



Birmingham City University

Topic

**The Impact of Microfinance on Microenterprise Development
in Ghana.**

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Doctor of Philosophy (PhD)

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ABSTRACT

Poverty has adverse impact on economic growth, human dignity and wellbeing. Therefore, experiments with microloans to tackle financial exclusion and underinvestment have positive implications for development economic theory and practice. However, drawing on microfinance analysis, often, the three dimensions of microfinance impact-poverty, empowerment and microenterprise development are evaluated together (Hermes and Lensink, 2011; Duvendack and Palmer-Jones, 2012; and Banerjee, et al., 2013). Ledgerwoods (1999) have argued that this recurring theme in impact studies in Ghana shows the existing evaluations and outcomes have lumped microfinance impact (Annim et al., 2008 and; Adjei and Arun, 2009). Moreover, Karlan and Goldberg (2007) suggested that investigating the impact of microfinance on each of the above elements independently is desirable as it enables policy makers to develop more targeted policy tools.

Thus, this study investigated the relationship between provision of microfinance services and microenterprise development. This is an empirical study that is carried out using 134 structured questionnaires, 19 semi-structured interviews (Microfinance Institution (MFI) -9 and Microenterprises-10). The research findings suggest there is a significant relationship between provision of microfinance and positive outcomes of microenterprise projects. However, pre-loan induction, conception and nurturing of enterprise ideas and developing their self-esteem are critical for the success of microenterprise activities. The study results have significant positive implications for the wider literature that suggests microfinance aid microenterprise development and promotes human dignity (Karnani, 2007). Furthermore, the study proposes a conceptual model for the development of microfinance and increase of micro-entrepreneurial activities for the poor.

DEDICATION

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CHAPTER 1

1.0 INTRODUCTION

Experiments with microfinance in Bangladesh and similar context aimed at promoting credit availability for microenterprises has yield various evidence of positive outcomes (Hulme and Moore, 2006; Pitt, et al., 2006; Fernando, 2008; Ahmed, et al., 2009 and; Rahman and Nie, 2011). Moreover, the presence of microfinance services in developed nations like; the United Kingdom, France, Finland and America have helped improve isolated cases of credit inequality (Forster, et al., 2006; Kneiding and Tracey, 2009 and European Banking Federation, 2010). Against this background, Claessens, et al. (2009) have argued that microfinance is viable as a long term strategy for providing finance to microenterprises that are overlooked by banks. According to Mwenda and Muuka (2004) often, micro-entrepreneurs are poor and faced with credit barriers such as absence of collateral and information asymmetry. Presence of credit access barriers crowds out finance and savings avenues which weakens microenterprises growth process. Thus, microfinance aims to create a sustainable source of financial services that will promote economic activities for the poor to improve their quality of life (Schreiner, 2003). According to Armendáriz (2009) MFI's that exist in developed countries are often in the form of Cooperative and Trust schemes such as; the Princes Trust in the UK and Opportunity International Savings and Loans in the US. In poor countries however, structure of microfinance vary tremendously; ranging from unsupervised small to medium size lenders as well as established savings and loans schemes.

Presently, microfinance approach is targeted at provision of finance to microenterprises that are unable to access financial services from commercial banks (Pant, 2009). Against this background, Armendariz de Aghion and Morduch (2000) suggested microfinance developed from the ancient microcredit concept of providing small, collateral-free loans to microenterprises long before modern, western-based commercial banking came into existence. Perhaps it is in this context, Sengupta and Aubuchon (2008) suggest that the addition of payment services, savings and insurance to credit that target microenterprises have differentiated microcredit from microfinance. This is similar to the view of Banerjee, et al. (2013) that microfinance is

a broader term than microcredit-whereas, microfinance represents provision of several finance products including credit, microcredit is used to describe the provision of only credit (Qudrat-I Elahi and Lutfur Rahman, 2006).

1.1 Statement of the Problem

Microfinance became a popular strategy for developing microenterprises in Ghana after several success stories were reported on the positive impact of Grameen Bank activities on the poor in Bangladesh (Schreiner, 2003). Especially, as a means of credit that support women entrepreneurs reduce poverty and overcome major challenges to borrowing such as; repayment modalities, collateral and male co-signer for females (Pitt, et al., 2006). According to Karnani (2007) financing microenterprises improves income generation opportunities for the poor, which subsequently, promotes livelihood, female empowerment, increase household income and school going rate for children. Furthermore, Roy (2010) suggests MFI's have made it easy for microenterprises without collateral to borrow as low as \$100 and pay weekly, monthly and bimonthly instalment over a long period of time. Often, little instalments arrangements attracts microenterprises in Ghana to microfinance and perhaps, explains the positive usage and repayments rates reported by MFI's in places such as Ghana; between 90 to 100 percent repayment performance (Ahlin, et al., 2011).

However, microfinance in Ghana is provided to microenterprises at high interest rates couple with short gestation repayment periods. Thus, cost of microfinance in Ghana is considered high. Often, this is blamed on high transaction and administrative cost resulting from costly screening practices and regular meetings held to motive microenterprise clients. According to Armendariz and Szarfaz (2011) unfavorable interest financing in places such as Ghana impedes microenterprises access to repeat-lending which weakens their growth potential. That apart, limited rigorous research has examined relationships between microfinance and microenterprise development in Ghana. Critical analyses of the existing studies have shown evidence similar to program evaluation analysis (Afrane, 2002 and Annim, et al., 2008). According to Ledgerwood (1999) program evaluations are weak because they fail to indicate which aspect of the program experienced greater impact. Furthermore, Karlan and Goldberg (2007) argue that measuring for the three dimensions of microfinance

impact (poverty, empowerment and microenterprise development) separately improves design of strategies that are targeted at specific developmental projects. Therefore, this research study is focused on investigating the existing relationships between provision of microfinance and microenterprise development in Ghana. This analysis will help determine whether use of microfinance gives rise to positive outcomes for microenterprise projects. To this end, the results and findings of this investigation are expected to conceptualise that microfinance impacts positively on beneficiaries. Also, the conceptual model this research intends to achieve is expected to offer a unique ecosystem of interconnected market actors that provide multiple financial services to microenterprises.

1.2 Aim (s) and Objectives of the Study

1.2.1 Aim of the Investigation

The aim of this research study is to investigate the impact of microfinance on microenterprise development in Ghana.

1.2.2 Objectives

1. To investigate, using the growth profiles of microenterprises, the relationship between the provision of microfinance and microenterprise development in Ghana.
2. To analyse characteristic factors that constrain the capacity of microfinance for microenterprise development in Ghana.
3. To critically evaluate the appropriateness and efficiency of existing models used by microfinance institutions to deliver finance to microenterprises in Ghana.
4. To develop a conceptual model for microfinance institutions to effectively deliver finance to microenterprises.

1.3 Key Research Question

1.3.1: Is there a relationship between the provision of microfinance and growth in microenterprise development in Ghana?

The first research question that emerged from the literature review is concerned with the role of MFI's services in promoting economic activities for micro-entrepreneurs. In the context of this study MFI's services are described as; credit, savings, business training and social networking. Thus, to identify relationships of these services with microenterprise activities, how they impact microenterprise rate of employment, revenue, capital stock, savings ability and social networks are reviewed and analysed.

1.3.2: What characteristic factors constrain the capacity of microfinance for microenterprise development in Ghana?

The second research question relates to unique characteristic factors of micro-entrepreneurs and microenterprises that impede or facilitate their access and use of microfinance. Analysis of literature shows that in some cases unique characteristics such as; micro-entrepreneur gender, age of micro-entrepreneur, micro-entrepreneur level of education and location of business constrains microenterprises access and use of microfinance. However, in other cases too these unique variables have supported microenterprises access and use of microfinance. These characteristic factors are considered to enable the study examine variables that may constrain or facilitate microenterprise development. In this context, factors identified as constraining will be avoided and those that are seen as facilitating microenterprise growth will be further developed.

1.3.3: How appropriate and efficient are the existing models used by microfinance institutions in Ghana to deliver finance to microenterprises?

The third research question is about the types of lending models or mechanisms used by MFI's to provide finance to microenterprises. The microfinance lending mechanisms that have persisted throughout the literature are the group and individual lending models. However, the existing literature has shown that of the two models, the group lending mechanism has experienced significant use. Often, due to the social collateral that group lending provide MFI's to protect against risk in absence of physical collateral. Practice, experience and innovations with

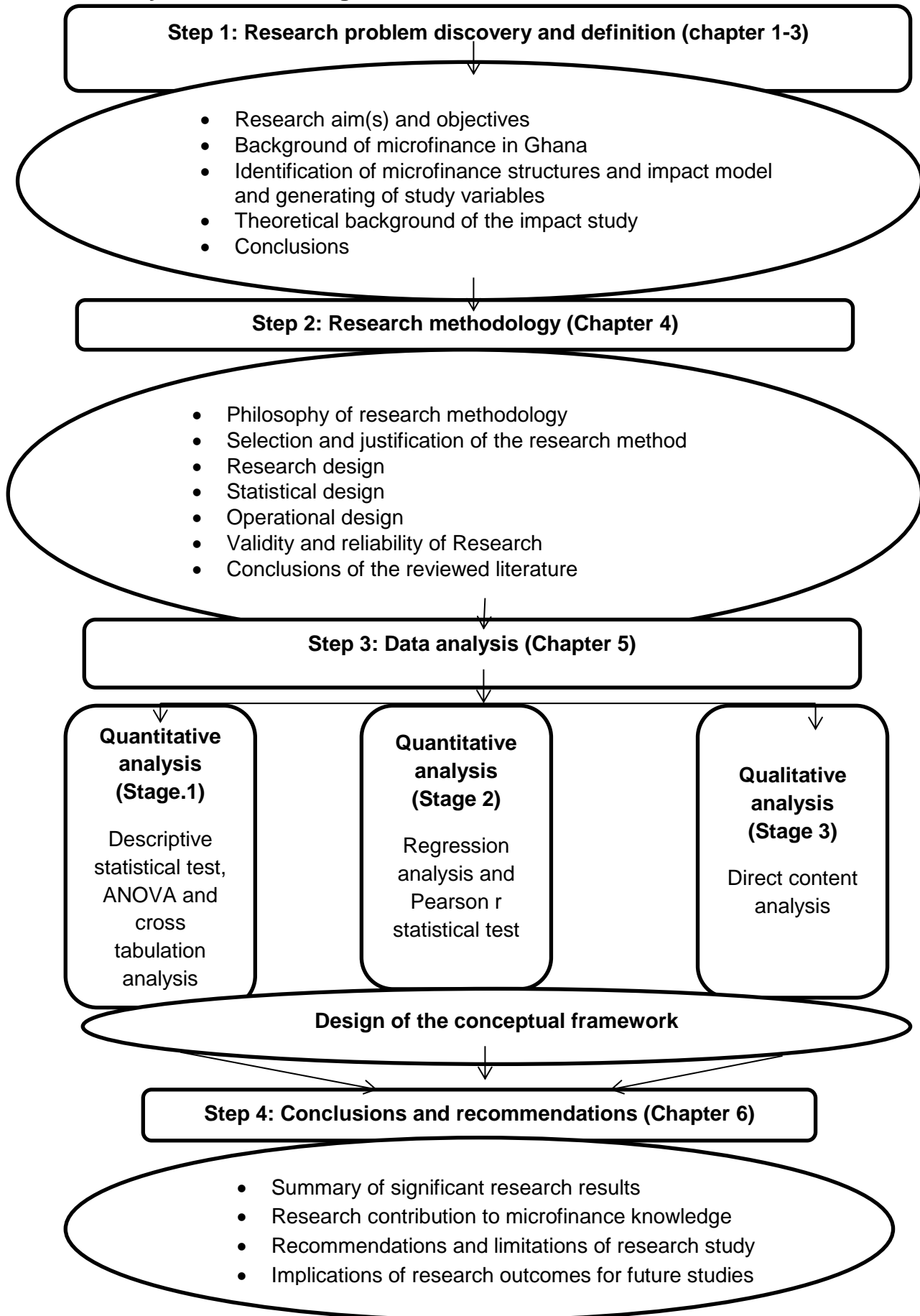
microfinance have led to the design of other MFI's lending models that are unique and relevant to the geographical context of microenterprises. In some situations, innovations and experiments with microfinance models have strengthened microenterprise access to finance, but in other situations they have weakened the rate of microenterprise access to credit. Thus, this research aims to identify the strengths and weakness associated with these existing lending models to improve their use for providing finance to microenterprises.

1.3.4: How can microfinance be best modeled and delivered to promote microenterprise development in Ghana?

The fourth research question is concern with identifying an appropriate lending approach that has potential for delivering microfinance to microenterprises more effectively. On the one hand, evaluations and outcomes of analysis show high interest and short repayment periods that are negative for microenterprises performance are associated with use of particular lending models. On the other hand, high transaction and administrative cost that impact negatively on MFI's ability to deliver finance at low cost may also be due to lending approaches adopted. Against this background, this study will analyse existing models to enable it design or propose a lending approach for the effective delivery of finance for microenterprise development.

In other to find answers that fill gaps in the literature and practice of microfinance, using results from analysing existing microfinance literature and field data, this study have constructed a conceptual model that addresses impact of microfinance practice on economic activities of micro-entrepreneurs. The aim is to test this model in Ghana with a view to propose it for use by MFI's. This will also have significant implications for governments and other developmental agencies that wish to alleviate poverty using microfinance.

Study Outline: Figure 1.1: Research Outline and Structure



CHAPTER 2

2.0 CONTEXT OF THE STUDY

Ghana is an independent state and is situated on the Atlantic Ocean towards the west of Africa and with a land size of 227,540 sq. km. Ghana is divided into ten administrative regions. The regions are; Upper East, Ashanti, Greater Accra, Upper West, Central, Volta, Eastern, Western, Northern and Brong Ahafo (**Figure 2.1**). Accra is Ghana's capital city and the seat of Government is located here. Ghana operates a presidential system of Government with a parliamentary democracy. Although, Ghana is an English speaking country, she shares borders with three Francophone countries. The west of Ghana is bordered by Ivory Coast; to the north is Burkina Faso, to the east lies Togo while the south border is delineated by the Atlantic and Gulf of Guinea. Ghana has a tropical climate with two seasons; cold or the wet season and the dry or hot season. Being a predominantly agricultural and extractive resource country, most of the farming is carried out during the wet or cold season often, by the poor in rural areas. While the rich natural resources such as gold, diamond, manganese, bauxite and ore are extracted throughout the year.

Due to her rich natural resources Ghana was named the Gold Coast by the British when it became officially a colony under the rule of the crown Queen-Victoria in 1884 (Knoll and Hiery, 2010). However, Apter (2008) suggests that in 1957 Ghana gained independence from British rule and subsequently, attained a full republic status in 1960. Therefore, the name Ghana was adopted after the country gained independence from British rule and it is interpreted to mean "warrior King". According to Akyeampong (2010) Ghana was the first black African country to attain independence from colonial rule. In the view of Aryeetey and Kanbur (2005) an independent Ghana supervised by indigenous Ghanaians presents a better understanding of needs of her citizens and how to provide them. In this regard, Knowlton (2014) argued that immediately attaining independence, Ghana's first president, Dr Kwame Nkrumah preferred socialism, and started to develop supportive relief programs that provided access to basic needs for the poor. Moreover, Biney (2008) suggest Nkrumah later aimed at testing welfare programs throughout an independent Africa with complete self-rule. This is consistent with Asamoah (2011) who argued that Ghana's experiments with relief programs

explains why the rest of Sub-Saharan Africa about the 1950s, implemented welfare programs with a view to provide basic needs for the poor. However, analysis of dependency theories suggests that although welfare practice supports the poor, it constrains private sector development (Smallbone and Welter, 2008; and Jenkins, 2013). Often, relief-giving weakens the economic behaviour of poor people by fulfilling conditions whose absence are necessary to trigger entrepreneurial behaviour (Piven and Cloward, 2012). The question thus is; has welfare practice, following Ghana`s independence constrained potential for the poor to start their own business?

According to Rothchild (1980) military coup de tats in the 1970s antagonised government led initiatives that promoted welfare and economic growth of the poor in Ghana. Military interference and suspension of civilian governments projects constrained resource and impeded the poor`s access to welfare and ability to participate in enterprise activities (Oquaye, 2004). Affordable housing initiatives such as the “Low Cost” projects, power supply, roads construction and government funded development banks became weak thus, the enabling business environment that was beginning to improve started to deteriorate again. According to Altenburg Von Drachenfels (2007) business enabling factors such as access to credit, physical and institutional infrastructure is needed to attract increase participation in economic activities in poor areas. Thus, it may be argued as Akosah (2013) did, that Ghana was characterised by a weak economy and became prone to high inflation, high interest rates and deficient entrepreneurial practices or what is known as “kalabule” in the Ghanaian parlance. However, since 1992 Ghana has maintained successive democratically elected governments. According to Whitfield (2009) this experience denotes Ghana as peaceful and a significantly progressive nation in Africa. Moreover, Gyimah-Boadi (2009) argued that Ghana has provided support to good governance initiatives promoted by the African Union, the Commonwealth of Nations and the United Nations.

According to the World Population Review (2014) Ghana`s population is currently 26,652 767. It is estimated that 50.9 percent of this figure is made up of the male population while, the remaining 49.1 percent is made up of female population. Ghana has a population growth rate of about 2.2 percent per annum. Meanwhile, the official population of Ghana is reported every ten years by the Ghana Statistical

Services Department. According to the Ghana Statistical Service (2012) Ghana's population is estimated to be 24, 263,000 compared to 6.7 million at the time of attaining her republic status. This thus, represents a total 181.47 percent change in Ghana's population from 1960 to the time of conducting the last population census. Almost half of Ghana's population live in deteriorating conditions today with basic needs such as healthcare and water still lacking. The use of outdated farming tools coupled with absence of improved seeds and finance to cultivate affects ability of small-holder farmers in Ghana to improve crop yield. Perhaps, the development support strategies designed after 1957 are weak to sustain the demand of a rising population of 2.2 percent rate per annum. Also, it is probable the case that, military governments that ruled Ghana in the 1960s and 1970s provided little attention to development projects that promoted economic and social inclusions of the poor. Recent evidence from Zambia (2010) suggests history of coups, food shortages and corruption means Ghana remains indebted and the population is poor. Therefore, it may well be the case too that the response of government initiatives in the context of the poor's access to finance to trade or cultivate crops are weak. In fact, Agyepong (2010) argued that in spite of the many major steps taken by the Ghana government since 1992 with a view to reduce poverty, the rural population is deprived of basic needs and has a business environment that does not support poverty reduction.

Figure 2. 1: Administrative Map of Ghana



Source: Reconstructed by Author, 2014 (From: The Ghana High Commission, London, UK)

2.1 Background of Microfinance in Ghana

According to Kotir and Obeng-Odoom (2009) the increasing use of microfinance to support small enterprises in Ghana shows microfinance maybe effective for Microenterprise Development (MED). Moreover, Fsfchamps, et al. (2011) have argued that microfinance and microenterprise development strategies are geared towards economic improvement for low-income households in Ghana. Furthermore, Dupas and Robinson (2009) view microfinance and microenterprise development as

all aiming to develop businesses and offer financial products in the context of strengthening market capacity to fulfil the basic needs of the poor. In this regard therefore, both microfinance and microenterprise development provides a small scale, subsidised and highly targeted strategy for poverty reduction in Ghana (Whitfield, 2005). At the same time, a major area of difference that exist between microfinance and microenterprise development strategies especially in Ghana, are in the manner the strategies contribute to poverty alleviation. That is whereas, microfinance approach is generally a financial system strategy used to address lack of access to financial services in Ghana (Weber, 2006; Terberger, 2013 and Banerjee, et al., 2013); microenterprise development approach provides a market strategy that has potential to boost economic growth for the poor in Ghana (Servon, 2006; Midgley, 2008 and Choudhury, et al., 2008).

Meanwhile, the primary stakeholders of microfinance in Ghana have always being informal business men and women who come together to save and take microloans from groups and individuals to pursue microenterprise development. According to the Bank of Ghana (2007) these small loans support recipients to start their own microenterprises or farming ventures. However, Alabi, et al. (2007) has argued that in spite of the common use microfinance is often put into by recipients, its nature and spread in Ghana appears to have experienced significant changes in the last century. Kotir and Obeng-Odoom (2009) who later analysed microfinance in Ghana reached similar conclusions, arguing that microfinance changes in Ghana started before colonialism and persisted throughout the socialist orientation periods that followed her independence.

Opoku (2008) have suggested that a large part of Ghana`s economic history after independence until, about the mid-1990s, was socialist inclined. A centrally planned and regulated economy shows the formal financial sector was dominated by state banks which enjoyed monopoly in the entire banking system in terms of their operations and spread (Biekpe, 2011). According to Bhasin, et al. (2007) state control approach at the time influences how businesses are financed in Ghana. In view of this experience Aryeetey and Kanbur (2005) concluded that active private sector participation in the provision of finance to small businesses in Ghana`s economic restructuring at the time appeared to be limited to only public sector participants. Similarly, Epstein and Heintz (2006) argued that prior to the 1990s,

experiences of credit inequalities perpetuated by absence of competitive banking practices impacted negatively on microenterprise growth in Ghana. However, according to Aryeetey (1998) in the 1990s government responded to these finance constraints through the use of poverty intervention projects (in the form of microfinance) that lowered credit access barriers for peasant farmers and micro-entrepreneurs to borrow. In particular, Addae-Korankye (2012) argued that PNDC law 328 was promulgated to allow the creation of non-banking financial institutions like credit unions, savings and loans companies to provide finance to microenterprises. On the flip side however, a careful evaluation by Asamoah (2011) indicates these interventions failed to meet their objectives, and above all, failed to improve the livelihood of micro-entrepreneurs and their microenterprises (Addae-Korankye, 2012). Describing the initial results of the financial reforms as generally negative, Abor and Biekpe (2007) identified four weakness that impeded banks' ability to meet the financing needs of the informal sector in Ghana at the time about, the early 1990s. Firstly, they argued that not much was done in terms of assessing the impact of macroeconomic policies on microenterprise development in Ghana. Secondly, in their view due to the lack of a free financial market, credit was supplied to people with influence and power rather than "economic active" individuals; resulting in failed investments and non-performing loans. Thirdly, they argued that the arrival of cheap credit from government sources weakened the performance of informal sources of credit; which are traditional access points of credit for microenterprises. Finally, they concluded that failure of these poverty projects to develop savings and deposit-taking facilities denied microenterprises important services that they require to be economically inclined. Perhaps, the inherent weakness in these reforms explains why bank services for small enterprises further stagnated about the later 1990s. According to Owusu-Antwi (2011) in the late 1990s, Ghana's financial market was characterised with experiences of raising interest rates; surpassing 50 percent per annum. This implies that adverse term of loans from money lenders worsened therefore, Quartey (2005) concluded that there was no way the systematic deteriorating conditions of the financial sector could be immediately reversed. Given these conflicting reports, it is important to analyse and understand whether earlier studies conducted on the impact of financial sector reforms on business development for the poor in Ghana are weak.

However, in about the early 2000s, new financial strategies coupled with new credit market reforms were implemented to increase sources of credit and reduce cost of finance for businesses (Bawumia, et al., 2008 and Bawumia, 2010). For example, Adu, et al. (2013) argued that new reforms to Ghana`s financial sector in the early 2000s may have resulted in increased number of public MFI`s that provided credit; which impacted positively on cost of credit in the mid-2000s. Consequently, interest rates plummeted to 11.45 percent. Ultimately, provision of credit to businesses at interest rates of 11 to 12 percent has potential to spur economic growth for a poor country that has experienced several coups and lack infrastructure to constitute a good business environment (Ahiawodzi, 2013). Unfortunately, microenterprises in Ghana within this period, about the early 2000s remained constrained by access and unfavourable cost of finance due to information asymmetry challenges (Adusei and Appiah, 2012). Banks had no information on small businesses credit worthiness and the administrative cost of providing credit to them was also high. Therefore, more work needed to be done by way of introducing credit bureaus and new microfinance actors in the private sector to promote financial inclusion of microenterprises. In this regard, Asiamah and Osei (2007a) argued that Government controlled microfinance institutions were opened up for private sector participation; this measure yielded a positive development in the microfinance sector. About the late 2000s, presence of new entrants, products and new practices were experimented every day on microfinance. Analysis of Egyir and Akudugu (2010a) shows that by 2007 MFI`s in Ghana had more outlets than the commercial banking system. Today, MFI`s in Ghana are probably reaching fifteen percent of the country`s population.

Moreover, in 2007 the government of Ghana committed to attain a middle income status by 2020 (Adjei, et al., 2009). Thus, the government identified microenterprise development as an engine of growth and microfinance as a strategy to drive this growth (Alabi, et al., 2007). Due to this the microfinance industry in Ghana received government support and started to experience a significant positive growth. Unfortunately, majority of microfinance providers within this period were still informal rotating credit schemes that are often excluded from banking supervision. Therefore, the objective to boost economic growth without a re-regulation of the microfinance sector was going to be difficult. After some analysis and evaluations of microfinance practice, absence of regulation was identified as a weakness and further reforms

were advocated for in this regard. In particular, Asiamah and Osei (2007b) suggested that by 2010, the regulatory analysis and outcomes had provided measures to mitigate failures that gave informal credit providers absolute market control thereby, giving way to dynamic efficiency.

Over the years therefore, the Ghanaian government has undertaken rigorous financial sector reforms that have influenced the context for development of microfinance institutions and microenterprises in Ghana (Mucalov, 2008). Government and private sector interventions have been particularly devised to implement the Microfinance Concept-which promotes the delivery of efficient credit to microenterprises. For example, The Rural Financial Services Project ((RFSP) was formulated in 2002 to aid the creation and development of an Apex Bank. The Apex Bank concept in the view of Gallardo (2002) supports three expected outcomes. The first expectation is that the reforms will enhance the capacity of Rural Credit Banks. The second outcome is expected to strengthen Rural Microfinance Institutions operation capacity, thereby reducing the imbalance in access to financial service in Ghana. The final outcome is expected to provide expert support for Banking Supervision at the Bank of Ghana and the Rural Finance Inspection Department. Other progressive policies implemented includes; formulation of the Financial Sector Strategic Plan (2003); the Community Based Rural Development Programme (CBRDP); the Micro, Small and Medium Enterprise Project; the Social Investment Fund (SIF); the Rural Enterprise Project (REP) and; the Microfinance and Small Loans Centre (MASLOC).

The above policies and interventions eventually lead to;

- A liberalisation of the microfinance sector: The sector opened up and suddenly attracted public and private microfinance institutions with a competitive agenda to provide financial products and service (Ahmed, et al., 2009).
- Privatisation of Government controlled financial institutions: This gave much more autonomy to government owned banking institutions. For example, the Ghana Commercial Bank and the National Investment Bank were encouraged by this gesture to provide funds to MFI's for forward lending to microenterprises.

- The establishment of a workable agenda and subsequent improvement in the regulatory framework of microfinance policy and practise. For example, the formulation of the Ghana Microfinance Policy in 2002.

The efforts to develop a financial market that lend to microenterprises created on the one hand, three broad categories of microfinance sectors in Ghana;

- The Formal Sector: Community and rural banks, development and commercial banks and, savings and loan companies.
- The Semi-Formal Sector: Cooperatives, credit unions and financial non-governmental organisations.
- The Informal Sector: Traders, moneylenders, Susu collectors and; rotating and savings unions.

The reform programs also created on the other hand, five strands of microfinance stakeholders in Ghana. These include;

- Microfinance institutions: Savings and Loans Companies, Financial NGOs, primary societies of Credit Union Associations, Rural and Community Banks, Susu Collectors Associations, Savings and Loans Companies and, Development and Commercial banks with an interest in microfinance.
- Microfinance umbrella bodies namely; Association of Financial NGOs (ASSFIN), Association of Rural Banks (ARB), ARB Apex Bank, Ghana Cooperative Credit Unions Association (CUA) and Ghana Cooperative Susu Collectors Association (GCSCA).
- Technical Service Providers; they support microfinance institutions with expert advice.
- End Users; they constitute the client base for microfinance institutions.
- Supporting Institutions including; the Ghana Microfinance Institutions Network (GHAMFIN), International Non-governmental Organisations, Universities, Research Institutions and the Ghana Government Microfinance and Small Loans Centre (MASLOC).

The above efforts are simply an increasing recognition that microenterprise development can play an important role in the enhancement of broad base, inclusive growth and improvement in the wellbeing of the poor in Ghana; by providing

significant income-employment generating opportunities, and encouraging indigenous investments (Ntifo-Siaw and Bosompem, 2008). Hence, it is very important to strengthen the links between microenterprise development and microfinance.

2.2 Challenges of Microfinance in Ghana

A lack of funding that improve MFI's ability to lend to microenterprises many constitute a major threat to the microfinance sector in Ghana. This problem is even exacerbated by the global financial crisis that has persisted since 2008, and has reduced flow of funds from international donors to MFI's (Kasekende et al. 2009;Caudill et al. 2009;Ndikumana et al. 2010). Even worse is the fact that the total assets of all formal non-bank financial institutions in Ghana are about 5% of total banking assets (Bawumia et al. 2008). This may mean that the penetration rate of the "formal microfinance institutions" is too low to make a real impact on the vast informal sector of Ghana.

Other weaknesses of the microfinance sector in Ghana according to Bawumia, et al. (2008) are:

1. Market failure: Credit markets will operate effectively if supply and demand interacts freely. If market externalities are absent, and credit markets operate freely and competitively, supply and demand tends to meet at equilibrium (Garson, 2001). Often however, in Ghana problems of information asymmetry exist, which results in moral hazard and adverse selection problems. This classic principal-agent problem constrains the efficient interaction of market demand and supply mechanisms (Yaron, 2005).
2. Absence of a comprehensive regulatory legal framework for the microfinance industry. Though the formal financial sector in Ghana has a formal and strong legal framework to regulate its activities, the informal sector operates on a less developed and weak regulatory system.
3. MFI's access to funds from mainstream financial institutions for forward

lending is still limited despite the huge excess funds circulating in the conventional banking system in Ghana. For example banks still demand immovable property as collateral from microfinance institutions. Besides, funding for MFI's from typical donors like the government come with strict conditions that perpetuate market imperfections.

4. There seem to be more attention on maximising profit to the neglect of other social returns. For instance, value added services of the Grameen model like; training and awareness on healthcare and child education are almost non-existent in the services of MFI's in Ghana.
5. Lack of clear corporate governance structures. Boards of directors of most MFIs are not functioning properly. In many instances they are just mere group of friends of the owners or owner of the MFI appointed to rubber stamp decisions of the MFI without subjecting the running of the MFI to good corporate governance.
6. Lack of staff with knowledge in microfinance to manage the affairs of most MFIs. Most MFIs lack appropriate professionalism and capital for outreach programme.
7. Lack of proper linkages between formal and informal financial markets.
8. Lack of public trust for microfinance institutions due to activities and behaviour of some unscrupulous persons or group of persons in the past. With all these challenges there is perhaps, inadequate evidence to suggest that presence of mass credit will automatically lead to viable business start-ups.

Some undesirable practices that also challenge the microfinance sector in Ghana are summarised in **Table 2.1** below.

Table 2. 1: Undesirable Practices in Ghana's Microfinance Sector

During Transaction	Pre-Transaction	Post-Transaction
<ul style="list-style-type: none"> ▪ Approval or denial of clients without clear basis or criteria ▪ Clients are not given copies of contracts or other documents on their transactions. ▪ Inappropriate or deceitful contract wording. Often, written documents do not reflect agreed upon terms and conditions before transaction are made. ▪ Forced terms of conditions (e.g., client's ability to repay or to amortize is not considered). ▪ Products cost higher than disclosed because of hidden charges. ▪ Withholding of funds or imposition of penalties on cancelled loans, deposits or insurance plans within a few days of transaction without proper disclosure to the client. 	<ul style="list-style-type: none"> ▪ Giving high or false expectations on interest on loans and deposits and; benefits from insurance. ▪ Hard selling through home visitation, door-to-door solicitations, limited-time offers & intimidation. ▪ Inadequate orientation seminars or consultations. ▪ Unclear policies & lack of written or oral information on the true costs and benefits of the products /services being offered. ▪ Promises of hidden rewards. 	<ul style="list-style-type: none"> ▪ Inaccurate recording of client's transaction. ▪ Illegal and abusive behaviour on the part of loan officers such as; harassment to force clients to pay, imposition of unnecessary fees or surcharges and consolidation of debts at a higher rate. ▪ Releasing borrower information to interested entities in violation of certain legal provisions (credit history can be shared but not personal information such as those related to deposits and other assets (Law on Secrecy of Bank Deposits) unless with consent of the client or as required under the Anti-Money Laundering Act). ▪ Withholding of capital build-up or savings and insurance claims or benefits without valid reason or appropriate explanation or consent of the client. ▪ Misuse or diversion of funds by recipients.

