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The Growth and Development of SMEs in Ghana: The Mediating Role of Microfinance Institutions

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***Abstract**: Small and medium scale enterprises plays a significant role in the globe as well as the in sub-Saharan African economies. The current study determines the effects of Microfinance Institutions on the growth and development of SMEs in Ghana. Specifically, the study determined the contribution of Microfinance Institutions on the entrepreneurial activities that lead to sustainable growth, finding out the challenges faced by SMEs in accessing credit from the Institutions and examining the non-financial service on the performance of SMEs in the Country. The study was limited to Eastern Region, specifically Somanya. In total, 35 SMEs were sampled purposively for the purpose of this study and the data collected were analyzed using SPSS. The study revealed that, Microfinance Institutions operations in the country positively affect the growth and performance of Small and Medium Enterprises especially when credits given to the SMEs are on time. Also, factors like time constraint and access to collateral securities are among the challenges SMEs face in their dealings with MFIs. The study therefore recommended SMEs operators with insufficient capital to take advantage of credit from Microfinance Institutions. The Institutions should also train the SMEs operator on the right use of the funds in order not to default on payments or reduce the default rate.*

Keywords: Microfinance, Growth and Development, Small and Medium Enterprises, Ghana

1.0 INTRODUCTION.

Small and medium scale enterprises (SMEs) play a substantial role in the global economy. SMEs are considered the backbone of the private sector of both developed and developing countries (Dixit & Pandey, 2011) According to Dixit and Pandey (2011), aside from economic development, SMEs play vital roles in social, political, and cultural development. In this regard, SMEs play a pivotal role in promoting grassroots economic growth and equitable sustainable development. Kachembere (2011) argues that SMEs' development is recognised as a key factor in promoting equitable and sustainable economic development. The SME sector has the potential to promote growth in employment as well as contributing to poverty reduction among urban and rural areas in most developing countries (Choi & Schulz, 2008). Related studies, for instance, Ayyagari, Beck, and Demirguc-Kunt (2007), buttress this point that SMEs contribute immensely to job opportunities in Africa. SMEs contribute to government revenue through the payment of indirect taxes such as Value Added Tax (Kistruck, Webb, Sutter, & Ireland, 2011). In examining the contributions of SMEs to the economy, it becomes apparent that SMEs are tools for promoting equitable and sustainable economic development (Kachembere, 2011). Nonetheless, this could be appreciated much better when microfinance institutions (MFIs) carry out their activities to meet the purpose for which they were established. The main purpose of MFIs is not just to offer credit to the productive poor but to provide non-financial services such as insurance, savings, and money transfers which commercial banks are reluctant to provide because owners of SMEs are mostly unable to meet their collateral requirements (Koomson, Annim, & Peprah, 2016). Studies indicate that microfinance services/products over time have positive effects on SMEs' performance (Afrane, 2002; Idowu, 2010; Karikar, 2011; Roodman & Morduch, 2009). Conversely, other scholars have highlighted that microfinance has had an adverse effect on SMEs especially ones owned by women (Chowdhury, 2009; Duvendack, 2011; Mayoux, 2005). Zooming into Ghana, the private sector, dominated with SMEs, is considered as the engine of growth of the Ghanaian economy (GHAMFIN, 2013). The SMEs in Ghana can be categorized into urban and rural enterprises. Dalitso and Peter (2000) categorised the major activities within the Ghanaian SMEs sector as making soaps and detergents, weaving fabrics, designing clothing and tailoring, producing textiles and leather, village blacksmithing, firing ceramics, timber felling and mining, making bricks and cement, brewing beverages, food processing and baking, creating wooden furniture, assembling electronic products, and mechanical activities.

The SMEs sub-sector absorbs more than 60 percent of the labour force and accounts for about 92 percent of businesses in Ghana (Ghana Statistical Service [GSS], 2012). The Ghana Statistical Service (GSS) estimates that SMEs constitute 70 percent of all industrial establishments that contribute about 70 percent of sectorial gross domestic product (GDP). This makes SMEs a very important sector of the economy. The government, realizing the socioeconomic importance of SMEs, established the National Board for Small Scale Industries (NBSSI) by an Act of Parliament (Act 434) to promote the activities of SMEs aimed at reducing the unemployment rate and to boost economic growth. As part of the country's vision to promote SMEs, the Microfinance and Small Scale Loan Centre (MASLOC) was established in 2004 to assist SMEs in income generating ventures as well as reduce poverty (Abane, 2008). Evidence shows that SMEs contributed between 23% and 30% to the annual GDP of Ghana (Asiama & Osei 2007). Most of these enterprises depended on credits granted by MFIs to support their day-to-day operations.

Despite the substantial role of SMEs in sub-Saharan African (SSA) economies, they are most often denied official support, particularly credit, from institutionalized financial service organizations due to inability to meet collateral agreements as well as interest and repayment schedules Ussif, R., and Ertugrul, M. (2020). Working capital is one of the major barriers to socio-economic development and success for micro enterprise initiatives (ILO, 1998, 2003). Due to the small sizes of the business and inadequate resources especially the capital, small entrepreneurs need micro-financial services in order to start, grow, diversify, and expand their businesses. This is evident in Ghana, as SMEs generally face serious problems regarding credit acquisition and its repayment cost and methods, insurance, as well as technical education by MFIs. Due to these problems, performance (measured by change in sales, employment, return on asset, etc.) of several SMEs is affected (Peprah, 2012).

Former research on microcredit impact on business performance has resulted in some diverse findings. Banerjee et al (2013) found no significant effect on business profit for the individual having access to a microcredit program, but McKenzie and Woodruff (2008) found that access to more capital increases profit. Karlan and Zinman, 2011 suggested that more reliable evaluations of impact are to replicate methodologies in different settings to help sort out the real impact of microfinance. Th researchers were motivated to investigate the microcredit impact on businesses in Ghana especially, Somanya market due to the number of financial institutions and small and medium enterprises available in the location. The Gap in this research is identified to be small-scale businesses in Ghana continue to be severely constrained by access to financing. Credit restrictions have existed for working capital and raw materials. According to Aryeetey et al. (1994), 38% of SMEs questioned cited credit as a major barrier to financing their companies. This is due in part to the fact that small and medium-sized firms (SMEs) in Ghana have very restricted access to capital markets due to the high cost of borrowing and rigidity of interest rates. The majority of SMEs also struggle to secure the appropriate collateral for bank loans, making it difficult for them to access long-term financing to grow and finance their companies.

