

*The Impact Microfinance Institutions on  
Small and Medium Scale Enterprises in  
Ghana:*

*“The Case of Xerox Microfinance Services  
Ltd.”*

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**ABSTRACT**

Small and medium scale enterprises (SMEs) form a great percentage of the economy of Ghana, employing about 70 percent of the Ghanaian labour force. They can be seen as farming activities, agri-businesses, light manufacturing, art and craft, textiles and garments, tourism, financial services, construction business and carpentry. S.M.Es dominate the economy in terms of their contribution to gross domestic products(G.D.P),employment, training of the youth, and creating sustainable livelihoods for the majority of the population.

The sector output as a percentage of G.D.P was six (6) percent in 1998(Abor, 2006). Ghana’s small and medium scale enterprises (SMEs) sector has immense potential to become the engine of growth for the economy. However, this is not the case as a result of the challenges that the sector is confronted with. A cursory observation of the S.M.E sector shows that most SMEs hardly expand due to lack of access to credit facilities from the banking and non-banking institutions, especially from the micro-finance companies.

This research paper sought to find out how the micro-finance institutions can be

strengthened and retooled( in terms of legal frameworks), in order to make them more impactful on the small and medium scale enterprises with Xerox micro-finance services limited as a case study. The study aimed at identifying the various services offered by micro-finance institutions (MFIs), determining the challenges that SMEs face in accessing loans from financial institutions and finally identifying the constraints encountered by MFIs in improving the performance of SMEs.

In order to achieve these objectives, a conceptual and theoretical framework of the study was designed. This guided the design of data collection instruments to suit the study. The study used a combination of surveys and case study methods of data collection and analysis. The study interviewed (n) 100 entrepreneurs/operators of SMEs and 20 officials from MFIs in Greater- Accra and Tema-metropolitan areas. Data was collected by means of interviews and self-administered questionnaires with a response rate(r) of eighty percent (80%).

High interest rate on loan facilities, delays in loan processing and lack of collateral security for accessing credit facilities were some of the major findings from the research. For improvement in the operations of MFIs, it was concluded that the MFIs should research into more good and profitable products that will assist them to provide quality services to their clients to improve the economy, since their services serve as a panacea to the increasing S.MEs, who finds it difficult to acquire loans from the traditional banks.

**1.1 Introduction**

The role of small and medium scale enterprises (SMEs) in national economic development cannot be overemphasized, especially in income generation and distribution, capital accumulation, employment generation, poverty reduction and the empowerment of people especially women (Lisa, 2009). SMEs help in creating a new class of small entrepreneurs leading to the expansion of the middle class and a wider distribution of income. Small firms can survive in rural areas of the country because of their location flexibility, their lower requirement of infrastructure, their nature to serve small geographic markets and also their firm commitment to local development (Lisa, 2009). Rural and Community Banks as well as Microfinance institutions operate as quasi commercial banks under the banking Act, 738 of 2007, except that they cannot undertake foreign exchange operations and the minimum capital requirement is lower than that of

commercial banks. The main objectives of the institutions and banks are to mobilize savings and provide credit and other banking services to the people within their operational areas especially in rural communities not served by the commercial banks (Addo, 1998). Access to microfinance has been highlighted as an important means for poverty reduction around the globe and in Tamale (World Bank-Africa Region, 1999). It is believed that Ghana began promoting events of small and medium businesses in 1969 with the establishment of credit guaranteed schemes by the Bank of Ghana to help entrepreneurs in acquiring bank credit.

The issue of finance has been central in the operations of SMEs because such services enable entrepreneurs to start, grow and sustain businesses and without which most SMEs will not be able to operate and eventually die small, without ever having to see any expansion in terms of output and

profits in these rural communities that mostly lack the finances to start these enterprises. Financial products have therefore become a critical issue because with such products one can have access to the other resources that will kick the business started. By virtue of their nature and what they offer, SMEs do not employ high levels of technology and sophisticated infrastructure; hence the little financial assistance they receive can be the beginning of a vibrant venture in the future. Financial assistance has therefore been noted as the fulcrum about which rural SMEs revolve to grow sustainably. A study into the effects of microfinance institutions (MFIs) on SMEs in Ghana is therefore pertinent and worthwhile. The impact of microfinance institutions on SMEs in Ghana are therefore discussed below.