Source: Compiled by author, Halpern and Hattle (2001).

CHAPTER 3

A LITERATURE REVIEW OF MICROFINANCE IMPACT ON MICROENTERPRISE DEVELOPMENT.

3.0 Theoretical Perspectives

3.1 Introduction

To establish the impact of microfinance on microenterprise development, this chapter provides the history of the two key concepts-microfinance and microenterprise development, linkages and their underlying theoretical perspectives. To contextualise the role of microfinance a brief overview of the historical development in both microfinance and microenterprise development from the eighteenth century to the present day is provided. The impacts of the different microfinance models on microenterprise are reviewed, examined and analysed. Finally, conclusions are inferred and from the analysis of the literature reviewed the gaps in the research are identified and the proposed testable questions formulated.

3.2 History and Evolution of Microfinance

3.2.1 Microfinance as direct credit

Forms of informal credit similar to microfinance have existed in rural and urban markets for hundreds of years, perhaps predating 1800AD (Brau and Woller 2004; Seibel, 2005 and Envision, 2013). Informal credit providers at the time targeted micro-entrepreneurs and the methods used to provide the credit are consistent with today's "susu" in Ghana, "chit funds" in India, "tandas" in Mexico and "arisan" in Indonesia (Blavy, et al., 2004a). Micro-entrepreneurs within the 1800AD used cowries as tender for goods and services. This value of exchange dominated the most part of trade throughout the many centuries that followed 1800AD and eventually become the basis for the use of money for trade. Analysis and evaluations of informal credit practice in India in about the 17th century, suggest money-lenders capitalised on the monetisation of trade to start individual lending to promote economic activities. In this regard, Mehta (1991) argued that merchants such as artisans, goldsmith, fishmongers and cattle traders in India depended on loans from money-lenders to start a business. However, whilst this was the case in Asia, absence of practice of money-lending is reported in Europe at the time, perhaps, due

to the informal nature of money-lending (Welsch, 2004). Small loan lending is not a prestigious job for literates and is often, practiced by people who lack formal skills and knowledge. According to Soares, et al. (2009) both providers and recipients of small loans in Africa, Latin America and Asia in the 17th and 18th century preferred informal credit arrangements. Studies from Adebayo (1994) and Rena (2007) are consistent with this view, they too suggest that evidence of credit was informally arranged and recorded on slabs and walls in the 18th century Africa. Repayment periods were determined based on traditional calendar dates such as; market dates or dry and wet seasons. Loans contracted from money-lenders were either repaid with farm produce or proceeds realised from the sale of goods and services. This may explain the widespread of this credit in Asia and Africa but with limited experience of use in Europe. Meanwhile, Birchall (1997) argue that for a long time micro-entrepreneurs have lacked collateral to access loans and laws that protect credit recipients have often been weak. Therefore, as time went by experiences of increasing usurious money-lending practices constrained credit provision to microenterprises (Gregory, 1994).

Critical analysis of usurious money-lending experiences in about the 18th century showed negative impact of small loans on microenterprise development (Bateman and Chang, 2009). However, reviews of informal borrowing suggest micro-entrepreneurs formed local associations to improve impact of small loans on microenterprise development (Stephen, 2008). These local associations later became the major source of credit for micro-entrepreneurs who are mainly poor people, to borrow from. Access to credit is important to support the poor to develop a business and to exit poverty (Korth, et al., 2012). It will be interesting therefore, to determine if these isolated cases of positive informal credit are sufficient to described relationships between informal credits and microenterprise participation as strong.

Negative experiences of pass-on effects of informal credit focused attention on restructuring money-lending in the 19th century. Surprisingly, the restructuring process began in Europe. According to Birchall (1997) analysis, increasing absence of credit for micro-entrepreneurs in Europe prompted the use of small loan lending to address existing credit access gaps. For example, most countries in Western Europe in the 1830s considered small loans as viable for self-employment and financial inclusion (Underwood, et al., 2006). Thus, lending associations were transformed

into co-operatives funds and their operations were aligned to existing formal bank activities such as; banking and record administration. In this context, evaluation of performance and outreach of the Irish Loan Fund that was founded in the 1830s indicates positive credit impact on microenterprises development (Bateman and Chang, 2009). Hollis and Sweetman (2004) suggested that similar credit funds were later experimented in Britain, Germany and Sweden about the same time, the 19th century. Therefore, positive outcomes of credit co-operative unions, presented what was known as a major political topicality for microcredit in Europe (Matlay and Westhead, 2005).

The most obvious contrast however, in the microfinance debate is between Western and Eastern Europe. Unlike Western Europe, the centrally planned economies of Eastern Europe in the 19th century generated little or no growth impetus for small loan schemes and by extension microenterprise development (Pelkmans, 2006). Loan schemes were sometimes subsidised for political reasons and, in any event, bore no relationship to competitive performance of credit and co-operative unions. Intra-industry trade hardly developed as a basis for quality competition and factors that facilitates performance of microenterprise finance were non-existent (Pelkmans, 2006). Indeed, the subsidised interest rate policy impacted negatively on relationships between microcredit and microenterprise development in Eastern Europe in the 19th century (Forster, et al., 2003).

Earlier analysis of microfinance (Armendáriz and Roome, 2008; Swain and Wallentin, 2009; Agier and Szafarz, 2013 and; Rad, et al., 2014) suggests that in order to understand the development of financial inclusion, associations between gender and access to credit has to be critically explored. Accordingly, relationships between gender of recipients and access to microfinance have been examined in previous studies and it is concluded that females are often underrepresented in situations of access to finance (Verheul, et al., 2006; Pait, 2009; Bellucci, et al., 2010 and Taylor, 2011). Moreover, nature of the demographic composition and labour force participation in places such as Europe in the 19th century suggests women were house wives with little opportunity to start their own businesses (Fernández, 2007). According to Ongena and Popov (2013) such outcomes delineate experiences of discriminatory credit practices that perhaps, insulated females from

accessing microenterprise finance. Thus, it is possible the co-operative credit schemes that existed in the 19th and 20th century to provide credit to microbusinesses targeted male micro-entrepreneurs. According to Mosley, et al. (2004) male owned microenterprises in some parts of Europe especially, in about 1910 experienced positive growth. Maybe, this growth has a relationship with the increased access to credit for male micro-entrepreneurs at the time. This is because Seibel (2005) who later examined microcredit development within the European context reached similar conclusions, arguing that co-operative union's credit targeted male owned microenterprises. Therefore, it is important to raise the question; whether previous analyses of recipient characteristics failed to facilitate equitable treatment for microcredit beneficiaries?

However, appreciation of the existing microcredit literature shows presence of credit and co-operative unions in North America and Asian countries further improved in the 19th century. In particular, implementation of microfinance in America and Canada within the 1800s further deepened microcredit impact on economic development. As a result of the deteriorating labour conditions in Canada and America's economy in 1850, the Perkins (2008) suggests that microcredit schemes were used to finance self-employment activities. Micro-entrepreneurs received microcredit from these unions and re-paid over several months. Most of the programs did not require borrowers to put up collateral. This enabled poorly paid labourers or farmers with few assets to access loans that helped them start a business (Morduch, 1999). Also, in some parts of rural Asia microfinance was used to promote microenterprises. For example, Bank Perkreditan Rakyat was started in Indonesia in 1895 to provide credit to micro-entrepreneurs (Srnc and Svobodová, 2009). Similarly, about the 1880s, the Madras state in India, then under the British rule, started to draw the microfinance experience to develop microenterprises; over 9million micro-entrepreneurs achieved access to loans (Michael, 1998). Also, micro-entrepreneurs in Bengal state in the 1800s, which became Eastern Pakistan at independence in 1947, have documented experiences of small loans use (Tenenbaum, 1993). The cooperatives in Pakistan later became inefficient, but the idea of group lending had already been established. Perhaps, after a significant period of modification, the group lending approach that began in Eastern Pakistan constitutes one basis for the successful propagation of microfinance by Yunus

(Nawaz, 2010). According to Mago (2013) Yunus did not start microfinance from zero. Quite uniquely, he improved upon understanding of savings and credit behaviours of the poor based on a blue print with an old history (Mago, 2013). Therefore, it will be interesting to find out if previous analyses and conclusions of the origin of the microfinance concept is adequately established.

According to Hannam and Cheng (2012) historical discourse aimed at improving money-lending analysis sets a strong background for a contemporary study of microfinance. In this context, the evaluations above and others (Armendáriz de Aghion and Morduch, 2000; Maldonado and González-Vega, 2008 and Stewart, et al., 2010) further provide learning outcomes on the impact and contribution of microfinance to development of the poor. Indeed, one significant learning outcome have come from Amanor (2012) who argued that high interest rates charged by credit unions often weakens access to microenterprise finance and impacts negatively on contribution of bank credit to economic development. According to Sengupta and Aubuchon (2008) many experiences of high interest rates practices are reported in Asia around the 1800s. Analysis of cooperative credit schemes in Germany in 1846 further showed contribution of formal credit scheme approach to financial inclusion is weak (Seibel, 2005). Results from Underwood, et al. (2006) are consistent with conclusions made earlier; they too identified presence of credit malpractice with formal credit schemes in Sweden in the same period. Also, various triangulations (Mahmoud, et al., 2009 and Mago, 2013) of micro-lending activities in Africa about the same time, the 1800s, show information asymmetry problems may have also discouraged microfinance linear development. According to Rozycki (2006) without complete information about creditors, lending decisions are not optimised and the performances of credit providers are negatively affected. Perhaps, one interesting question that could be raised in this context is; do these negative situations generally weaken the average intended effect of microfinance?

3.2.2 Microfinance as Agricultural Credit

In the 1970s there were food security concerns in less developed countries (Hollis and Sweetman, 1998). Sources of basic needs in Sub-Saharan Africa in particular, became threatened. According to Obinyan and Josephine (2013) a lack of access to credit for agro-enterprises to purchase agricultural machines was cited as a cause.

Evaluations and outcomes from (Amao, 2013) suggest that presence of adequate credit helps farmers to concentrate on productive farm investments. Kudi, et al. (2009); Badiru (2010) and Islam, et al. (2011) agree with this view, they argued that provision of microcredit promotes agricultural mechanisation among poor farmers. Often however, lack of collateral and information asymmetry problems hinders agro-enterprise access to credit (Egyir and Akudugu, 2010b). Perhaps it is in this regard, Islam, et al. (2011) argued that a provision of non-collateralised and low cost credit to farmers may help improve food crop production. According to Girabi and Mwakaje (2013) poor farmers prefer the proximity, non-collateralised low cost credit and appropriate repayment intervals rural development banks present them. Moreover, analysis from Ayegba and Ikani (2013) show rural development banks supplied subsidised loans that match the way farmers live and conduct business. There are other accounts that support that rural development banks provided direct credit that addressed the food production gaps in the 1970s (Schreiner and Woller, 2011). Thus, examination of lending data collected from Ghana, Nigeria and Ethiopia suggests that a community-based provider approach presented well-performing and cost-effective non-collateralised finance to farmers (Essien, et al., 2013).

However, understanding of the rural development bank concept and practice indicates it is difficult for a development banking to thrive under unstable socioeconomic environments that may have existed in Sub-Saharan Africa around the 1980s (Aliou and Zeller, 2001). Especially that, Nair and Fissaha (2010) have argued that the overly dependence on unstable governments for funding, coupled with poor investment decisions, led to depletion of loanable funds that caused rural banks at the time, about 1985 to be abandoned. In particular, the practice of government funded rural development banks in Ghana, to off-set overdue loans owed by farm businesses belonging to their compatriots later weakened the Agricultural and rural Development Banks (Harper, 2007). It is possible this practice contributed to the limited presence of enterprise finance at the time. This experience accords with observations in the 1800s, which showed the failure of markets to support the “unbankable” poor. That apart, the generalizability of research work on microfinance products is quite problematic. The positive outcomes reported on the food security concerns can be at variance with other studies. For example, according to Aliou and Zeller (2001) households in Malawi that choose to borrow

comparatively, realises a lower net crop income due to repayment of high interest on loans than their counterparts who do not. Another major study in Zambia showed that borrowers who were not able to qualify for a second loan became worse off due to negative impact of MFI's loan collection mechanisms (Duvendack, et al., 2011). Examples such as; Fielden, et al. (2010) also abound where increased access to credit did not corroborate with development of economic activities. Therefore, it will be interesting to investigate whether variations in study outcomes limit the general inference of positive microfinance impact.

3.2.3 Grameen-Credit

One stream of development research is focused on "Grameen Credit"-a model developed in 1975 by Muhammad Yunus in Bangladesh (Rahman, 2011). Grameen Credit is a method of giving loans in a group setting, commonly called microcredit (Karlan and Goldberg, 2007). Grameen Credit is the symbol of Microfinance in the world today and Grameen Bank, is the institutionalised version of this credit (Shil, 2011). Yunus derived the name "Grameen" from the word "Gram"- which means village or rural in Bangladesh. However, he used the term "Grameen Credit" in a context that encompasses a provision of subsidised credit, economic training and business networking to microenterprises.

In the mid-1970s, the newly independent Bangladesh faced a number of major challenges including; political corruption, vulnerability to climate change and endemic poverty (Roy, 2010). People were struggling to afford basic needs such as; food, water and shelter. At the time, most growth efforts in underdeveloped countries aimed to improve economic performance or distribute food without charge to these countries, unfortunately this created more dependency (Riddell, 2007). Therefore, to discourage dependency, Karnani (2007) argued that organisations and academics in Bangladesh followed a market-based approach to increase economic performance of Bangladesh. Various NGO's and academics experimented with models that could deliver finance to people who have no collateral and cannot get a loan elsewhere (Haque and Harbin, 2009). Loans in the hands of the "economic active" poor has often led to positive quality of life. Consistent with this view, Dowla (2006) argued that since the Grameen bank helped communities in Bangladesh to improve rural economic performance, outcomes of the project was improving standard of living for

the poor. Maybe the positive stories of microfinance impact in Bangladesh denote provision of microenterprise finance overshadowed existing charity programs that supported group projects in Bangladesh at the time (Gehlich-Shillabeer, 2008). According to Zaman (2004) analysis of factors that led to the scaling-up of microcredit in Bangladesh, it was these emergent inclusive finance mechanisms that later converge into a standardised credit system known as “Grameen Credit”. However, for some time now, the Grameen model has been going through various modifications to meet the needs of new market niches. According to Yunus (2011) Grameen bank has created relationship networks and provided business training in addition to the existing credit facilities available to microenterprises. Zaman (2007) discussed cases of Grameen practice in Bangladesh and concluded that the model have improved the productive capacity of microenterprises through training and relationship building. Yunus concept is by this, grounded in the view that microenterprises are not constrained by only access to credit. For which, Armendariz de Aghion and Morduch (2000) later argued that microenterprise desire a comprehensive set of financial services to improve their performance.

Mix Market (2010) have demonstrated that big businesses that have access to a variety of financial services experience positive outcomes thus, in her view microenterprises also require formal financial services to improve their performance. Accordingly, Mersland and Øystein Strøm (2009) argued that MFI's need to be more client-focused and offer a mix of financial services that will provide microenterprises access to bank accounts and business networks. Similarly, Cook et al. (2003) analysed business training models from MFI's and found positive relationships between training and microenterprise success. Karlan and Valdivia (2011) reached the same conclusions that business training and social capital facilitates microenterprises growth. Al-Hassan, et al. (2011) regression results equally suggested that microfinance beneficiaries' ability to affect increase incomes is significantly determined by their level of training and market access. Thus, is it possible that, where credit is not link to training, it may not impact positively on the increase incomes of microenterprises?

Jain and Mansuri (2003) have suggested that the credibility of the Grameen bank, its growth, leadership and the ability to promote welfare improved microfinance

development. This is consistent with some studies that attribute widespread practice of savings and loans schemes to the success of Grameen Credit in Bangladesh (Sengupta and Aubuchon, 2008 and Westover, 2008). Furthermore, Morduch (1999) found that the Grameen model had been experimented in places such as; China, Mali, Ethiopia, Bolivia, Tanzania, Sri Lanka, Vietnam, Honduras, The Philippines, India, Malaysia, Chile and Thailand. Similarly, Shil (2009) found that the Grameen model is used in the United States, Canada and Australia to scale up existing programs that supports the poor. Therefore, there is considerable information in support of the Bangladesh experience. However, Grameen Credit is sometimes considered similar to the failed numerous informal credit systems that earlier on provided collateral-free loans to microenterprises (United Nations, 2006). Especially that, a critical evaluation of grameen credit operation revealed major weakness such as; inability to reach the poorest of the poor, high cost of credit, insufficient credit and early repayment of instalment before establishment of business (Ali, 2008). Furthermore, Al-hassan and Abdul-Malik (2011) analysed a cross-sectional data obtained from 414 women, and reported that the Grameen-Ghana program did not produce a significant improvement in the income of women processors. Such evidence shows associations between grameen credit and increased microenterprise activity are unclear, prompting a question whether microfinance can truly make the poor productive entrepreneurs?

3.3 How does Grameen Credit Work?

According to Pitamber (2003) Grameen Credit is not unique and, that the Grameen bank has improved upon the older forms of microfinance lending. However, major studies that explored barriers of borrowing including repayment modalities, collateral and male co-signer for females disagrees with this view (Dowla, 2006; Sarkar 2008 and Muhammad, et al., 2012). Indeed, evidence from Perkins (2008) and Envision (2013) studies suggested that the first serious analysis of microfinance emerged during the 1970s. In the view of Schreiner (2003) it was at this time an original form of finance known as “grameen credit” was being offered to the poor in Bangladesh. Moreover, Nuhu, et al. (2014) evaluations of Grameen Credit provide conclusions that suggest it's an innovative financial strategy that support agro-entrepreneurs to access banking services for farming activities. Although, the above narratives have

produced some of the most comprehensive accounts on grameen credit, they are conflicting accounts. Maybe, it will be interesting to further analyse to identify and understand innovative functions of microfinance.

According to Yunus (2003) micro-entrepreneurs have the capacity to be productive however, access to financial services is held back from them due to a lack of collateral. Against this background, he suggested certain methods of solidarity that could replace the material guarantees required by banks to issue credit (Karlan, et al., 2009). In the view of Dusuki (2008a) this was how the use of solidarity as collateral became prominent and widespread among Microfinance Institutions (MFI's). Perhaps it is based on this account, Karim (2008) and; Kuhnur and Rokunuzzaman (2009) conclude that increasing awareness of microfinance is largely due to the principles and practice of Grameen Credit.

In comparison to conventional banking, it appears some banking practice identified in the modern development finance literature are unique to MFI's. For instance, in order to get a loan people go to the conventional bank. Contrary, Grameen bank takes the loans to the doorsteps of their landless clients (Rahman, 2011). Moreover conventional banks are generally profit motivated, whilst Grameen seeks to provide financial services that will give the poor "ownership of assets". Yunus (2003) remarked that the "Less you have, the more attractive you are, if you have nothing you will get the highest priority". Thus, Grameen Credit is designed to give priority to the landless and vulnerable. Approximately, 97% of Grameen borrowers are female. According to Roy (2010) grameen bank's 23,144 credit officers work across 84,691 villages with the aim to deliver financial services to microenterprises to use for growth purposes. Furthermore, the Grameen system of financing provides an opportunity for MFI's to implement programmes that will yield improved education, healthcare and social network formation. Often, this will close existing inequality gaps for women and children from low-income households (Armendáriz and Szafarz, 2011).

According Michael (1998) in Bangladesh, people who do not honor their debts turn to loss their social standing in society. Perhaps, the Grameen bank cashed in on this reputational effect and used group lending mechanisms (or social collateral) to issue

loans based on a principle of joint liability (Schreiner and Woller, 2011). A peer selection mechanism is employed by Grameen clients to recruit members into their lending groups. According to Wenner, et al. (2007) the group members then undertakes to enforce loan contracts and are therefore, responsible for each other's loans. Anytime a group member defaults in repayments the group is obliged to pay the loan with their own resources. If they do not, the group risk losing access to future loans (Al Mamun, 2012). The analysed literature shows that group guarantee is similar to the concept of group insurance. This is because the MFI uses a compilation of people to reduce risk; it is in every member's interest to ensure that the other members pay for their loans. This recipient interest deepens assurance and make MFI's feel more secured about issuing non-collateralised loans. Okura and Zhang (2012) has published several articles on the social impact of group financing and has concluded that, for the most part, group financing is a better option than individual financing. Similarly, Mann (2003) have suggested that group credit is profitable for MFI's and hopefully, beneficial to microenterprises. This is because group lending lowers credit risk for MFI's and provides the poor with access to credit (Abbink, et al., 2006). Against this background, Islam, et al. (2011) concluded that group guarantee peer selection and monitoring reduce MFI's transactional cost and subsequently, yields interest rates lower than conventional lenders.

Development finance practice now prefers solidarity ahead of material collateral for poor people who want to borrow from banks. Yunus (2003) belief that "the more you have, the more you can get". That's why more than half the world's population which is poor needs loans to improve their ability to earn more (Rahman, 2011). Chowdhury (2007) shared this view and argued that micro-entrepreneurs will repay loans offered to them because credit enables them to accumulate assets that support loan repayments. Discussing the conceptual basis for solidarity collateral, Zeller and Johannsen (2006) argued that the Grameen experience induces faith in the poor to tap potentially profitable investment. This is because it is a strategy of poverty reduction that centers on self-help rather than direct income redistribution (Cull, et al., 2010). However, Al-hassan and Abdul-Malik (2011) has argued that microfinance impact alone maybe insufficient to justify that small business are productive and profitable when given access to formal financial services. Drawing from these observations, is it possible that microfinance impact is over hyped?

3.4. Microfinance Outreach

According to Ahlin, et al. (2011) evidence of “increased access” provides a good proxy to determine microfinance outreach in developed countries. For Instance, the Prince`s Trust (UK) have as at 2007 helped 3,492 youth to start a small business and providing on-going support to 8,658 young people and their small enterprises. Microcredit via banks for SME`s set ups in Germany reach approximately 661,000 loans in 2006 (European Banking Federation, 2010). Evers, et al. (2007) further estimated that Adie`s (a MFI) in France financed 35,000 set ups in 2006, and Finnvera`s (a MFI) in Finland contributed to the creation of 10,550 jobs and 3,600 new small enterprises in 2005 alone. However, Fernando (2008) has argued that compared to microfinance outreach in poor countries evidence of microfinance participation is weak in developed countries. Moreover, Shameem, et al. (2009) have suggested that the “increased access” assumption indicator of outreach may not be a good measure of microfinance performance. This is because sometimes, outreach does not correlate with the intended impact. Especially, were there is increased access without a corresponding positive impact or the vice versa it is difficult to determine the true state of microfinance performance. Perhaps, aside outreach, it will be important to know what other proxies are suitable for measurement of microfinance performance in developed countries.

Consistent with the above analysis, Crabb (2008) argued that microfinance works well when is implemented in developing areas such as; Asian, Africa and Latin America. However, difficulties arise when an attempt is made to replicate the model in developed countries. Edgecomb and Gomez (2009) findings of microfinance performance in the US may not be encouraging to compare with successes found in Bangladesh, Kenya and Mexico. Besides, Hollis and Sweetman (2004) found that in about 1990, microfinance was virtually unknown in developed countries in Eastern Europe. Hardly any government in this region showed the prospects of promoting enterprise development by offering small loans. Furthermore, Shriener (2003) have argued that the social and economic context in developed countries discourages microfinance linear development. For example, provision of welfare grants to the poor in developed countries discourages them from graduating into self-employment. Besides, excessive regulations and competitive markets that sometimes creates

barriers for money-lenders and small or medium size MFI's are present in developed countries. Karlan and Zinman (2009) support this view, they too suggests that due to lack of provider information, MFI's shed away from markets that operate freely and this cause microfinance performance to shrink in developed countries. Perhaps, these conditions are barriers in developed countries and need to be lowered for microfinance to develop. A further comparison of data from Mix Market (2010) analysis show that MFI's in Sub-Saharan African and South Asia recorded 16.7million and 26.4 million active depositors respectively-these are all poor countries. However, MFI's in China reported 5.8million active depositors for the same year. In the Middle East and North Africa (which are mostly described as transitional economies) the figures are similar, these countries also reported 89,552 active deposits participation (**Table 3.1**). It is difficult to suggest the low microfinance usage reported indicate weak demand for MFI's services in developed areas. This is because Kim, et al. (2006); Saxenian (2005) and; Zhuplev and Shtykhno (2009) found severe lack of financial services for some microenterprises in America, China and Russia. According to De Ferranti and Ody (2009) these cases of unbankable enterprises in developed countries can be solved with microfinance. However, is it possible that efficient markets discourage microfinance performance?

According to Gobezie (2008) microfinance services will work in competitive markets where supply and demand forces interact to direct performance of services. This is so because in the absence of excessive market control, markets operate freely and tend to reach a state of equilibrium (Garson, 2001). Indeed, at this state microfinance is inclined to function effectively and simultaneously, decrease poverty gaps and improve MFI's outreach. However, as observed in earlier analysis free markets increases MFI's inability to account for adverse effects of high interest rates. According to Mersland (2009) MFI's still lack the instruments that can mitigate asymmetric information on the poor. Therefore, even if MFI's are present in markets that operate freely, supply and demand forces may still not be able to reach equilibrium. This will cause MFI's hold back supply of credit (hence, credit rationing) because (where borrowers hold back information on their activities for fear of losing out on future loans) they cannot rely upon the price mechanism to do its normal market-clearing function (Gobezie, 2008). This will cause the actual "market-determined" price of credit to be high due to limited presence of loanable financing.

In this context, Freel (2007) argued that a situation of high cost (or interest rates) perpetuates access inequalities for microenterprises; which prevents the exploitation of socially valuable opportunities for income expansion (Maldonado and González-Vega, 2008). However, Alabi, et al. (2007) found that cost and availability of credit are mutually beneficial for the development of microenterprises due to their low income ownership structure. This is consistent with views from Akpalu, et al. (2012) who argued that low cost of credit creates socially valuable opportunities for businesses in poor communities to access credit. Maybe, the most serious disadvantage of the microfinance approach is the seemingly increasing cost of acquiring this finance. Given the form and nature of cost in microfinance analysis it will be interesting to further examine how it impacts microfinance credit efficiency.

Table 3. 1: Financial and Social Performance of Microfinance

Region	Economy	Year	Number of Active Borrowers(millions)	Number of Depositors
Africa	Developing economies	2010	4.8	16.7m
South Asia		2010	58.6	26.4m
Latin America and the Caribbean	Transitional economies	2010	15.1	15.4m
Middle East and North Africa	Transitional economies	2010	2.2	89,552
East Asia and Pacific	Developed and transitional economies	2010	15.8	5.8m
Eastern Europe and Central Asia	Developed and transitional economies	2010	2.8	2.8m

Source: Compiled by Author (From Mix Market, 2010)

3.5. Microcredit to Linkage banking (microfinance)

It is wrongly argued that microfinance and microcredit are interchangeable terms (Qudrat-I Elahi and Lutfur Rahman, 2006). The actual terms employed (micro-finance and micro-credit) are somewhat misleading. Their distinction does not, as it will appear in the terms, refer to finance and credit but to the different products and services they each provide to the poor (Sengupta and Aubuchon, 2008). Hamada`s (2010) and Lanzavecchia (2011) suggests that microcredit consist of only credit. Thus, whereas microcredit is the traditional form of delivering credit to low-income clients to start or expand their existing enterprises microfinance has an even greater scope (Pant, 2009). In addition to the credit, microfinance is concern with the provision of other financial services (Duvendack, et al., 2011). For instance, the provision of deposits and payment services, business coaching, money transfers and insurance. In which case, Qudrat-I Elahi and Lutfur Rahman (2006) argued that microcredit is a credit method subordinate to the general concept of microfinance. Therefore, the implications are that identification and use of variables can sometimes create confusion for microcredit and microfinance impact analysis if care is not taken. For example, for a researcher to evaluate microcredit impact his or her investigation should be based on only credit analysis. However, in the case of microfinance impact study; credit, micro-insurance, savings, payment services and business coaching should constitute the basis of analyses. Any attempts to carry over microfinance performance indicators due to the similarities, to analyse microcredit impact and the vice versa, may lead to most serious methodological errors.

Indeed, other studies that have attempted describing microfinance suggest its composition in terms of the services it encompasses may sometimes differ to a narrow degree depending on provider and context. According to Armendaeiz and Labie (2011) microfinance is a set of financial products of credit and savings designed to serve the unbanked poor. Similarly, Stewart, et al. (2010) describes microfinance as financial services for those without access to traditional formal banking; it involves the provision of loans, often at interest rates of 25% or more, to individuals, groups and small businesses. Furthermore, Charitonenko and Campion (2003) used the term microfinance to refer to the provision of deposits, loans,

payment services, money transfers and insurance to low-income households and their farm or non-farm microenterprises. According to Robinson (2001) it is possible differences that emerge in explanation of microfinance is associated with the relatively new nature of this concept. In which case, it is plausible to argue that MFI's are still experimenting a wide range of products to determine what will best serve microenterprises. However, outcomes of the various definitions evaluated provide a common financial inclusion theme to underpin understanding of microfinance. This understanding provided therefore demonstrates that microfinance practice and theory is geared towards improving provision of financial services to the unbanked.

3.6. Microfinance Models

Microfinance perceived potential for microenterprises development has been increasing since the beginning of its use in the early 1970's in Bangladesh (Ssendi and Anderson, 2009 and Henley, 2010). It is probably so because MFI's have reached millions of small businesses with financial services around the world today. They often do so, through delivery mechanisms known as "Credit Models". Furthermore, MFI's use credit models to conduct systematic reviews of the various financial services they offer to clients. Through this review process MFI's are able to modify their products to suit the context of their recipients. According to Johnston and Morduch (2008) context-based credit models have the potential to increase the use of microfinance and to benefit recipients. For example, "joint liability, agricultural finance, individual lending, bargaining power and group lending" models have produced positive outcomes in areas where the credit and context of recipients are appropriately matched (Ananth, 2005). In some parts however, a replication of credit models like "Microcredit for households" and "Partnership lending" from one context to the other have produced mixed results (Pitamber, 2003 and ; Zeller and Johannsen, 2006). According Aliou and Zeller (2001) small loans maybe weak or outright negative if the microfinance lending model applied in the credit provision does not reflect beneficiaries challenges. Unfortunately, existing studies have either failed or provided little analysis that adequately examines microfinance model replication problems (Ananth, 2005 and Gobezie, 2008). Even worst is the fact that accounts of microfinance models produced so far, do little to compare and contrast the pros and cons of the models in the same piece of writing.

According to Gobezie (2013) group guarantee lending promotes financial inclusion for the poor by eliminating credit barriers such as; lack of collateral, weak technical knowledge and prior money management experience. Similarly, Gobezie (2008) have argued that group lending strengthens existing social structures of mutual support and communal life among poor communities. Moreover, Gobezie (2009) found that when there is an increase in levels of microfinance benefits to farm enterprises communities, gross inflow of financial resources to all facets of that rural economy expands.

