees and the managerial approach. The economic definition which is subject to managerial performance will be inconsistent with newly established firms. Newly large enterprises in the process of restructuring and organizing assets and management structure to gain larger market share could be inconsistent with the definition.

The European Union Commission Recommendation of 6 may 2003 categorizes medium sized, small, and micro enterprises in terms of number of employees up to 250, 50 and 10 respectively. This contrasts with the Bolton Committee's small scale enterprises with reference to number of employees. In terms of turnover, the European Union considers turnover with less or equal to 50 million Euros as Medium-sized enterprise, less or equal to 10 million Euros as Small Enterprise as well as less or equal to 2 million Euros as Micro-sized Enterprise. However, it must be emphasized that this varies with time.

Like Bolton Approach, the South African National Small Business Amendment Act 26 of 2003 defines micro, small and medium enterprises according to the different sectors of the industry and emphasizing on number of employees, Turnover and total assets. In the Agric sector, a firm is medium, small and micro with 100, 50 and 5 employees respectively and total assets of R5 million, R3 million and R0.10 million for medium , small and micro respectively. In the manufacturing sector, they define firm as medium , small and micro with 200, 50 and 5 employees respectively with a turnover of R51 million, R13 million and R0.20 million respectively and also with total fixed assets of R19 million for medium, R5 million for small and R0.10 million for micro enterprises. With the construction sector also, they defined 200 employees for medium enterprises, 50 employees for small enterprises and 5 employees for micro enterprises. In terms of turnover, R26 million for medium enterprises, R6 million for small enterprises as well as R0.20 million for micro enterprises. The construction industry also considers R5 million in terms of fixed assets for medium enterprises, R1 million for small enterprises as well as R0.10 for micro enterprises.

In Ghana, there have been a number of definitions given for small and medium scale enterprises. Many of the Ghanaian definitions have concentrated on the number of employees of the enterprise and the total assets held by the enterprise. However, the definition which is mostly used is the number of employees (Kayanula & Quartey, 2000). It must be noted that the application of this definition breeds disparities in respect of unpredictability and the cut-off points used by various official sources. The Ghana Statistical Service (GSS) (2012) considers firms with less than 10 employees as Small Scale Enterprises and their counterparts with more than 10 employees as Medium -Sized Enterprises.

The other alternative in the definition of small and medium scale enterprises is the value of fixed assets. In Ghana, the National Board for Small Scale and Industries (NBSSI) uses both the fixed assets and the number of employee's criteria in defining SME. The NBSSI defines small scale enterprise as one with not more than nine workers, has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Cedis (US$ 9506, using 1994 exchange rate). However, this definition could be outdated by the continuous instability of the exchange rate making it incomparable to other countries. Like the other countries, the value of the fixed assets could differ from country to country.

The Ghana Enterprise Development Commission (GEDC) on the other hand, uses a 10 million Cedis upper limit definition for plant and machinery for small enterprises. A point of caution is that the process of valuing fixed assets in it poses a problem (Kayanula & Quartey, 2000). Steel and Webster (1990), in defining Small Scale Enterprises in Ghana, used an employment cut off point of 30 employees to indicate Small Scale Enterprises. The latter however disaggregated small scale enterprises into 3 categories: micro-employing less than 6 people; very small, those employing 6-9 people and small-between 10 and 29 employees (Kayanula & Quartey, 2000). For the purpose of this study, the definition provided by the Ghana Statistical Service (2012) would suitably be preferred as it's very synonymous with the characteristics of SMEs in the Cape Coast metropolis.

Some Policy Interventions for SME Growth and Development in Ghana

Ghana has over the past few years recognized the role of SMEs in developing the nation. Several policy interventions and institutions have been established by the government of Ghana since independence to ensure sustainability and growth of this sector. Popular among the institutions established to promote SMEs in Ghana is the office of Business Promotion Centre which is presently, Ghana Enterprise Development Commission (GEDC). Its core function is to assist Ghanaian businessmen to enter into fields where foreigners mainly operated but which became available to Ghanaians after the Alliance Compliance Order in 1970. GEDC has packages for strengthening small scale industry in general, both technically and financially.