## **1.2 Statement of the Problem**

Microfinance has always been a big issue in Ghana. Whereas some see them as

genuinely providing financial service for the entrepreneurs and small scale businesses, others also see them as exploiting and ripping off their clients. Some customers of MFIs argue that when they were in dire need of loan to expand their small and medium scale businesses, the commercial banks were not ready to offer them the facility and it was the MFIs who came to their rescue. On other hand, other customers with bitter experiences lamented that when things don't turn well after accessing credit facilities from the MFIs, they take over their businesses to offset loans they were not able to pay. Moreover some operators of SMEs, who see the MFIs as a curse, accuse them of killing businesses in Ghana. According to them the high rate of interest the MFIs charges on loans that they give out to their clients goes a long way to cripple businesses. They explain that assuming the MFIs charging about 5% per month, 6% per month or 7% per month. Cumulatively it

will come out be 60% in a year for those charging 5% per month 72% and 84% for the year for those charging 6% and 7% respectively. Comparing that to commercial banks who charges about 35% in a year, it becomes too outrageous and there is no business that makes a lot of profit to such a high rate of interest charged by MFIs and still make an impact in their job. The MFIs strongly disagree with the submission and pointed out that in finance, the key word risks and returns and that the risk of lending to SMEs is very high hence the returns that comes with it. They lamented that retrieving loans from their clients sometimes become a problem as they fall victims, since their clients also take their loans and abscond with it. It is against these challenges that the study seeks to find out the impact of MFIs on SMEs in Ghana specifically in the Ashaiman Municipality using Xerox Microfinance as a case study.

### **1.3 Objectives of the study**

The study seeks to find out the impact of micro-finance on SMEs performance in Ghana. The research aims at:

1. To identify the various services offered by the micro-finance institutions.
2. To determine the challenges that SMEs face in accessing loans from financial institutions;
3. To assess the extent to which micro-finance has been a tool for improving the quality of SMEs.
4. To identify the constraints encountered by the micro-finance institutions in improving the performance of SMEs and how best they can be resolved.

### **1.4 Research Questions**

The following research questions guided the study to achieve the stated objectives:

1. What types of services are provided by MFIs?
2. What challenges do micro-finance institutions in Ghana face?
3. Which challenges do SMEs face in accessing loans from financial institutions?
4. What is the impact of micro finance on the SMEs Performance?

### **1.5 Significance of the Study**

The study is significant in a number of ways:

Firstly, the recommendations that shall be put forward at the end of the study would improve service delivery of micro-finance companies in Ghana. Secondly, the study will unearth the impact of micro-finance institutions in Ghana, particularly in Tema and Ashaiman, all in the capital city of Accra. Thirdly, the review of academic

literature that would be done on financial intermediation and micro-finance would serve as guide to policy formulation and decision making of most SMEs in evaluating and assessing credit finance. Finally, the study would contribute and add to existing literature on the subject matter of micro-financing and the role of micro-finance institutions.

### **1.6.0 Scope of the study**

In order to enhance effective examination and efficient reporting of the subject matter, the researcher will focus on only one micro-finance Company in Ghana and that is Xerox Microfinance Services Limited. Specifically, the study will focus on Xerox microfinance institution in the Tema and Ashaiman metropolis as well as the various individuals and groups within the SME sector who form the client base of the institution.

### **1.6.1 Limitations of the study**

There are challenges and threats which everyone faces in every human endeavor and this research work is no exception. First, time constraints imposed on the researcher to complete this piece of research work. Also, logistics and resources constraints would not allow researcher to conduct a comprehensive study on the topic.