In contrast, Ananth (2005) and Shao, et al. (2009) argued that the impact of the “Partnership” and “Microcredit for Rural Household” models may be counterproductive to small enterprise development. The “Partnership” model pioneered by the ICICI bank to overcome inability of MFI’s to access risk free capital in large amounts, rather impedes wider efforts to improve the liquidity position of MFI’s. Thus, concluding that employing MFI’s to recruit borrowers for commercial banks does not solve the problem of working capital finance for MFI’s particularly, to expand into new areas or for early stage financing of emerging MFI’s. Instead, it increases MFI’s dependency and intermediary to mainstream banks. Another model that is describe as microfinance inexpediency to enterprise development is the “Microcredit for Rural Household” model that allow MFI’s to provide loans to households without any form of collateral to set-up businesses. Being conscious of this risk MFI’s using the model provides credit too low to meet the rural household demands for investments whilst, the high interest rates imposed upon the rural households and their microenterprises as a result of the perceived high risk leaves these rural households and their microenterprises more poorer (Shao, et al., 2009). Again, Gobezie (2009) designed “Unitary” model based on existing African family structures with a view to establish credit delivery channels. He identified landlords as altruist through which MFI’s can deliver loans to individuals in the family for enterprise development. Unfortunately, Maitra and Ray (2006) have argued that altruists’ attitudes are negative in African households, and in some cases, even absurd power relations that exist in African families. Especially, Tamale (2004) suggests that heads of families in Africa, who often are men, hold back resources they receive on behalf of the family. In which case, practice of “Unitary” lending may deepen the level of disorder and weaken the family hierarchy in Africa. Perhaps, a weak family relationship may present a potential for conflict and conflict creates an environment too volatile for sustainable microenterprise development. It may be that, further

experiments and analysis with microfinance models are needed to improve microfinance delivery to microenterprises. **Table 3.2** summarises the criticism of microfinance models whilst, **Table 3.3** shows a basic typology of microfinance models used by MFI`s.

Table 3. 2: A Summary of Models

Model	Target Micro-entrepreneurs/ Microenterprise	Criticism of Existing Microfinance Models
The Grameen model	Groups and individuals	Promotes birth control against for instance, some religious beliefs of the Catholic church.
ICICI model	MFI`s	MFI`s becomes agents for commercial banks.
Microcredit for rural household	Households	Attracts high interest rates.
Joint liability group lending	Communal groups	One member of the group signs a credit agreement to be binding on all the members including those that cannot read nor write.
Frequent payment	Individuals	It generates a drain on beneficiaries business capital and also stress up micro-entrepreneurs due to frequent knocks on their doors from credit officers for loan repayments.
Transforming microfinance operations from NGO`s to regulated MFI`s	MFI`s	Strict rules might impede informal arrangements of MFI`s.
Microfinance fund	Individuals	Leads to absolute commercialisation of microfinance.
Equity investment	Individuals	Leads to absolute commercialisation of microfinance.

Source: Author, 2014.

Table 3. 3: MFI's Structure and Corresponding Microfinance Models

	Cooperative/ "Mutualist" Model	Solidarity	Village Banks	Linkage Model	Individual Contract
Nature of the organisation	New group on average, 100-200 members	New group centre(5-6 groups of 5-10 members each)	New group on average, 50-100 members	Pre-existing group; variable size, from 20 to hundreds of members	Individual relationship
Ownership of equity	Member (equity shares)	Supporting agency (donor, state, NGO, private bodies)	Member	Member	Supporting agency (donor, state, NGO, bank)
Rules/decision-making	Democratic(one person= one vote)	Supporting agency; group members	Democratic(mem bers)	Supporting agency/members	Supporting agency
Eligibility/ Screening	Payment of membership; type of activity or social group member savings	Accepted as a member of group by peers, or supporting institution	Village member; sometimes payment of membership	Member of a pre-existing SHG; peers, bank, or NGO approval	Information on the client, guarantees provided
Main source of funding	Member savings	External loans and grants	Member savings; external loans	External loans; members savings	External loans
Relations: savings/credit	Focus on savings and credit	Focus on credit and savings	Focus on savings and credit	Saving first (but just as collateral	Focus on credit and savings
Structure	Pyramidal structure unions	Pyramidal structure, mostly top-down	Decentralised at the village level (linkage with formal bank possible)	Decentralised at the village level, linkage with closet bank branch	Centralised with rural/local branches
Main type of guarantee	Savings	Group pressure	Savings, social pressure	Savings, social pressure,	Guarantees credit worthiness
Daily operation	Salary workers and elected members	Salaried workers	Elected members (self-managed); some maybe remunerated	Salaried worker from the formal institution; maybe NGO staff	Salaried workers

Source: Compiled by Author (From: IFPR, 2001).

3.7. Measuring Microfinance Success

MFI's ability to successfully lend to people without credit history has improved financial inclusion practice and this has been recognised. In 2006 Professor Muhammad Yunus and the Grameen Bank received a noble peace prize. This recognition confirmed that microfinance has been accepted as a viable financial instrument that works for the poor (Odell, 2010a). It is even suggested that MFI's have reached over 133 million clients in the last two decades (Mayoux, 2011). According to Daley-Harris (2009) in 2007 alone Microcredit Summit counted 3,552 MFI's around the world that served 106.6 million poor borrowers. He argued that assuming five persons per family, achievement of this goal touches the lives of 553 million family members. Furthermore, the Grameen Bank alone, by 2008 had reached 7,670,203 micro-entrepreneurs, supporting 83,566 villages in Bangladesh to engage in business enterprising (Grameen Bank, 2008). Bank Rakyat Indonesia (BRI) is another, one of the world's largest and most profitable microfinance institution serving millions of low-income communities and small businesses around Indonesia (Patten, et al., 2001). The Microcredit Summit Campaigners have now set targets for 2015; to reach 175 million of the world's poorest families with credit that will generate self-employment ventures and to ensure 100 million families around the world reach the US\$1 a day threshold (Daley-Harris, 2009). Other success stories such as; (Pitt, et al., 2006; Fernando, 2008 and Mahmoud, et al., 2009) have all helped to provide MFI's a leading role in the world poverty reduction campaign. Against this background, Sample (2011) concluded that MFI's are generally well respected in beneficiary communities and their services have significantly narrowed credit inequality gaps in the world. In this context, it may be important to analyse and determine whether microfinance has its advertised effects to warrant the wide hype. This is because MFI's are reaching a variety of clients in different environments with different products. Given these extreme heterogeneity Odell (2010b) argued microfinance success is affected by context and may depend on the products provided or geographical dynamics. It is the view of Weiss and Montgomery (2005) that microfinance has produced positive results in some areas nonetheless, its average impact appears to be weak especially that poverty gaps around the world are seen to be increasing. Similarly, Afrane (2002) conducted a comparative study of credit beneficiaries and concluded that it is difficult to measure microfinance effect on

microenterprises in Ghana and South Africa due to the different factors that may contribute to microenterprise performance. Ultimately, if a study finds out that a microenterprise has developed after receiving a microfinance loan, does that mean it was as a result of the loan? May be no. There are other possible factors that can explain the improvement (Setboonsarng and Parpiev, 2008). For example, it maybe that management drive in the beneficiary microenterprise is stronger than the non-beneficiary microenterprise. In which case, the beneficiary will do better with or without the loan. Again, the scope of a microfinance study is what determines the choice of research method and explains what is being observed (Wampfler, et al., 2006). Therefore, there is also a question about whether available positive microfinance studies are macro or micro level analyses. One major drawback of levels of analysis is that for instance, a macro study on microfinance impact may support that access to credit contributes to poverty reduction in households. Unfortunately, such macro level analysis may conceal the corresponding hikes in family inequalities that this credit may create. According to Gibson and Mace (2007) often in countries such as; Ethiopia, Mali, Ghana, Pakistan and Nigeria men that are out of poverty are encouraged to marry several women to reflect their prosperity. Moreover, in some cases, girls of school going age in countries such as India, Bangladesh, Indonesia and Sri-Lanka are forced to concentrate on house chores whilst, the women manage their newly set-up businesses (Beaman, et al., 2012). Furthermore, most microfinance impacts are qualitative in nature and Wampfler, et al. (2006) have argued that it is difficult to quantify non-numeric information. For instance, how can a study analyse whether women entrepreneurs are henceforth capable of imagining that they are entitled to make their own choices. Better still, how can a study quantify the fact that a group of businesses have now been mobilised and that this same group is now ready to make its own choices? The experimental data, analysis and outcomes in this regard may be controversial rather than certain.

According to Reed (2011b) the microcredit summit campaign has identified eight significant areas of microfinance success. These includes: (1) Performance of loan repayment rates. (2) Sustainability of the microfinance project. (3) MFI's targeting the poorest. (4) MFI's empowering women. (5) MFI's using poverty measurement tools in conducting institutional reviews. (6) MFI is constantly assessing their impact

on the lives of clients. (7) MFI's helping Clients mobilise savings and ensuring their safe use and (8) MFI's recruiting, training and retaining excellent staff. Drawing on extensive range of sources Cull, et al. (2010) and; Quinones and Remenyi (2014) further narrowed down this list of success factors to some four determinants which they described as critical benchmarks underpinning microfinance performance. These include; Poverty alleviation, Female empowerment, Institutional sustainability and Loan repayments.

3.7.1 Measuring Success Based on Poverty Alleviation

Depending on the context, the nature and form of poverty may be described based on different inequality factors. According to Yunus (2003) poverty characterises a state of joblessness, illiteracy, landlessness, homelessness, lack of adequate capital, facilities and food to earn a decent living. Moreover, Aryeetey and McKay (2004) suggest the depth of poverty in a country is often an outcome of the absence of efforts to change the structure of a weak economy over a long period of time. Perhaps, it is in this regard Gehlich-Shilabeer (2008) argued that poverty alleviation is an effort to reduce the burden of absence of adequate basic needs on a community and its people to a given rate. To which Schriener and Woller (2011) described poverty rate as a share of people in a given group that lives in households whose total household expenditure (divided by a number of adult equivalents) is below a given poverty line; often below \$1.25 per day. Based on this definition Pogge (2008) estimates that about 39.7 percent of the world population-and still counting, live in abject poverty, precisely; in households whose consumption expenditure per person per year has less purchasing power than US\$785.76, which US had in 1993. It is estimated that more than half of those affected by this menace are from Africa, Asian and some parts of Latin America. Therefore, according to Riddell (2007) analysis institutions such as the World Bank, World Food Programme (WFP) and the International Monetary Fund (IMF) have made several attempts to alleviate poverty in Africa and Asia through monetary hand-outs or distribution of food without charge to these countries. However, VanKley, et al. (2012) argued that dependency approach is short term at best and do not really alleviate poverty. Hence, Festa, et al. (2010) concluded that in spite of shared understanding of poor country's needs, poor nations have limited or no means to develop.

Gobezie (2008) have demonstrated that achieving greater financial depth seems particularly important if the poverty gaps in developing countries like: Burkina Faso, Burundi, Cameroon, Central African Republic, Ethiopia, The Gambia, Ghana, Lesotho, Madagascar, Malawi, Mauritania, Nicaragua, Niger, Sierra Leone, Uganda and; Zambia and rich nations are to be narrowed. This is because Kuhnur and Rokonzaman (2009) suggests that access to financial services can help poor people to improve productivity, generate assets, increase income and achieve food security. Furthermore, a major study found that expanding access to credit generates significant net benefits for poor borrowers across a wide range of outcomes (Karlan and Zinman, 2010). These sometimes include; accumulation of assets; smooth consumption; reduction in vulnerability due to illness, drought and crop failures, better education, health and housing of the borrower (Hermes and Lensink, 2011). Similarly, Rahman (2011) used a microcredit structure to demonstrate that microfinance can help the poor achieve improved resources. Their first analysis showed that microfinance creates a motivation that everybody has a potential to do and receive credit. The second illustration indicates that microfinance develops poor societies and provides economic training programs for small businesses. Finally, they illustrated that microfinance encourages and develop sustainable projects that are needed for poverty reduction. Al Mamun, et al. (2013) analysed the objectives of these three drivers and concluded that microfinance approach may be a viable strategy to create sustainable small enterprises for less privileged people to support them out of poverty. However, evaluations and interpretations of the microfinance aim according to Schicks (2010) have in some cases raised interesting questions that perhaps require adequate reasoning and rigorous analysis to prove microfinance may have positive outcomes. Firstly, does microfinance reach those it is actually intended for; the poorer of the poor? Secondly, which of the three microfinance impact dimensions (poverty alleviation, female empowerment and microenterprise development) should policy makers most focused on to reduce inequalities gaps in societies? Thirdly, where should a trade-off between microfinance outreach and sustainability be focused; in others words should MFI's be more concern about their own sustainability or depth of outreach to beneficiaries?

Dunford (2006) and Chemin (2008) have argued that microfinance microenterprise projects are often underpinned by a strong aim to reduce poverty and to avoid increase in other poverty related problems. Indeed, the most comprehensive accounts of microfinance produced so far have focused on MFI's contribution to poverty alleviation (Schurmann and Johnston, 2009; Van Bastelaer, 2002 and VanKley, et al., 2012). Building on the relationships identified between microfinance projects and poverty reduction, Adjei and Arun (2009) explained that microfinance success is determined based on the ability of MFI's to improve the welfare of low-income "unbanked" clients in terms of assets, savings and consumption smoothing. Consistent with this analysis of microfinance impact, Kaboski and Townsend (2005) found that microfinance promoted assets growth, consumption smoothing and occupational mobility, and decreased moneylender reliance in Thailand. Similarly, Kondo, et al. (2007) studied a microfinance project targeted at the 30% poorest in rural Philippines and found that participation in the project led to increases in per capital income, food expenditure and savings of beneficiaries. More so, Rahman (2011) showed that as a result of half a billion US dollars per year given to 7.5 million borrowers as microfinance loans in Bangladesh, 1% of the total population of the country is coming out of poverty every year. Against this background, Phan, et al. (2014) concluded that borrowers who benefit from microfinance loaned cash flows are able to respond to consumption and business financing needs.

However, some studies do not support that improving the poor's access to financial services always alleviate poverty—an opinion voiced, for example, at the Microcredit Summit in Washington, D.C., in February 1997 (Reed, 2011a). Besides, analysis from Diagne and Zeller (2001) showed that when households choose to borrow they realize lower net crop incomes than non-borrowers. Although this result is not statistically significant, it nonetheless, points out the risk of borrowing that shows borrowers may remain the same or can be poorer after repaying the principal and interest on loans. For instance, Karlan and Zinman (2010) found that, in the Philippine the expansion of microfinance to include a new population only increased microenterprises profit but overall, showed no positive effects on poverty. Banerjee, et al. (2013) tested for microfinance effects and suggested that in the short term, microfinance impacted positively on microenterprise investments and outcomes but showed no impact on broader effects of poverty alleviation. Honohan (2004)

graphically illustrated that there is a negative correlation between monetary depth (M2/GDP) and poverty. May be positive experiences of experiments with microfinance for poverty alleviation are diminishing and MFI's are increasingly becoming weak. In which case, should microfinance be reinvented in line with the new sustainability paradigm, and focus on core activities that will promote growth for MFI's? Consequently, implementation of microfinance projects aimed at poverty alleviation in this form and direction may have the potential to yield interesting exercises that could be usefully explored.

3.7.2 Measuring Success Based on Sustainability

According to Quayes (2012) MFI's are spending billions of dollars to fight poverty by lending primarily to poor households and needs to be sustained. Microfinance Investment Vehicles (MIVs) alone for instance, have invested US\$6.6 billion in MFI's in the last thirty years (Dalla Pellegrina, 2011). Furthermore, Hudon (2010) suggests that donor agencies around the world channel between US\$ 800 million and US\$ 1 billion into MFI's every year. Theory and practice indicates sustainably microfinance programs, whether formal or informal, consistently demonstrates, a high quality credit portfolio and interest rates that support reasonable profit margins and good management practice (Ayayi and Sene, 2010). In this respect, Bogan (2012) argued that sustainability of a microfinance program depends chiefly, on how its operational cost, infrastructure, credit culture of clients and economic conditions are supported by its capital structure. Performance of MFI's capital structure may also be directed correlated to nature of its loan interest and returns on assets (Kereta, 2007).

According to Hermes and Lensinks (2011) only 1–2% of all MFIs in the world (i.e., some 150 organizations) are financially sustainable. Often, these are relatively well know MFI's like Grameen Bank, which are considered as matured and well regulated. MFI's focusing on sustainability and/or profitability constitutes some 8% of the microfinance industry. Whilst 20% fall in the category of MFI's who are near to being sustainable. The remaining 70% of MFI's in the world are considered not to be financial sustainably and depends heavily on subsidies to function (Hermes, et al., 2011). This means that some MFI's have to raise additional resources from elsewhere to support their operations (Pollinger, et al., 2007). Therefore, it is possible to argue that MFI's with need for external capital support are designed to

reflect an investment structured with private financiers and development partners in mind (Gutierrez-Nieto, et al., 2007). According to Schicks (2010) though microfinance aims to alleviate poverty, their financing needs demand them to be profitable. Accordingly, Wenner, et al. (2007) have argued that microfinance practitioners should endeavour to develop banking system that brings financial resources into productive use.

A MFI's like Banco Compartamos of Mexico have started trading in stock markets. In 2007 the bank's public offering was oversubscribed by thirteen times, earning it US\$ 1.6 billion fortune; which enables the bank to continue to lend to microenterprise (Cull, et al., 2010). Private equity-firms participation in microfinance in places like India have equally increased, providing over US\$ 2.5 billion loans so far to the poor (Gokhale, 2009a). What is also interesting is that contrary to the widely held belief that the poor is not credit worthy, MFI's are reporting high repayments (Roslan and Karim, 2009). Banco Compartamos alone reports between 80 to 99% repayment rates every year (Canales, 2012). Perhaps, a reason why Sengupta and Aubuchon (2008) argued that microfinance high repayment rates partly demonstrate it is a sustainable venture. Interesting and positive correlations synergies have been found in outreach and financial sustainability in various evaluations and outcomes of microfinance practice (Zeller and Johannsen, 2006 and; Hurissa, 2012). For example, empirical evidence from some 702 MFI's operating in 83 countries, showed a significantly positive relationship between financial sustainability and depth of outreach (Quayes, 2012). A similar study found highly leveraged MFI's to be better at reaching more clientele, experience higher economies of scale, and are better able to deal with moral hazard and adverse selection; enhancing their ability to deal with risk (Kyereboah-Coleman, 2007). Furthermore, using graphical analysis, Ahlin, et al. (2011) demonstrated that positive and negative growth of MFI's outreach and its ability to cover cost all move in the same direction. A study of 217 MFIs in 101 countries distributed by region and type of MFIs over the period of 1998-2006 have therefore concluded that weaker MFI's should replicate conventional banking practices that improve financial sustainability (Ayayi and Sene, 2010).

In some cases, MFI's sustainable outcomes have been attributed to efficiency of immediate repayment methodologies and competitive market-based interest rates.

However, a major experiment of a weekly and monthly repayment pattern showed that clients with weekly repayment frequency were three times less likely to default on their second loan (Feigenberg, et al., 2013). This recent study may have overshadowed earlier descriptions of immediate repayments methods “as a borrower runs”; borrowers expect that others will default, and there will be no loans available in the future, so they will default too (Bond and Rai, 2009). Therefore, Fischer and Ghatak (2010) share the view that frequent repayment schedules improve repayment rates for MFI’s sustainability. This perhaps, raises a social approach question for microfinance and its constrain on MFI’s competitiveness?

According to Bateman (2010) commercialisation of microfinance creates a mission drift from the original social goal to provide the poor access to finance. Similarly, Augsburg and Fouillet (2010) suggests that overwhelming drive for implementing financial sustainability practices in MFI’s may further deepen credit inequality gaps. This is because Field, et al. (2010) point out that classical rigidity of loan repayment (such as weekly repayments) widely held to be a significant measure for reducing default in MFI’s sometimes, inhibits investment in microenterprises. In cases like Uganda biweekly loan repayment have rather discouraged group dropouts and improved repayment performance (McIntosh, 2008). Besides, tests for significance in weekly or monthly repayment schedules produced no significant effect on default and delinquency rates (Field and Pande, 2008). Also, in countries such as Bangladesh rescheduling payments plays the role of a safety net by decreasing the probability that people skip meals during negative shocks by 5.1 per cent (Shoji, 2010). Furthermore, Hurissa (2012) examined Ethiopia’s microfinance data from 2002-2007 and found trends that suggest MFI’s that are strong performers in outreach are very weak when it comes to Return On Equity (ROE). Kereta (2007) found no evidence of trade-offs between outreach and financial sustainability. Similarly, Hermes, et al. (2011) conducted a stochastic frontier analysis and found that trade-offs between outreach to the poor and efficiency of MFIs are negative. These contrasting findings therefore, provide further insight to enhance analysis of relationships between microfinance social approach and MFI’s sustainability.

3.7.3 Measuring Success Based on Female Empowerment

There are increasing concerns (real or perceived) that development efforts have often benefited men more than women (Agier and Szafarz, 2012). From the 1970s therefore, various assessment tools including; the Basic Need Approach (BNA) have been developed to test the impact of projects that aim to improve the economic role of women (Mbughuni, 1994). Later studies on microfinance gender targeting have built upon this experience (Lindvert, 2006 and; Schurmann and Johnston, 2009).

Analysis of household economics suggests that gender inequalities generally results from inequalities in decision making in the family (see discussion in: Boserup, 2007). It appears women's low contribution to household and economic-based income generating activities (real or perceived) accounts for their weaker bargaining power position. Therefore, according to Rahman and Nie (2011) one aim of microfinance is to empower females. In view of this Duflo (2011) suggest access to credit may improve female psychological and social empowerment; reinforcing their confidence and self-esteem to actively participate in household and community decision making processes, politics and other national activities. Thus, it is plausible as Osmani (2007) suggest that MFI's provision of finance to women entrepreneurs increase their income and bargaining power positions. Analysis of a dataset covering 350 MFI's in 70 countries revealed that on the average women constitutes 73% of MFI's clients (D'Espallier, et al., 2011). These evaluations and analysis are similar to outcomes provided by some earlier studies (Daley-Harris, 2009 and Cull, et al., 2010).

Often gender inequality impedes female development and contributions to developing countries growth (Banerjee, et al., 2013). In developing countries such as; Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE) women with their own businesses often experience challenging attitudes from members of their society (Zeidan and Bahrami, 2011). Besides, the intrinsic nature of domestic responsibilities and managing a business constrains a sustainable work-life balance for female entrepreneurs in developing countries (Grey, 2010). According to the United Nations (2006) a lack of access to credit and assets are some of the factors constraining entrepreneurial growth in poor countries. However, Chowdhury (2007) suggest these constrains are often greater for female entrepreneurs than

men. In spite of these challenges, it appears the influence of women entrepreneurs on the global economy has increased. It is estimated that female entrepreneurs produce more than 80% of the food for Sub-Saharan Africa; 50-60% for Asia, and 34% for North Africa and the Middle East (Jalbert, 2000). Besides, in countries such as Nigeria microfinance is systematically increasing female participation and influencing their confidence to lead entrepreneurship development (Halkias, et al., 2011). This is consistent with Seidu and Bambangi (2007) who found that female access to microfinance in the Kassena-Nankana district in Ghana improved their confidence in decision making processes. Against this background, Spring (2009) argued that microfinance is impacting and increasing the number of women at the top who provide role models of achievement within their countries. Therefore, there is considerable evidence that microfinance has a development potential for female empowerment.

However, the experimental data on microfinance female empowerment are negative in some cases. For example, Hargreaves, et al. (2010) assessed the impact of microfinance on gender equity in South Africa and suggested that female clients experienced barriers to collective action. This explains a negative effect of the intervention on beneficiaries. Similarly, Rahman, et al. (2009) used a control group approach to study factors influencing women's empowerment on microcredit borrowers in Bangladesh and reported that non-borrowers are equally empowered without microfinance credit. Based on a qualitative analysis, Schindler (2010) argued that microfinance loans in Northern Ghana involved high transaction costs and prevents market women from going out of poverty in the longer term. De Mel, et al. (2009a) have shown that in Sri-Lanka whilst, male entrepreneurs who benefited from microfinance credit experienced profit increases their female counterparts recorded negative profits.

Furthermore, some studies suggest the microfinance gender targeting strategy may not be a deliberate attempt to empower women. Female clients are more associated with lower write-offs, lower credit loss provisions and lower portfolio-at-risk (Roslan and Karim, 2009). Similarly, Some 350 MFI's surveyed in 70 countries showed that MFI's focus on women is generally associated with enhanced repayment (D'Espallier, et al., 2011). Moreover, Lindvert (2006) found that in countries like

Ghana, loan officers from MFI's preferred to work with women because they were better at repaying. She also found other reasons to corroborate that women are more organised in their loan groups, and is most profitable for MFI's to target women. For example, she argued that Ghanaian women as debtors, are considered more passive, submissive and vulnerable; making them more reliable to make loan repayments. Perhaps, this constitutes a basis for Schurmann and Johnston (2009) argument that targeting female entrepreneurs enhances the ability of MFI's to minimise loan default rate. That apart, Pitamber (2003) evaluations has shown that the gender empowerment process as explained by Mayoux (2006) that power is derived from income and that one way to achieve this for women is through microfinance was not entirely the case in Malawi and Ethiopia. The outcomes in Malawi and Ethiopia suggested a negative relationship for microfinance and female empowerment. Furthermore, they partially substantiate that women are comparatively better clients for MFI's than men. Thus, it will be interesting to further explore associations between microfinance and gender empowerment.

3.8. Microfinance Impact Studies

Several impact studies have been conducted on different aspects of microfinance activities especially, in areas such as microfinance fostering microenterprise growth, rainfall insurance and microfinance regulatory reform in underdeveloped countries (Karlan and Goldberg, 2007; McKenzie and Woodruff, 2008 and; Leatherman and Dunford, 2010). Indeed, analysis of the literature shows that in some cases microfinance impact studies are used to help determine the outcomes of microfinance projects (McKenzie and Woodruff, 2008). In particular, they help to determine the outcomes of a program against a counterfactual of what would have happened in the absence of the program (Karlan and Goldberg, 2007). Meanwhile, they also serve as monitoring tools for the continuity of projects (Garbarino and Holland, 2009).

Methods used in conducting microfinance studies vary tremendously ranging from randomised to non-randomised methods (Stewart, et al., 2010). For example, a randomised evaluation was conducted by Zeidan & Bahrami (2011) to help determine the impact of microcredit group-based lending products in a new market in

India. Similarly, Karlan and Valdivia (2011) used randomized control trial to test the marginal impact of adding business training to a Peruvian group lending program for female micro-entrepreneurs. Adams (2010) used a survey to examine the impact of microfinance on 100 farmers in the Nkoranza district in Ghana. Findings from the three above studies provided limited evidence to substantiate arguments that suggest hard work and a small loan are sufficient for poverty reduction.

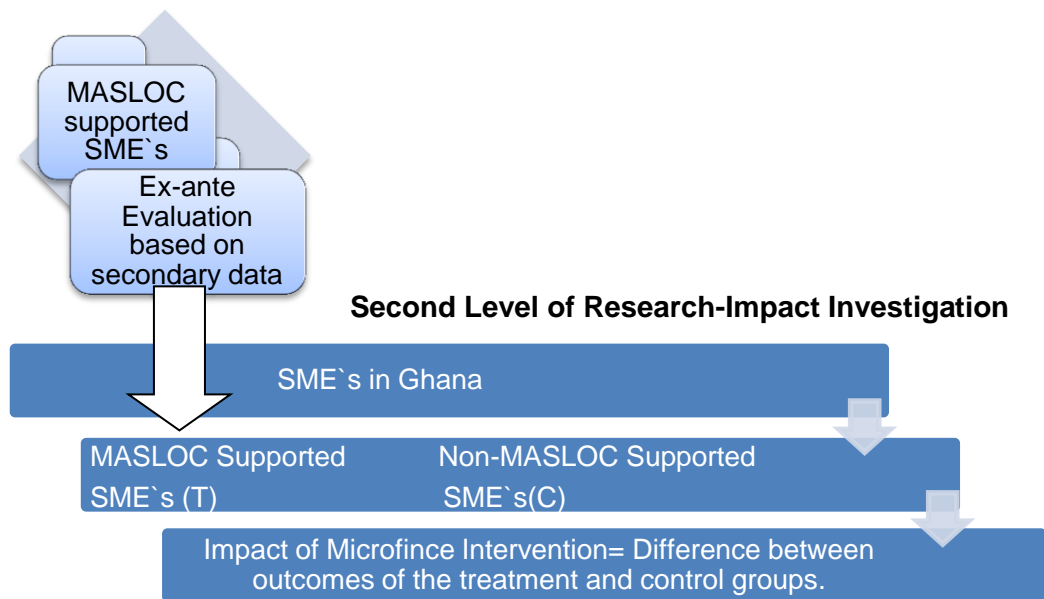
Contrary, impact studies have been used to find that in some areas presence of small loans leads to poverty reduction and microenterprise growth. For instance, using triangulation approach Afrane (2002) demonstrated that microfinance projects in Ghana and South Africa are reducing poverty. Wampfler, et al. (2006) used non-experimental measurement designs to show that microenterprises experience positive change over time, as they receive microfinance benefits. Similarly, Hartarska and Nadolnyak (2008) applied the financing constraints analysis approach on microfinance projects and found that presence of MFI's in Bosnia and Herzegovina had improved access to credit for microenterprises. Furthermore, using quasi-natural experiment analysis, Becchetti and Castiota (2010) argued that some 305 randomly selected microfinance borrowers hit by the 2004 tsunami in Sri Lanka experienced a faster recovery than those who did not benefit from the credit. Similarly, based on a randomised analysis, Karlan and Zinman (2011) concluded that microfinance spurs microenterprise growth and boost the well-being of poor people. Given these positive outcomes, it may be the case that microfinance is working and, people that are otherwise disadvantage are finding opportunities to participate in ways that empower and nourish them (Liedholm and Mead, 2013).

Often some researchers (Karlan and Zinman, 2009; Chambers, 2009 and; Banerjee, et al., 2013) in poor countries prefer the use of randomised analysis in microfinance impact studies due to the success they have experienced using this approach. In particularly, Westover (2008) and others (McMillan and Schumacher, 2009; Baland, et al., 2008 and Boserup, 2007) have suggested that demonstrations of microfinance impact in most poor countries are performed with randomised control studies that compare outcomes of treatment and control groups. Treatment and control groups (**figure 3**) are carefully constructed to exhibit similar characteristics except for the fact that one is a beneficiary of the intervention (McMillan and Schumacher, 2009).

The allocation of units of analysis such as individuals and communities from the population of eligible participants are assigned to a “treatment” group who experience the benefits of the intervention and a control group who do not (Setboonsarng and Parpiev, 2008). The units of measurement are designed in a way that suits the scope of the intervention. For instance, if the benefits of the intervention were received on individual basis, then individuals will be the unit of analysis (Muhammad, et al., 2012). If received on group basis, as will mostly be the case with microfinance interventions, the unit of analysis will be the group (see studies in: Ananth, 2005 and; Schurmann and Johnston, 2009). Sometimes, geographical areas like towns, regions and countries can also be the units of analysis for regional studies (see studies in: Thapa and Murayama, 2008). Any difference in the outcome variables such as; change in assets, school enrolments, and female gender participation can then be casually linked to the microfinance program.

However, in some poor countries use of control studies have revealed methodological challenges with potential to negatively impact microfinance outcomes and results (Jones and Wadhvani, 2006). This is because Rodrik (2008) and Deaton (2009) have argued that methodological errors such as; a lack of data sets, use of wrong measurement indicators and context dynamics are likely to weaken strength of results in microfinance analysis. For instance, a few investigations conducted in Ghana to determine the impact of microfinance on its beneficiaries, where largely conducted without a base line (Afrane, 2007). It may be the case that absence of a baseline data made it difficult for these studies to empirically determine the counterfactual conditions of project beneficiaries. Garbarino (2009) reached similar conclusions, finding that microfinance investigations conducted in places like Ghana are not preceded by a base line study which would allow them determine the condition of beneficiaries before the credit intervention. Limitations of these studies are that respondents were asked by investigators to provide a fairly accurate account of their condition before the credit intervention and at the time of the survey. Roodman and Morduch (2009) question the methodology and concluded that all these studies evidence for impact is weak.