In addition to financial restrictions, the majority of small business owners and managers in Ghana struggle with a lack of technical expertise, trained labor, managerial expertise in managing businesses, and a lack of business concepts Ussif, R., and Ertugrul, M. (2020). Their prospects for expansion are therefore unchanged. Since most businesses still utilize outdated equipment and struggle to acquire new parts, access to contemporary technology is another issue.

In Ghana, microfinance institutions have demonstrated their effectiveness in fostering inclusive economic growth, particularly in the areas of small-scale enterprise development and job creation. Efforts are being made to offer lenient loan terms to consumers and small businesses, although a microfinance institution in Ghana is still in its infancy, the industry has seen strong growth in Ghana. This organization also intends to assist SMEs in growing their enterprises all the way to the point of viability. The question remains, however, whether microfinance in Ghana is having any effect on the growth of SMEs. Impact Assessment must be addressed in order to respond to this request. The results of this evaluation are used to examine the degree to which microfinance organizations in Ghana are succeeding in fostering the growth of small-scale businesses. The stimulation of this work, therefore, is to assess the impact of micro-credit institutions on the performance of small and medium enterprises.

1.1 Research Objectives

- To determine the utilization of microfinance credit by Small and Medium Enterprises
- To identify the barriers and challenges SMEs faced in accessing microcredit.
- To investigate the outcomes of non-financial services provided by MFIs to SMEs.

1.2 Research Questions

- What are the credit utilization patterns of Microfinance by Small and Medium Enterprises?
- What are the barriers and Challenges SMEs faced in accessing microcredit?
- What are the non-financial services outcome SMEs enjoyed from MFIs?

1.3 Justification of the Study

The findings of this study, which aims to look into how microfinance affects SMEs in Somanya, will be used as a guide for future policy development and decision-making. The results of this study will also be used by economic policymakers as further guidance for SMEs in Ghana. Again, the findings of the study can be used as a roadmap for making more practical judgments and it will also reveal the actions of the two institutions that the study highlights in a broader context in terms of providing credit and loans to various SMEs. The research also will act as literature for further researches.

2.0 LITERATURE REVIEW

2.1 The Concept of Microfinance

Microfinance program is appropriate when there are improvements in credit accessibility especially to those who are in need of assistance rejected by banks" Apart from loan provision microfinance also provides non-financial services such as training according to Schreiner and Colombet (2001). Microfinance institutions now become the obvious solution to this booming sector. The apparent progress which was to be anticipated needed a certain push and drive. The phenomenon of expected growth appeared far from materializing due to the unstable framework upon which SMEs began.it is against this backdrop that a new system for the provision of microcredit was to be introduced. SME development became a major issue of concern within the economic environment of fast-growing economies.

2.1.1 Microcredit

Microcredit and microfinance are different terms and they differ in content, although the two terms are used interchangeably because they are related. Therefore, the study conducted by Sinha (1998) states that "microcredit refers to a microloan, whereas microfinance is appropriate when involves NGOs and other financial institutions in the loan supplement along with non-financial facilities." Some argue that microcredit is a component of microfinance which only involved in providing credit to the poor, whereas microfinance is far from that since it also provides non-financial services to un-served markets. Basically, the primary social objective of microfinance is to reach under-served markets both in urban and rural areas.

2.1.2 Small and Medium Enterprises

The SMEs stands for Small and Medium Enterprises sometimes referred to as micro, small, and medium enterprises (MSMEs). Any activity involved in the production and distribution of outputs to meet the expectations of the client can be referred to as small and medium enterprises as explained by Kessy and Urio (2006).

According to the Ghana Statistical Service (GSS), firms with less than 10 employees are Small Scale Enterprises whereas their counterparts with more than 10 employees are considered as Medium and Large-Sized Enterprises.

2.1.3 The Evolution of Microfinance in Ghana

Microfinance activities started as 'susu' collection in Ghana. The word 'susu' was coined from the Nigerian word 'esusu', meaning a small amount of money in naira. In the absence of banking facilities and other formal financial sources, the susu has been a major source of fund mobilization for the unbanked in Ghana, most especially rural Ghana (Buckley, 1997).Susu is believed to have contributed largely to micro enterprises and small-scale businesses, guaranteeing the depositors of susu companies' loan and advances for their clients after some period of regular deposits normally six months. Ussif R (2018) Susu evolved in Ghana some 300 years ago. A major component of finance of urban poor entrepreneurs in Ghana, particularly apprentices and artisans, has been the daily or weekly contribution of fixed amounts through susu. These savings are acceded after a period of time for purchasing tools and equipment necessary for setting various artisans up in their vocational practices.

Artisans who normally benefit from these include seamstresses, tailors, hairdressers, fitting mechanics, and carpenters. For many petty traders, market women, apprentices, and artisans, susu is believed to have been a trusted, reliable, and friendlier means of getting started and also for sustenance as well as growth of their businesses. Susu, in some cases, is believed to be the sole source of getting established for livelihood Ussif R (2018). The financial sector reforms that started in 1987 posed challenges to the role of these poor enterprises, as they got integrated into the Financial Sector Adjustment Programme (FINSAP). It was then obvious that while SMEs enjoyed considerable goodwill among informal lenders, the informal market conditions were generally not suited to the type of finance required by a large number of the poor people (Asiama & Osei, 2007).

The above combined activities of these MFIs actors did not change the living conditions of the poor. Because of this, the government decided to establish the Agricultural Development Bank in 1965 to provide financial assistance to farmers and fishermen. It is interesting to note that at least and to some extent, all these rural banks are into microfinance. The Bank of Ghana supervises the activities of these rural banks and some power has now been given to the Association of Rural Banks (ARB) Apex Bank to coordinate the activities of all rural banks and report to the Banking Supervision Department of the BoG. Microfinance has been with Ghanaians for some time now and is, therefore, not to be seen as a new concept in the country. It has always been a common practice for people to save or borrow small money from individuals, friends, and relatives within the context of self-help in order to engage in small retail business or farming ventures (Asiama & Osei, 2007).

2.1.4 Regulatory Framework for Microfinance Operations in Ghana

Governments, particularly in Africa, have made remarkable efforts and instituted policies to boost the growth of SMEs Ussif R (2020). For instance, the government of Nigeria prohibits the importation of fully manufactured products from China and this policy has forced SMEs and other companies established in Nigeria to contribute to job creation and technology transfer (Consultancy Africa Intelligence, 2011). Similarly, the Moroccan government has fully exempted owners of SMEs set up in free zones from paying corporate taxes and income tax for the first five years of operation and applies a minimum corporate tax for the next ten years. In addition, Morocco has two state-owned banks strategically established to offer micro loans and industrial modernisation programs to SMEs (United Nation Economic Commission for Africa, 2008).