In 1990, the support for micro, small and medium enterprises was intensified through the establishment of the National Board for Small Scale Industries (NBSSI). To strengthen the activities of the NBSSI, GEDC was merged with NBSSI in 1991 and so the NBSSI took over the activities of GEDC in area of credit delivery to small and medium scale entrepreneurs. The delivery of credit to small and medium scale entrepreneurs was funded by a thirty million dollar Fund for small and medium scale enterprises by the World Bank Fund for Small and Medium Enterprise Development, a world bank's project for small and medium enterprises. This credit was made available to all enterprises in all the sectors of the economy except primary agriculture, real estate and trading. However, the repayment performance analysis turned out to be less than satisfactory (Asiama & Osei, 2007). This weakened the activities of the Board in respect of credit to small and medium scale enterprises.

In 2001, the government of Ghana established the Ministry for Private Sector Development. The main focus of the ministry was to co-ordinate and harmonizes all inter-sectoral effort which was aimed at developing the private sector, mainly the small and medium scale enterprise sector. This sector had been recognized as the engine of growth and poverty reduction in Ghana. The main function of the ministry was to sensitize individuals and enterprises of the SME sector to the essence of keeping to the basic principles of running business enterprises which include bookkeeping, banking and other entrepreneurial skills. The ministry was successful in putting in much effort towards relieving SMEs of their major challenges, which is access to credit.

An effort to boost Ghana's Export trade in the sector was made through the establishment of Export Development and Investment Fund (EDIF) in October 2000 with the vision to enhance the economic growth of Ghana by providing funds and credit facilities on concessionary terms for the development and promotion of the country's export. The operation of the fund however started in July 2001 with the appointment of a Chief Executive, the inauguration of a 13-member Board and the establishment of a secretariat. This came to light as a result of the fact that direct financial support for the sector was left to banks. The situation was worsened by the exorbitant interest charges which were not attractive enough to give significant boosts to export. EDIF came as relieve to players in this industry. However, in recent times, beneficiaries of EDIF are still faced with the challenges of accessing credit facilities from the Banks that have been authorized to provide credit facilities to industries and businesses under EDIF.

As a result of the challenges facing EDIF especially in the area of the provision of funds to beneficiaries, the government of Ghana considered establishing an independent body to manage EDIF to provide funds for the development and promotion of the export sector. The move was to provide financial support to beneficiaries directly from the corporate body rather than banks that have been authorized to provide the services.

Other Government of Ghana interventions to improve the SME sector are the President Special Initiative (PSI) which was launched in Ghana in 2002. The project aimed at supporting the production of cassava as well as textiles and garments for export. The initiative was launched in five areas of activity. They include the accelerated export development for garment and textiles, cotton production, salt mining, oil palm production, cassava starch production. The initiative targeted medium scale enterprises as a means of empowering them to larger enterprises. The intent of the initiative was to spearhead the expansion and deepen the economy, grow existing enterprises, and create more jobs. However, the President Special Initiative short lived due to the challenge with access to funds to spearhead the initiative. The government of Ghana could not successfully and continuously progress the project. To this regard many of the projects were abandoned due to inadequate finances to keep the project running.

It must be emphasized that the government of Ghana has over the years carried out numerous projects and established institutions to ensure the success of the SME sector. Access to credit from traditional banks progressively continues to impede the growth of this sector, hence the need to look into microfinance credits to SMEs in Ghana.

Constraints to Growth of SMEs in Ghana

Kayanula and Quartey (2000) categorized constraints to the growth of the SME sector into six broad areas. These areas are input constraints, domestic demand, international markets, regulatory constraints, managerial constraints and institutional constraints.

Input constraints

Access to the factors of production continues to pose a threat to survival. SMEs face a lot of constraints in factor market (Levy, 1993). Factor availability and cost are seen as the most common constraints to the growth of many SMEs. SMEs that deal with the physical production of goods and services face challenges with access to factors of inputs. This may be due to poor cash inflow which may be caused by the inability to obtain credit facilities for expansion and growth. SMEs that are into trading and services provision may also be confronted with cost constraint.