Figure 3. 1: Control Group Design-First Level of Research-Establishing the Counterfactual Condition



Source: (Setboonsarng and Parpiev, 2008): *The eligible SME's are identified and allocated into the treatment and control groups for investigation. The outcomes of the two groups are then compared for impact.*

Other potential sources of weak impact analysis are naive studies that do not control for selection and sometimes, overestimated microfinance impact (Tedeschi, 2008). A recent evaluations of microfinance impact analysis approaches such as; randomised control trials (RCTs), pipeline designs, with/without comparisons, natural experiments and general purpose surveys, available in various microfinance academic databases revealed high bias, weak research designs and problematic analysis that will not survive replication or re-analysis using other methods (Maren and Palmer-Jones, 2012). For example, Pitt and Khandker (1998) used a quasi-experimental design to study a 1991–92 data of microfinance activities; they conclude that small loans improves household consumption when is lent to women. Chemin (2008) used the Propensity Score Matching to revisit Pitt and Khandker (1998) survey data and discovered various microfinance impact that were not relative to borrower's gender. Worried about the different outcomes, Duvendack and Palmer-Jones (2012) further tested for the robustness of Chemin's Propensity Core matching estimates of impact by gender of borrowers. They too found that; (1) the insignificant effect of microfinance varied extensively by gender of borrowers and (2)

the study was vulnerable to selection of unobservable variables. Therefore, in their view conclusions reached on existing positive causal relationship between microfinance and beneficiaries were not consistent with the data used. Similarly, Setboonsarng and Parpiev (2008) applied the Propensity Score-Matching Method to control for selective bias in a study of Khushhali Bank microfinance project in Pakistan. A comparison of their results with various impact analysis conducted by Montgomery (2006) on the same dataset using OLS and Logit Estimations yielded different results. These different interpretations and outcomes are controversial for the role and contribution of microfinance to financial inclusion of the poor (Meyer 2007).

Furthermore, some studies have attempted to examine impact of microfinance on poverty, empowerment and microenterprise development at the same time (Ledgerwood 1999). The existing studies offer a combined evaluation of microfinance impact effects, a recurring theme in most studies in emerging economies (Annim, et al., 2008 and; Adjei and Arun, 2009). However, Karlan and Goldberg (2007) suggested that investigating the impact of microfinance on each of the above elements independently is desirable as it enables policy makers to develop more targeted policy tools. That apart, Dala Pellegrina (2011) have suggested that most microfinance analysis has focused on microfinance loans impact and do not provide a comparison with other existing sources of financing. Perhaps, the recent scrutiny of microfinance has generated new patterns of evidence that require more complex approaches to analyse (McKenzie, 2009).

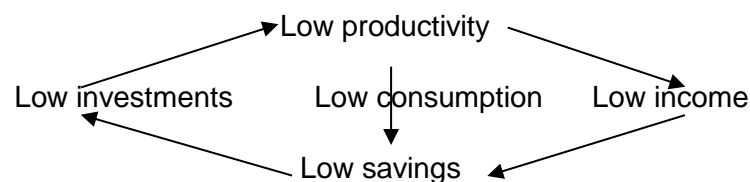
3.9. Contribution of Microenterprises to Economic Development

According to De Mel, et al. (2010) a large share of the World's poor are self-employed and engaged in microenterprise activities. It may be the case that microenterprises offer sustainable business solutions that reduce poverty and accelerate economic growth (Agbeibor Jr, 2006). Consistent with this view it is also possible microenterprises constitutes a major positive feature in the economic development of most poor countries (Liedholm and Mead, 2013).

Drawing from findings on economic development over the last decade, there is growth in economic activities and business set-ups in developing countries (Schoar,

2010). At the same time, there is an increase in the market capitalisation of businesses that were started in emerging markets in the last two decades (Accenture, 2008). Likewise, the contribution of entrepreneurial activities to economic growth has been variously demonstrated in economic development literature. For instance, (Jones and Wadhvani, 2006; van Stel, et al., 2010 and; Chaston and Scott, 2012) have all shown that regional economies often shift from negative to positive where entrepreneurial activities have increased. Similarly, countries that engage in a high rate of entrepreneurial activities also enjoy a higher rate of growth (Audretsch and Fritsch, 2002). Positive relationships between increased entrepreneurial activities and growth in cities have also been proven (Audretsch and Fritsch, 2003). It is shown in **Figure 3.2** that low investments stifles economic productivity and causes pay rates to drop. Low incomes perpetuate poverty; forcing the poor to spend all their little resources on urgent needs. The absence of savings then constrains new investments; which declines economic growth.

Figure 3. 2: A Cycle of Under Economic Performance



Source: Author, 2014.

Under economic performance have given way for microenterprise decline in poor areas. Overtime, the development approach in poor countries has therefore, been widening to take on microenterprise development. Especially that is now clear with insecurity, drought and poor infrastructure; livestock rearing alone can no longer sustain poor people in least developed countries (Van Houten, 2007). Therefore, in encouraging use of microenterprise development practice for poverty reduction, Kirubi, et al. (2009) argued that productivity and growth in small businesses contributes to achieving higher social and economic benefits for poor communities. Microenterprises in African for example, have enabled some low-income households to engage in productive market-driven activities that help expand the economy (Dunford, 2006). Moreover, Hussain and Planning (2000) found that innovations and growth in microenterprises have created almost 60 percent workforce and 25 percent

of industrial output in value terms in Sub-Saharan African. In Kenya for instance, microenterprise creates over 50% of jobs (Atieno, 2009). There is hardly any study that dismisses the positive impact of microenterprises on economic performance. However, drawing from the illustrations in **Figure 3.2** is it possible limited access to financial services may impede microenterprise positive impact on an economy?

It is argued that credit constitutes a prime channel if savings are to be transformed into investments (United Nations, 2006). Therefore, access to credit is important to improve the level of investments made by a business, which in turn is associated with its growth and overall contribution to economic development. Aside finance other challenges including; insufficient planning and inadequate managerial skills also reduces microenterprises contribution to a nation`s economy. However, according to Quartey (2005) often, a lack of access to finance is highlighted as a major barrier. In particular, most evaluations of the available finance literature suggests microenterprises in underdeveloped nations face difficulties in assembling resources for further expansion (Mbonyane and Ladzani, 2011 and; Mwobobia, 2012). It has been shown that they do so with little or no direct evidence that the venture will actually succeed (Nichter and Goldmark, 2009). As commented by Jones and Wadhwani (2007) “Entrepreneurs seeking funding believe they are selling US treasury bills while investors fear they are buying pre-Castro Cuban government bonds”. Besides, the many stages of new business creation microenterprises go through, often using the completion of one stage to gain credibility for credit to begin the next stage does not encourage their growth.

3.10. What drives the Micro-entrepreneur to start-up a business?

A micro-entrepreneur is someone who, but for constraints faced on various fronts, might well run a larger enterprise (De Mel, et al., 2010). According to Drucker (2005) micro-entrepreneurs work for microenterprises, and even if they don't, they can potentially be the ones to start a microenterprise. Precisely so, some authors have described a micro-entrepreneur as one who accept uncertainty-bearing (Stokes, 2000). Others have also described a micro-entrepreneur as someone who coordinates productive resources for microenterprises (Sanyang and Huang, 2010). Similarly, some have either argued that the micro-entrepreneur is the initiator of

innovation or the micro-entrepreneur is responsible for the provision of capital (Somoye and Christopher, 2011).

It is common knowledge however, that “micro-entrepreneur” emerged from the word “entrepreneur” which has existed since the inception of economics (Stokes, 2000). The word entrepreneur originated from the French verb “entreprendre”-which means to do something or undertake. The first academic use of the term was by Richard Cantillon, in about 1730, who argued that the willingness to accept the personal financial risk of a business is a defining characteristic of an entrepreneur (Sobel and King, 2008). British Economists; Smith and Ricardo, further popularised the use of entrepreneur in academic circles. Though they briefly touched on the term entrepreneur it was frequently used under the broad term of business management; to refer to one whose role it is to move resources from one enterprise into another enterprise that proved to be more profitable. Evidence from Mills (1848) as suggested by Solomon and Winslow (1988) further stressed the importance of entrepreneurship. In his view, the entrepreneur bears the risk and management of the business enterprise. Therefore, he concluded that to be an entrepreneur requires no ordinary skill and laments the fact that there is no good English equivalent word to encompass the specific meaning of the French term entrepreneur (Carland, et al., 1995). In this manner, Mills (1848) explanation as indicated by Solomon and Winslow (1988) provides adequate understanding that may help differentiate an entrepreneur from other business owners (like shareholders) of multinationals who assume financial risk but does not participate in the day-to-day management of the business. Moreover, Carland, et al. (1984) suggests that Schumpeter (1934) later pioneered the efforts that laid out a clear concept of entrepreneurship. He argued that entrepreneurs are not just innovators who figure out inventions, but are also people who buy new means of production at certain prices in order to combine them into a new product. Against this background, he concluded that entrepreneurial innovations includes; high skills and ability to take risk. Whilst, Schreiner (2003) explained that microfinance is a formal financial scheme designed for low-income people who intend to embark on microenterprise development. Al-hassan and Abdul-Malik (2011) emphasised microfinance is for people or households with farms or non-farm enterprises. Therefore, these categories of microfinance recipients as described also fit the entrepreneur described by Smith, Ricardo and Mills.

However, to understand how the micro-entrepreneur chooses to establish a microenterprise it is important to establish what drives it. This is because the subjective nature of what drives a person into establishing a microenterprise often constrains the extent to which research findings may be interpreted or generalised (Kim, et al., 2006). Perhaps, what is true in one situation may not be true in another. For instance, whereas presence of large competitors may inhabit the competitiveness of microenterprises in Ghana, Ethiopia and Malawi; thereby discouraging microenterprise growth (See discussions in: Nichter and Goldmark, 2009). This same factor may be the mechanism supporting microenterprises in developed countries like the UK and US to build resilience for competition from big companies. From this illustration it is possible the difference of context factor limits the role of capital as the main factor driving micro-entrepreneurship. Furthermore, factors such as; a micro-entrepreneurs culture and spiritual inclination have also been identified in the literature as driving factors for micro-entrepreneurs (Reynolds, et al., 1999 and Hessels, et al., 2008). For instance, a major study found that the process of entrepreneurship is associated with person and intuition or society and culture (Morrison, 2000). Moreover, Kirzner in 1979 argued that firstly, the source of risk taking is the human spirit which will flourish in response to uncertainty and competition (Sandberg and Hofer, 1988). Secondly, the urge to apply innovatory processes and accept a risk bearing function, is considered with a view to bring about a social and economic change (Morrison, 2000). Gilder who argued in a similar context earlier in 1971 provided similar observations by concluding that selection into micro-enterprising begins with who we are (Morrison, 2001).

Contrary narratives analysed however, argue that micro-enterprising maybe inspired by factors external to the human spirit (Hessels, et al., 2008). Reynolds, et al. (1999) for instance, highlighted two major factors that may inspire a person to start a microenterprise. They called the first one the “push effect”, which they explained will arise from the threat of unemployment. Their second factor; they referred to as the “pull effect”; which may be triggered from opportunities present. Often the first effect is described as necessity-based entrepreneurship and the second as opportunity-based entrepreneurship. Kolo (2006) analysis of enterprise development seem to agree more with Reynolds, et al. (1999) view on selection into micro-enterprising than the views of (Kirzner, 1979 and Gilder, 1971) which suggested that intuition for

micro-enterprising is within the human spirit. According to Kolo (2006) financing is at the front-end of any entrepreneurial venture. Finance can make or break a venture at any stage, depending on its availability or terms of accessibility. Although technical and management expertise are no less important in developing a business, financing is the most assured means of production and therefore, is the “glue or lifeblood” for microenterprises (Kolo, 2006). Schreiner (2003) suggest that often in poor countries financing may avail liberally, yet the micro-entrepreneur is unable to access it due to eligibility problems. Moreover, Vetrivel and Kumarmangalam (2010) argue that even where a micro-entrepreneur is able to secure financing he or she is unable to manage it prudently due to poor managerial and accounting skills. Given the different factors identified in the literature as a driver for entrepreneurship, it will be important to analyse case by case, to determine how each factor impacts micro-entrepreneurship.

3.11 Financial Intermediation for Economic Growth in Ghana

Experiences as reported (Hulme and Moore, 2006 and; Fernando, 2008) have demonstrated that microfinance may be used as an overarching long term strategy for economic development in places such as Ghana (Qudrat-I Elahi and Lutfur Rahman, 2006 and; Claessens, et al., 2009). In fact, today, microfinance is contributing immensely to the growth of small businesses in Ghana by providing microbusinesses with access to credit, safe deposits without the requirement for collateral or a charge, improving confidence of microenterprises and mobilising savings (Goodman, 2007). That apart, in Ghana more than 40 percent of the population do not have collateral for credit and lives below the internationally recognised poverty line of US\$1.25 per person per day (Naudé, 2009) and therefore, rely on small loans to set up businesses. In this context, the aim of MFI's in Ghana is to provide a sustainable source of credit to these micro-entrepreneurs and their microbusinesses who do not have access to bank finance. Through financing unbankable proposition, microfinance promotes income generation, which subsequently enhance food security, women's empowerment and self-confidence, increase household income, as well as children's education (Mwenda and Muuka, 2004 and; Karnani, 2007).

The impact of availability of credit to less endowed households to fulfil basic needs and to protect against risk have been linked to improved economic welfare in Ghana (Asiama and Osei, 2007b). Successful MFI's such as; Pro-credit (Ghana) and Sinapi Aba (Ghana) have demonstrated importance by reaching out to microenterprises with finance to lay a systematic path for economic growth (Opere-Djan and Apania, 2008). In particular, the orientations and products of Opportunity International Savings and Loans (Ghana) encourage economic participation of women in Ghana (Vonderlack and Schreiner, 2002). Access to credit, coupled with the recreation of under-developed human capital, through training and social networking, have also enabled some poor in Ghana to exit the poverty cycle (Asiama and Osei, 2007a). By empowering the poor to bypass barriers in credit markets, their sense of dignity is improved, and this can strengthen them to participate in the economy (Dusuki, 2008b). Therefore, microfinance presents a mix of strengths and opportunities in Ghana.

Karlan and Valdivia (2011) are therefore, of the view that a significant portion of the microfinance agenda in Ghana is to focus on the infusion of financial capital into microenterprises with less emphasis on human capital. Equally, they argue that microfinance models that provide credit to community own-enterprises and credit to individuals in groups, across countries like Ghana place less emphasis on human capital while focusing more on barriers to finance and information asymmetries in credit and equity markets. Furthermore, the role of microbusinesses in wealth creation and contributors towards economic growth has long been recognised elsewhere (Alabi, et al., 2011). In Europe for instance, small and micro-enterprises account for 65% of GDP (Evers, et al., 2007). Most big companies at one stage were small enterprises and supporting winners is recipe for success. Therefore, supporting microenterprise development in Ghana through microfinance is crucial for economic growth (De la Torre, et al., 2008).

3.12 Nature of MFI's Services in Ghana

Microfinance has improved financial services for people in Ghana who lack access to banking and other related services (Annim, 2012). Financial services provided by MFI's in Ghana are diverse and include; deposit collection, savings mobilisation, loans and insurance (Bendig, et al., 2009). Sometimes, savings deposits serve as financing for

the acquisition of future loans. On other occasions too, savings deposits provides a convenient vehicle for borrowers to set aside money towards the education of their children, weddings and payment for healthcare (Adjei, et al., 2009). The two main mechanisms for delivery of MFI`s credit in Ghana are: (1) group-based lending; where more than one micro-entrepreneur applies for a loan as a group; and (2) individual lending based on relationship banking; where an individual micro-entrepreneur applies for a loan based on the relationship established with the MFI.

Generally, microcredit loans in Ghana have a repayment cycle of 4-6 months. Loan amounts average \$50-75 and can round up to several hundreds of US dollars (Steel and Andah, 2008). A compulsory 20% of the loan amount is normally retained in savings accounts managed by the MFI as collateral on the loan. Borrowers are expected to start making repayments seven days from when the loan is issued. The formula for calculating the cost of microfinance loans is not that straight forward; several factors influence cost of loans in Ghana. Factors such as; banking services and product mix provided, voluntary and compulsory savings conditions, group or individual loans and technology intensity of the service provided; mobile and other electronic device services all impacts the cost of the credit (Annim, 2012). These factors are unique to each MFI`s, this makes it difficult to develop a standard formula for calculating the cost of microfinance in Ghana. **Table (5)** provides a summary of the interrelated mechanisms used by MFI`s and how the impact cost of microfinance services in Ghana.

Box 3. 1: MFI's Interrelated Methodologies

Group savings with credit: A group of members (whether pre-existing or formed for this purpose) open a joint bank savings account and mobilize initial savings deposits to qualify for a loan. Group savings may be used as security against loans, and also are used to invest in T-bills for the group. Groups usually are made up of 3-4 sub-solidarity groups.

Group and individual savings with credit: Group members contribute to both a joint group account and their individual accounts. The group may be a "village bank" of 25-40 members; or as small as 5 members. While both individual and group savings accounts are used as collateral, the individual account includes the member's additional personal savings. Loan repayments are made by individuals but handled through the group account. Examples include Nsoatreman, Bosomtwe and Lower Pra RBs.

Individual savings with group credit: Individuals lodge their savings through the group, which receives a loan for distribution to members after a qualifying period and collection of the required level of savings, and they continue to save into their individual accounts as they repay the loan. The group handles the collection of savings and repayments, acts as the interface with the loan officer, and bears group responsibility for recovery (though the loans are made to individual members). Example: Freedom from Hunger's Credit with Education program, operated through Brakwa, Lower Pra, Nsoatreman and Nandom RBs, Bulsa Community Bank, and Women's World Banking Ghana (Quainoo, 1997).

Individual savings with credit: Direct lending to individuals, either those who had established a credible history as a member of a group but who need larger or separate loans, or in cases where a group approach is not suitable. Examples: Lower Pra RB, Nsoatreman RB's and District Assembly Poverty Alleviation Program.

Source: (CHORD, 2000)

Since 2000 however, MFI's such as Opportunity International Savings and Loans (Ghana) and Pro-Credit (Ghana) have focused on providing two strands of credit (**Table: 3.4**) to the under-served population in Ghana (Egyir and Akudugu, 2010b). The first strand is microcredit; which aims to increase economic activities; and the second strand is consumer credit which helps the poor to fulfil their consumption expenditures (Blavy, et al., 2004b). A common claim is that, by providing poor people the opportunity to finance basic economic activities and/or cushion themselves against shocks to consumption, microfinance loans may have served as important catalyst to economic

development (see, for instance Nobel Peace Prize 2006 citation). Therefore, microfinance has been paving the way for increased human, financial, physical and social capital in Ghana for some time now (Annim, et al., 2008).

Table 3. 4: Structure of MFI's Credits in Ghana

	Consumer Credit	Microcredit
Information base	Salary based	Business analysis and social context
Loan purpose	Consumer debt	Investment to create activities and income
Analysis	Desk analysis	Field visit in business and home
Client profile	Salary worker	Self-employed
Credit administration	Standardised	Flexible and personalised
Debt objective	Consumption	Family business
Collateral	Salary	No traditional collateral required
Duration	Medium to long-term	Short to medium-term

Source: Compiled by Author from Annim, et al. (2008).

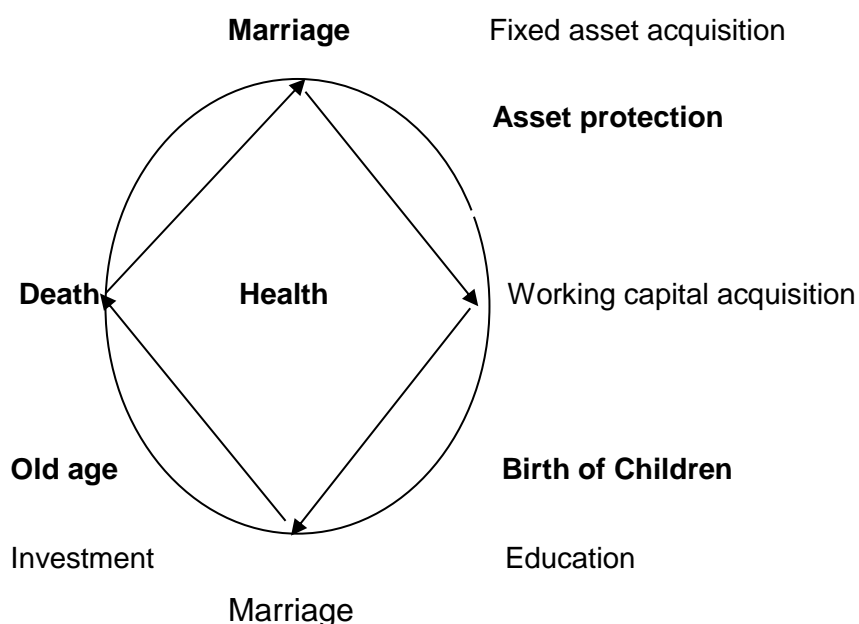
Perhaps, the pivot of microfinance hype in Ghana today is microcredit. The specific objective of microfinance is to improve microbusiness access to credit and, this capability has been positively demonstrated in Ghana (Afrane, 2002).

Surprisingly, most forms of credits in Ghana today are used for consumption purposes. According to Hogarth (2012) and Mohan (2006) consumer credit scales up the poor's access to education, better prospects for employment and improved dietary conditions. Thus, in the view of Littlefield, et al. (2003) if microfinance is strictly used for business purposes only its ability to reduce the multi dimensions of poverty in Ghana may be curtailed. There are existing gaps between provision of consumer products like micro-housing and micro-health insurance in Ghana (Owusu-Frimpong, 2008). The existing literature shows that this market failure has persisted in Ghana for a long time (Oteng-Abayie, et al., 2013). Consequently, Karlan and Zinman (2008) argued absence of loanable cash flows for basic consumption needs can be solved with microfinance. Already, Opare-Djan and Apania (2008) suggest isolated cases of microfinance loans for funerals, weddings and health care expenditures exist in Ghana. Perhaps, these products are supporting Ghana to halve poverty to meet most of the 2015 UN Millennium Development Goals (Simanowitz, 2003).

Paranjape (2009) found that in this same context consumer credit creates indebtedness. Moreover, Campion (2002) suggest consumer credit drives interest rates upwards due to their risky and non-productive nature. Perhaps a persistent increase in credit interest may deepen commercialisation and constrains the resilience of the microfinance approach to reduce poverty. Consequently, commercial microfinance in the longer term has the potential to impact negatively on national poverty levels.

Figure 3.3 describes the life cycle of MFI`s clients in Ghana and how series of risks encountered by microfinance recipients can cause for microcredit to be used for non-productive activities.

Figure 3. 3: Life Cycle of a Typical Microfinance Client in Ghana



Source: Halpern and Hattel (2001)

Generally, the life style of a MFI customer in Ghana determines their financial needs. Halpern and Hattel (2001) have shown that marriage and death are the significant drivers of people`s financial needs in Ghana. Thus, marriage and death are the extreme ends of the financial life cycle of Ghanaians; with some important events expected to occur in between these two stages. Every stage of the cycle presents different sets of risks to MFI`s poor client, compared to their rich counterparts who have better access to resources and are able to pay for basic services. These set of risks are sometimes diverse and demands the use of productive loans (microcredit) to manage. They may include; accidents, illness and death. However, the increasing

use of loans for other purposes other than the business, have a potential negative impact on microfinance practice. Therefore, it would be interesting to analyse the impact of microfinance profligates on microenterprises development in Ghana.

3.13 Framework for Analysing and fostering Microfinance impact on Microenterprise Development

Evidence from studies indicates that even in poor conditions (created by war), the provision of microfinance aids microenterprise development (Augsburg, et al., 2012 and; McKenzie and Woodruff, 2012). Business set-ups in poor countries depend predominantly on savings, informal credit and other forms of semi-formal credit (Dichter, 2012). The outcomes of this credit provided to microenterprises are often seen in improved investment output, increased income and employment (Lakwo, 2006). So far, credit and savings have led to a positive impact on the performance of microenterprises in Nigeria (Olu, 2009). Moreover, as a general principle with MFI`s in developing countries, savings serves as an insurance for credit particularly, where microenterprises do not have assets to offer as collateral (Haque and Harbin, 2009). Furthermore, combining loans with savings and insurance products help to minimise the use of credit for consumptions (Adjei and Arun, 2009). Equally, credit and training have also generated a positive impact on the performance of women micro-entrepreneurs in Ghana and Tanzania (McShea, 2009; Ssendi and Anderson, 2009) and Kuzilwa 2005).

However, microenterprise development sometimes presents major challenges to micro-entrepreneurs. In particular, development of microenterprises can either be facilitated or constrained by regulations, training, leadership, culture, capital markets and open-mindedness of customers (Isenberg, 2010). Often, factors such as, technical know-how in this context are internal to the microenterprise. Contrary, political stability, access to finance and infrastructural development are external factors that potentially contribute to the relative advantage of a microenterprise (Aidis, et al., 2008). Moreover, some of these factors are sector specific and have the potential to impact microenterprises output. In fact, this research may not be able to fully analyse all the dimensions that impacts a microenterprise`s development. Thus, a specific scope in Shane (2003) Entrepreneurship Theory is identified as the underpinning theory for the research study. This theory puts microenterprise

development into three stages. In this context, a micro-entrepreneur identifies an opportunity, evaluating the opportunity and makes a deliberate decision to utilise this opportunity. Shane (2003) argued that business operation, self-employment and performance constitutes reasons for starting a microenterprise. In this regard, Shane (2003) defined operationalised performance as survival, growth and profitability of a microenterprise. Furthermore, survival is the continuous trading of the microenterprise; growth is the increase experienced in the microenterprise's sales and employment; profitability is the gains obtained after operational cost of the microenterprise.

For instance, MFI's or the external environment presents opportunities that microenterprises can rely on to develop. However, the potential of a microenterprise to utilise these opportunities is relative to the attitude of microenterprises. In other words, the willingness of the microenterprise to access information and to act upon it in the miss of risk is important for microenterprise development (De Carolis and Saporito, 2006). Besides, attributes factors such as; personal traits, experience, education and training may also impact decisions of microenterprises when opportunities are presented by MFI's or the external environment (see discussions in: Greene and Saridakis, 2007 and; Lee, et al., 2011).

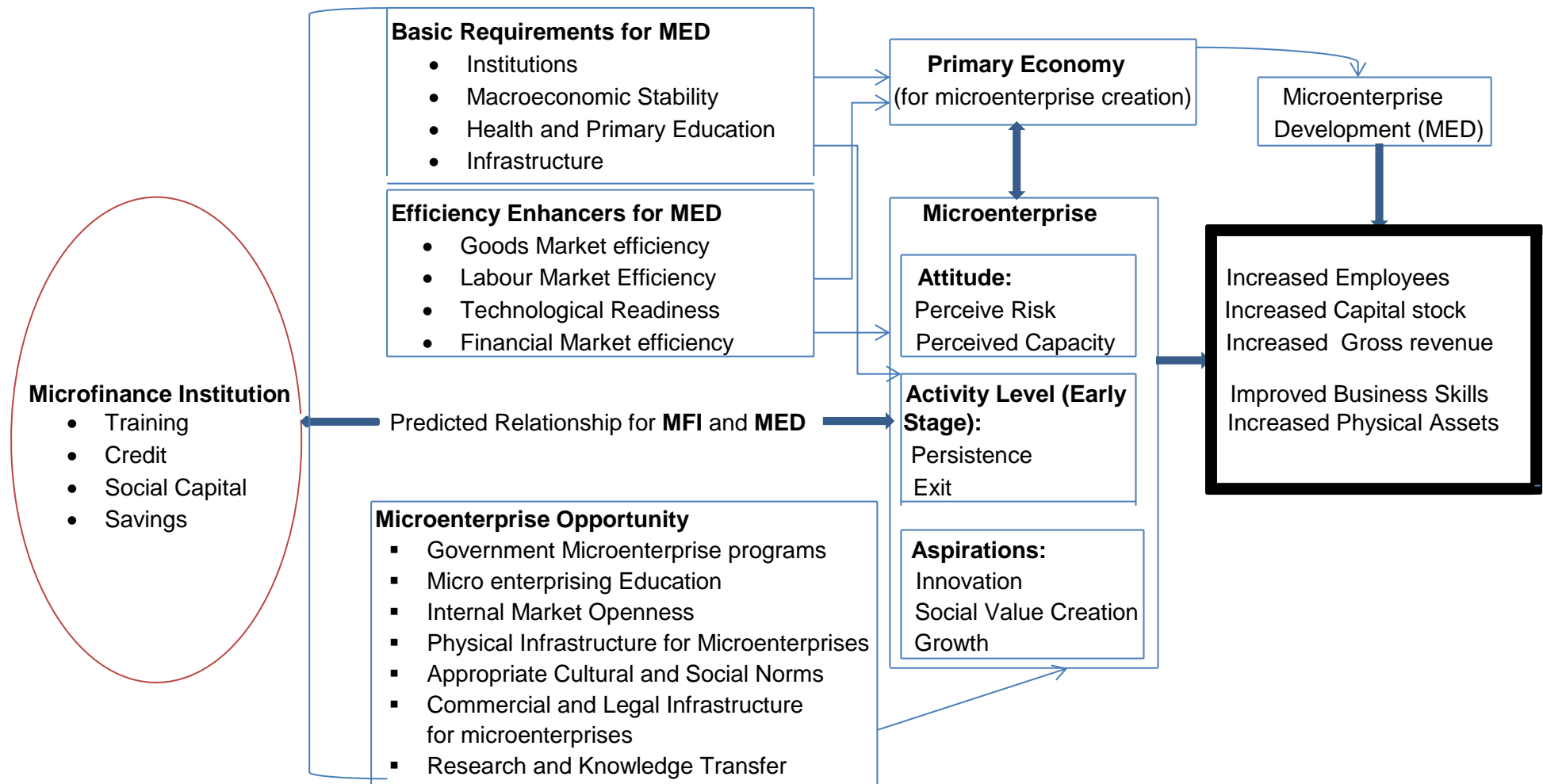
According to Schmidt (2011) changes in the nature and form of political, economic, social, technological and legal factors influence impacts microenterprises ability to identify and utilise opportunity. This perhaps indicates that experiences of negative change in market size; political environment and increasing bureaucracies may be negative to a microenterprise ability to identify and utilise an opportunity. Also, industry analysis has proved to be key in microenterprise opportunity identification. Often, micro-entrepreneurs are attracted to retailing and other petty forms of trades. According to Shane (2003) adequate analysis of the opportunity identified supports a productive use of opportunity. Meanwhile, micro-entrepreneurs intentions may be the major factor that drives the decision to exploit an opportunity. In this regard Eckhardt and Shane (2003) suggests that appropriate entrepreneurial decision-making resulting from intention of a micro-entrepreneurs eventually leads to recognition of an existing entrepreneurial opportunity. Of course, the decision to utilise the opportunity is also influenced by cost-benefit analysis, previous experience skills and knowledge

of a micro-entrepreneur (Shane, 2003). Furthermore, a deliberate decision made to utilise an entrepreneurial opportunity will drive a micro-entrepreneur to look for finance (microfinance) to support acquisition of resources (Ekpe, et al., 2010). These resources are acquired and applied to an entrepreneurial activity in the form of a new business or business expansion. According to Ekpe, et al. (2010) a deserved use of the acquired resources in terms of business strategy and organisational design have the potential to improve development of a microenterprise. Base on this analysis and earlier evaluation of the microfinance literature it will be important to raise the following research questions;

1. Is there a relationship between the provision of microfinance and microenterprise development in Ghana?
2. How appropriate and efficient are the existing methodologies used by microfinance institutions in Ghana to deliver finance to microenterprises?
3. What characteristic barriers constrain the capacity of microfinance for microenterprise development in Ghana?
4. How can microfinance be best modelled and delivered to promote microenterprise development in Ghana?

Consistent with the conceptualisation of microenterprise development from the literature reviewed in this study, the research carried out is supported by the framework given in **Figure 3.4 below**. The principal focus of this research study is to investigate relationships between provision of credit, savings, social capital, training and Microenterprise Development (MED).