Ghana's financial system can be broadly divided into three categories: formal, semi-formal and informal. The formal institutions are incorporated under the Companies Code 1963 and licensed by the Bank of Ghana (BoG) under the Banking Law, 1989, or the Financial Institutions (Non-Banking) Law, 1993 (Boateng, n.d.). Commercial banks and rural banks are incorporated under Banking Law, while the savings and loans companies and credit unions are incorporated under the Non-Banking Financial Institution (NBFI) law Ussif, R. and Ertugrul, M. (2020). The credit unions, however, are not regulated by the BOG, but by the Credit Union Association (CUA) which acts as a self-regulatory apex body.

2.1.5 Bank of Ghana (BoG)

The Bank of Ghana has a history of promoting the financing of micro, small and medium enterprises (MMSEs) (GHAN, 2007). In 1969, it started the Credit Guarantee for Small Borrower scheme which was administered through Development Finance Department of the Bank. It has supported a lot of microfinance programs. It also participated in the Rural Financial Service Project.

BOG, the central bank of Ghana, regulates the banking and nonbanking financial sub-sectors. The legal framework governing the central bank (that is the Bank of Ghana Act, 2002) was revised, giving enhanced autonomy to BoG in framing monetary policy, regulation and supervision of banking and non-banking financial institutions. The Banking Law, 2004 governs all banking companies in Ghana. The Financial Institutions (Non-Banking) Law, 1993 and the rules framed under the Act are applicable to savings and loan companies. Ghana has so far not setup a separate framework to cater for the regulatory requirements of the micro-finance sector Ussif R (2018). BoG has laid down exposure norms for banks as per best practices in banking. The current stipulations on group and individual exposure etc. are listed below:

- To any one group or individual not more than 25% of the net worth of the institution;
- Unsecured Credit should not be more than 10% of net worth of the institution;
- Loans to Director and employee credits have a ceiling;
- Investment in immovable property other than for own business is not permitted.

2.2 Theoretical Reviews

2.2.1 Supply-Leading Finance Theory

In order to stimulate economic growth, supply-leading finance refers to the practice of making loans before there is a demand for them (Robinson, 2001). According to Robinson (2001) and Meagher (2002), supply-leading finance refers to the development of financial institutions and tools ahead of consumer demand in an effort to promote economic growth. As a result, this strategy aims to improve the efficiency of capital allocation and to inspire growth through the financial system. The approach is better appropriate for cyclical economic activity like farming. The supply-leading finance theorists make the supposition that the financial system can be used to promote economic growth in rural areas

2.2.2 The Financial System Approach

This strategy puts more of an emphasis on broad outreach to the economically active poor (borrowers who can repay microloans from household and business revenue streams). Given the size of the global demand for microfinance, institutional self-sufficiency is the only strategy that has promise for satisfying the demand of a large number of clients for convenient, suitable financial services. The strategy aims to address commercial financial intermediation among underprivileged savers and borrowers. These intermediaries provide the economically engaged poor with loans and voluntary savings services, as well as simple access to credit at a fair price. Their loan portfolios are financed in various ratios by for-profit investments, commercial loans, and savings. These organizations have successfully expanded their scope while making a profit, and they serve as an affordable worldwide model. Commercial microfinance may not be appropriate for the really poor, who are unwell, malnourished, and lack employment opportunities, as these people will utilize their loans to feed their families.

2.2.3 The Poverty Lending Approach

This method focuses on reducing poverty through credit and other non-financial services offered by organizations that are supported by donors, government subsidies, and other concessionary funds (such as health, nutrition, family planning, and the teaching of literacy and math). As a result, microcredit rather than microfinance is the focus. Except for the mandatory savings required as a requirement for securing a loan, savings play a small role in the poverty lending technique. Some organizations that employ this strategy offer low-cost microcredit to underprivileged borrowers. These institutions frequently struggle to meet all of their expenses because the interest rates on these loans are very low.

2.2.4 Institutionist' Approach

The Institutionist and the Welfareist methods are the greatest ways to assist the underprivileged in gaining access to financial services. This split is referred to as the microfinance schism by Morduch (1998).

The School of the Institution: According to the Institutionist, financial deepening—or the establishment of a separate system of "sustainable" financial intermediation for the poor who are either ignored or underserved by the mainstream financial system—is the primary goal of microfinance. The activists of this school of thought placed more emphasis on achieving financial independence, a wide range of clients served, a deep level of poverty, and favorable client outcomes. The approach's goal is to have the institutions insist on financial independence while forgoing any forms of assistance. Western School: The primary goal of the welfarist school is the self-employment of the poorer and more economically engaged poor, particularly women. They place more emphasis on the breadth of outreach (the degrees of poverty reached) and have a "family" focus. The use of financial services to lessen the effects of extreme poverty on both individual individuals and communities is more important to welfare economists. His school of thought places particular emphasis on participants' wellbeing suddenly improving. The two schools of thinking have some points in common even if there are some notable discrepancies between them. Microfinance efforts should try to accomplish the goals of the two methods in the same way as the two approaches seek to address the issue of the poor's financial requirements.

2.2.5 Entrepreneurship and Rural Development Theory

According to the theory of rural development through entrepreneurship, rural economies can be transformed from being impoverished to ones that are producing wealth when there is a high level of informal entrepreneurship.

According to Cervelló-Royo, Moya-Clemente, and Ribes-Giner (2015), there are two primary factors that make microcredit appealing to rural residents. These include using microcredit for household survival (survival-driven finance) and to take advantage of entrepreneurial prospects (opportunity-driven financing).

Clients that are motivated by survival typically invest loans in overly profitable companies. While opportunity-driven clients invest in potential new businesses, such companies provide modest returns but offer quick returns on investments.

2.3 Empirical Review

The issue of what constitutes a small or medium enterprise is a major concern in the literature. According to Bennett (1994) and Ledger Wood (1999), MFIs can offer their clients who are mostly below or slightly above the poverty line a variety of products and services. The most prominent service is financial, which they often render to their clients without tangible assets and these clients mostly live in rural areas, a majority of whom may be illiterates. Formal financial institutions do not often provide these services to small informal businesses run by the poor as profitable investments. They usually ask for small loans and the financial institutions find it difficult to get information from them either because they are illiterates and cannot express themselves or because of the difficulties in accessing their collateral (farms) due to distance. The high lending cost is explained by the transaction cost theory. The transaction cost can be conceptualized as a non-financial cost incurred in credit delivery by the borrower and the lender before, during, and after the disbursement of the loan. The costs incurred by the lender include; the cost of searching for funds to loan, designing credit contracts, cost of screening borrowers, assessing project feasibility, cost of scrutinizing loan applications, cost of providing credit training to staff and borrowers, and the cost of monitoring and putting into effect loan contracts. On the other hand, the borrowers may incur costs ranging from the cost associated with screening group members (group borrowing), the cost of forming a group, the cost of negotiating with the lender, the cost of filling out paperwork, transportation to and from the financial institution, cost of time spent on project appraisal and cost of attending meetings, etc. (Bhatt & Shui-Yan, 1998). The parties involved in a project will determine the transaction cost rate. They have the sole responsibility to reduce the risk they may come across (Stiglitz, 1990).