Access to finance continues to remain dominant in the constraints. Many small scale enterprises in Ghana are faced with the challenge of access to finance. Aryeetey, Baah-Nuakoh, Duggleby, Hettige and Steel (1994) submitted that 38% of SME surveyed mentioned credit as a constraint. This is as a result of the fact that SMEs have limited access to capital markets both internationally and locally. Many of the credit providers have rated SMEs as highly risky, more prone to failure than success, having a lot of informational barriers. Traditional banks have failed to advance credit facilities to small scale enterprises due to lack of collateral security and the presence of information asymmetry.

According to Kayanula and Quartey (2000), another factor which may be less important but also affect SME growth is the labour market. This may not seem so important in the SME sector due to the current issue of unemployment in the country. Labour is not a serious challenge to SME due to the fact that SMEs do not require highly skilled labour which could have been serious constraints. Where there is the need for skilled workers, unavailability of skilled workers can limit the special opportunity, increase the cost, and reduce flexibility in managing operations. Aryeetey, Baah-Nuakoh, Duggleby, Hettige and Steel (1994) discovered that 7% of their respondents indicated that they had problems finding skilled labour, whiles 2% had similar problems with unskilled labour.

Kayanula and Quartey (2000) also indicated Equipment and Technology as an input constraint to the activities of SMEs. SMEs face difficulties in getting the appropriate machineries and other sophisticated equipment that would aid operational expansion. This can still be attributed to the lack of access to credit facilities to procure these machineries or the inability to secure good credit purchase agreement. According to Aryeetey, Baah-Nuakoh, Duggleby, Hettige and Steel (1994), one of the four most significant constraints to expansion in the production of goods sector is old equipment. Old and obsolete equipment is a contributory factor to stunted growth in most medium sized industries. Again this could be aligned to the lack of access to credit facilities to enhance the purchase and replacement of this old equipment.

Domestic Demand Constraints

Demand for goods and services contribute to the growth and development of business enterprises. Poor demand for an enterprise's product endangers the growth opportunities of the enterprise. Parker, Riopelle and Steel (1995) submits that demand constraints limited the growth of SMEs in Ghana. Larger Enterprises are highly capacitated to pull more demand for their goods and services compared to their counterpart SMEs. Larger firms are able to secure credit facilities because of good security and good cash flow track records. As a result they are able to enjoy economies of scale which leads to price reductions and make them market leaders. Access to credit facilities could influence demand which is a constraint to SME growth and development.

International Market Constraints

According to Kayanula and Quartey (2000) international competition poses a threat to most SMEs in Ghana. There is therefore the need for SMEs to expand their market share. However internationalization within the SME sector is impeded by limited international marketing experience, poor quality control and product standardization, and little access to international partners. Trade liberalization has endangered the activities of most SMEs. SMEs find it difficult to compete with the international products in the local market. Access to credit still continues to feature in the internationalization drive of SMEs in Ghana. Aryeetey, Baah-Nuakoh, Duggleby, Hettige and Steel (1994) reported that only 1.7% of firms export their output in Ghana. This is as a result of lack of funds to meet international product standard.

Regulatory Constraints

Businesses operate within the confines of laws and regulations. The cumbersome nature of laws and regulations affect the growth of Small and Medium Scale enterprises. In this regard, Kayanula and Quartey (2000) highlighted legal constraints as the main regulatory constraint. Legal processes include licensing and registration requirement, legal claims and excessive delays in court proceedings. In Malawi, Makoza and Makoko (1998) reported that laws like the Business Licensing Act, The Electricity Act, The Control of Goods Act, and the Export Incentives Act severely constrained SME growth and development.

Managerial Constraints

The lack of entrepreneurial and business management skills is a managerial constraint (Kayanula & Quartey, 2000). SMEs compete with larger firms for little talented and skilled managerial expertise in the country. SMEs lack the ability to attract highly skilled managerial personnel. Most proprietors and management of SMEs lack the requisite management skills for growth. Many are semi-literate and semi-skilled whiles most small scale entrepreneurs are illiterate especially in most African countries.

It must however be recognized that all the constraints to SME growth emanate from the issue of lack of funds or credit facilities for necessary expansion and growth activities. Credit plays a very significant role in the growth of every business.