Figure 3. 4: Research Conceptual Framework



Source: Reconstructed by Author, 2014 (From: Epke, et al., 2010)

3.14 Conclusion

A number of observations can be made from the literature reviewed. First, though, the literature reviewed indicates recent interest has turned towards measuring for the separate impacts proposed by Ledgerwoods (1999); the socio-political (poverty), psychological (empowerment) and economic (microenterprise development), a recurring theme in most studies reviewed in Ghana and other emerging economies indicates they all attempted to examine impact of microfinance on poverty, empowerment and microenterprise development at the same time (Pitamber, 2003; Lindvert, 2006 and; Gehlich-Shillabeer, 2008). The studies show microfinance interventions have a positive impact. However, these studies are limited by the fact that they offer a combined evaluation of microfinance impact effects. That is they attempt to measure the overall impact of microfinance on microenterprises or community welfare rather than measuring for separate impact effects on each of the three components proposed by Ledgerwoods (1999). Karlan and Goldberg (2007) suggested that investigating the impact of microfinance on each of the above elements independently supports policy makers to develop more targeted policy tools. Besides, it is the only way by which we can determine which aspect of the program contributed towards the success or had greater impact. Therefore, there is the need to examine this gap in the literature through conducting a study to measure for a single impact effect as proposed by (Ledgerwood, 1999).

Second, the financial needs of microenterprises have been under researched and often information asymmetry is cited as a barrier coupled with lack of collateral and high administrative cost of processing small loans (Beck and Demirguc-Kunt, 2006). Particularly, there is relatively little research with no in-depth academic basis, which tests the hypothesis or evidence that there is a positive relationship between the provision of microfinance and microenterprise development (Counts, 2008 and; Mwenda and Muuka, 2004). Given this evidence there is the need to conduct a study that compare the growth profiles of selected microenterprises supported by MFI's based on a framework of characteristics, with a view to test this hypothesis.

Third, evidence from the review shows that even the few studies conducted in Ghana on the impact of microfinance on beneficiaries were conducted without a

base line. Therefore, investigators had to depend on the ability of respondents' memory to provide a fairly accurate account of their condition before the credit intervention and at the time of the survey. Roodman and Morduch (2009) have questioned such a methodology and, concluded that all these studies evidence for impact are weak. Accordingly, there is the need to conduct a study in Ghana with a data base of microenterprises from Opportunity International (A savings and loans company) in Ghana to establish the counterfactual conditions of beneficiaries before conducting any impact studies.

Lastly, findings on how microfinance success is measured particularly, in the face of new emerging microfinance models are inconsistent and inconclusive. In some cases the success is marginal or negative, while in other instances it is positive making it hard to generalise the findings. These are the gaps in the literature that this study intends to fill in Ghana particularly, with a view to develop an effective model to facilitate the use of microfinance for microenterprise development.

Table 3. 5: Competing Ideas for Improving Impact of Microfinance on Microenterprises Development

Problem	Possible cause	Possible solution
Poorer/more disadvantage people generally do not participate in microfinance programs	<ul style="list-style-type: none"> ▪ Credit and savings group exclude people they think won't be able to repay ▪ Poorer/more disadvantage people exclude themselves because they fear not being able to repay and of being stigmatised by the group ▪ Loan and savings conditions are often inappropriate for poorer people. These include; time-consuming frequent meetings, restrictions on loan use, short repayments and grace periods and; limited access to savings. 	<ul style="list-style-type: none"> ▪ Encourage groups to include poorer members ▪ Alternative guarantee systems for individual loans; use of household assets such as bicycles or plants ports as collateral ▪ Assess building and training schemes to give poorer people skills, capital and confidence to participate ▪ Training of staff so that arrangements for default do not drastically impoverish borrowers ▪ Less frequent meetings, not more than once a month ▪ Loan use should be flexible and include consumption loans ▪ Flexible repayment and grace periods, tailored to borrowers circumstances and activities ▪ Flexible access to savings (i.e short notice period- no need to leave group before)
Poorer/more disadvantage people generally increase their income less than better off people	<ul style="list-style-type: none"> ▪ Lack of skills, knowledge and social networks to make most of investment ▪ Lack of initial capital and small loan size limits scope of investment ▪ Markets often gets overcrowded with too many similar microenterprises 	<ul style="list-style-type: none"> ▪ Training to increase skills and knowledge and create own social networks ▪ Assets building programs related to microfinance scheme ▪ Greater flexibility in loan size ▪ Training, research and development, improved technology and assistance in access new markets to enable borrowers to develop a wider range of microenterprises

Failed microenterprises can lead to impoverishment	<ul style="list-style-type: none"> ▪ Insufficient advice given to borrowers/ misreading of market ▪ Tough penalties for late payments and default 	<ul style="list-style-type: none"> ▪ Risk can never be eliminated. However, it can be reduced and the consequences of a failed investment mitigated by: ▪ Proper advice and assistance in identifying opportunities ▪ Arrangements for rescheduling and repayment schedule according to borrowers` capacity
Microfinance can lead to increased inequality between “better-off”- “poor and poorest”	<ul style="list-style-type: none"> ▪ Exclusion of poorest ▪ Greater capacity of better-off to benefit 	<ul style="list-style-type: none"> ▪ As above ▪ Ensure that support services are opened to poorest even if they don` t participate in microfinance programs ▪ Try to harness potential of microfinance for collective action, as well as benefits to individuals and households
Men use loans made to women	<ul style="list-style-type: none"> ▪ Not enough loans are available to poor men ▪ Men have better income-generating opportunities ▪ Men and women see loan as household resource ▪ Men resent women`s independent access to resources 	<ul style="list-style-type: none"> ▪ Increase availability of loans to poor men ▪ Provide training for women to enhance economic opportunities ▪ Awareness raising to change attitudes towards women cash and work ▪ Support services for women to reduce particular constraints they face e.g. childcare ▪ Accept this takes place and hold men responsible for repayments through some form of joint liability contracts
Tensions within households maybe increased	<ul style="list-style-type: none"> ▪ Men`s status threatened by women`s greater financial contribution ▪ Workloads increased but maybe inequitably shared 	<ul style="list-style-type: none"> ▪ Awareness raising (as above) ▪ Rescheduling repayments ▪ Ensuring loan is not beyond borrowers` capacity to repay at onset

	<ul style="list-style-type: none"> ▪ Stress of meeting repayments 	
Increase incomes not translated into improvements in welfare	<ul style="list-style-type: none"> ▪ Attitudes to particular issues e.g. lack of knowledge of nutrition; discrimination against girls 	<ul style="list-style-type: none"> ▪ Education and awareness raising to address particular issues

Source: (Armendáriz de Aghion and Morduch, 2000)

Table 3. 6: Summary of Recent Analysis of Microfinance Impact on Micro-entrepreneurs and Microenterprise Development

Author	Title	Methodology	Results	Conclusions
Attanasio (2014)	Group Lending or Individual Lending? Evidence from a Randomised Field Experiment in Mongolia	This study employed the use of field experiment approach	<p>The study;</p> <ul style="list-style-type: none"> • Identified positive impact of group loans on food consumption and entrepreneurship. • Detected limited impact of individual lending on food consumption and enterprise ownership. • Found no significant difference in repayments rates of group lending and individual lending approach. 	Outcomes of these results have important implications for earlier literature that support the disciplining effect of group lending in microfinance practice.
Islam, et al. (2014)	Does Microfinance Change Informal Lending in Village Economics? Evidence from Bangladesh	Secondary research	<p>The study;</p> <ul style="list-style-type: none"> • Found that microfinance limits a household's level of informal borrowing but not the size of loan. • Identified heterogeneity across households in respect to occupation, which was explained by different trends in occupational transition between borrowers and non-borrowers of microfinance. • Found that women are target clients for MFI's. Microfinance increased female borrowing for small consumption usage however; it has a negative facilitating effect on access to new business opportunities. 	Reasoning and conclusions of this study perhaps imply negative effects of profligates constrains enterprising. This may provide a basis for policy direction in terms of the use of microfinance.

Molino (2014)	Loan Repayment Performance of Microcredit Programs: Evidence from India	Comparison study approach	<p>The study;</p> <ul style="list-style-type: none"> Results overall show better performance with weekly frequency schedule for individual lending than bi-weekly group meeting. Results further indicate that frequent weekly meetings aimed at instalment collection yields increase repayment performance. Found low significant effect of savings on repayment rates of microenterprises. 	These outcomes have important implications for the debate on use of weekly repayment collection approach by MFI's. Weekly instalment collection method secures loan repayment for MFI's.
Phan, <i>et al.</i> (2014)	The Impact of Microcredit on Rural Household in the Mekong River Delta of Vietnam	Propensity Score Matching method	<p>The study results show;</p> <ul style="list-style-type: none"> Microcredit has positive impact on household consumption but negative impact on household income. Conditions of group beneficiaries of microcredit improve better than individual household when they participate in microfinance programs. 	Implications of the results are that often, microcredit improves consumptions needs but will not impact positively on the poor's income levels especially, if the credit is not use for productive enterprising purposes.
Oyina and Turnell (2013)	The Impact of a Microfinance Lending Scheme on Clients in Ghana	Qualitative study	<p>The findings of this study show that;</p> <ul style="list-style-type: none"> The microfinance programs had greater impact on old clients than new clients even though, on average the latter received large volumes of credit. 	The outcome of this study analysis contributes significantly to existing literature that has examined the effect of

			<ul style="list-style-type: none"> • There is a positive relationship between duration of participation in a microfinance program and greater level of empowerment. • Existing microfinance beneficiaries are more likely to acquire assets, improve their business and spend more on the education of their children compared to new clients. 	microfinance on microenterprise recipients.
Phan, et al. (2013)	Formal and Informal Credit in the Mekong River Delta of Vietnam: Interaction and Accessibility		<p>The study analysis confirm that;</p> <ul style="list-style-type: none"> • Formal and informal credit sectors interact and that informal credit positively influences accessibility of microcredit programs. • Interest on informal loans, duration of the loan and land ownership impacts ability to secure a loan • Mainly, factors such as group memberships, level of education, government employee status, productive skills and villages with accessible roads promotes presence and usage of microfinance programs. 	These outcomes have far reaching implications in the context that, attention to relationships between formal and informal credit sectors has the potential to yield optimal decisions for making choices for microfinance providers.
Baland, et al. (2013)	Repayment Incentives and the Distribution of Gains from Group Lending	Quantitative study	<p>The study found that;</p> <ul style="list-style-type: none"> • Often, individual lenders prefer contracts with minimum sanctions. However, in the case of group lending high sanctions contract places 	The study outcome contributes significantly to the understanding of the conditions under which

			<p>severe liability on other members of the group but discourages default payments.</p> <ul style="list-style-type: none"> • Benefits from participating in group loans reflect positively on borrower wealth and that optimal group size depends on project characteristics. • The largest loan offered as an individual contract cannot be supported by a group methodology. 	microfinance can reduce poverty.
Jafree and Ahmad (2013)	Women Microfinance Users and their Association with Improvement in Quality of Life: Evidence from Pakistan	Mixed method	<p>Findings of this study has revealed that;</p> <ul style="list-style-type: none"> • Majority of female micro-entrepreneurs that use microfinance are illiterate, poor and likely to be unskilled. • Microfinance impacts positively on non-economic variables of quality of life. • Situations of group borrowing, use of credit for self, absence of loan repayment assistance from household members, frequenting at monthly meetings, and receiving skills and development training all have a positive relationship with improved quality of life for female microfinance users. 	This study outcomes contributes to the suggestion that MFI's should design urgent and compulsory social development features for female micro-entrepreneurs.
De Quidt, et al. (2013)	Market Structure and Borrower Welfare in	Secondary research	<p>This study result indicates that;</p> <ul style="list-style-type: none"> • Often, for profit lenders are less likely to use joint liability contracts than non-profit lenders. 	Generally, these outcomes suggest that market power may have

	Microfinance		<ul style="list-style-type: none"> Market power impacts a micro-entrepreneur and the business welfare. At the same time, a similar borrower welfare may be experienced by micro-entrepreneurs lending that lend from not for profit MFI's 	significant implications for borrower welfare.
Cason, et al. (2012)	Moral Hazard and Peer Monitoring in a Laboratory Microfinance Experiment	Laboratory Microfinance Experiment	<p>The findings are that;</p> <ul style="list-style-type: none"> In cases where cost of peer monitoring is lower than cost of lender monitoring, peer monitoring results in higher loan frequencies, higher monitoring and higher repayment rates compared to cases of lender monitoring. Absence of monitoring cost differences creates similar lending, monitoring and repayment behaviours both in individual and group lending. 	This research evaluations and outcomes contribute to existing knowledge that suggests simultaneous and sequential lending rules provide equivalent empirical performance.
Bruno and Khachatryan (2011)	Compulsory versus Voluntary Savings as Incentive Mechanism in Microlending Contracts	Quantitative study	<p>Results of this study show that;</p> <ul style="list-style-type: none"> Voluntary savings constitutes a complimentary tool that may support MFI's to enforce loan repayment. Furthermore, voluntary savings have the potential to induce borrowers to reveal abilities of their microenterprise projects. 	This study findings point to an important strategy direction for MFI's. By employing both compulsory and voluntary savings as an incentive mechanism to attract microenterprises, MFI's can achieve positive

				social value on projects that may not perform well at the beginning.
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Source: Compiled by Author, 2014.

CHAPTER 4

4.0 RESEARCH METHODOLOGY

4.1 Introduction

This chapter presents an overview of research philosophy and different approaches used in the literature to investigate the impact of microfinance on microenterprise development. The approach used for this study is consistent with similar studies from (Garbarino and Holland, 2009; Dunbar, et al., 2010; Davis and Baulch, 2011 and; Norwood, 2013). This research seeks to use the most appropriate methodology to determine the impact of microfinance on microenterprise development by the use of a mixed method approach. Having considered the relevant literature, this chapter provides a justification for the use of quantitative and qualitative methods. The chapter critically examines the pros and cons of different approaches used in the existing studies to evaluate microfinance interventions. Given the unique characteristics of microenterprise and microfinance relationship, Berger and Black (2011) suggests that often quantitative approaches alone fail to capture the reality and nature of microfinance effect. Therefore, there is a case to use both quantitative and qualitative approaches to gain a deeper insight into the relationship and function of provider and the recipient of funds. This chapter is subdivided into the following sections: (1) philosophy of research methodology (2) general approaches to research (3) types of research methods (4) selection and justification of the research method (5) research design (6) statistical design (7) operational design (8) validity and reliability of research and; (9) conclusions.

4.2 Section One

4.2.1 Research Philosophy

In social sciences, research philosophy and choice of methods used are critical to evaluate the complex, interwoven and multi-dimensional perspectives. It is acknowledged that the research philosophy informs and impacts on the outcomes. Therefore, as suggested by Heeks and Bailur (2007) it is important to investigate existing assumptions about research philosophy in a microfinance study. Exploring

fundamental philosophical issues in microfinance research assist a researcher to clarifying wider philosophical values in the context of discovering “reality” during the design stage of the microfinance study. In particular, a philosophical review will help to understand the interrelationship that exist between ontological (what is the nature of reality), epistemological (what can be known) and methodological (how can a researcher discover what he or she believes can be known) levels of the microfinance inquiry (Crossan, 2003).

Philosophy of research methodology follows two forms of inquiry. A research philosophy can be framed from conducting a research “inquiry from the outside” (positivist research) or by conducting an “inquiry from the inside”-interpretive research (Ospina and Dodge, 2005). The “outside” (positivist approach) reasoning explores reality through the study of an object that is independent of the researcher. In this context, Ryan (2006) argued that positivists derive and verify knowledge through a direct observation or measurement of phenomenon. Through observation, facts are determined by analysing a phenomenon to study its sub-component. Whereas, the opposing view is that knowledge is determined by past experiences of researchers and the meanings they attach to what they are studying. According to Andrade (2009) this is called interpretive research, which aims through observation and data manipulation to provide narratives and to infer conclusions. It has been acknowledged by academics and researchers (Krauss, 2005) that the nature of microfinance research suggest it may impact on the behaviour and conduct of the credit provider and recipient due to relationships that result from interactions. These relationships must be examined and interpreted by researchers to reflect the experience of both provider and credit recipient.

These two philosophical schools of thought; positivist and interpretivist paradigm, notwithstanding, appear to be popular with microfinance research. The interrelationships and use of positivism and interpretivism in contemporary microfinance research have shown one does not operate in isolation from the other. At the same time, there are some observed differences between these two concepts. Therefore, before selecting a particular paradigm for this study, both concepts are examined in depth to determine the most appropriate paradigm to follow in a microfinance impact investigation.

4.2.2 Positivism

According to Ryan (2006) positivist are of the view that an objective reality that is independent of any human behaviour or influence exists. This implies that positivist investigations about reality recognised that only quantifiable or measurable outcomes can reveal the truth about reality (Jick, 1979). Thus, Crossan (2003) concluded that all knowledge should be derived from human observation of objective reality through the use of the human senses to accumulate data that are objective and measurable. In the case of this study, researchers investigating relationships between MFI's and microenterprises do not directly interact with the subject, they observe the existing microfinance activities to determine relationships between the provider and recipient of the credit. This is because Doolin (2007) argued that the researcher should be detached from the subject to avoid his or her subjective views observations and reasoning whilst collecting the data. However, they may apply mathematical, logic, deductive tools to analyses such data for analysis purposes. It is observed and suggested that positivism is convenient for natural science research, where laboratory experiments can provide an approximate measure to predict reality. However, positivism rejects the possible influence of the environment on reality as reality exists in its purest format. This view makes it difficult to apply positivism in a study of microfinance and credit recipients where human influence on effect outcomes is significant (Norwood, 2013).

4.2.3 Interpretivism

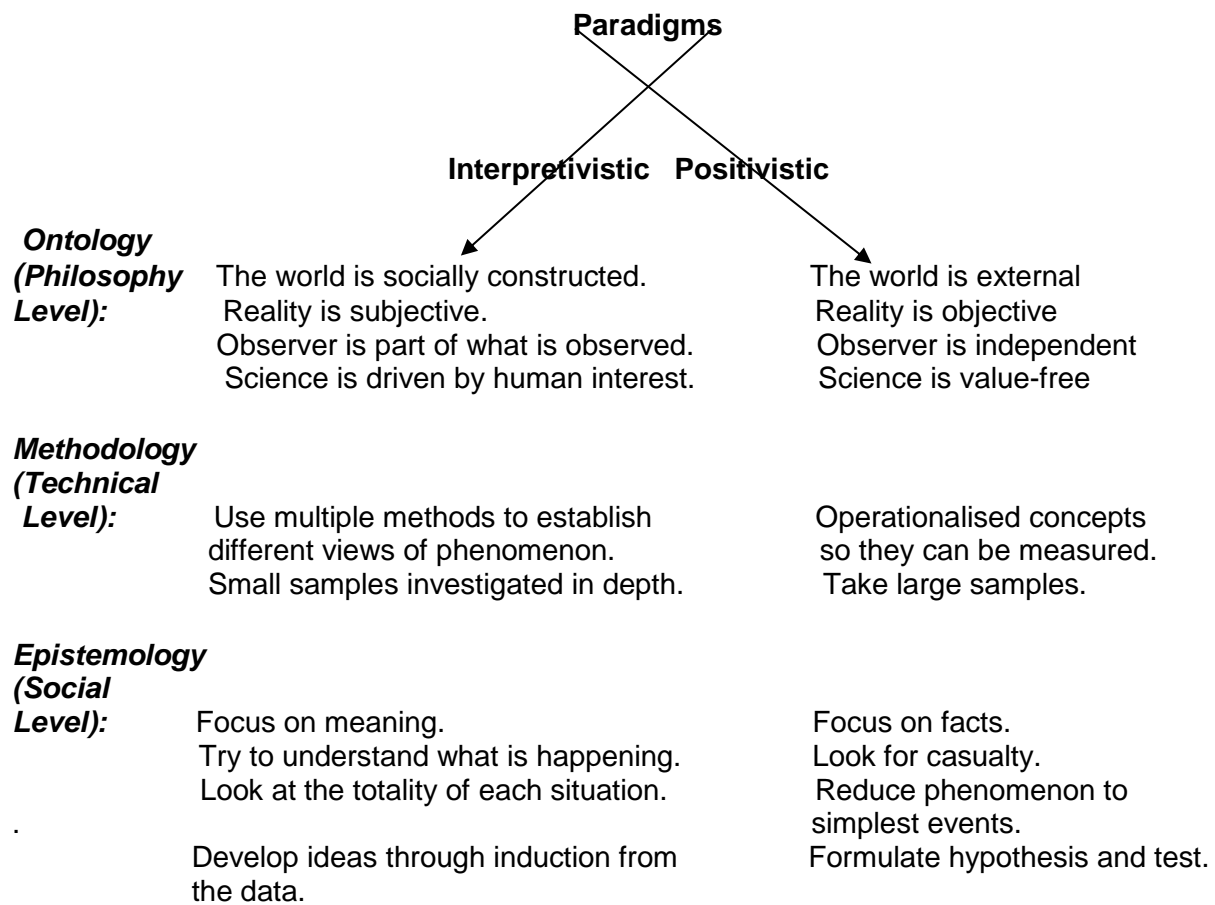
Kakkuri-Knuuttila, et al. (2008) have argued that reality is a pragmatic constructivism that is developed from various interactions and experiences shared between (individuals and collective) actors and the world in which they operate. Perhaps, in more concrete terms, reality as argued by Minger (2001) address the development of theories, methods and experiences with a focus on the role of an actor as the agent of knowledge creation. In this context, it can be argued that these relations or outcomes that emerge when an actor comes into contact with the world are not given by nature; they are constructed in an effective and non-fictional way (Andrade, 2009). Andrade (2009) further emphasis on how pragmatic constructive theory is rooted in interpretative research whilst Silverman (2010) made a broader case for how interpretative approaches in research may have effectively helped to explore

causalities from the view point of those that formulated and participated in the experience. Thus, for this research to analyse and to generate pragmatic explanations for the complex relationships between provider and recipients of microfinance, an interpretative approach is suitable to understand the issues under investigation.

4.2.4 Microfinance Research Process

Consideration of the positivists and interpretivist debate in microfinance research, its reasoning and outcomes suggest that three major dimensions are associated with the microfinance research process. As demonstrated in **Figure 4.1** the ontological, methodological and epistemological features and assumptions of the interpretive and positivist paradigms inform the debate on research process. Therefore, a review of **Figure 4.1** further enhances the objective of this research to determine the most appropriate research paradigm to adopt for the study. Firstly, according to Krauss (2005) illustration and analyses of ontological (philosophical level) inquiry supports a researcher to understand the concept of reality in their research. Secondly, in his view outcomes of methodological (technical level) evaluations and analysis yields appropriate methods and techniques to conduct a research. Thirdly, he concludes that analysis in the context of epistemology (social level) will sufficiently describe the nature of knowledge, its validity and how knowledge impacts theory.

Figure 4. 1: Research Paradigms



Source: Krauss (2005).

Consideration of **Figure 4.1** and some aspects of microfinance regarding the nature and conduct of research suggest that the uniqueness of interpretive paradigm (technical features) makes it more appropriate for this microfinance study. The philosophical and social features of the interpretive paradigm lend itself for interpretation and re-examination of the nature of knowledge in microfinance research. Thus, from this study point of view, interpretivism is seen as fundamental to the investigation of the problem. This is because of the different issues that may be underlying in impact of microfinance on microenterprise development. The MFI's and the microenterprises have different views and perspectives which demands a full examinations and interpretation to successfully carry out the investigation.

4.3 Section Two

4.3.1 General Approaches to Microfinance Research

The nature and format of research process shows that depending on what a study aims to achieve, one or more approaches may be used in a microfinance investigation. However, the above discussions indicate that the philosophical assumptions underlying microfinance studies points to two general approaches that are prominent in microfinance research (Bernard and Bernard, 2012 and; Cohen, et al., 2011). Firstly, there is the empirical approach; which is concerned with conducting microfinance research mainly using methods that will yield quantifiable and measurable outcomes (see **Table 4.1**). Secondly, there is the non-empirical approach, which Reinking and Bradley (2008) argued will base its research outcomes on a construct of multiple meanings observed from interactions between providers and recipients of microfinance credit. According to Johnson and Christensen (2008) both empirical and non-empirical approaches are equally popular with microfinance researches. However, they vary depending on the kind of study that is being carried out, whether it is a confirmatory or exploratory study. In this context, Bryman (2006) explained that confirmatory microfinance researches are used to support pre-specified relationships between variables whilst, exploratory microfinance researches are conducted to determine relationships that were not known to exist between some study variables.

Table 4. 1: General Approaches of Research Methods

Empirical/Quantitative Research Approach		Non-Empirical/Qualitative Research Approach	
Survey research	◀	Ethnography	
Experimental research		Phenomenology	
		Action research	
		Qualitative interview	◀

Source: Author, 2014

Apart from the above distinctions provided in respect of the general approaches to research, the most common classification of microfinance research approaches is into quantitative and qualitative techniques (Meyer, 2007 and; Imai, et al., 2010). According to Ospina and Dodge (2005) adequate combination in the context of

techniques and methods using both approaches will offer improved outcomes in data collection and analysis. Moreover, an observation and analysis of the various combinations (see **Box 4.1**) shows a mix of quantitative and qualitative data and analysis constitutes a significant advantage over the other forms of techniques. This is because a mixed framework of techniques allows the quantitative component to drive the research whilst, the qualitative component explore the relationships identified in the research (Davis and Baulch, 2011).

Box 4. 1: Approaches to General Research Methods Classification

- *Quantitative analysis of quantitative data:* This is very common with impact studies where surveys and experiments are the most used methods. Empirical practices usually reflect a positivist stance to enquiry.
- *Quantitative analysis of qualitative data:* This is another practice commonly used in impact studies. With case studies as the most favourable method. This approach may reflect a positivist or a post-positivist stance to inquiry.
- *Qualitative analysis of quantitative data:* This approach is not a common practice in impact studies but has the potential. This approach reflects an interpretivist view to inquiry.
- *Qualitative analysis of qualitative data:* This approach stands on its own and has taken different forms in impact studies. This approach may include both a positivist (grounded theory) and an interpretivist (Phenomenological life stories etc.) stance to inquiry.

Source: Ospina and Dodge (2005)

4.4 Section Three

Types of Research Methods

4.4.1 Quantitative Method

The nature and composition of quantitative methods suggests they are often descriptive (the subject under study is measured once) or experimental (the subject under study is measured before and after treatment) forms of research methods. The use of quantitative methods in research vary from one context to another but are concerned generally with collecting and analyse numeric data that help determine the relationship between variables (Hopkins, 2008). A questionnaire is often used as

the instrument of data collection. According to McMillan and Schumacher (2009) a triangulation of the data collected using quantitative methods should yield outcomes that can be observed and counted. In the view of Muijs (2010) therefore, quantitative methods are suitable for conducting research that analyse variables to ascertain if the experienced change in outcomes (effect variable) directly or indirectly are associated with the presence of another variable (cause variable). Some quantitative designs and their uses have been described in the microfinance literature.

Tedeschi (2008) used descriptive design to test for impact of credit on microenterprise profits in Peruvian MFI's. According to him descriptive researches are appropriate to test a hypothesis. In poor countries such as Peru for instance, descriptive research design studies support policy makers and donors identify an area of need (like, lack of access to finance). Similarly, quantitative designs such as experimental designs and randomised control trials have been adopted by (Dworkin and Blankenship, 2009 and; Hermes and Lensink, 2011) to examine the effect of microfinance on their users. The two studies drew samples from a population that benefited from the credit (treatment group) and a population that is the same as the beneficiaries except for the intervention (control group). The outcomes of these two groups were then compared and the differences between them became the basis for the microfinance effect. The outcome results of the studies were mixed, showing claims of (1) strong relationships between microfinance and improved social and economic situation of the poor in developing nations; and (2) weak trade-off between microfinance sustainability and outreach. The studies also appeared to be challenged by respondent drop-outs and inability to control for the transfer of microfinance benefits from beneficiary groups to non-beneficiary members.

4.4.2 Qualitative Method

Two recent studies (Creswell, 2012 and Creswell, 2013) suggest that qualitative method is a research technique used to explore the multiple meanings of individual experiences and the context within which the experience emerged. According to Maczewski, et al. (2004) there is often uncertainty about the characteristics and dimensions of people's experiences, which needs to be analysed and represented in a non-numeric or descriptive form. In this regard, Maxwell (2012) has argued that a non-numeric data of people's attitudes and environment are achieved by the use of

qualitative methods such as unstructured interviews, focused group discussions and direct observations. Non-numeric data are transcribed and analysed using one of several techniques such as qualitative content analysis or grounded theory (Creswell, 2013).

Unstructured interviews, direct observation and focused group discussions are commonly used in microfinance studies due to their appropriateness for understanding microfinance provider and recipient relationships. For example, Swain and Wallentin (2009) conducted a focused group study to explore the links between microfinance and women's empowerment in five states in India. Skovdal (2010) used unstructured interviews to examine child-led microfinance activities in Sub-Saharan Africa. This provided insights on how intra-community relations can undermine or further strengthen child-led activities. Chowdri and Silva (2004) used direct observation design to explore and explained clients' perspective on downscaling and commercialisation of microfinance in Latin America. The outcomes of the studies showed that the three qualitative methods helped the researchers to firstly, avoid speculative generalisation of microfinance impact from a subject's point of view. Secondly, the researchers directly interacted or got involved with the target population of their research. Finally, the participants revealed behaviours and beliefs that couldn't have being easily captured using other methods (Swain and Wallentin, 2009).

In the microfinance literature both qualitative and quantitative methods have been used to deconstruct discourse to reveal hidden structures in microfinance (e.g. cost of loan and profligates) and then reconstruct or offer alternative use for microfinance. Because both methods have so far proved to be useful, it is argued that the benefits of qualitative and quantitative methods should be combined in a single study. Teddlie (2009) suggests that the use of a mixed method in microfinance research allows researchers to address different problems using quantitative and qualitative techniques at the same time.

4.5 Section Four

Mixed Methods

4.5.1 Choice and Justification

Mixed method involves gathering and analysing both quantitative and qualitative data in a single study (Creswell and Clark, 2007; Cameron, 2009; Cameron, 2010 and; Azorín and Cameron, 2010). A review of studies such as (Kim, et al., 2007; Weinhardt, et al., 2009; Dunbar, et al., 2010; Davis, 2011; Davis and Baulch, 2012 and; Norwood, 2013) indicates that the idea of using different data and techniques of analysis in a single study is common with microfinance impact research. According to Garbarino and Holland (2009) using quantitative and qualitative methods together yields more than the sum of the two methods used independently. A conclusion Barrett (2004) and Hulme (2007) both seem to agree with by suggesting that there are limitations to a purely quantitative or a purely qualitative method of analysing poverty factors. Therefore, the use of both quantitative and qualitative methods is most appropriate when the purpose is to prove impact and improve microfinance interventions (Garbarino and Holland, 2009). It is significant to be aware of how both methods will compensate for each other and to recognise that “strong fences make good neighbours” (Trochim, 2006). Consequently, in the view of this study a firm basis for the use of mixed methods in this research study have been established. The quantitative methods will aid the study to describe the relationship between the provision of microfinance and microenterprise development and the qualitative methods will help to evaluate and explain these relationships.

A review of the research questions below further makes a case for the use of mixed methods to explore the different empirical issues that have emerged in the literature. According to Barret (2004) the effect of microfinance credit on a microenterprise can be examined by the use of quantitative measures or outcomes. For instance, the rate of growth in the turnover of a microfinance beneficiary microenterprise can easily be compared against a non-beneficiary microenterprise. The accounts of this comparison can be stated in percentages to express the effect of microfinance on the microenterprise. However, it will be difficult to associate the entire cause of outcomes, positive or negative to the credit without conducting some qualitative analysis to explain the actual relationships that were formed between the cause

(microfinance) and effect (microenterprise development) variables. Similarly, for this research, it may be easy to identify a MFI default clients using quantitative survey and analysis. However, understanding the reasons behind the client default rates with the numeric data obtained will be difficult if the researcher does not conduct a qualitative analysis. Perhaps, as Creswell (2013) argued a qualitative research will help the researcher to analyse the experience of the clients and to provide reasons for such default outcomes. Therefore, evaluation of the questions below suggests they can be easily answered using mixed methods.