3.0 METHODOLOGY

3.1 Sampling Procedure and Sample Size

The population of this study entails 55 Small and Medium Scale Enterprises (SME's) and Microfinance Institutions within the Somanya which was based on available data. For the selection of the sample size, the statistical formula below was used:

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

Where:
n= the sample size
N= total population
e= margin of error in light of this a
Confidence level of 90 percent and
a margin of error of 10 percent

35 SMEs were selected out of 55 populations-based availability .From this, a sample size of 35 respondents was used for the study. After obtaining the sample size, purposive sampling was used to sample respondents for the study. Using this sampling technique, the researcher sampled respondents based on selecting respondents who fit the inclusion criteria, their availability at the time of data collection, and readiness on the part of the respondents to take part in the study. One strength of this technique is that it allows the researcher to observe, approach the right respondents, and obtain first-hand information. Thus, the researcher avoids guessing answers or biased responses.

3.2 Data Collection Methods

Questionnaires were utilized as the data-gathering tool. Seven (7) sections were created out of these questions. Data on the demography of the SMEs were collected in Section A. While section B examined Microcredit Loan Details section C the challenges SMEs face when accessing micro-credit, section D regarding their rate of loan usage (the effect of MFI credits on SMEs' performance), section E talks about non-financial services, and section G General Feedback.

Information was gathered in ten working days. To gather the necessary information, the researcher made two trips to the areas. Because all respondents were at their places of employment between the hours of 8 a.m. and 5 p.m. on both days, the researcher visited the SMEs during that time. The researchers informed the participants that any information they submitted was private and would only be used for research purposes before distributing the survey equipment. As a result, no information was gathered that may have made it simple to identify a research respondent.

3.3.Data Analysis

Data collected by the use of the questionnaire will be analysed, summarised, and interpreted accordingly with the aid of descriptive statistical techniques such as total score and simple percentage. Qualitative as well as quantitative methods were used in the analysis of the primary data collected. In order to ensure statistical accuracy, the available quantitative data was analysed using Statistical Package for Social Scientists (SPSS). The findings were presented in the form of tables, charts, and figures.

3.4 Ethical Consideration

The researcher takes into account the research values of informed consent, anonymity, and safeguarding respondents from any potential damage that could result from their involvement in the study. The respondents who were used in this study gave their informed consent and were under no circumstances coerced to participate in the data gathering. After giving their consent, respondents were given the assurance that the data obtained would only be utilized for the study and not for any other reason, commercial or otherwise. Thus, we avoided anything that may have allowed us to associate a respondent with a specific response.

4.0 DATA ANALYSIS, DISCUSSION, AND PRESENTATION OF RESULTS

A detailed discussion and analysis of findings of the study with much emphasis on the responses received, findings of the study, tables and figures and other related charts that are useful are presented here. It also presents detailed discussions on the profile of SMEs who are beneficiaries MFIs credits, the contribution of MFIs on the entrepreneurial activities that lead to sustainable growth of SMEs in the community the challenges SMEs face in accessing credit, and the utilization of credit by SMEs for business growth.

4.1 Demographic of the Respondent

With a response rate of 100%, observation of 35 SMEs was used for the study. This study investigated the background information of the respondents comprising the respondents' gender, age, level of education, type of SME, level of experience in business, number of employees, and if they have applied and received microcredit from MFIs.

Table 1**: Gender**

Variables	**Frequency**	**Percentage (%)**
Male	23	65.7
Female	12	34.3
Total	***35***	**100**

Source: Field study (2023)

The result in table 1 gives detailed information on the respondents' gender. This helps provide information on the sex group of the individuals who own SMEs. Out of 35 respondents, 23 respondents representing 65.7% were males and 12 respondents representing 34.3 were female. The field results indicated the male group own more compare to the female.

Table 2**:Age**

Variables	**Frequency**	**Percentage (%)**
18-24	10	28.6
25-34	20	57.1
35 and above	5	14.3
Total	***35***	**100**

Source: Field study (2023)

The result in table 2 gives detailed information on the respondents' age. This helps provide information on the age group of the individuals who own SMEs. Out of 35 respondents, 10 respondents representing 28.6% were between 18 to 24 years, 20 respondents representing 57.1% were within the age of 25 to 34 years and also 5 respondents representing 14.3% were 35 years and above.

Table 3:**Educational qualification**

Variables	**Frequency**	**Percentage (%)**
Basic	1	2.9
Secondary	7	20
Tertiary	26	74.3
Others	1	2.9
Total	***35***	**100**

Source: Field study (2023)

From table 3 it can be deduced that most of the respondents have high educational level which is tertiary showing 26 respondents representing 74.3%.

Table 4:Business sector

Variables	**Frequency**	**Percentage (%)**
Agriculture	4	11.4
Manufacture	3	8.6
Retail	17	48.6
Service	8	22.9
Other	3	8.6
Total	***35***	**100**

Source: Field study (2023)

Table 4 is on type of business which involves most of the respondents. So, it provides that 48.6 of the respondents engaged themselves in retail business and hence the implication in trading is that, the most dominant business activity carried out by the most SMEs. While 22.9% of the respondents were dealing with service and 11.4% and 8.6% were into agriculture and manufacture respectively.

Table 5:**Years of experience in business.**

Variables	**Frequency**	**Percentage (%)**
Less than a year	6	17.1
1-5	21	60
6-10	6	17.1

More than 10	2	5.7
Total	***35***	**100**

Source: Field study (2023)

From the table above out of 35 respondents, majority have a lot of business experience (82.8%).

4.3 Presentation of Results

Table 6: To find out if respondents have ever applied for and received a microcredit from MFI

Variables	Frequency	Percentage (%)
Yes	27	77.1
No	8	22.9
Total	***35***	**100**

Source: Field study (2023)

From the table based on the assessment conducted particularly on whether the respondents have ever applied and received microcredit from MFI. This response shows that most SMEs depends on microcredit to operate their business, indicating that 27 respondents representing 77.1% have applied and received microcredit loans from MFI. Whiles 8 respondents representing 22.9% do not depend or has not applied for microcredit loans from MFIs.