Microfinance and SME Development

Microfinance has been variously defined by many especially since its early spread throughout the world. The various definitions have focused on the interventional role of these institutions in the society. Otero (1999) sees it as the provision of financial services to low income earners and very poor self-employed people. Ledgerwood (1999) also referred to microfinance as those institutions that deal with savings and credit as well as the provision of other financial services such as insurance and payment of services for the poor in society. According to Coleman (1999) microfinance is an attempt to improve access to small deposits and small loans for the poor or small businesses neglected by the banks. The major imports of microfinance are to assist the poor in societies as well as the neglected small business owners. By this, microfinance was to be seen as a major eradicator of poverty and improvement in small business growth.

In recent times microfinance activities have been extended and therefore encompass varieties of services. The services include loans, savings, insurance, transfer services and other financial products and services. Microfinance credit is thus one of the critical dimensions of the broad range of financial tools for the poor. The introduction of microfinance in the early days was to improve upon the livelihood of people and their communities. Several researches indicate that microfinance is a successful tool in the elimination of poverty and improvement of the lives of rural folks (Otero, 1999; Littlefield & Rosenberg, 2004; Simanowitz & Brody, 2004; Onyina & Turnell, 2013). In most African countries it has been seen as an interventional strategy to achieve the Millennium Development Goals. According to Simanowitz and Brody (2004), microfinance credit is a key strategy in reaching the Millennium Development Goals (MDGs) and in building global financial systems that meet the needs of the poorest people. The International Monetary Fund (2005) has commented on the critical role of micro credit in achieving the Millennium Development Goals. In most part of Africa, microfinance has been employed as tool to eradicate poverty.

However, some schools of thought feel a bit dicey about the so called impact of microfinance on poverty alleviation and improvement of the livelihood of the people. Hulme and Mosley (1996), concluded, from their research on microfinance credit schemes, that most contemporary schemes are less effective than they might be. The authors argued out that, microfinance credit is not a panacea for poverty alleviation and that in some cases the poorest people have been made worse off.

In recent times, the focus of microfinance has not only been to improve upon the lives and the community but to offer financial assistance to businesses. These businesses are mostly the small and medium scale enterprises that have been neglected by the traditional banks.

Structure and Key Stakeholders of Microfinance in Ghana

According to bank of Ghana (2007), key financial institutions in the microfinance sector include the Rural and Community banks, Savings and Loans Companies, Financial Non-Governmental Organizations (FNGOs), Credit Unions, Susu Collectors, Development and Commercial banks with microfinance programs and linkages as well as micro insurance and micro-leasing services. These institutions trade in microfinance services which include micro savings and small loans. Apart from Susu collectors which according to the regulation of the Central bank of Ghana are not permitted to advance credit facilities to their clients, all of these institutions are mandated to take savings from the public in the form of daily small deposits and advance micro loans to support their clients. Some development and commercial banks have developed linkages and other micro finance products to serve the small and medium scale enterprises.

Other stakeholders in the microfinance front include the various apex bodies such as Association of Rural Banks (ARB), ARB Apex Bank, Association of FNGO, Ghana Cooperative Credit Unions (CUA) and Ghana Cooperative Susu Collectors Association (GCSCA) (Bank of Ghana, 2007). These are the apex institutions that govern the activities of these microfinance-related institutions. These apex institutions are mandated to ensure sanity in the operations of these microfinance institutions.

Mentions can also be made of other supporting institutions such as Microfinance and Small Loans Center (MASLOC), The Ghana Microfinance Institutions Network (GHAMFIN), Development Partners and International Non-Governmental Organizations as well as Universities, Training and Research Institutions (Bank of Ghana, 2007).

Government Institutions such as Ministry of Finance and Economic Planning, Ministries, Departments, Agencies (MDAs) and Metropolitan Assemblies as well as Municipal and District Assemblies (MMDAs) are all partners and stakeholders of Microfinance operations in Ghana (Bank of Ghana, 2007).

In assessing the credit facilities, the study considered the Small and Medium Scale Enterprises that have received credit facilities from Savings and Loans Companies, Rural and Development Banks, Financial Non-Governmental Organizations (FNGO), Credit Unions, Commercial Banks microfinance projects and Micro Insurance and Micro Leasing Institutions.