5. Is there a relationship between the provision of microfinance and microenterprise development in Ghana?
6. How appropriate and efficient are the existing methodologies used by microfinance institutions in Ghana to deliver finance to microenterprises?
7. What characteristic barriers constrain the capacity of microfinance for microenterprise development in Ghana?
8. How can microfinance be best modelled and delivered to promote microenterprise development in Ghana?

4.5.2 Advantages and Disadvantages of Mixed Methods

Box 4.2 below examines the advantages and disadvantages of the mixed method approach that was used to gather and analyse data for this impact study.

Box 4. 2: Advantages and Disadvantages of Using Mixed Methods

Advantages	Disadvantages	Way Forward
<ul style="list-style-type: none">• Results are provided from more than one perspective.	Requires a lot of resources to carry out.	Keep study as small as possible.
<ul style="list-style-type: none">• Explain the relationships behind the statistics.	More expertise needed.	Keep research design simple.
<ul style="list-style-type: none">• Triangulation of sources	Combines results of the data and results are sometimes hard to interpret.	Use statistical softwares to aid analysis
<ul style="list-style-type: none">• Can be used to address a wide range of questions, hypothesis and variable.	More time spent on analysis.	Use statistical softwares to aid analysis.
<ul style="list-style-type: none">• This approach makes it easier to connect theory and practice.	Requires research participants who don't mind multiple interventions.	Provide incentives for participants to stay.

Source: Author, 2014

4.6 Section Five

4.6.1 Research Design

A research design provides strategies that support researchers to examine empirical questions emanating from various literatures or test a hypothesis that may have created a need for a research investigation (Bordens and Abbott, 2002). For this study, the research design was characterised by mixed method strategies that are considered suitable for investigating the impact of microfinance on microenterprise

development (MED). The microenterprises that were investigated to acquire data on microfinance impact had benefited from MFI's in various ways, such as access to; credit, savings, social capital and training. The reasons for focusing on these benefits are grounded in the estimation that the deserved use of these acquired resources (See: Shane, 2003) in terms of business strategy and organisational design can lead to microenterprise development (Ekpe, et al., 2010). This can be illustrated as; "presence of X, may cause presence of Y" or without the provision of microfinance no such outcome will occur in respect of microenterprise development, which can also be illustrated as "absence of X, may cause absence of Y".

4.6.2. Justification for the Area of Study and Target Population

The area selected for this research was Accra, the capital city of Ghana. Accra was selected because it is a business city with a high visibility of microenterprises. Activities of microfinance in Accra are widespread and constitute a major source of credit for microenterprises in the city. For example, the headquarters of Opportunity International Savings and Loans Limited; the leading provider of microfinance in Ghana is located in Accra. A review of various Opportunity International Savings and Loans-Ghana annual reports (Opportunity International Savings and Loans Limited-Ghana, 2011 and; Opportunity International Savings and Loans Limited-Ghana, 2012) indicated that close to 60 per cent of all lending to microenterprise are conducted in Accra. The bank's products designed for micro-entrepreneurs are all implemented in Accra. These include products such as ; susu loans, individual loans, group loans, adeyhe loans, opportunity mobile bank, agric micro loans, housing loans, education loans, fix term deposits, savings accounts, current accounts, obrapa insurance and opportunity E-zwitch POS.

The target population and study units of analysis were microenterprises that mainly processed food, retailed body and cosmetic wares and other provisions in three suburbs of Accra. Namely; Odorkor, Circle and Dome (**Table 4.2**). Circle is located in the centre of Accra and was selected to represent an urban area in the research due to its high literate population, proximity to infrastructure and markets. Characteristics of a lack of access to basic infrastructure such as; markets, quality education, adequate shelter and healthcare were found to be present in Dome and Odorkor. According to Swastika and Supriyatna (2008) a lack of the above resources in an

area may demonstrate presence of poverty and in most cases considered a rural area. Therefore, Ordorkor and Dome were selected to represent rural areas in the study. Extrapolation of microfinance data from different context especially, urban and rural areas provides for the understanding of rural and urban dynamics impact on microenterprise development (Fan, et al., 2005).

Table 4. 2: Location of Respondent Business

	Table 4. 3: Location of respondent business			
	Frequency	Percent	Valid Percent	Cumulative Percent
Odorkor	47	35.1	35.1	35.1
Circle	36	26.9	26.9	61.9
Dome	51	38.1	38.1	100
Total	134	100	100	

Source: Fieldwork data, 2014

4.6.3 Pilot Study

To ensure the research questionnaire solicited the right information for this study the researcher carried out a pilot survey involving 6 microenterprises. The experimental data collected with the pilot questionnaire was analysed to verify the understanding of the questions by respondents and the understanding of the results by the researcher. The pilot test resulted in corrections and adjustments been implemented to ensure the questionnaire was appropriately designed to collect sufficient information to effectively conduct this research. The field work for the test study was carried out as explained below;

Microenterprises survey: A pilot study survey was conducted using a questionnaire to collect data on Microenterprises relating to credit, employee training, savings and social capital. The researcher, in collaboration with some representatives from the selected microenterprises administered one questionnaire each to the microenterprises. In total, six questionnaires were completed by the microenterprises and analysed. Administering of the pilot study questionnaire resulted in the following adjustments to the main questionnaire that was used for this research. (1) The distinction between permanent employees and casual workers in Part B of the

questionnaire was provided. (2) Questions that aimed to collect information on microenterprise incomes and expenditures were now restructured to provide answers in ranges or scales. For instance, using ranges such as “between 500-100 Ghana cedis” instead of “500 Ghana cedis”. (3) Questions that aimed to collect information on micro-entrepreneurs’ age were also restructured to provide answers in ranges or scales as in the case of the second point. (4) Part G of the questionnaire was included to collect information on the future growth and challenges of microenterprises.

4.7 Section Six: Statistical Design

3. 7.1. Types and Sources of Data

Two major types of primary data were collected in this research study. These were quantitative and qualitative data. A structured questionnaire survey was used to collect the quantitative data from microenterprises in the retail and food processing sectors in Ghana to analyse microfinance impact. Semi-structured in-depth interviews were used to collect the qualitative data from MFI’s and some microenterprises for evaluation and providing explanations for impact outcomes implications on the use of microfinance.

4.7.2 Sampling Strategy

The purpose of this research study is to investigate the impact of microfinance on microenterprises in Ghana. Therefore, a number of cases relating to microfinance and microenterprises activities was sampled and examined for the probability that provision of microfinance ensures microenterprise development. A purposive sample of microenterprises was drawn from the data base of Opportunity International Savings and Loans Limited. The use of purposive sampling by Ssewanyana (2009) in Uganda and Alabi, et al. (2007) in Ghana showed that similar studies using purposive sampling can overcome the lack of accurate and up-to-date sampling frames in Ghana.

Essentially all empirical research questions that are answered using survey data require some estimate of sample variance (Jolliffe, 2001). This estimate of sample variance assists the researcher to determine whether any identified changes in the microenterprises are affected by these variances. Thus, the sample frame for this

study was crafted into a total of two strata to provide a sample variance for the study. The stratum was divided into business sector and size of microenterprise as used by Afrane (2002) in his study of the impact of microfinance interventions in Ghana and South Africa.

In deciding which microenterprises to include in this study, the researcher applied only the second parameter in the criteria proposed by the National Board for Small Scale Industries (NBSSI) for identifying microenterprise in Ghana- “fixed asset and number of employees” criteria. This is because according to Abor and Quartey (2010) it is difficult to value microenterprise’s fixed assets in Ghana due to the continuous depreciation of the “Ghana Cedis” against other major foreign currencies. The eligible population for this research therefore included; microenterprises with not more than nine employees and registered with the National Board for Small Scale Industries (NBSSI); the Ghana governmental agency responsible for the promotion and development of microenterprises and; microenterprises supported by Opportunity International Savings and Loans Limited. The microenterprise should have been supported by the bank for at least three years. Some selected bank managers that have worked for Opportunity International Savings and Loans Limited for at least three years were also interviewed.

Considering the cost associated with travel time when conducting surveys especially involving large geographical areas like Accra, the researcher believed that a sample size of 3 to 5 per cent of the eligible population (2680 Opportunity International supported microenterprises in Accra) is sufficient to provide reliable outcomes (Walonick, 1993). EDA Rural Systems have conducted several microfinance studies and concludes that, a sample size of up to 127 for a microfinance investigation is appropriate for a field trip of five days, and at a moderate cost (Sinha, 2006). Therefore, the sample size was derived from a population of qualified microenterprises using the binominal theorem below.

$$\text{Formulae: } N = \frac{Z^2 \times P \times (1 - P) \times D}{E^2}$$

Where:

N= Estimated minimum sample size

Z= Anticipated confidence level

P= Anticipated proportion measured

D= Design effect (value estimated to compensate for deviation from sample)

E= Precision or margin of error

The following values are appropriate to estimate a minimum sample size, **N**, for given confidence level and precision in a social rating study and analysis.

- Z= 1.96 to give a confidence level of 95%
- P= 0.33 in estimating a minimal sample size in a social rating analysis
- D= 1.5 for social ratings such as poverty assessments
- E= 0.1 for poverty assessments studies

Thus:

$$\begin{aligned} N &= \frac{1.96^2 \times 0.33 \times (1 - 0.33) \times 1.5}{0.1^2} \\ &= \frac{3.8416 \times 0.33 \times 0.67 \times 1.5}{0.01} \\ &= \frac{1.27}{0.01} \end{aligned}$$

$$N = 127$$

The detail criteria guiding the purposive sampling for selecting microenterprises and Opportunity International bank branches in Odorkor, Circle and Dome for the study are provided in the **Table 4.3** below;

Table 4. 3: Guidelines for Selecting Sample Areas

Criteria	Sample Area		
	Odorkor	Circle	Dome
Are microenterprises supported by Opportunity International for at least the last three years available in this area	Yes	Yes	Yes
Are Opportunity International bank branches available in this area	Yes	Yes	No
Are business activities in this business centre high, moderate or low	Moderate	High	Moderate
Does this area present new business opportunities or market channels for further investments	Sometimes	Most of the time	Sometimes
Is this area a suburb of Accra	Yes	Yes	Yes
Is this area considered urban or rural urban settlement	Rural urban	Urban	Rural urban
Is infrastructural development available in this area to support microenterprise development (e.g. Decent market space or office space, electricity, water, roads etc.	Yes, available but limited	Yes, available	Yes, available but limited

Source: Author, 2014

4.8 Section Seven: Operational Design

4.8.1. Study Variables

This research study aims to establish a relationship between two variables; microfinance (independent variable) and microenterprise development (dependent variable). In all there were four attributes identified for the independent variable (microfinance); Credit, savings, training and social capital. Thus, the following variables were investigated in this research study;

Credit and Savings

- Duration with the microfinance scheme
- First amount you received from MFI
- Use of loan
- Conditions for the loan
- Operation of savings account
- Types of credit models used
- How microenterprise are engaged in selection of models

Education and Training

- Number of employees' that have participated in training activities
- Trainings organised for microenterprise by MFI
- Training organised by microenterprise
- Relevance of training

Social Capital

- Microenterprise membership with trade association
- Who introduced the business to this trade association
- Membership strength of the trade association
- Operational activities of trade association
- Relevance of activities to microenterprise

4.8.2 Framework for measuring microfinance impact on microenterprise development

Consistent with the conceptualisation of microenterprise development from the literature reviewed, microfinance impact was measured based on the framework given in **Figure 3.4**. The focus of interest was on credit, savings, social capital and training.

4.8.3. Operationalisation and Measurement of the Impact Variables

In this research study provision of microfinance was the independent variable. Thus, the deserved use of credit, savings, training and social capital could lead to microenterprise development. Microenterprise development was the outcome of interest with the following indicators drawn from the literature reviewed to represent the dependent variable; Increased capital stock, Increased gross revenue and Increased employment.

The **Table 4.4** below further explains how the dependent variable attributes and outcomes were defined, solicited and measured.

Table 4. 4: Operational Framework for Variable Measurement

Attributes	Definition	Indicators	Source
Credit	<ul style="list-style-type: none"> • Loan size • Use of loan 	<ul style="list-style-type: none"> ○ Using credit to set up new businesses ○ Positive correlation between access to credit and investment in business activities ○ More secure access to, and better management of funds ○ Are there adverse structures that prevent access to credit 	<ul style="list-style-type: none"> • Microenterprise • Microfinance institutions
Savings	<ul style="list-style-type: none"> • Number of savings accounts 	<ul style="list-style-type: none"> ○ Direct support to assets accumulation through MFI's ○ Conditions and type of savings accounts ○ Facilities attached as incentives to savings like, interest rates 	<ul style="list-style-type: none"> • Microenterprise • Microfinance institutions
Training	<ul style="list-style-type: none"> • Skills acquisition • General management 	<ul style="list-style-type: none"> ○ Are there adverse structures that prevent the accumulation of human capital ○ Acquisition of relevant skills that improve business growth prospects ○ Improved access to high-quality business education like seminars ○ Direct and indirect 	<ul style="list-style-type: none"> • Microenterprise • Microfinance Institutions

		support from MFI`s for building human capital	
Social Capital	<ul style="list-style-type: none"> • Network diversity • Network size • Bonding 	<ul style="list-style-type: none"> ○ Ability to seek and use business information ○ Equitable access to competitive markets ○ Membership to umbrella bodies ○ How efficient and accessible are these umbrella institutions ○ Roles and responsibilities of unions 	<ul style="list-style-type: none"> • Microenterprise • Microfinance Institutions

Source: Author, 2014.

With respect to measurement, if all other things necessary for microenterprise development are sustained by a microenterprise for a three years period. For instance, interest rates on loans from MFI`s are maintained at a fixed rate then, any increase in capital stock, gross revenue and number of employees (with relevant skills) indicates a positive outcome of microfinance impact. Since according to Alabi, *et al.* (2011) most financial institutions in Ghana use the above outcomes as the basis for credit worthiness to allocate resources to businesses, these outcomes should be a basis for proof of microenterprise development.

4.8.4 Methods of Data Collection

Earlier research (Annim, et al., 2008 and Lindvert, 2006) on microenterprise financing in Ghana and elsewhere (Irwin and Scott, 2010) have demonstrated that questionnaire surveys are essential instruments for data collection, particularly, De la Torre, et al. (2008) in their study of financial institutions involvement with microenterprises, first used a questionnaire survey to collect data on the relationship

between the two institutions and followed up with an interview survey to further probe and explain the reasons for the relationships. Thus, a survey consisting of a questionnaire and in-depth interviews involving microenterprises and MFI's in Ghana was implemented by the researcher who only sort to observe the questionnaire survey to avoid any potential ethical problems that might arise from the investigators interference.

The questionnaire Survey: The questionnaires were administered from December, 2012 to February, 2013 in Accra. In all 134 structured questionnaires were completed by microenterprises. Data on their increase access to credit, new business skills and techniques, new investments, change in total turnover and number of employees were collected. 70 of the questionnaires were self-administered. The rest of the questionnaires (64) were administered with the assistance of loan officers from Opportunity International Savings and Loans Limited who had previous experience in administering similar questionnaires. Before leaving for the field, the loan officers were all taken through the content of the questionnaire and the objectives of the study.

The questionnaire had five parts. The first part covered introduction and instructions on answering the questionnaire. The opening statement in the questionnaire informed the participants that the study involved a research and participation is voluntary. An explanation of the research, expected duration of the participants' participation, a description of the procedures to be followed, how the findings will be reported, potential benefits from the study and affiliation of the researcher were included in the statement. It further informed participants about their right to discontinue participation at any time for any or no reason without penalty or loss of benefit where this was applicable. The questions were grouped into topics in a logical sequence to allow an easy flow from one question to the other. The first section was labelled as Part A. This part mainly solicited information on the profile of microenterprises. The second section which is Part B solicited data on microenterprises access to credit and savings. Part C focused on microenterprises access to training. The fourth part which is D solicited information on social capital. Finally, the part labelled E was used to collect data on the challenges and future of financial services for microenterprises. Most parts of the questionnaire consisted of

closed or prompted questions with pre-coded answers that required a mix of multiple and single responses. This made it easier to process the questionnaire using SPSS.

Semi-structured Interview: The questionnaire survey was followed up with semi-structured interviews of 9 selected MFI's branch managers and 10 microenterprises in November, 2013. The in-depth interviews build on the responses from the questionnaires and probed for further avenues of enquiry that had not been clarified by the questionnaire survey. During the semi-structured interviews participants were allowed to change the course of the conversation so new issues that the researcher did not preconceived were brought up. The outcomes helped in the triangulation of data and the verification of findings from the questionnaire. The in-depth interview was structured as follows;

Microfinance institutions semi-structured interviews: An interview guide was constructed to guide the researcher and the participants (from Opportunity International Savings and Loans Limited and microenterprises) in the discussions. The discussions centred on operations of Opportunity International Savings and Loans Limited and; microenterprise access to credit, savings, business training and social capital . The qualitative data collected generate adequate outcomes for qualitative analysis to the point of saturation. In total, three branches of the bank in Accra (see table 11) were visited. Three representatives from each branch were interviewed by the researcher. Some ten microenterprises were interviewed earlier. The interviews lasted for forty-five minutes to an hour.

4.8.5 Data Analysis

According to Garbarino and Holland (2009) data analysis of microfinance impact investigations should focus on ensuing data are merged sufficiently to improve analysis. The study data was therefore both quantitative and qualitative. As an indicator – based method, the idea was to collect data of microenterprises involved in microfinance projects. The objective of the approach is to construct a multi-dimensional data to allow for easy establishment of the relationship between provision of microfinance and microenterprise development.

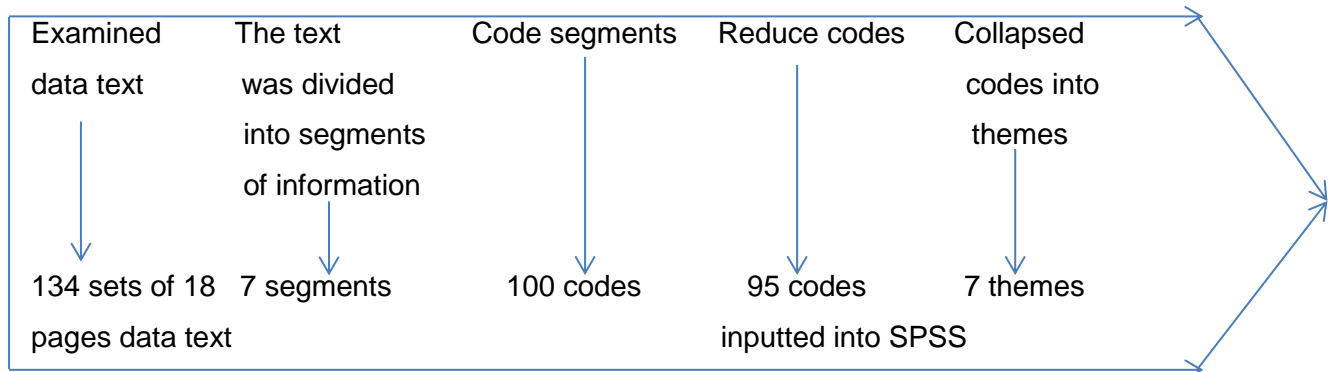
Secondary data from the reviewed literature: The first phase of analysis constituted data collected from a review of secondary sources. Documented evidence of microfinance structures and processes that impact microenterprise development in Ghana. These include policy directives from the Ghana Government Microfinance and Small Loans Scheme Centre (MASLOC). A review of initiatives and funding mechanism from donor agencies like; the USAID “ADS chapter 219- Microenterprise Development” on facilitating access of microenterprises to loan and equity finance in Ghana. That apart a PESTEL analysis was conducted to ascertain the political, economic, social, technological and environmental factors that impact microenterprise development in Ghana. This entire review was carried out with the aim to achieve the following: (a) To identify the relevant literature on microfinance impact variables as it pertains in Ghana for data collection and analysis. (b) To identify relevant literature on microenterprise activities in Ghana. (c) To identify other literature and variables that will inform the design of data collection instruments and strategies; specifically relating to impact of microfinance on microenterprise development in Ghana and their measurement thereof. (d) Identification of institutions for administering of the questionnaire survey and in-depth interviews.

Quantitative Analysis: The quantitative data was any information that was numeric in nature and mainly emanated from the questionnaire responses. These included the microenterprises response on savings and credit, training, social capital and future credit challenges for microenterprises.

Irwin and Scott (Irwin and Scott, 2010) have demonstrated that SPSS data set analysis can be successful in microenterprise development survey especially, when the surveys data is to be analysed using linear regression to answer research questions and to derive a conceptual model. Therefore, all the data collected with the questionnaire were cleaned, coded and entered into SPSS for analysis (**Figure 4.2**). A sequential analysis approach was considered appropriate and was thus, adopted by the author to statistically analyse the questionnaire response (see discussions in: Mingers, 2001). The quantitative data was analysed and interpreted with the aid of descriptive statistics, and presented with tables and graphs using total scores and simple percentages. This provided background interpretation of categorical variables

such as; marital status, gender, employment, education, location of business and the nature of business.

Figure 4. 2: Quantitative Data Coding Process



Source: Creswell (2013)

Consistent with the research questions and objectives a chi-square test and ANOVA analysis are used to compare the emerging variances in the profiles of micro-entrepreneurs and microenterprise to determine how each variant affects the capacity of microfinance for microenterprise development. In view of the aim to establish the relationships between provision of microfinance and microenterprise development, a regression analysis was conducted to establish how the outcome variations in the microenterprises (dependent variable) depended on the provision of microfinance (independent variable). Both Seber and Lee (2012) and Montgomery, et al. (2012) have suggested that regression analysis is most suitable for analysing data in a study that intends to observe the effect of an independent variable. The measure of relationship between provision of microfinance and microenterprise development was determine with a Pearson r statistical test. A statistical triangulation schematic (**Figure 13**) was used to illustrate most of the predicted relationships between microfinance and microenterprise development. All the interpretations reached on statistical significance are made at a 0.05 significance level (**Table 4.4**).

Table 4. 2: Chi Square Distribution: Probability level

Df	0.5	0.10	0.05	0.02	0.01	0.001
1	0.455	2.706	3.841	5.412	6.635	10.827
2	1.386	4.605	5.991	7.824	9.210	13.815
3	2.366	6.251	7.815	9.837	11.345	16.268
4	3.357	7.779	9.488	11.668	13.277	18.465
5	4.351	9.236	11.070	13.388	15.086	20.517

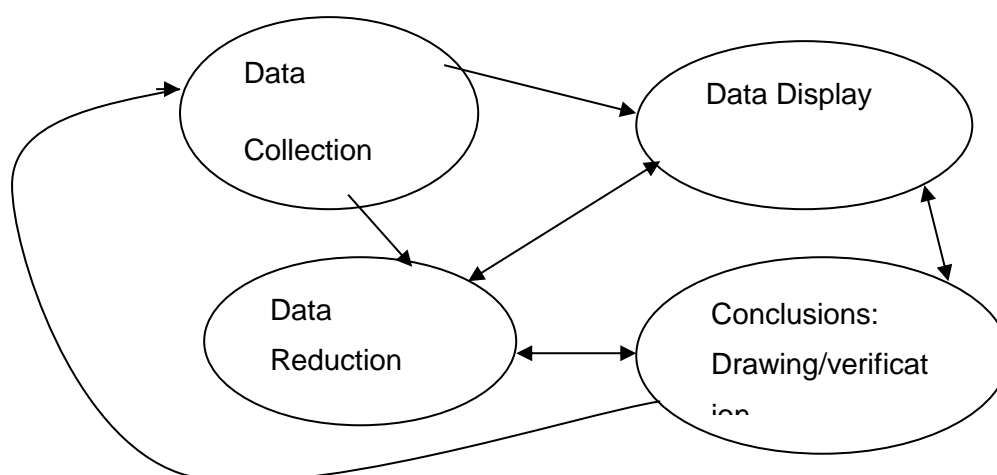
Source: Steel and Torrie (1980)

Qualitative Analysis: The qualitative data in this research is information that is not numeric in nature and come in the form of or through face-to-face interviews, audio recordings and written notes. The aim of the research was to capture the lived experiences of MFI`s, microenterprises and the meaning respondents gave these experiences from their own perspective (Corti, 2013).

According to Hsieh and Shannon (2005) three techniques of qualitative content analysis that is; conventional content analysis, directed content analysis and summative content analysis have major differences that are worthy to note in a microfinance research. In particular, the differences in their coding schemes, origin of codes and threats to trustworthiness. Zang and Wildemuth (2009) have acknowledged that among these three techniques, directed content analysis is appropriate for researches that begin analysis with previous research findings as guidance for initial coding. Findings from Herrera and Braumoeller (2004) are similar; they to suggest that direct content analysis is suitable for analysing interview transcripts to confirm relationships of variables that have been pre-investigated. This view is consistent with the interpretive approach of this research. Against this background, this research study used semi-structured interviews as the instrument for qualitative data collection and direct content analysis to analyse and interpret the data.

An interactive process was adopted for the qualitative data analysis (**Figure 4.3**). This ensured that the data analysis followed an eclectic process that occurred simultaneously and interactively with the data collection, interpretation and writing of findings (Creswell, 2012).

Figure 4. 3: Interactive Process

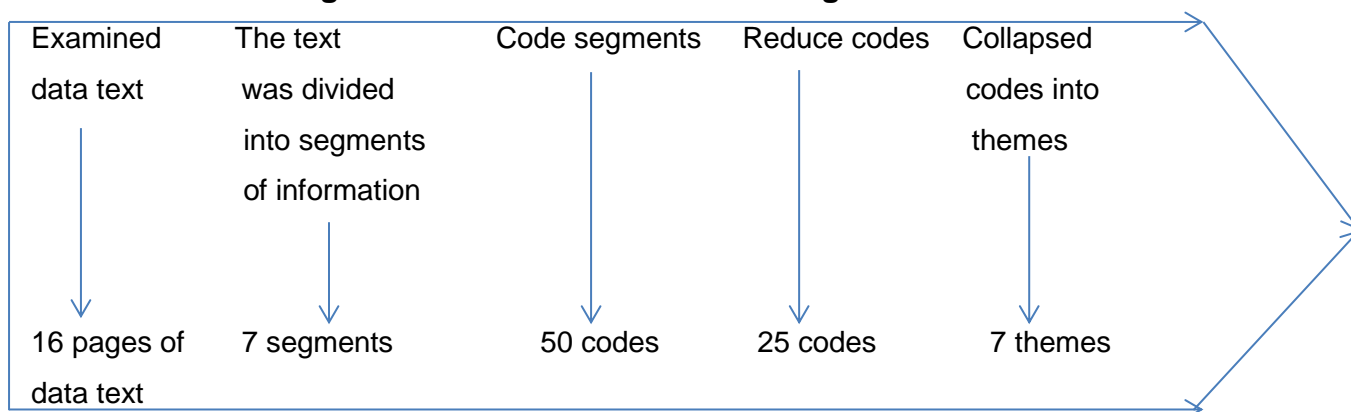


Source: Miles and Huberman (1994)

Data on the performance of MFI's and their contributions in terms of providing access to credit, savings, training and social capital for microenterprises was collected. The interviews were not transcribed literally but presented only in a summary. A preliminary exploratory analysis was performed on the data and outcomes compared with the quantitative results to get a general sense of the data.

Since the research aimed to explain or verify the existing relationships between the provision of microfinance and microenterprise development, a deductive coding system as illustrated in **Figure 4.4** was followed. Individual themes starting with those from the quantitative analysis constituted the coding units. The size of text did not matter in assigning a code segment as long as the text represented a single theme or issue that is relevant in explaining the relationships found in the quantitative analysis.

Figure 4. 4: Qualitative Data Coding Process



Source: Creswell (2012)

The data analysis process was based on the data reduction and interpretation. According to Tesch (1990) this process enables a researcher to move back and forth between generating concepts and data collection. Through reduction and interpretation the researcher was able to point to relevant data sources that addressed the research questions (Miles, 2003).

There was a constant reflection about the personal meaning of the data. This involved comparing and contrasting personal view points with the literature. A comparison of findings from both the quantitative and qualitative analysis was then conducted to explore and provide clarity in the analysis. The theories generated from the quantitative analysis in the first phase of the analysis were modified within the course of the data analysis as new categories emerge (Miles and Huberman, 1994). Conclusions from the coded data were then reported at this stage. This involved establishing relationships between microenterprise development and savings, loans, business training and social capital. The properties and dimensions of these categories were analysed to uncover patterns of relationships. Emerging models and theories from the microfinance literature were tested against the entire data collected. Since the main aim of the analysis was not to present statistical significance and counts, some quotations were used to justify reasons provided for relationships between microfinance provision and microenterprise development. However, some statistical tables were employed to a limited extent to present the qualitative data.

4.9 Section Eight

4.9.1 Concerns for Validity and Reliability

Podsakoff, et al. (2003) referred to validity in research as “constructive validity”. Constructive validity in their view involves how researchers formulate their research questions and hypothesis to guide them determine what data is required in the research and how this data is to be gathered. In this context, Morse, et al. (2008) argued that validity determines whether a research study has actually measured what it says it wants to measure. His view is similar to Mitchell (2012) who suggests that validity supports a researcher to determine how truthful research results are in comparison to the objective for which the research was conducted.

According to Hassan, et al. (2011) the presence of non-compliance practices, spill-overs, attrition and externalities are common with microfinance impact studies. In order for impact investigations to establish a valid estimate of intervention impact, the study participants must remain unchanged from their original design throughout the study. However, this is fairly difficult to achieve because it is not possible to have full control over the behaviour of participants in the research. Some participants may not contribute actively as required by the research design or even choose to drop out of the study before the investigation is completed. Either of these situations according to Baland, et al. (2008) has the potential of threatening the original research design, and will therefore reduce the statistical power or validity of the estimation.

On the other hand, Cohen, et al. (2011) have argued that if a research population is sufficiently represented in a research and the study results thereof, are consistent over time, then such a study is reliable. In the same way, where a similar methodology is used to revisit an existing study and the same results are produced, the research instruments may be considered as reliable (Hayes and Krippendorff, 2007). In this regard, Golafshani (2003) argued that embodied in reliability is the idea of repeatability of results or observation. For which Riege (2003) concluded that the consistency with which questionnaire items are answered or individual scores remain relatively the same (measure of stability) can be determined through a test-retest process. The aim of test-retest is to conduct a study more than once to determine the stability in the research results. According to Downing (2004) similar or repeated

results achieved through this test process shows the research results are stable and reliable. Therefore, in this research study some measures were employed to ensure the repeatability of the same results at different times. Additionally, the researcher followed some measures proposed by Banerjee, et al. (2013) to ensure the research outcomes were truthful and valid.

Firstly, a pilot study was conducted to test-retest the questionnaire to ensure similar results were achieved.

Secondly, the researcher personally conducted all the in-depth interviews to ensure there was consistency in the research process that was followed and the data that was collected. In doing so, the researcher listened attentively to the interviewees during the in-depth interviews without interrupting them. Probing questions were also asked where answers didn't appear to be clear or concise. The interviews were tape recorded and listened to over and over again by the researcher to ensure there was consistency in how the qualitative data collected was understood and interpreted.

Thirdly, to ensure accuracy of findings, the researcher created and shared a summarised study report, highlighting the most interesting results, with participants and requested their feedback. The participants were also debriefed by the researcher upon completion of the questionnaire.

Fourthly, the researcher protected the truthfulness of the data collected by implementing the following precautionary measures. (a) In order to gain permission from participating institutions to conduct the research, the researcher submitted to the microenterprises and Opportunity International (Ghana) a letter of introduction from Birmingham City University which stipulate the researcher's affiliation, purpose of study and planned length of time in the field. (b) The research questions were audited and approved by the two supervisors to eliminate any questions that may be of potential detriment to participants. (c) The participants were provided with the same procedures to fill-out the questionnaires. (d) The same amount of time, importance and assistance was allocated by the researcher to all participants. (e) The researcher is a PhD student and not in active practice. Therefore, the dual role of practitioner and researcher did not arise. (f) The researcher used his personal contacts to ease entry. This made participants within the microenterprises and MFI's to relax and to speak freely. (g) To protect the anonymity of participants in the final

write-up and in field notes. All the data collected were immediately converted into electronic versions with all files on the computer “pass worded”. Whilst, all hard copies with data collected from participants locked up in a safe. Names and addresses or any information that may result in the easy identification of participants were anonymised.