Furthermore, data collection and information gathering may not be easy as most of the respondents would be pre-occupied with their routine task of customer service.

### **1.7 Method of Data Collection**

Primary and secondary data constituted the sources of information for the research. The administration of questionnaires forms the basis of primary data. Data collected from this source focused on the background

characteristics of respondents and their knowledge on the impact of Microfinance on SMEs. In the case of secondary sources, information from published and unpublished sources including official annual financial reports of Xerox Microfinance were used to support the primary data.

Both structured questionnaires and interview guides were used in the data collection. While the structured questionnaires were used to get the unbiased opinion of respondents, the interviews were used for clarifications of some unclear issues such as factors that account for achievements and Constraints of dealing with SMEs. These data collection instruments made it very convenient for respondents to give the information needed for the analysis.

Here, respondents were allowed to schedule the interview time and dates convenient for them. Information on the issues to be covered was given to the respondents to enable them prepare since some of the

questions required facts and figures and also a little mental effort. The major questions were the research questions combined with some follow-up and probing questions where necessary. The flexible nature of these data collection instruments afforded the researchers the opportunity to probe some of the responses obtained. Interviewees and respondents were also given the chance to build on their responses or give further explanation when the need arose in the data collection process.

Primary data was collected for further analysis as a means of verifying what truly exists on the ground in terms of the impact of MFIs on SMEs in Ghana. The interview with the manager, credit officers and customers of the Xerox Microfinance was guided by but not limited to the following: Types of SMEs supported, reasons for the support of that category of clients, services and products given to SMEs, amounts of loans given and recovery rates of loans

given to SMEs, achievements and Constraints of dealing with SMEs, perception on the effects of services given to SMEs, challenges of dealing with SMEs in the district, how can the relationship with SMEs be improved. The SME respondents answered questions related to but not limited to the following: socio demographics, type of SMEs, Sources of funds, types of microfinance services received and under what conditions are funds given, perception on microfinance services received from MFIs and their effects on businesses, perception on the impacts of successful SMEs on owners' households, challenges of doing business, how can the relationship with MFIs be improved. These data was collected through interviews, observation, and semi-structured questionnaires. The annual general meeting reports of the Xerox Microfinance and other relevant documents were also reviewed to get data for analysis. This data was important because it gave

first-hand information about the topic under study.

### 1.8.0 Major Findings/Results and Discussions:

#### 1.8.1 Products Offered by MFIs

First, the researcher assessed and ascertained the products offered by microfinance institutions to SMEs in Ghana. From the table 1, 9 respondents representing 18% indicated that they received financial management training from the MFI. This training section according to the respondents over time helps them a lot in making profits in their business and increases savings as well. 34 respondents representing 68% indicated having received credit facility from MFI. This implies that majority of respondents patronizing MFIs benefits or take advantage of credit facility. 6 respondents representing 12% however, indicated that they received other products

Products	Frequency	Percentage
Financial Management Training	9	18.00%
Credit Facility	34	68.00%
Others	6	12.00%
No response	1	2.00%
<b>Total</b>	50	100.00%

apart from the training and credit facility. From the table it is shown that assisting SME's in a holistic fashion goes beyond giving physical cash to the people but also giving them what it takes to utilize the services given them. This helps MFIs in

reducing non- performing loans and widens their output to assists many clients.

#### Table 1.0 Products Offered by MFIs

Field Survey April 2017.

#### 1.8.2 Credit Facilities

The researcher was interested in finding out the various credit facilities and types, clients assessed from MFIs, 6 respondents representing 12% indicate accessing long term credit facility, 12 respondents representing 24% were able to access medium term facility whilst 30 respondents representing 60% indicated accessing short term loans to expand their business. On the other hand, it can be shown that MFI's are interested in given out short term loans rather than long term loan facility. This can be one of the factors that attract SME's to MFI's since most traditional banks are only interested in given out long term credit facilities.