4.2 Utilisations of Microfinance Credit.

Table 7:How was the credit utilise?

Variables	Frequency	Percentage (%)
Expansion	10	28.6
Working capital	10	28.6
Equipment purchase	6	17.1
Inventory management	1	2.9
No response	8	22.9
Total	***35***	**100**

Source: Field study (2023)

From table 7, 10 respondents representing 28.6% microfinance credits are mostly used for expansion of business and working capital each. 17.1% and 2.9% uses the credit to purchase equipment and inventory management respectively.

Table 8:**Finding out if the microcredit positively impacted their SME's growth and development.**

Variables	**Frequency**	**Percentage (%)**
1	8	22.9
4	11	31.4
5	16	45.7
Total	*35*	100

Source: Field study (2023)

Statistics

on a scale of 1-5, where 1- not at all and 5 is extremely

N	Valid	35
	Missing	0
Mean		3.77
Std. Deviation		1.592
Minimum		1
Maximum		5

From the tables above, the fact that response was chosen from the rating 1 and indicates a diversity of opinions. The majority of respondents 16 have a very positive perception rating 5, while 8 respondents have s very negative perception rating 1. Mean (average) rating of 3.77 suggests that, on average, respondents perceive a moderately positive impact of microcredit on SMEs. This value falls between the moderate (3) and positive (4) levels on 1 to 5 scale.

The standard deviation of 1.592 indicates the extent of variability or spread in the responses. In this case, it's relatively moderate. This implicates that with s mean close to 4, appears that a substantial portion of respondents' view microcredit as having a positive impact on SMEs. However, the relatively high standard deviation suggests that there is significant disagreement.

4.4 Challenges SMEs face when Accessing Microcredit

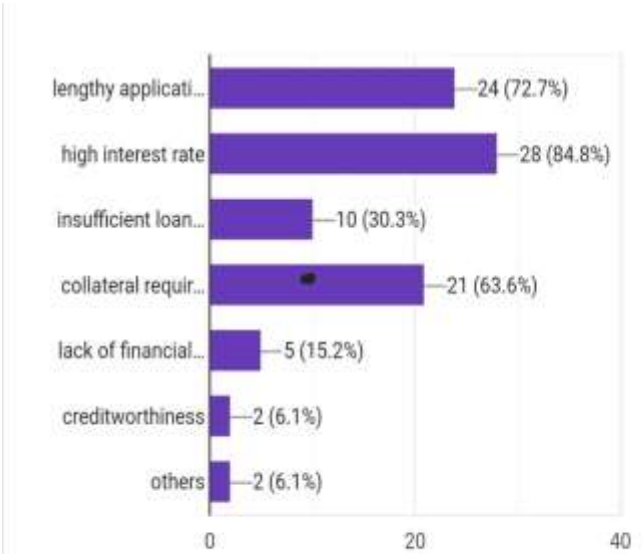
Table 9:**Have you faced any challenges in the process of applying for a microcredit?**

Variables	Frequency	Percentage (%)
Yes	32	91.4
No	3	8.6
Total	***35***	**100**

Source: Field study (2023)

From the data above, it appears that out of 35 respondents 32 have faced challenges whiles applying for microcredit but 3 respondents do not face any challenge. This show that majority of the respondents 91.4% face challenges when accessing loans from microfinance institutions.

Figure 1:**Indicate the challenges.**



From the diagram above, it shows that most respondents (28 respondents representing 84.8%) face high interest rate, 24 respondents representing 72.7% face lengthy application, 21 respondents representing 63.6% face collateral requirement, 10 respondents representing 30.3% face insufficient loan amount, 5 respondents representing 15.2% lack financial literacy support while 2 respondents representing 6.1% face creditworthiness and other challenges each.

4.5 Non-Financial Outcomes

Table 10:**Has microfinance institution you work with provided any training programs for your SME or employees.**

Variables	**Frequency**	**Percentage (%)**
Yes	17	48.6
No	18	51.4
Total	*35*	100

Source: Field study (2023)

From the table above, out of 35 respondents, 17 respondents have received training programs for their SMEs and employees from their MFI. While majority of 18 respondents representing 51.4% have not received any training from their MFI.

Table 11:**Access to microfinance credit influence your SME's ability to innovate or introduce new product or service.**

Variables	**Frequency**	**Percentage (%)**
Yes	21	60
No	14	40
Total	*35*	100

Source: Field study (2023)

From the table above out of 35 respondents, 21 respondents representing 60% says microfinance credit has influence their SME's ability to innovate or introduce new product or service. While 14 says no.

Table 12:**Did non-financial outcomes of microfinance have contributed to the long-term sustainability of your SME?**

Variables	**Frequency**	**Percentage (%)**
Yes	17	48.6
No	18	51.4
Total	*35*	100

Source: Field study (2023)

From the table above out of 35 respondents, 17 respondents representing 48.6% says that non-financial services provided by microfinance institutions have contributed to the long-term sustainability of their SME. While majority (18 respondents representing 51.4%) says no.

Table 13:**Did accessing microfinance help you establish new business relationships or partnership?**

Variables	**Frequency**	**Percentage (%)**
Yes	17	48.6
No	18	51.4
Total	*35*	100

Source: Field study (2023)

From the table above out of 35 respondents, 17 respondents agree that accessing microfinance help in establishing new business relationships or partnership. While 18 disagree to it.

Figure 2:**Which non-financial services does microfinance offer to your SME.**

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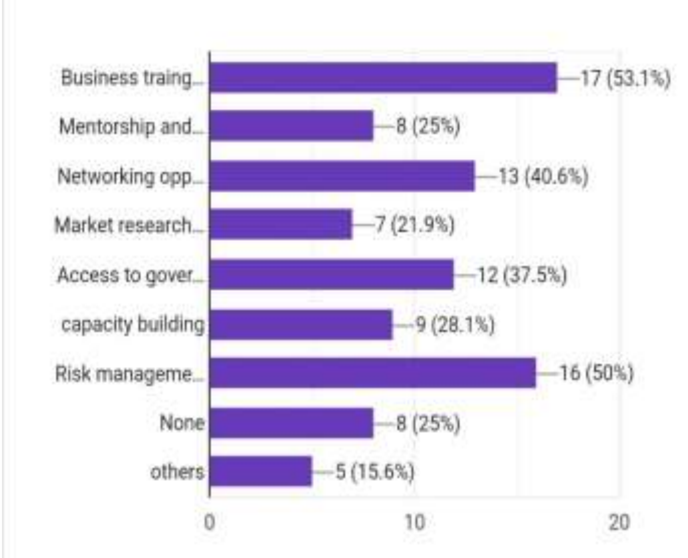

From the graph above out of 35 respondents, 17 respondents representing 53.1% say business training and education is one major non-financial service provided by MFI, and also 16 respondents say risk management is another major non-financial service provided by MFI. While 8 respondents chose none.