4.10 Section Nine

4.10.1 Conclusions

This chapter provided the research methodology and procedure used in conducting this research study. A mixed method research design was adopted for this study. The research investigation was carried out in three suburbs of Accra, the capital city of Ghana. In all, 134 microenterprises were interviewed using a questionnaire survey to collect quantitative data. This was followed with an in-depth interview of 9 branch managers from Opportunity International and 10 microenterprises for the qualitative data. Using linear regression analysis, the quantitative data was analysed with SPSS to establish the relationship between the provision of microfinance and microenterprise development. The qualitative data from in-depth interviews was then analysed using directed content analysis to explain the relationships established in the linear regressions conducted. Measures employed to ensure the validity and reliability of the research results are also provided. The results and outcomes of this research study are analysed and discussed in the next chapter.

CHAPTER 5

5.0. ANALYSIS AND DISCUSSION

This chapter consist of analysis and discussion of findings that emerged from the quantitative and qualitative data collected from the field study. The multiple perspectives of microfinance impact on microenterprise development that were presented by the respondents are analysed with statistical and qualitative techniques. SPSS is used to manipulate the quantitative data to determine the forms and nature of relationships between microfinance and microenterprise development. Directed qualitative content analysis is then used in the triangulation of the qualitative data that explained the associations and nature of relationships that were found to exist between the variables identified in the literature and explored in this research (**Figure 3.4**). The outcomes of the analysis enabled the study to answer the research questions thereby, fulfilling the aim and objectives of this microfinance impact investigation. The chapter is divided as follows; (1) profile of micro-entrepreneurs (2) profile of microenterprise (3) credit and savings (4) education and training (5) social capital (6) microfinance models used by MFI`s (7) design of microfinance model (8) future microenterprise growth and obstacles (9) conclusions.

Results from questionnaire survey

5.1 Profile of Micro-entrepreneur

By way of overview, an analysis of the micro-entrepreneurs profile is carried out using statistical and qualitative analysis techniques, on both the quantitative and qualitative data collected from the three suburbs (Circle, Ordokor and Dome) of Accra; the capital city of Ghana. Characteristics of the micro-entrepreneurs surveyed such as; age, gender, marital status, level of education, bread winner of family, sources of other income and previous occupation are analysed and described below (**Table 5.1**).

5.1.1: Age and Gender

Table 5.1 compares experimental data on age of the micro-entrepreneurs and their membership to Microfinance Institutions (MFI`s). The results obtained showed that micro-entrepreneurs between the ages of 31 to 40 years old were the majority (35.8%) surveyed in this research. The age distribution of respondents between 31

and 40 years in the three business areas surveyed are presented as follows: Circle (19 respondents); Dome (17 respondents) and Odorkor (12 respondents). The second age category with the highest number of respondents surveyed is the 41 to 50 years old bracket (31.3%). 22 of the 41 to 50 years old respondents are located in Dome; 12 in Circle and 8 in Odorkor. The third highest age category was found to be those between 20 to 30 years (17.9%). Odorkor (15) recorded the highest number of respondents in this age range, followed by Dome (5) and Circle (4). The fourth ranked age category is made up of 9 respondents (6.8%). All the micro-entrepreneurs within the 9 years age group are located in Odorkor. For those micro-entrepreneurs that are aged 51 to 60 years old, they are found in Dome (5 respondents) and Odorkor (3 respondents); they constitute 5.9% of the respondents in this survey. The age category with the least recorded number of respondents in this research was for the 60 years old and above. The age distributions for this category are; Dome 2 respondents (3.9%) and Circle 1 respondent (2.8%).

Table 5.1 further shows that majority of the micro-entrepreneurs that responded to the study questionnaire were female and represented 61.9 percent of the total respondents' population. 30 of the female micro-entrepreneurs are located in Circle; 29 are located in Dome and 24 in Odorkor. The remaining 38.1 percent of the respondent population are male and are also located as follows; Odorkor (23 micro-entrepreneurs); Dome (22 micro-entrepreneurs) and Circle (6 micro-entrepreneurs).

Table 5. 1: Profile of Micro-entrepreneur

Variables	Location of Micro-entrepreneur			Total
	Odorkor	Circle	Dome	
<u>Age</u>				
< 20	9 (19.2)	0	0	9(6.8)
20-30	15(31.9)	4 (11.1)	5(9.8)	24(17.9)
31-40	12(25.5)	19(52.8)	17(33.3)	48(35.8)
41-50	8(17)	12(33.3)	22(43.2)	42(31.3)
51-60	3(6.4)	0	5(9.8)	8(5.9)
>60	0	1(2.8)	2(3.9)	3(2.3)
Total	47(100)	36 (100)	51(100)	<u>134(100)</u>
Gender				
Female	24(51.1)	30(83.3)	29(56.9)	83(61.9)
Male	23(48.9)	6(16.7)	22(43.1)	51(38.1)
Total	47(100)	36(100)	51(100)	<u>134(100)</u>
<u>Marital Status</u>				
Single	14(29.8)	6(16.7)	6(11.8)	26(19.4)
Married	29(61.7)	23(63.8)	26(50.9)	78(58.2)
Divorce	4(8.5)	6(16.7)	11(21.6)	21(15.7)
Widowed	0	1(2.8)	8(15.7)	9(6.7)
Total	47(100)	36(100)	51(100)	<u>134(100)</u>
<u>Level of Education</u>				
None	15(32)	2(5.6)	18(35.3)	35(26.1)
High school	17(36.2)	30(83.2)	30(58.8)	77(57.5)
Diploma	8(17)	2(5.6)	2(3.9)	12(8.9)
Degree	7(14.8)	2(5.6)	1(2)	10(7.5)
Total	47(100)	36(100)	51(100)	<u>134(100)</u>
<u>Bread Winner</u>				
Yes	27(57.4)	16(44.4)	30(58.9)	73(54.5)
NO	19(40.4)	7(19.5)	4(7.8)	30(22.4)
No but contribute to family up keep	1(2.2)	13(36.1)	17(33.3)	31(23.1)
	47(100)	36(100)	51(100)	<u>134(100)</u>

<u>Other Income</u>				
None	22(46.8)	23(63.9)	15(29.4)	60(44.8)
Salary	20(42.6)	0	3(5.9)	23(17.2)
Others	5(10.6)	13(36.1)	33(64.7)	51(38)
Total	47(100)	36(100)	51(100)	<u>134(100)</u>
<u>Previous Occupation</u>				
Self-employed	18(38.3)	30(83.3)	45(88.3)	93(69.4)
Farmer	10(21.3)	1(2.8)	2(3.9)	13(9.7)
Civil Servant	9(19.1)	0	2(3.9)	11(8.2)
Private Sector Employee	9(19.1)	5(13.9)	2(3.9)	16(11.9)
Retired	1(2.2)	0	0	1(0.8)
Total	47(100)	36(100)	51(100)	<u>134(100)</u>

Source: Field data analysis, 2014.

5.1.2: Marital Status

The results in **Table 5.1** indicates that close to two-thirds (58.2 percent) of the micro-entrepreneurs surveyed are married; representing 78 out of the total population of 134 micro-entrepreneurs that were surveyed using a questionnaire. A distribution of the marital status of the remaining 56 micro-entrepreneurs is as follows; 26 of the total micro-entrepreneurs surveyed are single (19.4 percent); 21 of them are divorced (15.7 percent) and 6 are widowed (6.7 percent). Out of a total of 47 micro-entrepreneurs surveyed in Odorkor, 61.7 percent are married (29); 29.6 percent are single (14) and 8.5 percent are divorced (4). None was found to be widowed. Also, in Circle data on marital status was collected from 36 micro-entrepreneurs. In circle, 23 of the stated total survey population in this area were found to be married (63.8 percent); 6 are single (16.7 percent); another 6 are divorced (16.7 percent) and 1 is widowed (2.8 percent). The largest data on marital status of micro-entrepreneurs was collected from Dome (51 micro-entrepreneurs). The table (5.1) above indicates that 26 of the micro-entrepreneurs in Dome are married (50.9 percent); 6 are single (11.8 percent); 11 are divorced (21.6 percent) and the remaining 8 are widowed (15.7 percent).

5.1.3: Level of Education

The data obtained on the analysis of micro-entrepreneurs level of education (**Table 5.1**) showed that over half (57.5 percent) or 77 of the 134 micro-entrepreneurs surveyed received high school education. 35 of the respondents received no form of formal education (21.6 percent). 12 received education up to the diploma level (8.9 percent) and 10 received degree level education (7.5 percent). In Odorkor, 17 out of the 47 surveyed received high school education (36.2 percent); 15 had no form of formal education (32 percent); 8 had diploma level education (17 percent) and 7 received degree level education (14.8 percent). In Circle, 30 of the 36 micro-entrepreneurs surveyed received high school education (83. 2 percent); 2 had no form of formal education (5.6 percent); another 2 had diploma level education (5.6 percent) and the remaining 2 had degree level education (5.6 percent). In Dome, data was collected from 51 micro-entrepreneurs on education. The statistical data displayed in (Table 5.1) showed that 30 of the micro-entrepreneurs in Dome received high school education (58.8 percent); 18 received no form of formal education (35.8 percent); 2 received diploma level education (3.9 percent) and 1 received university education (2 percent).

5.1.4: Bread Winner

The results (**Table 5.1**) with regard to bread winner in the family showed that 54.5 percent (73) of all the micro-entrepreneurs who answered the questionnaires are the main bread winners in the family. 23.1 percent (31) of micro-entrepreneurs indicated that though, they are not the main bread winners in the family they contributed directly to support the up keep of the family. The remaining 22.4 percent (30) of micro-entrepreneurs stated that they are not the main bread winners in the family and do not also contribute directly to the family up keep. Of all these, 27 out of the 47 micro-entrepreneur surveyed in Odorkor are main family bread winners (57.4 percent); 19 are not main family bread winners and do not contribute directly to support family needs (40.4 percent); only 1 micro-entrepreneur was found to contribute directly to family up keep in spite of not been a main bread winner in the family. The results for Circle showed that 16 (44.4 percent) of the total 36 micro-entrepreneurs surveyed in this business area are main bread winners in the family. The others are; 7 non-main family bread winners (19.5 percent) and 13 non-main

family bread winners but contribute to family up keep (36.1 percent). Finally, in Dome, 51 micro-entrepreneurs were investigated and the results showed that over half of this number or 58.9 percent (30 micro-entrepreneurs) of them are main bread winners in the family. 17 (33.3 percent) micro-entrepreneurs in Dome are not main family bread winners but contribute directly to the family up keep. Only 4 (7.8 percent) micro-entrepreneurs stated that they are not main bread winners in the family and do not also contribute directly to family up keep.

5.1.5: Other Sources of Income

The analysis in **Table 5.1** with respect to other income shows that 60 (44.8 percent) of all the 134 micro-entrepreneurs surveyed do not receive other income. It was found that whilst 23 (17.2 percent) of micro-entrepreneurs earned other income through salaries from other jobs, as many as 51 (38 percent) of them received other income from family members and close friends. The distribution for other incomes based on the business areas from which the data was collected is provided as follows. In Odorkor, data was collected from 47 micro-entrepreneurs. Out of which 46.8 percent (22) of the micro-entrepreneurs had no other income, 42.6 percent (20) earned salaries through their work in other jobs and 10.6 percent (5) received other income from family and close friends. In Circle 36 micro-entrepreneurs were surveyed on other income; as much as 63.9 percent (23) of this number earned no other income. The remaining 36.1 percent (13) received other income from sources such as family and close friends. None of the micro-entrepreneurs in Circle earn salary from other jobs. Finally, it was found that of all the 51 micro-entrepreneurs surveyed in Dome, 29.4 percent (15) of this number did not have other income, 5.9 percent (3) receive other income through salaries from other jobs and 64.7 percent (33) receive other income from family members and close friends.

5.1.6: Previous Occupation

With regard to previous occupation, data results in **Table 5.1** shows that close to three-quarters (93 or 69.4 percent) of all the 134 micro-entrepreneurs surveyed has always being self-employed. 9.7 percent (13) were farmers, 8.2 percent (11) were civil servants, 11.9 percent (16) were other private sector employees and 0.8 percent (1) of the micro-entrepreneurs were retired from other sectors of work. In Odorkor data was collected from 47 micro-entrepreneurs on their previous occupation. 18

micro-entrepreneurs were previously self-employed (38.3 percent); 10 micro-entrepreneurs were previously farmers (21.3 percent); 9 were previously civil servants (19.1 percent); another 9 were previously other private sector employees (19.1 percent) and 1 was previously retired from other sectors of work (2.2 percent). The data for Circle showed that almost all (30) of the total 36 micro-entrepreneurs surveyed were previously self-employed (83.3 percent). The remaining were either previously farmers (2.8 percent) or other private sector employees (13.9 percent). In Dome, 45 (88.3 Percent) out of the total 51 micro-entrepreneurs from which the data on previous employment was collected stated that they have always being self-employed. 2 of the micro-entrepreneurs (3.9 percent) stated that they were previously famers; another 2 indicated that they were previously civil servants (3.9 percent) and the remaining 2 stated that they were previously working in other private sector jobs (3.9 percent).

Results from face-to-face interviews

The researcher was interested in determining the rationale for starting a microenterprise. In order to achieve this outcome, interviewees from both the control and beneficiary groups were therefore, asked to explain their motivation for establishing microenterprises. Majority of the interviewees (Table: 5.2) from both the beneficiary and control groups reported that participation in microenterprise activities is generally motivated by a need for income. However, availability of a loan facility and other associated causes were also provided by the group members as reasons for setting up a microenterprise. Generally, microfinance analysis is focused on presence of loan as a motivation for starting a microenterprise. The probable cause for this is that micro-entrepreneurs that receive loans often experience a positive impact that motivates them to start a business (see Figure: 5.1 for microfinance impact on microenterprise activities). Nonetheless, what can be inferred from explanations of the interviewees is that the rationale for starting a microenterprise appears to be moderately shifting from credit motivation to a need for income.

Table 5.2: Reason for Starting a Microenterprises Business

Reasons	Control group	Microfinance Beneficiaries	Total
Had access to loan facility	1 (10.00)	1 (10.00)	2 (20.00)
To earn an income	3 (30.00)	4 (40.00)	7 (70.00)
Other factors	0	1 (10.00)	1 (10.00)
Total	4 (40.00)	6 (60.00)	10 (100.0)

Source: Fieldwork data analysis, 2014.

Since the interviewees reported that the purpose for starting their microenterprises was not remotely influenced by only available credit and need for income, it was important to unearth the other associated causes that may motivate the poor to set up a microenterprise. Further discussions with both the control and beneficiary groups revealed other factors for setting up a microenterprise that may have both economic and social implications too. These factors include the following;

- To improve school going rate for children in the family
- To improve healthcare for children in the family
- Not to remain idle
- To make use of one`s talent
- Absence of employment
- To save farm surplus from getting wasted
- Due to separation of couples through divorce or death

One interviewee (No.1) pointed out that:

“Because I have to help my husband to sell off our farm produce, I cook the rice from our farm harvest to sell to people in the market. Besides, selling the rice keeps me busy.”

Another interviewee (No.5) also explained that:

“I have a responsibility to provide for my children`s school fees, healthcare and food. This is even more difficult when your husband is deceased and you are left alone with the children.”

The response of interviewee No. 5 prompted the researcher to probe further about the microenterprise owner`s contribution to family upkeep. In this regard, results from

the interview discussions with the microenterprises corroborates with earlier outcomes from the questionnaire survey analysis. It was found that most microenterprise owners are generally either main bread winners or contribute to family upkeep. They provide for children school fees, healthcare, food and other incidental expenses. It is argued that microfinance approach enables the poor to bypass credit barriers to access microfinance to help them generate incomes that improve their healthcare and consumptions (Sarangi, 2014). Therefore, it is possible the ability of the microenterprise owners to contribute to household expenditure is associated to the microfinance they received. This was affirmed by an interviewee (No.4).

“I use proceeds from my microenterprise to support my family. I am grateful to the bank for giving me the loan to set-up this microenterprise.”

However, micro-entrepreneurs ability to contribute to household development without intermittent interruption in their income flow may also be personality related. This is because the interviewees indicated that aside the loan provided by the MFI, their personal initiatives and determination also contributed to the microenterprise's positive outcomes. The use of examples such as friends who collected loans from MFI's but could not put it into productive use to help them establish a sustainable income were provided as sufficient prove of lack of personal initiative and determination. Therefore, the probable causes of some microenterprise failures may be due to a lack of personal initiative and determination.

5.2 Profile of Microenterprise

A descriptive overview of the microenterprises profile is provided through the use of statistical analysis. **Table 5.3** below shows the analysed quantitative data that was collected on microenterprises size, their number of years of operation and the nature of the business they conduct.

5.2.1 Microenterprise Size

The size (**Table 5.3**) of each of the 134 microenterprises surveyed was determined based on the number of people they currently employ. Microenterprises with less than or equal to three employees (≤ 3) are categorised as lower level and those with more than three employees (> 3) are categorised as upper level Microenterprises. As

can be seen in table (5.3) 64.3 percent (85) of all the microenterprises surveyed are lower level microenterprises (≤ 3 employees) and 36.6 percent (49) are upper level microenterprises (> 3 employees). In the Circle business area, data was solicited from 36 microenterprises, the test results indicated that 23 microenterprises (63.9 percent) are lower level microenterprises and the remaining 13 (36.1 percent) are upper level microenterprises. It was found that, in Odorkor 33 (70.2 percent) of all the 47 microenterprises analysed are lower level microenterprises and 14 are upper level microenterprises (29.8 percent). There were 51 microenterprises in Dome from which data was collected about the size of the microenterprise and analysed. The results revealed that 29 of the microenterprises are lower level (56.9 percent) and 22 are upper level microenterprises (43.1 percent).

5.2.2 Years of Operation (Age)

Data on the number of years of microenterprise operation was collected from 134 microenterprises (**Table 5.3**). The microenterprises were put into two categories for purposes of analysis; those that have being operating for three years ($=3$ years) and those that have operated for more than three years (>3 years) were separated into two different groups respectively. It was found that in Circle as much as 70.2 percent (33) of the 36 surveyed microenterprises has being operating for three years and the remaining 28.8 percent (14) have existed for over three years. Whereas, 30.6 percent (11) of the total 47 microenterprises surveyed in Odorkor have operated for three years, 64.9 percent (25) have operated for more than three years. Finally, in Dome, out of the 51 microenterprises that were contacted, 49 percent (25) are three years old and 51 percent (26) are more than three years old.

5.2.3 Nature of Business

The results (**Table 5.3**) on the nature of business analysed from 134 microenterprises showed that generally majority (38.1 percent or 51) of the microenterprises surveyed retail cosmetic and cloth products. Whilst 24.6 percent (33) of the microenterprises were found to retail food stuff and cooked food and; 37.3 percent (50) microenterprises retail other groceries that are non-food items. The data from the Circle area indicates that 36 microenterprises were contacted. In all, 21 microenterprises (44.7 percent) trade in other groceries, 10 microenterprises (21.3 percent) trade in food products and 16 microenterprises trade in cosmetics and

cloths. Distributions of the 47 microenterprises surveyed across Odorkor are presented as follows: 11 microenterprises retail other groceries (30.6 percent); 10 microenterprises retailed food products (27.8 percent) and 15 microenterprises retailed cosmetic and cloths (41.6 percent). The remaining 51 microenterprises contacted are located in Dome. The results of Dome showed that 18 microenterprises trade in other groceries (35.3 percent); 13 trade in food products (25.5 percent) and 20 trade in cosmetics and cloths (29.2 percent).

Table 5. 3: Microenterprise Profile

Business Location	Microenterprise size¹		Age		Nature of Business		
	≤3 employees	>3 employees	3years	>3years	other Groceries²	Food³	Cosmetic & Cloths
Circle	23 (63.9%)	13 (36.1%)	33 (70.2%)	14 (28.8%)	21 (44.7%)	10 (21.3%)	16 (34%)
Ordorkor	33 (70.2%)	14 (29.8%)	11 (30.6%)	25 (69.4%)	11 (30.6%)	10 (27.8%)	15 (41.6%)
Dome	29 (56.9%)	22 (43.1%)	25 (49%)	26 (51 %)	18 (35.3%)	13 (25.5%)	20 (39.2%)
Total	85 (63.4%)	49 (36.6%)	69 (50.38%)	65 (49.62%)	50 (37.3%)	33 (24.6%)	51 (38.1%)

Source: Field data analysis, 2014.

¹Size of firm is determined by number of employees

²Retail non-food items

³Retail food stuff & cooked food

5.3 Analysis of Relationships between provision of Microfinance and Microenterprises Development in Ghana

In view of the objective to establish the relationships between provision of microfinance and microenterprise development (see 1.2.2), a regression analysis was conducted to establish how the outcome variations in the microenterprises (dependent variable) depended on the provision of microfinance (independent variable). Both Seber and Lee (2012) and Montgomery et al. (2012) have argued that regression analysis is most suitable for analysing quantitative data in a study that intends to observe the effect of an independent variable. Qualitative data from a follow up face –to- face interview was then used to strengthen outcomes of the quantitative test. Consistent with the study objective above one of the questions that emerged from the reviewed literature is; is there a relationship between the provision of microfinance and growth in microenterprise development in Ghana? This lead to the development of the following hypothesis:

- ◇ **H₁**: MFI's credit has a positive impact on microenterprise development.
- ◇ **H₂**: Lack of pre-loan inductions and business training has a negative effect on microenterprise performance.
- ◇ **H₃** Savings advice impacts positively on microenterprise development.

Results from questionnaire survey

5.3.1 Empirical Model and Summary Statistics

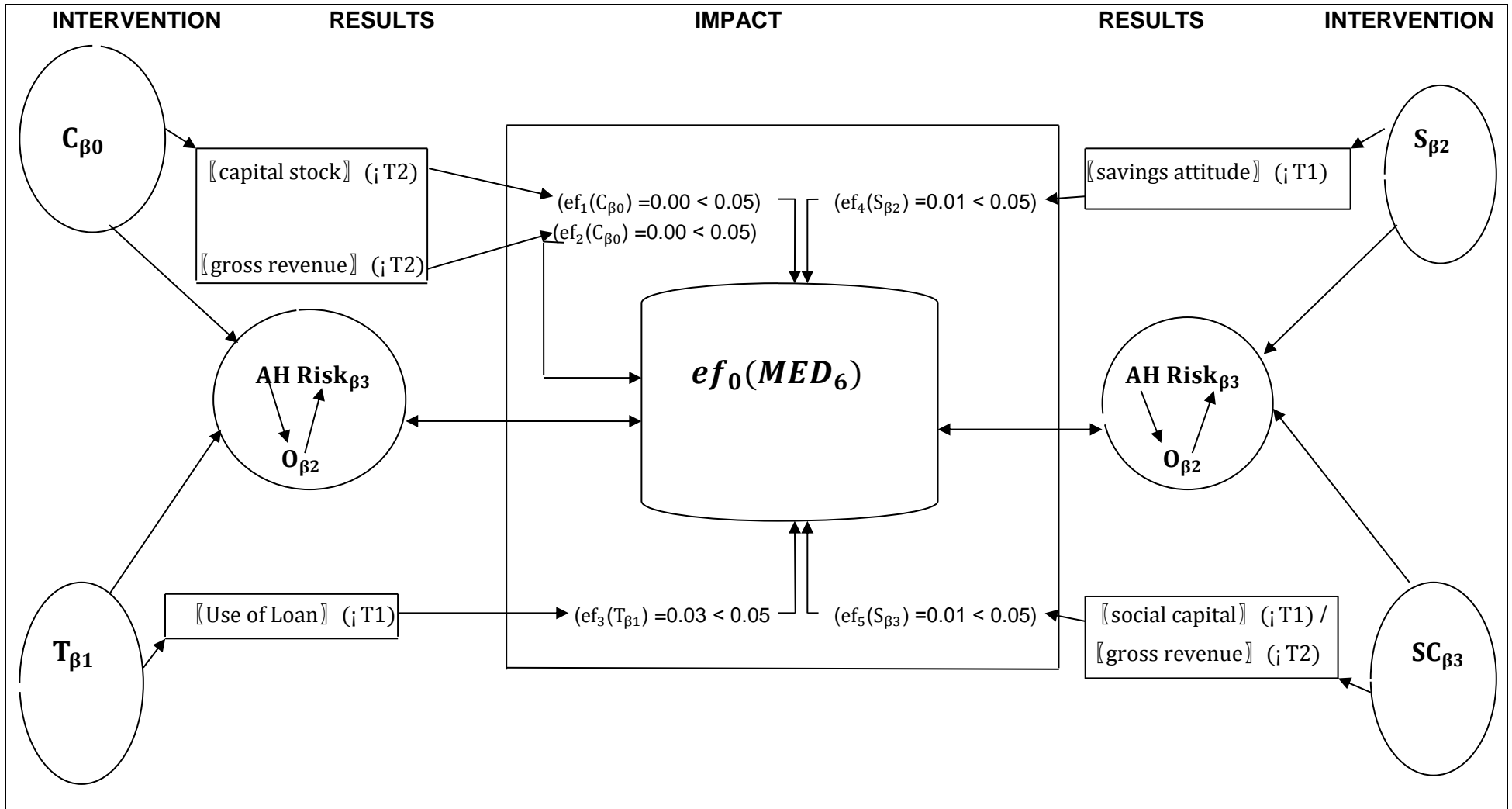
The empirical model for the regression and ANOVA analysis estimated based on the above hypothesis and the conceptual framework (**Figure 3.4**), is:

$$[(C_{\beta 0} + T_{\beta 1} + S_{\beta 2} + SC_{\beta 3})] O_{\beta 4} + AH Risk_{\beta 5} = ef_1(MED_6)$$

$[(C_{\beta 0} + T_{\beta 1} + S_{\beta 2} + SC_{\beta 3})]$ = change factors (or cause factors) controlled by the MFI. Where; $C_{\beta 0}$ =credit provided by MFI; $T_{\beta 1}$ =training provided by MFI; $S_{\beta 2}$ =savings provided by MFI; $SC_{\beta 3}$ =social capital provided by MFI; $O_{\beta 4}$ =opportunities in the business environment; $AH Risk_{\beta 5}$ =attitude of microenterprises to risk and; $ef_1(MED_6)$ = outcome effects of the six independent variables on microenterprise development.

The equation above was operationalised; the variables were then manipulated with the aid of SPSS to explore their impact on microenterprise development. **Figure 5.1** depicts a statistical triangulation of the impact analysis and results based on the empirical model above.

Figure 5. 1: Statistical Triangulation of Impact Results based on the Study Model



Source: Fieldwork data analysis, 2014. All inferential testing were performed at 0.005 significance level. Thus, all test results < 0.05 shows a significant level of the intervention impact on microenterprise development.

5.3.2 Credit

a) Impact of credit on microenterprise capital stock

In order to test for relationships between provision of microfinance and change in microenterprise capital stock, descriptive statistics was used to analyse microenterprises capital stock before the loan was provided, $[\text{capital stock}] (i T1)$ and after the loan was received, $[\text{capital stock}] (i T2)$. Five categorises of capital stock were used in the questionnaire to describe the range for which a particular microenterprise's capital stock maybe placed (less than 100Gh.c; 100-999Gh.c; 1000-4999Gh.c; 5000-9999 and 10,000Gh.c). Microenterprises with capital stock less than 99 Gh.c were classified as the lower range and those with 10, 000 Gh.c and above were capped as the upper range. This is because microenterprises in Ghana that have a capital stock of 10,000 Gh.c and above are qualified to graduate into small or medium size enterprise category. **Table A. 1** (Appendix A) shows that the capital stock category with the highest number of microenterprises (60) before the loan, $[\text{capital stock}] (i T1)$ was the 100-999 range. However, the highest category experienced a positive changed after the loan was received, 61 of the microenterprises $[\text{capital stock}] (T_i 2)$ ranged from 1000-4999. Also analysis of $[\text{capital stock}] (i T1)$ shows that 2.2% of the microenterprises were found to have capital stock ranging from 10,000 Gh.c and above. However, comparison with $[\text{capital stock}] (T_i 2)$ show a slightly positive upward move to 5.2% after the loan was received. Therefore, the descriptive analysis showed that $[\text{capital stock}] (T_i 2)$ had increased. Following this, one independent variable (credit) and one dependent variable (capital stock) were entered into a linear regression analysis; $(ef_1(C_{\beta 0}) = [\text{capital stock}] (i T2) - [\text{capital stock}] (i T1))$. Where; $ef_1(C_{\beta 0})$ was the causality found for $C_{\beta 0}$ and $[\text{capital stock}] (T_i 2)$ of the microenterprise. Based on the SPSS regression analysis relationships between credit and capital stock are predicted to be statistically significant ($ef_1(C_{\beta 0}) = 0.00$ Sig.) (**Table 5.4:** coefficient statistics). Based on the SPSS regression analysis relationships between credit and capital stock are predicted to be statistically significant ($ef_1(C_{\beta 0}) = 0.00$ Sig.) (**Table 5.4:** coefficient statistics). To unearth and explain the likelihood of the relationships found between credit ($C_{\beta 0}$) and capital

stock [capital stock] (i T2) the coefficient of determination of \hat{R} squared analysis was used, and it showed that $C_{\beta 0}$ and [capital stock] (i T2) is; $R^2 = 14.018/123.585$ (**Table 5.4:** ANOVA statistics). Therefore, $R^2 = 0.113$ (**Table 5.4:** Model summary). This suggests that about 11.3% of the variation in [capital stock] (i T2) can be explained by variability in $C_{\beta 0}$. Indeed, 11.3% was found to be too low to adequately measure the fit of the linear model. However, typically, \hat{R} Squared values lower than 50% in management researches are not surprising because given the unique nature of human behaviour, it is difficult to predict and often, microenterprises are managed by people (Mullins, 2007). Therefore, to minimise this statistical deficiency the coefficient of determination of the \hat{R} squared analysis was evaluated in conjunction with the statistical confidence value for the study ($\alpha \geq 95\%$ or $\alpha < 0.05$). As demonstrated in the analysis below, $ef_1(C_{\beta 0}) = 0.00$ significance was reported as the measure of statistical association between $C_{\beta 0}$ and [capital stock] (i T2). The ($ef_1(C_{\beta 0}) = 0.00$) significance level was then compared with the critical confidence value ($\alpha \geq 95\%$ or $\alpha < 0.005$) determined for this study. The comparison results showed that even at a margin of 1% error a perfect confidence level of $\alpha < 0.005$ will still be achieved at the $ef_1(C_{\beta 0}) = 0.00$ significance level found between $C_{\beta 0}$ and [capital stock] (i T2). This means that there is a 95% confidence the relationship reported to exist between credit provided by the MFI and the increased capital stock of the microenterprises is not due to chance. Therefore, the results support that the credit received by the microenterprises had a positive return on their capital stock.

Table 5. 4: Statistical Analysis of Change Factors Controlled by MFI

Dependent Variables	Coefficient Statistics		ANOVA Statistics		Model Summary	Correlation	($\alpha \geq 5\%$ or $\alpha < 0.005$) Results
	B	Sig.	$\sum R^2$	Sig	R^2 change	Pearson	Significance
[[capital stock]] (i T2)	1.938 .369	0.00	14.018 123.858	0.00	0.113		
[[gross revenue]] (i T2)	1.498 .389	0.00	15.607 186.209	0.01	.084		
[[use of loan]] (i T1)			8.678 78.060	0.03			
[[savings attitude]] (i T1)						0.01	
social capital]] (i T1) / [[gross revenue]] (i T2)			14.157 172.052	0.01	.082		

Hypothesis

H₁: MFI's credit has a positive impact on microenterprise development. ($ef_1(C_{\beta 0}) = 0.000 < 0.005$) ($ef_2(C_{\beta 0}) = 0.000 < 0.005$)-Accepted

H₂: Lack of pre-loan inductions and business training has a negative effect on microenterprise performance. ($ef_3(T_{\beta 1}) = 0.03 < 0.05$)-Accepted

H₃: Savings advice impacts positively on the savings attitude of microenterprises ($ef_4(S_{\beta 2}) = 0.01 < 0.05$)-Accepted

H₄: Outcomes of social capital benefits impacts positively on microenterprise performance ($ef_5(S_{\beta 3}) = 0.01 < 0.05$)-Accepted

Microenterprise size: Operates with between 1-6 employees. Microenterprises age: At least 3years or more. N=134. The independent variables of the models are; credit, training, social capital and savings. Standardised regression, correlation and ANOVA coefficients are displayed here.