#### Table 2.0 Credit Facilities

Type of Credit	Frequency	Percentage
Long Term	6	12.00%
Medium Term	12	24.00%
Short Term	30	60.00%
No Response	2	4.00%
<b>Total</b>	<b>50</b>	<b>100.00%</b>

**Field Survey April 2017.**

### 1.8.3 Pricing Strategy

In relation to the question of the type of price strategy posted to management and staff of Xerox MFI, the findings show that the base rate plus risk premium is often used in the pricing of credit facilities. This shows that different MFI's will have different pricing rate and decision made by the Bank of Ghana on policy rate directly affect pricing of credit facilities.

**Table 3.0 Pricing Strategy**

Pricing	Frequency	Percentage
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Strategy		
T-Bill + Risk Premium	0	0.00%
Policy Rate + Risk Premium	5	25.00%
Base Rate + Risk Premium	15	75.00%
Average Market Price	0	0.00%
<b>Total</b>	<b>20</b>	<b>100.00%</b>

**Field Survey April 2017**

### 1.8.4 Types of SMEs

Out of the 50 respondent 38(76%) were into trading, 5 (10%) were into manufacturing, 4(8%) were into services and 3(6%) were into agro processing. Those into trading were into household consumables, building materials and general goods. Whiles those into manufacturing were into carpentry, batik and tie and dye making. Those into

services were into food vending, hair dressing, tailoring, transport and fitting. The agro processing also include farming and gari processing.

**Table 4.0**  
**Types of SMEs**

<b>SME Type</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Trading</b>	38	76.00%
<b>Manufacturing</b>	5	10.00%
<b>Services</b>	4	8.00%
<b>Agro Processing</b>	3	6.00%
<b>Total</b>	<b>50</b>	<b>100.00%</b>

Field Survey, April 2017

### 1.8.5 Credit/Loan Processing Period

The basic principle of finance is that the maturity of a loan affects its pricing. The researcher was interested in finding out how this affects the prices of credit schemes offered by MFIs. Data collected on loan processing period indicates that 27

respondents representing 54% shows that Xerox MFI takes 1 to 2 weeks to process credit facility. 9(8%) indicated that the MFI, takes less than a week to process their loans. From this finding, it can be said that the MFI's, normally takes one to two weeks in processing credit facilities for SME's. The delay in loan processing may be due to documentation and validation of documents associated with accessing of the credit facility. This trend may not be in the best interest of the SME's and may be a challenge to the SMEs. The responses

<b>Loan Processing Period</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Less than 1 week</b>	9	18.00%
<b>1 to 2 weeks</b>	27	54.00%
<b>3 to 4 weeks</b>	9	18.00%
<b>1 month and above</b>	5	10.00%
<b>Total</b>	<b>50</b>	<b>100.00%</b>

**Field Survey, April 2017.**

received are presented in the table below.

### **Table 5.0 Credit/Loan Processing Period**

#### **1.8.6 YEARS OF SME'S OPERATION**

As to the number of years respondent have being in business, 5(10%) were in for less

than three (3) years, 9(18%) have being in business for seven (7) years and above. Since the number of years in business is a major factor in the determination for qualification for credit facility, SME's with less than three (3) years in business operation will face difficulties in accessing loans or credit facilities.

**Table 6.0 Years of SME Operation**

<b>Years of SME Operation</b>	<b>Frequency</b>	<b>Percentage</b>
<b>0 – 3</b>	5	10.00%
<b>4 to 6</b>	9	18.00%
<b>6 and above</b>	36	72.00%
<b>Total</b>	<b>50</b>	<b>100.00%</b>

**Field Survey, April 2017.**

**1.8.7 TYPE OF COLLATERAL USED**

Out of 50 respondent, 6(12%) used stocks as collateral for their loans, 2(4%) used house as collateral, 11(22%) used car, 9(18%) used their shops and 22(44%) used cash as

<b>Type of Collateral Used</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Stock</b>	6	12.00%
<b>House</b>	2	4.00%
<b>Car</b>	11	22.00%
<b>Shop</b>	9	18.00%
<b>Cash</b>	22	44.00%
<b>Total</b>	<b>50</b>	<b>100.00%</b>

collateral. From these findings it can be drawn that majority of SME's used cash as collateral for credit facilities. This may be a detriment to those who are new in the business.