4.6 Impact of Microfinance on SMEs

Table 14:**Have you observed any positive impacts on your SME's growth and development after obtaining credit?**

Variables	Frequency	Percentage (%)
Yes	28	80
No	7	20
Total	*35*	100

Source: Field study (2023)

From the table above out of 35 respondents, majority (28 respondents representing 80%) have observed positive impacts on their SME's growth and development after obtaining credit. While 7 respondents representing 20% says no.

Table 15:**What impact have you experienced?**

Variables	Frequency	Percentage (%)
Increase in revenue	15	42.9
Job creation	6	17.1
Improved productivity	10	28.6
Others	4	11.4
Total	*35*	100

Source: Field study (2023)

From the table above out 35 respondents, majority have increase in revenue 42.9% which is 15 respondents, 10 respondents representing 28.6% have improved in productivity, while 6 and 4 respondents have job creation and others respectively.

Table 16:**Do you believe that microfinance plays a significant role in supporting the growth of SMEs in Somanya?**

Variables	Frequency	Percentage (%)
Yes	33	94.3
No	2	5.7
Total	*35*	100

Source: Field study (2023)

From the table above out of 35 respondents, 33 respondents representing 94.3% agree that microfinance institutions play a significant role in supporting the growth of SMEs. Whiles 2 respondents says no.

4.7 Discussion of findings

This section of the research work discusses the findings of the study in line with the study objectives.

4.7.1 Demographics

Gender Distribution: The survey had a larger number of male respondents (23) compared to female respondents (12). This could indicate a potential gender imbalance in the sample, which may have implications for gender-related analyses or business services targeting specific genders.

Age Groups: The majority of respondents fall into the age group of 25 to 34 years (20 respondents), followed by those aged 18 to 24 years (10 respondents). Only 5 respondents are aged 35 and above. This suggests that the survey primarily captured the views of younger individuals, which could impact the relevance of the findings for older age groups.

Education Levels: Most respondents (26) have tertiary education, indicating a well-educated sample. This could imply a higher level of understanding and awareness of financial services like microcredit. However, there is also one respondent with only basic education, which might influence their financial decision-making differently.

Types of Businesses: The largest group of respondents (17) is involved in retail businesses, which is a broad sector. Agriculture (4) and manufacturing (3) have fewer respondents, and a significant portion (8) are in the service sector. These findings suggest a diverse mix of businesses among the respondents.

Years of Experience: The majority of respondents (21) have 1 to 5 years of experience in their businesses, indicating a relatively young group of entrepreneurs. This could mean that they may have different financial needs and risk profiles compared to those with more experience.

Microcredit Usage: A notable finding is that the majority of respondents (27) have applied for and received microcredit from MFIs. This suggests a strong demand for microcredit among the surveyed individuals. The 8 respondents who have not applied for microcredit might represent potential untapped markets or individuals with different financial strategies.

In conclusion, the survey provides valuable insights into the demographics, education levels, types of businesses, and experience levels of the respondents. Additionally, the high number of respondents who have utilized microcredit indicates a significant demand for this financial service within the surveyed population. These findings could be useful for MFIs and policymakers to tailor their services and support to meet the specific needs of this group. However, it's important to note that the sample size is relatively small (35 respondents), so these findings should be interpreted with that limitation in mind. Further research with a larger and more diverse sample may be necessary for more robust conclusions.

The findings from this survey provide valuable insights into how SMEs (Small and Medium-sized Enterprises) utilize microfinance credit and their perception of its impact on their growth and development. Here's a breakdown and discussion of the findings:

Credit Utilization

Expansion (10 responses): 10 SMEs used the microfinance credit to expand their businesses. This suggests that these SMEs saw an opportunity to grow and saw microfinance as a means to fund that expansion.

Working Capital (10 responses): Another 10 SMEs used the credit for working capital. This is a common use of credit, indicating a need for short-term financing to manage day-to-day operations.

Purchasing Equipment (6 responses): Some SMEs used the credit to purchase equipment. This could imply a focus on improving productivity or enhancing the quality of their products/services.

Inventory Management (1 response): Only one SME used the credit for inventory management, which might suggest that inventory management wasn't a widespread concern among the surveyed businesses.

No Access to Credit (8 responses): Eight respondents did not access any credit from the microfinance institution (MFI). This could be due to various reasons, such as eligibility criteria or a lack of interest in taking on debt.

Perception of Impact

Respondents were asked to rate the positive impact of microfinance credit on their SMEs' growth and development on a scale of 1 to 5.

Those who didn't access credit (8 responses) rated it as 1, indicating that they did not perceive any impact from microfinance credit. Of those who accessed credit, 11 respondents rated it as 4, suggesting a significant positive impact. The majority, 16 respondents, rated it as 5, indicating that they perceived an extremely positive impact on their SMEs' growth and development.

The mean rating was 3.77, suggesting an overall positive perception of microfinance credit's impact. The standard deviation of 1.592 indicates some variation in responses, meaning that while many SMEs saw a positive impact, there were also some variations in how they perceived this impact.

Overall, the findings suggest that microfinance credit is generally perceived as having a positive impact on SME growth and development by those who access it. It appears to be used for various purposes, including expansion and working capital, which align with common business needs.

However, it's worth noting that not all SMEs accessed this credit, and there was some variation in the perceived impact, as indicated by the standard deviation. Further research could explore the reasons behind these variations and the barriers faced by those who did not access microfinance credit.

4.7.2 Challenges in Accessing Microcredit

The survey findings highlight several key insights into the challenges that SMEs (Small and Medium-sized Enterprises) face when accessing microcredit, as well as their alternative funding sources:

4.7.2.1 Lengthy Application Process: A significant proportion (24 out of 35) of respondents mentioned facing difficulties due to the time-consuming application process. This suggests that streamlining and simplifying the application process could be beneficial for SMEs.

4.7.2.2 High Interest Rates: A substantial majority (28 out of 35) complained about high interest rates. This could indicate that microcredit institutions should explore more affordable interest rate options to support SMEs.