Microfinance Credits in the SME Sector

The importance of microfinance credit facilities cannot be overruled in this current trend of the Ghanaian economy. The failure of traditional banks to advance credit facilities and the lack of sustainability of the government support schemes for the SME sector calls for a careful look into the importance of those credit facilities provided by the Rural and Community Banks, Microfinance Institutions, Savings and Loans, Financial Non-Governmental Organizations, Credit Unions as well as other government supporting institutions. These institutions provide microfinance credit facilities for their clients (Bank of Ghana, 2007). However, it must also be clear that some Commercial Banks in Ghana have developed and established SME banking where microfinance credits are advanced to the SME clients of these banks. Since the introduction of SME banking most universal banks have developed credit facilities for the SME sector. However, due to lack of collateral security and the unavailability of other information, many of these SMEs are unable to access credit facilities from the traditional banks to grow their businesses (Abor & Biekpe, 2007)

The recent development, microfinance institutions have concentrated on developing and growing SMEs. The target clients of these Microfinance institutions are the poor, the small business owners and medium sized enterprises. A study conducted in Adis Ababa indicated that small businesses do not have enough finances to enable them accomplish the objective for which they were established (Zeru, 2010). The study indicated that the government of Ethiopia is working with microfinance institutions and regional government to improve access to finance for small businesses across the country.

Moreover, for the SMEs to have access to microfinance credit facilities, they must be ready to organize and structure their businesses in order that proper credit evaluations and assessment can be made by the financial institutions. Reilly and Aga (2011) found out in Ethiopia that certain attributes of a firm contribute to the firm's success with access to microfinance credit for the growth of businesses. The study discovered that businesses with membership of a business association and maintaining accounting records are important determinant of access to microfinance credit. It must however be noted that having access to microfinance credit does not warrant growth of business enterprise. The growth of the SME sector is not linked to the access to microfinance credit facilities but to the impact of the credit facilities on the development of the SME sector.

RESEARCH METHOD

Research Design

Descriptive study design as well as quantitative design was chosen for the study. Descriptive research design is a scientific method which involves observing and describing the situation of a subject without influencing it in any way. According to Neuman (2003), descriptive design gives a picture of specific details of a situation, social setting or relationship. One important aspect of descriptive design is that it helps to describe, explain and validate findings of studies (Creswell, 2003). However, Creswell (2003) criticized that descriptive design is usually narrow in scope and limit analysis of event, concepts and theories to only what they are without exploring the in-depth components of such concepts.

The study also sought to employ quantitative research design to carry out an in-depth and unbiased analysis into the subject matter. Quantitative research attempt to maximize objectivity, and generalizability of findings, and are typically interested in prediction (Kumar, 1996). Very integral to quantitative approach is the expectation that a researcher will set aside his or her experiences, perceptions, and biases to ensure objectivity in the conduct of the study and the conclusions that are drawn. However, quantitative studies have some weaknesses which impedes it use. It has been argued out that there is often no information on contextual factors to help interpret the results or to explain variations in behaviour between households with similar economic and demographic characteristics. Despite the weakness, study findings can be generalized to the population in this study.

Target Population

The target population for the study is made up of all the small and medium scale enterprises operating within the Cape Coast Metropolis. The table 1 below shows the total number of registered small and medium scale enterprises operating within the Metropolis (CCMA, 2016). The data shows SMEs that are currently in operation and paying operating licenses to the Cape Coast Metropolitan Assembly. The target population for the study is 5771 SME business owner.

Table 1: Number of Registered SMEs in CCMA

Revenue Head	**Total Records**
Bookshops/stationery shops	58
Cassette sellers	12
Chemical/pharmacy shops	113
Chopbars/eating houses/restaurants/others	182
Commercial stores	21
Communication and secretarial centres	98
Corn/fllour milling shops	40
Dealers in mobile phones	92
Dealers in second hand goods	10
Distributors/wholesalers	4
Drinkin bars	511
Flour users/ bakers	34
Hardware store	142
Hotels/beach resort/guest houses	150
Ice cream manufacturing factories	3
Industrial establishment	16
Jewellery shops	3
Laboratories and others	6
Laundries/dry cleaning est./firms	4
Liquefied petroleum gas station	2
Manufacturer/hirers of canopies and chairs	
Mineral water manufacturers	7
Non-banking institutions	57
Other artisans/workshops/companies	560
Printing house	13
Private hospitals/clinics/maternity homes	28
Sawn timber sellers	27
Second hand clothing	66
Telecommunication mask	54
Temporary structure/stores	3418