**Table 7.0 Type of Collateral Used**

**Field Survey, April 2017.**

**1.8.8 Challenges SMEs face in accessing credit**

The issue of credit access from MFIs even though quite remarkable has with it challenges which mostly discourage SMEs from accessing credit when the need arises. Available data from various respondents brought to fore several challenges they face in accessing of loans, some of which are captured and displayed in the table below. As shown, 50% of respondents had issues with delay in processing of loans by MFIs with regards the duration which can linger from several weeks into months. The

findings also showed that 30% of respondents saw the entire process quite cumbersome owing to the numerous documentations and other clerical process

Challenges	Frequency	Percentage
Delay in Procedures	25	50.00%
Cumbersome Procedures	15	30.00%
Collateral Difficulties	10	20.00%
<b>Total</b>	<b>50</b>	<b>100.00%</b>

one needs to pass through before securing the facility. The remaining 20% had difficulty in securing the required collateral.

**Table 8.0 Challenges faced by SMEs in Assessing Credit**

**Field Survey, 2017.**

### **1.9 Conclusion**

MFI's have been a big issue in Ghana these days whereas some sees MFI's as a genuinely providers of financial services for entrepreneurs and other SMEs, others sees

them as exploiting and reaping off their client of their investment. Example is the issue of DKM Micro finance which prompted the Bank of Ghana to liquidate their operations. A customer of the defunct DKM microfinance company identified only as brother kwasi, owner of the Mickey Enterprise at Berekum in the Brong-Ahafo region of Ghana, has reportedly died as a result of the shock for losing his GH¢600,000 investments in the company.(Daily Graphic, Friday, October 21,2016)

From the summary of finding of the study as provided above, some conclusion can be drawn from the analysis. It is obvious from the findings that some MFI's have some positive impact on the SMEs. Some notables' impact among them include, provision of credit facility to SMEs who may be highly risky and therefore may not be able to access such facilities from the traditional banks and financial management training which helps the SMEs to improve

their businesses. MFIs have developed areas of revenue mobilization with their savings schemes which have made it easier for SMEs to save.

There are however some obstacles that impede the operations of MFIs such as, high rates of interest on loans, taking into account interest rates, some MFIs charges as much as 5%, 6% or 7% per month on loans acquired by SMEs, cumulatively clients are charged as high as 60%, 72% and 82% respectively per annum as compared to the rate the traditional banks charge which is about 45% per annum. This constrains affects the SMEs in paying back the loan and also cripple their operations.

### **1.10 Recommendations**

In order to achieve the objectives of the study and for the purpose of policy making, the researcher put forward the following recommendations for the improvement in

operations of MFIs in order to make them more useful to the SMEs.

Firstly, MFIs should be made to publish their accounts to their clients to assist the client to know how well MFIs they are dealing with are doing. They should also be mandated to enroll on the collateral registration software with the Bank of Ghana for easy monitoring of collateral defaulters. The MFIs should make all effort to reduce the time used in processing loans for its clients since the money applied for may be need for some clearing of goods from port and to pay for other contingencies.

Secondly, the Bank of Ghana should regulate the activities of the MFIs so as to improve the confidence that SMEs will have in the activities of MFIs. They should also regulate the interest rates of MFIs to SMEs.

Finally, SMEs should also be granted long term loans to help them grow their business. The MFIs should also research more into good profitable products that will assist

them to provide quality services to their client and to improve the economy, since their service serve as a panacea to the increasing SMEs who finds it difficult to acquire loans from the traditional banks.

### **1.11.0 Acknowledgment.**

I certify that the work presented is entirely my work and all references from other peoples work have been duly cited and referenced. I also like to acknowledge the help given us by the management, staff and SMEs of Xerox MFIs.

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