4.7.2.3 Collateral Requirements: A sizeable portion (21 out of 35) noted the need for collateral. This barrier could be addressed by promoting unsecured microcredit or exploring alternative forms of collateral.

4.7.2.4 Insufficient Loan Amount: Ten respondents cited insufficient loan amounts as a challenge. Microcredit providers should evaluate and adjust their lending limits to better meet the needs of SMEs.

4.7.2.5 Lack of Financial Literacy: A smaller number (5 out of 35) mentioned a lack of financial literacy. Efforts should be made to provide financial education and support to SMEs to help them better manage their finances and loans.

Creditworthiness: Only a few respondents (2 out of 35) reported issues with creditworthiness. Microcredit institutions could consider more inclusive lending criteria.

Alternative Funding Sources:

Family and Friends: A significant number (27 out of 35) turned to family and friends for funding, indicating that informal networks play a vital role in supporting SMEs. This underscores the importance of social capital for small businesses.

Personal Savings: Another substantial group (25 out of 35) relied on personal savings, indicating that many entrepreneurs use their own resources to finance their businesses. This highlights the need for financial planning and management skills.

Commercial Banks: A smaller proportion (12 out of 35) sought funding from commercial banks. This suggests that traditional banking channels are still utilized by some SMEs, but the majority prefer alternative sources due to perceived challenges in accessing microcredit.

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Other Sources: One respondent mentioned "other" sources, which could include angel investors, venture capital, or other non-traditional funding options.

Seeking Alternative Funds:

The fact that 31 out of 35 respondents explored other sources for funds due to difficulties in accessing microcredit indicates that many SMEs are actively seeking solutions to finance their operations.

In conclusion, the survey findings suggest that microcredit institutions should consider addressing the identified challenges, such as simplifying application processes, offering more favorable interest rates, and exploring alternative collateral options. Additionally, providing financial literacy support to SMEs and adapting lending criteria could enhance access to microcredit. Furthermore, recognizing the importance of informal networks and personal savings in SME financing highlights the need for comprehensive financial education and planning for entrepreneurs.

4.7.3 Non-financial outcomes

Based on the survey findings, it appears that there are mixed perceptions and outcomes related to non-financial services provided by MFIs (Microfinance Institutions) among the 35 respondents:

Training Programs for SMEs or Employees: 17 out of 35 respondents said that the MFI they work with provides training programs. This suggests that a substantial portion of respondents do have access to such non-financial services, which can potentially enhance their skills and knowledge.

Influence of Microfinance Credit on Innovation: 21 respondents indicated that access to microfinance credit influenced their SME's ability to innovate or introduce new products or services. This positive response suggests that a majority of respondents see a connection between credit access and innovation, which can be seen as a positive outcome.

Contribution to Long-Term Sustainability: Here, 17 respondents believed that non-financial outcomes of microfinance contribute to the long-term sustainability of their businesses. This indicates that for those who have access to non-financial services, they perceive these services as beneficial for their business sustainability.

Establishing Business Relationships or Partnerships: 17 respondents felt that microfinance helped them establish new business relationships or partnerships. However, 18 respondents disagreed. This suggests that while some see networking opportunities as a benefit, others may not have experienced the same outcomes.

Types of Non-Financial Services Received: The survey also asked respondents to indicate the types of non-financial services they received. The most commonly mentioned services were business training and education (17), followed by risk management services (16), government programs (12), and networking opportunities (13). This diversity in responses indicates that MFIs offer a range of non-financial services tailored to the needs of their clients.

Overall, these findings highlight the importance of non-financial services provided by MFIs, but they also indicate that the perception of their impact can vary among respondents. It may be valuable for MFIs to further assess and tailor their non-financial offerings to address the specific needs and preferences of their clients to maximize their positive impact on SMEs and individuals. Additionally, understanding the reasons behind the differing perceptions among respondents who had access to similar services could provide valuable insights for MFIs looking to improve their offerings.

4.7.4 Impact on SMEs

The survey findings suggest that microfinance institutions (MFIs) have a generally positive impact on SMEs in Somanya township, according to the respondents.

Positive Impact: A significant majority (28 out of 35) respondents stated that MFIs have had a positive impact on SMEs. This indicates that a substantial portion of the surveyed SMEs have benefited from microfinance services.

Areas of Impact: The respondents highlighted various areas where they experienced positive impacts, with 15 mentioning an increase in revenue, 10 noting improved productivity, and 6 mentioning job creation. This diversity of positive effects suggests that MFIs can support SMEs in multiple ways.

4.7.5 Belief in MFI's Role

Perceived Significance: An overwhelming majority of respondents (33 out of 35) believe that MFIs play a significant role in supporting the growth of SMEs in Somanya township. This indicates strong trust and confidence in the ability of MFIs to contribute to SME development.

Negative Views: While the majority view is positive, it's worth noting that 7 respondents expressed a negative view regarding the impact of MFIs on SMEs. It would be beneficial to explore their reasons for skepticism further.

Overall, the findings suggest that MFIs are generally perceived as valuable contributors to SME growth in Somanya township, as most respondents reported positive impacts. However, it's essential to consider the views of those who had negative opinions to gain a more nuanced understanding and potentially address any concerns or challenges faced by this minority. Further research and qualitative analysis could provide deeper insights into the specific ways MFIs are supporting or falling short in supporting SMEs in the region.

5.0 SUMMARY OF FINDING CONCLUSION AND RECOMMENDATIONS

Summary of Finding

The main objective of this study was to determine the impact microfinance on the growth and development on SMEs in Somanya. Most of the SMEs used for the study have high education background. Also, most of the SMEs have applied and received microcredit from MFIs. The study was a quantitative study that employed the use of questionnaires as the data collection instrument. The sample size for the study was 35. The data were entered into SPSS version 23 and analysed. The results were presented using tables and charts.

5.1 Summary of Findings on how SMEs Utilize Credit Obtained Through Microfinance.

In the survey conducted on the utilization of microfinance credit among SMEs, it was observed that the primary use of these funds is for working capital and business expansion. A significant portion of SMEs reported allocating the obtained credit towards maintaining their day-to-day operations and fueling growth opportunities. Furthermore, a notable proportion of the respondents mentioned that they use microcredit to purchase essential equipment. However, it is worth mentioning that a minority of participants did not provide a response to this question. This group likely consists of SMEs who have not applied for microfinance credit.

Overall, the survey indicates that MFIs play a crucial role in supporting SMEs in growth and development, while also highlighting the need for outreach and awareness efforts to reach SMEs who have not yet explored microfinance options.