Source: Cape Coast Metropolitan Assembly (2016)

Sampling Procedure

The total estimated target population for the study is 5,771. This represents SME business owners in the Cape Coast Metropolis who are registered with the Revenue Department of the Cape Coast metropolitan Assembly. The sample size for the study was 357. To arrive at the sample size of 357, the table for determining sample size from a given population produced by Krejcie and Morgan (1970) was used. Krejcie and Morgan (1970) table provides a means of estimating the right sample size by means of pre-calculated sample size tables based on the total population at a given time with an assumed standard error of 0.05. According to the table 2, the right sample size for a given population of 5,771 is 357.

Table 2: Krejcie and Morgan Table

N	S	N	S	N	S	N	S	N	S	N	S
10	10	85	70	220	140	440	205	1200	291	4000	351
14	14	90	73	230	144	460	210	1300	297	4500	354
20	19	95	76	240	148	480	214	1400	302	5000	357
25	24	100	80	250	152	500	217	1500	306	6000	361
30	28	110	86	260	155	550	226	1600	310	7000	364
35	32	120	92	270	159	600	234	1700	313	8000	367
40	36	130	97	280	162	650	242	1800	317	9000	369
45	40	140	103	290	165	700	248	1900	320	10000	370
50	44	150	108	300	169	750	254	2000	322	15000	375
55	48	160	113	320	175	800	260	2200	327	20000	377
60	52	170	118	340	181	850	265	2400	331	30000	379
65	56	180	123	360	186	900	269	2600	335	40000	380
70	59	190	127	380	191	950	274	2800	338	50000	381
75	63	200	132	400	196	1000	278	3000	341	75000	382
80	66	210	136	420	201	1100	285	3500	346	1000000	384

Source: Krejcie and Morgan (1970)

Note: “N” is Population size; “S” is sample size

The researcher then employed simple random sampling technique to sample the respondents for the study with the help of an excel spread sheet. A major advantage of the simple random sampling is its ease of use and accurate representation of a larger population (Perez, 2009). The respondents were the owners of the SMEs.

Data Collection Instruments

The data for the study was collected with the help of questionnaire. The questionnaire was designed to solicit the exact data that would be needed for the study. The questionnaire comprised of both open ended and closed ended questions. This was to give the respondents the ability to express their opinions on some of the issues.

Data Processing and Analysis

The data collected were edited and cleaned to thrash out errors and to deal with inconsistencies. The researcher designed a template for the data and coded the data for entry into Statistical Product and Service Solutions (SPSS version 15). The SPSS version 15 was chosen for the processing and analysis because of its ease of usage and for ease of reporting of the results. The analysis was carried out in accordance with the objectives of the study. The results and findings of the study were presented in percentages, diagrams and frequencies for the qualitative nature. Paired sample test analysis was also carried out for deeper understanding and for generalisation purposes.

Reliability Coefficient Estimate

The reliability coefficient measures the consistency of a scale or a measure employed. The study employed the Chronbach's alpha to measure the internal consistency of 30 items of the growth indicators. According to Brennan (2001), Chronbach's alpha estimate the proportion of variance in the test that can be attributable to true score variance. Using the SPSS 15, the Chronbach's Alpha estimated was 0.787 with a variance of 0.047.

RESULTS AND DISCUSSIONS

Challenges in Using Microfinance Credit Facilities

Many studies have highlighted several challenges in using microfinance credit facilities to grow businesses (Luyirika, 2010; Quaye , 2011; Olowe, Moradeyo & Babalola, 2013; Aidoo, 2014). The researcher sought answers from the SMEs by asking the respondents to write the major challenges they have encountered in using the credit facilities to grow their businesses. The challenges were grouped under four main areas. All challenges that had to do with the inadequacy of the facility were grouped under 'loan facility too small to grow the business'. Challenges pertaining to difficulty in repayment terms were also grouped under 'strict repayment terms'. Shorter repayment period and high rate on interest were grouped under 'shorter repayment period' and 'high interest rate' respectively. Table 3 displays the challenges associated with the use of microfinance credit facilities.