5.2 Summary to Identify the Barriers and Challenges face SMEs in Accessing Microfinance Credit.

The findings revealed that the majority of respondents encountered significant hurdles. While only a minority reported no challenges. The most prevalent challenges identified were;

High interest rates. A substantial number of SMEs cited high interest rates as a significant obstacle. This indicates that the cost of borrowing is a major concern for these businesses.

Lengthy application processes. Many respondents expressed frustration with the lengthy and cumbersome application procedures associated with microfinance credit, which can delay access to funds.

Collateral requirements. It was out that this challenge was common among SMEs, suggesting that many SMEs struggle to meet the collateral criteria imposed by microfinance institutions.

Due this challenges majority tried other source to get access to credit such family and friends, commercial banks, government grants and personal savings.

In summary, the research identified several key challenges faced by SMEs when accessing microfinance credit, including high interest rates, lengthy application processes, collateral requirements, insufficient loan amounts, lack of financial literacy and creditworthiness issues. These findings shed light on areas where interventions and support measures can be targeted to improve access to microfinance credit for SMEs.

5.3 Summary to Investigate Non-Financial Outcomes.

The majority of respondents (18 out 35) indicated that they have not received any non-financial services from their respective MFIs, while 17 respondents reported receiving non-financial services.

Interestingly, among those who received non-financial services, 17 respondents stated that these services had a positive contribution to the long-term sustainability of their SMEs. This suggests that non-financial services can play a significant role in supporting viability of small businesses.

The majority of those who reported receiving non-financial services mentioned access to several key types of support. These included business training and education, network opportunities, risk management assistance, and access to government programs.

In summary, the survey findings reveal that while a significant portion of respondents have not received this services from their MFIs, those who have accessed such services have recognized their positive impact on the long-tern sustainability of their SMEs.

This suggests the potential for further exploration and development of non-financial services as a means to enhance the support provided to SMEs by MFIs.

5.4 Conclusion

The survey findings reveal a predominantly positive outlook on the impact of microfinance institutions (MFIs) on SMEs in Somanya. Majority of respondents believe that MFIs play a significant role in supporting SME growth, citing improvements in revenue, productivity, and job creation as tangible benefits. While this optimistic sentiment is encouraging, the dissenting views of a minority should not be overlooked. Addressing the concerns of these individuals and conducting further research can help optimize the effectiveness of MFIs, ensuring that they continue to be valuable partners in the growth and development of SMEs in the region.

The survey findings demonstrate the nuanced nature of non-financial services provided by Microfinance Institutions (MFIs) and their impact on SMEs and individuals. While a significant portion of respondents reported positive outcomes, such as improved innovation and sustainability, there were also varying perceptions and experiences among participants. This suggests that the effectiveness of non-financial services may depend on factors such as the type of service offered, the individual needs of clients, and the quality of service delivery. To maximize the benefits of non-financial services, MFIs should consider tailoring their offerings and addressing the diverse needs of their clients. Further research and client feedback may help MFIs refine their strategies and ensure that these services contribute more consistently to the long-term success of SMEs and individuals.

The findings of this survey shed light on the dynamics of microfinance credit utilization among SMEs and their perceptions of its impact. SMEs are using microfinance credit for various purposes, with expansion and working capital being prominent. The majority of respondents who accessed credit perceive it as having a significantly positive impact on their growth and development, while a smaller portion did not see the same benefits. These results underscore the importance of tailored microfinance programs that cater to the diverse needs of SMEs. Policymakers and microfinance institutions should consider offering flexible credit options and increasing awareness about the potential benefits of microfinance credit. Moreover, further research is warranted to explore the reasons behind variations in utilization and perception, as well as to track the long-term outcomes of SMEs after accessing such credit. Overall, these findings contribute to a better understanding of how microfinance can support the growth and development of small and medium-sized enterprises.

The findings of the survey on SMEs' experiences with microfinance institutions (MFIs) underscore the critical role that both financial and non-financial services play in the success and sustainability of small and medium-sized enterprises. While challenges such as high interest rates and lengthy application processes persist, the recognition of non-financial services, including business training, networking opportunities, risk management support, and access to government programs, highlights the multifaceted needs of SMEs. Moreover, the acknowledgment by a significant portion of respondents that non-financial services positively contribute to their SMEs' long-term sustainability emphasizes the potential for MFIs to be holistic support providers. These findings suggest that MFIs have an opportunity to further diversify their offerings, streamline application processes, and strengthen their partnerships to better serve the SME community. Ultimately, the survey findings point towards a path of innovation and collaboration in the microfinance sector, where MFIs can continue to evolve their services to address the ever-changing needs of SMEs, fostering their growth, resilience, and long-term success.

The survey findings highlight the prevalent challenges faced by SMEs in accessing microcredit, including lengthy application processes, high interest rates, and collateral requirements. SMEs exhibit resourcefulness by seeking alternative funding from sources like family and friends and personal savings. Policymakers and financial institutions should consider these findings to develop targeted solutions that support SMEs in overcoming these hurdles and fostering economic growth.

5.4 Recommendation

In view of the findings made and conclusions drawn from the study the following recommendations are provided to help in the enhancement of an accelerated and sustained performance in the SME sector and also provide recommendations to help in the improvement of the services of MFIs.

Based on the findings from the survey regarding non-financial outcomes and challenges faced by SMEs in accessing microfinance credit, the following recommendations were made to MFIs:

5.4.1 Diversify Non-Financial Services: Recognize the importance of non-financial services in supporting SMEs. Consider diversifying the range of non-financial services offered to cater to the diverse needs of SMEs, including business training, networking opportunities, risk management, and access to government programs.

5.4.2 Streamline Application Processes: Address the concern of lengthy application processes by streamlining and simplifying the procedures for SMEs to access microfinance credit. This can help improve the overall experience for applicants.

5.4.3 Flexible Interest Rates: Given that high interest rates were identified as a major challenge, consider exploring options for more flexible interest rate structures, especially for SMEs that demonstrate commitment and creditworthiness.

5.4.4 Financial Literacy Programs: Recognize the need for financial literacy among SMEs and consider offering financial education programs as part of your non-financial services. This can empower SMEs to make informed financial decisions and improve their overall business management.

5.4.5 Collateral Alternatives: Explore alternative collateral options or risk-sharing mechanisms that can reduce the barrier of collateral requirements for SMEs. This can make credit more accessible to a broader range of businesses.

5.4.6 Strengthen Networking Opportunities: Continue to facilitate networking opportunities for SMEs within your programs. Building connections and partnerships can be invaluable for SME growth and market expansion.

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