Table 3: Challenges in using microfinance credit facilities

	N=357
Challenges	Percent (%)
High interest rate	31.1
Shorter repayment period	30
Strict repayment terms	22.4
Loan facility too small to grow business	16.5
Total	100

From Table 3, 31.1 percent reported high interest rate challenges confronting them in the use of the facility. Close to this are 30 percent of the respondents also indicating shorter repayment periods as the challenge they face in using the credit facilities. 22.4 percent also indicated that strict repayment terms were challenges that confronted them with 16.5 percent reporting of loan facility being too small to grow their businesses.

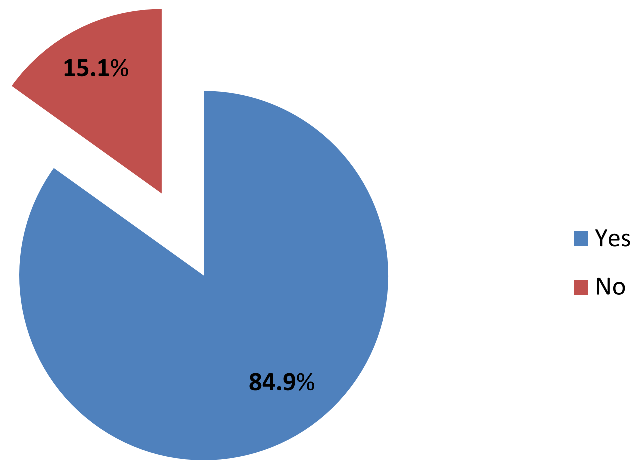
The issue of higher interest rate associated with microfinance credit facilities has been in the literature (Goldberg, 2005; Morduch, 2000; Olowe, Moradeyo & Babalola, 2013). The respondents were more concerned with higher interest rate than shorter repayment period, strict repayment terms, shorter repayment period and the small size of the facility. The study therefore agrees with the fact that higher interest charged by microfinance credit facilities poses challenges with the use of the facility to grow businesses. The challenges confronting SMEs in the use of microfinance credit facilities as revealed in this study is not new in the literature. The findings of Olowe, Moradeyo & Babalola (2013) asserted that high interest rate, collateral security and frequency of loan repayment cripple growth of SMEs in Nigeria. Morduch (2000) had earlier explained that high cost of borrowings from microfinance institutions affect the growth of the SME sector. Onyina and Turnell (2013) further buttressed that moderate interest charges enabled loan repayment and growth of businesses.

Growth of the SMEs Before and After Microfinance Credit Facility

In this section, first the respondents were asked to indicate whether they have received microfinance credit facilities.

Most of the respondents (84.9%) had received microfinance credit facilities while 15.1 percent indicated that they had not received microfinance credit facilities. This indicates that microfinance credit facilities are very available to the SME sector. As discovered in Ghana, microfinance loans are assessable to clients of Sinapi Aba Trust (Onyina & Turnell, 2013).

Figure 1: Respondents Who Received Microfinance Credit Facilities.



Respondents who had received microfinance credit facilities were then asked to rate the level of growth of their businesses before and after having received microfinance credit facilities on growth indicators such as monthly sales, employment of new staff, acquisition of fixed assets as well as acquisition of current assets. The growth indicators are in line with the studies of Aidoo (2013). The parametric test used to analyse this data was the paired sampled t-test. Table 4 presents the paired sampled test which is the results of the analysis

Table 4: Paired Sample Test an Growth Before and After Credit Facilities

Growth before and after microfinance credit	Mean	Standard deviation	T. statistics	Degree of freedom (df)	Significance level (2tailed)
Monthly sales	-1.561	0.827	-32.882	302	0.000
Employment	-0.769	1.237	-10.824	302	0.000
Acquisition of fixed asset	-0.759	0.591	-22.365	302	0.000
Acquisition of fixed asset	-1.168	1.310	-15.522	302	0.000

From Table 4, the paired differences are the differences between the paired values, that is subtracting the after variables from the before variables. From Table 4, the monthly sales growth is indicated by a t-statistic of -32.852 with 302 degree of freedom(df) producing a two-tailed p-values of 0.000 which is less than the 5 percent confidence interval. Growth on employment of new staff was also indicated by t-statistic of -10.824 with 302df at two-tailed p-values of 0.000 which is also less than the conventional 5 percent confidence interval. And finally, growth by acquisition of fixed and current assets was also shown by t-statistic of -22.365 and -15.522 respectively with 302df at two-tailed p-values of 0.000.

From Table 4, since the p-values are all less than 0.05, the null hypothesis stated can be rejected. Therefore, it can be concluded that there are significant differences in the growth of the SMEs with respect to monthly sales, employment of new staff, and the acquisition of fixed and current assets before and after receiving microfinance credit facilities.

The impacts of microfinance institutions and their credit facilities on SMEs cannot be over-emphasized. Several studies have highlighted significant impacts, positive relationships and growth of microfinance institutions on the SME sector. (Onyina & Turnell, 2013; Aidoo, 2013; Olowe, Moradeyo & Babalola, 2013; Siyad, 2013; Ndefe, 2014). These significant relationships with growth and positive relationships in relation to microfinance credit facilities and the growth indicators means that microfinance credit facilities affect to a large and or significant extent the growth of SMEs. As iterated by Ndefe (2014), there is a significant relationship between microcredit institutions and SME development. Ndefe (2014) discovered that microfinance institutions contribute to the development and growth of the SME sector. The findings are also in line with the earlier findings of Olowe, Moradeyo and Babalola (2013). They also discovered in Nigeria that microfinance banks have positive significant impacts with medium scale enterprises. Aidoo (2013) also discovered in Ghana that there was significant growth in fixed assets of microenterprises after receiving loans. Though these earlier studies identified positive and significant relationships, the study has documented that the differences in growth before and after taking microfinance credit facilities are very significant.

SUMMARY

The study sought to examine the contribution of microfinance credit facilities towards the growth of the SMEs in the Cape Coast Metropolis. The researcher made use of descriptive and quantitative study design. Simple random sampling approach was employed to sample 357 respondents for the study. Questionnaires were administered to the respondents to gather the required data for the study. Based on the results discussed earlier, the following key findings were made:

- Higher interest, strict repayment terms, shorter repayment period and small size of the loan facility were the major challenges the SMEs face in using microfinance credit facilities.
- The study also discovered that majority of the SME owners representing 84.9 percent had contracted microfinance credit facilities.
- The study discovered significant difference in growth of monthly sales, number of staff employed, and number of fixed assets acquired as well as number of current assets acquired. In general there was significant growth in SMEs before and after receiving microfinance credit facilities.

CONCLUSIONS

The use of microfinance credit facilities poses challenges to the SMEs in the Cape Coast Metropolis. The study discovered challenges such as small size of loan facility, strict repayment terms, shorter repayment periods and higher interest rates as the major challenges facing the SMEs in using microfinance credit facilities to grow their businesses. Also, the study revealed that most of the SMEs in the Cape Coast Metropolis had contracted microfinance credit facilities from financial institutions. The study established that there is significant difference in growth of monthly sales, employment, and acquisition of current and fixed assets of the SMEs in the Cape Coast Metropolis before and after receiving microfinance credit facilities

RECOMMENDATIONS

Based on the findings and conclusions, the study hereby makes the following recommendations:

- The study discovered that small loan amounts, strict repayment terms, higher interest rate as well as shorter repayment period were the major challenges that confront the SMEs. It is recommended that financial institutions that offer microfinance credit facilities should increase the loan amounts make loan repayment terms flexible reduce interest rate and increase the repayment periods of loan facilities.
- The study found out that there is significant difference in growth of the SMEs before and after receiving microfinance credit facilities. This means that SMEs can expand and grow if microfinance credit facilities are advanced to them. The government of Ghana should make policies that would enable and grant more microfinance credit facilities to the SME sector. These policies should also serve as an incentive to banks, associations of other financial institutions, apex bodies of financial unions for the SMEs in the Cape Coast Metropolis.

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