Source: Field data analysis, 2014.

b) Impact of credit on microenterprise gross revenue

The impact of credit ($C_{\beta 0}$) on the microenterprises gross revenue was also tested using means and linear regression analysis. A simple means test of gross revenue before the loan ($\bar{x} = (\sum [\text{gross revenue}]_{i T1}) / (N [\text{gross revenue}]_{i T1})$) and after the loan ($\bar{x} = (\sum [\text{gross revenue}]_{i T2}) / (N [\text{gross revenue}]_{i T2})$) was computed with the aim to compare means for the two periods. When the measurements of gross revenue for the microenterprises were tested and averaged values of ($\bar{x} = 1.8582$) and ($\bar{x} = 2.3433$) were obtained for the two periods respectively (**Table 5.5**). Since the experiment was testing means gross revenue between $[\text{gross revenue}]_{i T1}$ and $[\text{gross revenue}]_{i T2}$, the results showed that the microenterprises had higher average gross revenue after the loans were received and invested on productive activities. Therefore, outcomes of the comparison analysis are that $[\text{gross revenue}]_{i T2}$ had experienced a positive upward change. Given the positive outcomes of $[\text{gross revenue}]_{i T2}$ of the microenterprise, again, $C_{\beta 0}$ (independent variable) was regressed on $[\text{gross revenue}]_{i T2}$ (dependent variable) to determine the nature of any causality found between the credit and the gross revenue of the microenterprises; ($ef_2(C_{\beta 0}) = [\text{gross revenue}]_{i T2} - [\text{gross revenue}]_{i T1}$). As shown in **table 5.4** above (coefficient statistics), relationships between credit and gross revenue were found to be significant ($ef_2(C_{\beta 0}) = 0.00$ Sig.) The same \hat{R} squared analysis was followed to unearth and explain the variation of regression relationships between credit ($C_{\beta 0}$) and gross revenue $[\text{gross revenue}]_{i T2}$. The causality found for $C_{\beta 0}$ and $[\text{gross revenue}]_{i T2}$ was based on a coefficient of determination that is; $R^2 = 15.607/186.209$ (**Table 5.4**: ANOVA statistics). Thus, $R^2 = 0.084$ (**Table 5.4**: Model summary). This suggests that about 0.84% of the variation in beneficiary $[\text{gross revenue}]_{i T2}$ can be explained by variability in the use of $C_{\beta 0}$. Similarly, the low ($R^2 = 0.084$) outcome is not surprising given the unique characteristics of the subjects involved in this study. Thus, the \hat{R} squared values were analysed together with the statistical confidence values for the study ($\alpha \geq 95\%$ or $\alpha < 0.05$). $ef_2(C_{\beta 0}) = 0.00$ significance was compared with $\alpha \geq 95\%$ or $\alpha <$

0.05. This analysis show that even at a margin of 1% error a perfect confidence level of $\alpha < 0.05$ will still be obtained for $ef_2(C_{\beta 0}) = 0.00$ significance level. Therefore, the interpretations of the findings are that there is a 95% confidence the relationship between reported [[gross revenue]] ($i T_2$) and $C_{\beta 0}$ is not due to chance. This means that a significantly positive relationship has been found to exist between the credit provided and the increase in gross revenues of the microenterprises in this study.

Thus, findings from both the capital stock and gross revenue tests have shown that provision of credit has the predicted effects on microenterprise development ($ef_1(C_{\beta 0}) = 0.00$ sig. < 0.05) and ($ef_2(C_{\beta 0}) = 0.00$ sig < 0.05). Therefore, H_1 : MFI's credit has a positive impact on microenterprise development- is accepted.

Table 5. 5: Analysis of Means between Gross Revenues

What did you use the loan for		What was your gross monthly revenue before collecting the loan (<i>Independent variable</i>)	What is your gross monthly revenue now (<i>Dependent variable</i>)
Invested in the business	Mean	1.8430	2.3388
	N	121	121
	Std.	1.10309	1.17299
	Deviation		
For both the business and domestic consumption	Mean	2.0000	2.3846
	N	13	13
	Std.	1.22474	1.32530
	Deviation		
Total	Mean	1.8582	2.3433
	N	134	134
	Std.	1.11148	1.18324
	Deviation		

Source: Field data analysis, 2014.

Results from face-to-face Interview

In order to determine whether the microfinance received in anyway impacted assets of the microenterprise and their owners, the researcher inquired from the microenterprises about their assets during the periods before and after receiving the microfinance. Consistent with the quantitative results, outcomes of the interview analysis showed that the microfinance loan had a positive impact on the microenterprise's assets performance. Indeed, the qualitative interview results showed that most of the microenterprises had none or limited assets before receiving the microfinance. In cases where there was a presence of limited assets for the microenterprise they often included; utensils, furniture, food processing machines with limited processing capacity, electric/gas cooker and canopies. Asked whether their assets had experienced any positive increase after receiving the microfinance, the beneficiary microenterprises replied in the affirmative. According to one of the interviewees (No.2) the microenterprise assets have improved for the better since receiving microfinance.

"I use to sell used-cloths under a small canopy. Now, I have rented a store with the loan and I no longer sell as a retailer but a wholesaler. I have also employed more people to help run the business."

A food seller who was interviewed (No.3) also stated that:

"Immediately I received the loan I replaced the small gas cooker with a big gas cooker. This has helped reduce the amount of manual work I have to put into the cooking process."

Furthermore, in regards to increased microenterprise assets after receiving microfinance, one of the interviewees (No.6) also said that:

"I am now able to provide official uniforms to my employees. Also, due to the risky nature of the sewing we do I used part of the loan to buy protective equipment for all the employees."

A deeper reflection by the researcher on the response from interviewee No. 6 revealed that assets accumulation by microenterprises often translates into better

working conditions for employees of microenterprises. This is because the protective equipment for the employees will eliminate hazardous working conditions that have potential to negatively impact employees' health. Consequently, absence of negative health in households reduces cost and improve employees family income whilst, at the same time, reduces work absenteeism. The response below from interviewee No.4 further illustrates this point.

“Two of my very good employees use to experience serve cough anytime we had to cook food for sale using firewood. Their health deteriorated and they had to leave. When I received the loan I bought two electric cookers and was able to convince them to come back.”

Furthermore, the above citation suggests often, microenterprises and their owners are aware that presence of improved working conditions provides for their growth. However, their inability to provide better working conditions to enhance productive performance maybe associated with their lack of access to finance.

5.3.3 Training

Results from questionnaire survey

Data was collected on the training received by the microenterprises. This was used to analyse associations between training ($T_{\beta 1}$) and use of loan [Use of Loan] (T_1) to detect if the business training provided by the MFI influence the microenterprises in the way they use their loans. Therefore, [Use of Loan] (T_1) (dependent variable) and $T_{\beta 1}$ (independent variable) were entered into ANOVA test. The ANOVA test showed that a significantly positive association existed between training and the use of loans provided by MFI's to microenterprises ($ef_3(T_{\beta 1}) = 0.03$ sig.) (**Table 5.4:** ANOVA statistics).

A clear benefit of training as a positive factor in the performance of microenterprises has being identified in the ANOVA test. The result is significant at $ef_3(T_{\beta 1}) = 0.03$ sig < 0.05 (**Table 5.4:** Results). Thus, H_2 : Lack of pre-loan inductions and business training has a negative effect on microenterprise performance- is accepted.

Results from face-to-face Interview

Findings from the face-to-face interviews on training are consistent with the outcomes of the questionnaire survey. According to majority of the informants absence of training during pre-loan periods may lead to unproductive use of the loan. Already, the ability to use loan productively have been associated to financial literacy training in the microfinance literature (Tata and Prasad, 2008). What is interesting from this results therefore, is that training from MFI's enabled the microenterprises to identify product investments. Against this background, it can be argued that the overall, response to the training question was very positive. This is what a microfinance beneficiary microenterprise (interviewee No.1) said:

“Yes, my ability to put my loan into productive use now is due to training and advice from the MFI. I use to spend all the profit I make on domestic expenses. However, after a couple of trainings sessions with the MFI I realised that my business also requires reinvestment from the profits to grow.”

It is apparent from the above response that training coupled with provision of microfinance is necessary for microenterprise development. Interestingly, this observation has been made in the literature. Often, provision of pre-loan inductions and nurturing of business ideas give rise to positive outcomes for microenterprise projects (Kessy and Temu 2010). Though the quantitative tests conducted on training showed positively significant results, the follow-up interviews with the microenterprises found that nurturing of business ideas and pre-loan inductions training were absent for microenterprises. To this end, it will be important for MFI's to improve training for microenterprises at the pre-financing stage.

5.3.4 Savings

Results from questionnaire survey

In order to determine the effect of savings advice; ($ef_4(S_{\beta_2})$) on the savings attitude of microenterprises; [Savings attitude] ($i T1$), the microenterprises were investigated to solicit data on the savings advice provided by the MFI. The impact of the savings (S_{β_3}) on the microenterprises [Savings attitude] ($i T1$) was then analysed with SPSS. A cross tabulation analysis of the data collected (**Table 5.6**) showed that out of the 134 microenterprises that were surveyed 126 of them admitted receiving

advice on savings from the MFI. They were then asked if the advice improve their saving attitudes. 99 of the 126 microenterprises indicated that the advice impacted positively on their savings attitudes. Whilst, 6 of the microenterprises stated that the savings advice received from the MFI had a negative outcome on their savings attitude. The remaining 21 microenterprises that received savings advice from the MFI were found to experience a neutral effect on their savings attitudes. Moreover, the survey probed to determine the historical trends and nature of savings among microenterprises before receiving financial services from the MFI. From **table 5.6**, the results obtained showed that whereas 53 of the microenterprises had some experience of savings in the past, 81 of the microenterprises surveyed never had a savings experience before they joined the MFI scheme.

Table 5. 6: Cross Tabulation and Frequency Analysis of Savings Attitudes

		How has your response to question (44) influenced your attitude towards savings			Total
		For the better	For the worse	Not all	
Have anyone from the bank ever offered you advice about how to save since you joined the scheme?	Yes	99	6	21	126
	No	3	1	4	8
Total		102	7	25	134
If you are not saving now, have you ever saved in the past		Frequency	Percent	Valid Percent	Cumulative Percent
Yes		53	39.6	39.6	39.6
No		81	60.4	60.4	100.0
Total		134	100.0	100.0	

Source: Field data analysis, 2014.

The above results (**Table 5.6**) shows that almost three quarters of all the microenterprises surveyed agree that savings advice encouraged them to save. Therefore, at this stage a Pearson correlation analysis was conducted to test the

nature and strength of association between the savings services ($ef_4(S_{\beta 2})$) provided by MFI's and the attitude of microenterprises to savings [Savings attitude] ($i T1$). From the Pearson correlation analysis in **table A.3** the associations of correlation is significant ($ef_4(S_{\beta 2})$ on [Savings attitude] ($i T1$)= $0.01 < 0.05$) between provision of MFI's savings services and the positive attitude of microenterprises to savings. Therefore, the hypothesis that; **H₃**: Savings advice impact positively on the savings attitude of microenterprises is accepted. Nonetheless, Lont and Hospes (2004) have argued that positive relationships between MFI's savings advice and the poor's attitude to savings rarely translates into positive physical savings, even if it does it is to fulfil conditions for acquiring loans from MFI's. To compare the results of Lont and Hospes (2004) and the experiences in Ghana the microenterprises were tested and using frequency analysis, to determine how the improved attitude of microenterprise to savings translated into physical savings or that certain factors unaccounted for constrained their savings was provided. **Table A.2** enumerates some of the reasons elicited from the microenterprises as constraints to their inability to save. 43.7% (59) of the microenterprises suggested that their inability to save was due to financing of the loan and high interest. 25.9% (35) of the respondents indicated that excessive spending on domestic expenditures constrained their ability to save. 25.2% (34) of the microenterprises also thought that their lack of savings was due to the significantly low profits returns on their business investments. The remaining 4.4% (6) of microenterprises indicated that their inability to save was due to other reasons rather than the three factors stated above.

The point therefore is this, savings services provided by MFI's impacts positively on microenterprises savings attitudes but, this does not necessarily mean that microenterprises will practice savings; because their sources of savings are sometimes constrained by other factors too.

5.3.5 Social Capital

Results from questionnaire survey

Data from **Table A.7** shows that 75 (56%) of the microenterprises surveyed were introduced to trade association by the MFI. Almost half (37 microenterprises; this constitutes 27.6%) of the number of microenterprises introduced by the MFI to trade

associations, were either introduced by family or friends to other trade associations. Also, there were 19 (14.2%) of the microenterprises that joined trade associations through their own initiative. The remaining 3 (2.2%) joined based on other experiences and advice. To assess if social capital ($SC_{\beta 3}$) had positive impact on microenterprise performance; $[\text{microenterprise perf}] (i T1)$ the respondents were asked if their membership to trade associations supported their positive performance. A comparison analysis of microenterprise groups that answered “yes and no” to this question was conducted. **Graph 5.1** below demonstrates that almost all (130 or 97%) of the microenterprises experienced improved performance due to social capital. Only 4 (3%) of the microenterprises stated that in their case, ($SC_{\beta 3}$) did not affect $[\text{microenterprise perf}] (i T1)$ positively. The microenterprises were then asked to state resources that trade associations provided that impacted their business operations positively. The results obtained from the frequency analysis (**Table A. 9:** appendix 1) of resources received from trade associations showed that 36% of microenterprises surveyed were able to improve the terms and conditions in their loan contracts with the help of their trade associations. There were also 35.8% of the microenterprises that stated that they were able to gained access to some new markets due to their membership to trade associations. Furthermore, 11.2 % of the responses gathered from the microenterprises surveyed showed that trade associations provided them with access to business information. Finally, there were 8.2 % of the microenterprises that stated that their membership to trade associations enabled them to be represented in mediations and business arbitrations without any additional cost to them.

Graph 5. 1: Membership to Trade Association



Source: Fieldwork data analysis, 2012

At this stage a regression analysis was used to predict the relationships between (SC β_3) and the gross revenue; [gross revenue] (i T2) of the microenterprises after they joined the trade associations. The dependent variable was entered as [gross revenue] (i T2) and the independent variable as (SC β_3) into a regression analysis test. The regression results in **table 5.4** demonstrates that relationships between (SC β_3) and [gross revenue] (i T2) were significant (($ef_5(S_{\beta_3})$) on [gross revenue] (i T2))=0.01 < 0.05). Given that social capital is a resource, microenterprises that have access to it will improve upon their revenues and experience increase in investments and assets. Thus, the hypothesis that ;H₄: Outcomes of social capital benefits impacts positively on microenterprise performance ($ef_5(S_{\beta_3})$)=0.001 < 0.005) - has also being accepted.

Results from face-to-face Interview

The in-depth interviews revealed that most microenterprises supported by MFI's are members of trade associations. Often presence of trade associations helps to create an enabling business environment and support microenterprises to access resources for their growth (Altenburg and Drachenffels, 2007). Especially, trade associations provide microenterprises the opportunity to participate in trade fairs to market their produce and establish business contacts to utilise for growth. In the case of Ghana one of the interviewees (No.4) confirmed this.

“I have participated in three trade fairs organised by my trade association. I have also been invited to trade fairs organised by other trade associations as a guest.

Moreover, the microenterprises indicated that most trade fairs organised by the trade associations are held on market days. In Ghana, market gatherings or activities are open and not restricted. Perhaps, the open invitation to market activities as revealed by the interviewees provides opportunity for other microenterprises that are non-members of trade associations to observe and benefit from shared experience at trade fairs. This view was supported by one of the interviewees (No.1) during interaction with the researcher.

“I visit some of these trade fairs on market days but as a non-member I only benefit from observing; which is helpful.”

When the researcher probed about how the microenterprises obtained membership to trade associations, the microenterprises responses showed that invitations are received from multiple sources. This suggests that microenterprises are introduced to trade associations by microfinance institutions. However, other cases of invitation to trade associations from friends or family members exist and are utilise by microenterprises. It was also revealed that some of the microenterprises belong to more than one trade association. Perhaps, participation in one trade fair sometimes leads to establishing new contacts and being invited into other trade associations. In this context interviewee No.6 stated that:

“I participated in an indigenous food fair organised by my local assembly. At this fair I won a prize and as a result, I was invited by a radio station to participate in another food fair.”

In respect of sponsorship to participate in other regional trade fairs organised by other trade associations, the microenterprises were asked how the microfinance institution supported them to participate in fairs. Their responses indicated that assistances from the microfinance institution are often limited to passing on information about other trade fairs. However, the microenterprises were very appreciative of this service from the microfinance institution. It is possible that membership to trade associations promotes microenterprises public image and make them sort after; which is appreciated by the microenterprises. Therefore,

participating in one fair has the potential to help a microenterprise generate invitations to new resource without the help of a MFI. In particular, trade fairs attract actors from a wide range of areas with varied interests. The scope of benefits trade fairs presents microenterprise are exemplified by statements collected from microenterprises (interviewees' No. 2, 3 and 6 respectively) during interviews with the researcher:

"I was recently, approached by the Minister for Women and Children Affairs at a fair to sign up for a training sponsored by the ministry. The Minister also has plans to nominate me to mentor young ladies."

Secondly, from the interviewee statement below, it appears membership to trade associations and participation in trade fairs helped ease entry into new markets for the microenterprises:

"I participated in a trade fair where a staff from an organisation close to my shop approached me and asked if I could provide her fruit salad at every lunch time. I started with two of them, today almost everyone in that organisation order fruit salad from my shop."

Thirdly, through trade membership and fairs, microenterprises are able to obtain advice on business development and finance. Moreover, microenterprises benefit from new skills through sharing of experiences with other members of their trade association. This was confirmed in the following statement made by one of the microenterprises the interviewer interacted with.

"Through recommendation from my association leaders I was invited to participate in a Beads Making programme. Whilst on this project I trained people with disability for free on Beads Making. When I started this trade I needed help. Fortunately, help came my way through the benevolence of someone so, this is my time to pay back."

5.3.6 Opportunity

According to Babajide (2011) even with access to credit microenterprise growth will still be constrained if investment opportunities are absent in the market. Therefore, in order to conceptualise and measure opportunities for microenterprise development, qualitative data that offered insights into the support needs of potential micro-

entrepreneurs and microenterprises was collected and analysed. These included; available seed grants from government, adequate local financial services, evolving demand for products and services, adequate access to markets, presence of business development services and effective communication networks.

Drawing from discussions held with the interviewees, business opportunities impacts positively on performance of microenterprises. However, whilst for some microenterprises, a limited scope of opportunities existed for them to utilise, for the majority, a lack of awareness about existing business opportunities was deduced to be their constraint. Therefore, the qualitative results on scope of opportunities for microenterprise showed lack of awareness of existence of opportunities in Ghana. These results are consistent with the outcomes obtained with the questionnaire survey.

Nonetheless, microenterprises that are aware of presence of business environment opportunities indicated that they have benefit from the following forms of opportunities;

- ◇ Getting loans from the Ghana Government Microfinance Centre at extremely subsidised rates;
- ◇ Getting information and support from the Ghana National Board for Small Scale Industries on training, seminars and other sources of credit;
- ◇ Getting invitations from Local Government Councils to participate in trade fairs;
- ◇ Getting known and receiving publicity from participation in joint association programmes;
- ◇ Facilitating contacts with other microenterprises and;
- ◇ Benefiting from awareness creation from media broadcast and advice on available legal remedies for microenterprises that need such support.

It can be argued that the opportunities the microenterprises have benefited from are relatively few in comparison to the vast opportunities that exist for big businesses in Ghana (Bawumia, 2010). Indeed, the business environment in Ghana shows presence of opportunities that has the potential to support microenterprises to develop. However, the challenges of some microenterprises may also be reflected in

their lack of awareness of existing business opportunities; which constrains their utilisation. A lack of awareness excludes poor businesses from opportunities and this has already been documented by Alabi, et al. (2011).

Given the fact that Government often plays a major role in creating an enabling business environment for the private sector. The researcher was particularly interested in determining the forms of support present at the Government Microfinance Loans Centre (MASLOC) for microenterprises. Results from the interview responses, shows that MASLOC mainly provides microenterprises with loans to support their growth and to exit poverty. Perhaps, in the view of MASLOC the income that microenterprises earn from their loan investments will help left them out of poverty. This approach to microenterprise development and poverty reduction in Ghana is similar to those used elsewhere (Atieno, 2009). However, further discussions with the microenterprises revealed that some of them were unable to access credit from MASLOC. Microenterprises that are lucky to receive credit from MASLOC are often connected to political parties or the government. Unfortunately, majority of microenterprises lack the social capital that can link them to political networks that provide access to loans. This view is exemplified by interviewee No.2 during a discussion with the researcher.

“I don’t know anybody in this government so it is difficult for me to access credit from MASLOC.”

5.3.7 Attitude to Risk

A microenterprise attitude towards risk was measured by asking the respondents about their propensity to participate in risky projects. The respondent’s preference to engage in either a bold or cautious act with a view to achieve the microbusiness objectives was detected from this test (Wang and Altinay 2012).

Table 5. 7: Microenterprises Attitude towards Risk

Parameter	Control group	Microfinance Beneficiaries	Total
Exhibited act of bold decision making	1 (10.00)	3 (30.00)	4 (40.00)
Exhibited act of cautious decision making	1 (10.00)	2 (20.00)	3 (30.00)
Indifferent to decision making	2 (20.00)	1 (10.00)	3 (30.00)
Total	4 (40.00)	6 (60.00)	10 (100.0)

Source: Fieldwork data analysis, 2014.

The microenterprises (**Table 5.7**) interviewed were asked about their propensity to participate in risky projects. They were asked to express this attitude in the context of their ability to make a bold business decision, cautious business decision or indifference in business decision making. The results (**Table 5.7**) showed that in total 40 percent (4) of the microenterprises exhibited the act of bold decision making. 3 (30 percent) of those that agreed they had the ability to make bold business decisions were beneficiaries of microfinance and the remaining 1 (10 percent) is from the control group. 30 percent (3) of the microenterprises interviewed exhibited cautious business decision making. Out of these 20 percent (2) belonged to the microfinance beneficiary group and 1 percent (1) belonged to the control group. Finally, 30 percent of the microenterprises indicated that they were indifferent in their business decision making. Out of these, 2 percent (2) of the microenterprises were non-microfinance beneficiaries and the remaining 1 percent (1) is a microfinance beneficiary.

When the researcher probed further as to why the microenterprises were exhibiting different levels of attitude towards risk, three microenterprises had this to say:

Microenterprise (interviewee No.2) is a beneficiary of microfinance and exhibits a strong positive attitude towards decision making.

“Most of the time when I take risk in selling a new product it pays off. I believe my fearless attitude to risk has earned me this success.”

Microenterprise (interviewee No.10) is not a beneficiary of microfinance and exercises strong caution in decision making.

“Nowadays money is not easy to come by so, I have to be careful about how I make my investment decisions. I always tell my friends to exercise caution in their decisions especially, think through the potential of a new product before stocking it.”

Microenterprise (interviewee No.5) is a beneficiary of microfinance and exhibits a variable attitude towards decision making.

“If I am excited it is easy for me to make a decision about my investments. However, when is a bad day for me and I feel any sadness inside me it takes me a longer time to make a decision. So, as for me my decision making on investment depends on my mood.”

The striking observation that emerge from these discussions are that the tenacity of a microenterprise towards decision making accounts for its performance. This is true for all the three above statements; emphasis is placed on the fact that timing is core to a microenterprise tenacity to make a good decision. A good return on an investments decision often shapes the attitude and pattern of decision making for a microenterprise. It can therefore, be inferred from the results that, in the absence of failure after a business decision is made subsequent decisions are bound to follow the same pattern.

Results from face-to-face Interview (MFI Loan Officers response)

To understand the relationships identified between provision of microfinance and microenterprise development from the questionnaire data analysis, a face-to-face interview was conducted with some Managers of the MFI. Data was collected on the working duration of the bank staff, the banks loans underwriting process, loan monitoring and collection process, determination of loan interest and repayment periods, consumer loans, clients literacy constraints and nature of business social networks. Using a directed content analysis approach, the qualitative data collected was then analysed and the relationships explained.

Descriptive results obtained from the interview data analysis on profile of the respondents are presented in **Table 5.8**. Overall, 33.3 percent (3) of all the nine loan officers interviewed were between fifty-one to sixty years old. Furthermore, 22.2 percent (2) were found to be between the ages of thirty-one to forty years old;

another 22.2 percent (2) were more than sixty years old; 11.1 percent (1) is between the age of forty-one to fifty years old and the remaining 11.1 percent (1) was less than thirty years old. The results further showed that the age distributions of respondents based on locations (three respondents from each branch) are; in the Odorkor MFI branch 2 respondents (66.7) were between thirty-one to forty years old and 1 respondent (33.3) was less than thirty years old. In the Circle MFI branch 1 respondent (33.3) was between forty-one to fifty years old; another 1 (33.3) was between fifty-one to sixty years and the last 1 (33.3) was more than sixty years old. In the Dome MFI branch 2 respondents were found to be between fifty-one to sixty years old and the last respondent is more than sixty years of age.

As can be seen from **Table 5.8** their gender distributions were found to be as follows; 55.6 percent (5) of all the MFI staff interviewed were females and the remaining 44.4 percent (4) are males. In Odorkor alone 2 (66.7) of the 3 officers interviewed are females and the last 1 (33.3) respondent is male. In Circle, another 2 of the 3 respondents (66.7) were females and the remaining 1 was male (33.3). Finally, in the Dome MFI branch 2 of the 3 interviewees were males and the remaining 1 was female. Also, 4 (44.4) of all the 9 interviewees were found to be married; 3 (33.3) are single; 1 (11.1) is divorced and 1(11.1) is widowed. Distributions of interviewees' marital status based on MFI branch (3 from each branch) are as follows; in Odorkor, the results shows 2 are single and 1 is married. In the case of Circle, 1 was found to be single (33.3), another 1 is married (33.3) and the last 1 is widowed (33.3). In the Dome MFI branch 2 interviewees indicated that they are married (66.7) and the remaining 1 is divorced (33.3).

Again **Table 5.8** illustrates the educational characteristic and duration of service of the interviewees at the MFI bank. Over two-thirds or 77.8 percent (7) of all of the interviewees are educated to degree level. Those educated to diploma level are only 22.2 percent (2) of the total population interviewed. All the 3 interviewed in the Odorkor MFI branch have received up to degree level education. In Circle MFI branch 2 of the 3 respondents have received degree level education (66.7) and only 1 received diploma level education (33.3). Finally, in Dome 2 of the 3 respondents are educated to degree level (66.7) and 1 is educated to diploma level. In the case of respondents' work duration with the MFI, most of the respondents were found to be with the MFI for 3 to 5 years (44.4percent or 4). Followed by 33.3 percent or 3 of the

total population have worked for the MFI for 6 to 8 years. The remaining 22.2 percent (2) of the interviewed population have being with the bank for about 9 to 11 years.

Table 5. 8: Profile of Loan Officers

Variables	Location of Micro-entrepreneur			Total
	Odorkor MFI Branch	Circle MFI Branch	Dome MFI Branch	
<u>Age</u>				
< 30	1 (33.3)	0	0	1(11.1)
31-40	2 (66.7)	0	0	2(22.2)
41-50	0	1(33.3)	0	1(11.1)
51-60	0	1(33.3)	2(66.7)	3(33.3)
> 60	0	1(33.3)	1(33.3)	2(22.2)
Total	3(100)	3 (100)	3(100)	<u>9(100)</u>
<u>Gender</u>				
Female	2(66.7)	2(66.7)	1(33.3)	5(55.6)
Male	1(33.3)	1(33.3)	2(66.7)	4(44.4)
Total	3(100)	3(100)	3(100)	<u>9(100)</u>
<u>Marital Status</u>				
Single	2(66.7)	1(33.3)	0	3(33.3)
Married	1(33.3)	1(33.3)	2(66.7)	4(44.4)
Divorce	0	0	1(33.3)	1(11.1)
Widowed	0	1(33.3)	0	1(11.1)
Total	3(100)	3(100)	3(100)	<u>9(100)</u>
<u>Level of Education</u>				
Diploma	0	1(33.3)	1(33.3)	2(22.2)
Degree	3(100)	2(66.7)	2(66.7)	7(77.8)
Total	3(100)	3(100)	3(100)	<u>9(100)</u>
<u>Duration with Bank</u>				
3-5	3(100)	1(33.3)	0	4(44.4)
6-8	0	1(33.3)	2(66.7)	3(33.3)
9-11	0	1(33.3)	1(33.3)	2(22.2)
Total	3(100)	3(100)	3(100)	<u>9(100)</u>

Source: Fieldwork data analysis, 2014.

According to the guidelines set by this study for selection of respondents for interviews, the least work duration at the MFI for a respondent should be three years. This is because giving the duration of three years in a job it is expected that the staff should have adequate understanding and experience of how the MFI functions, how services are provided and how customers behaviour. Thus, it can be seen from the results in **Table 5.8** that the minimum work duration limits set for respondents in this study is achieved.

In order to determine the criteria and methodology used by the MFI to provide loans, the loan officers were asked to explain the loan underwriting process of the MFI bank. This gave the study the opportunity to unearth how the loan officers determined the microenterprises credit history, ability to repay, guarantee and share group leverage. It was found that throughout all the three MFI branches visited and nine officers interviewed, the loan underwriting process was the same. In fact interviewee No.11 said that:

“Our bank has the same standards it applies across all the branches, in terms of how our clients are selected and loans provided.” Also, interviewee No.13 stated that *“if you talk to our clients from different branches about our loans underwriting process they will all tell you the same thing.”*

When they were further quizzed as to why all the branches followed the same procedure of loan processing interviewee No.19 said:

“This standardisation process has helped the bank reduce levels of default clients. Often, some clients when rejected loans in one of our branches, they quickly move to another branch of ours at a different location with the hope to qualify for a loan. However, they end up being taking through the same loan underwriting process. This way the banks standardisation procedures help sort out people that have the potential to default.”

Results of the qualitative interviews shows that before a client is allocated a group or individual loan, the recipients is assessed by a loans officer based on the following five criteria: Firstly, savings leverage: does the client have a savings account with the bank and how is this savings performing. Secondly, type of guarantee: what type of guarantee is the recipient providing; is the recipient relying on group guarantee or

have some other form of guarantee such as physical collateral. Thirdly, repayment capacity: does the recipient have the potential to repay back the loan. According to interviewee No.13:

“To assess a client’s repayment capacity we often visit their business to know their locations and to determine the performance of their business and also ask them questions about how long they have owned the business, nature of their customers and the products and services they are providing.”

Fourthly, credit history: outcomes of the data analysed showed that often the credit history of existing clients was easy for the MFI loan officers to determine. This is because loan officers have access to files of existing clients that have their credit history at the time of receiving their first loans. In situations where this is not the case interviewee No.14 stated that:

“We ask the potential client to join a group or bring someone who is already receiving services from us. Based on our interview with the one the person brings we are able to collect some information that help us determine the credit history of the one that have put in the loan request.”

Fifthly, maximum and minimum amount loan to one person or group: Finally, the results from the interview data analysis suggests that minimum loan amounts for the group loans was about GHs.99 and the maximum could be as high as GHs. 10,000. Also, the results showed that though the minimum individual loan that a client can ask for was GHs. 99, those that qualified for this category could ask for as much as GHs 15,000. Interviewee No.17 said that:

“Based on the assessment we conduct on the potential beneficiaries we are able to place them somewhere on these minimum and maximum loan figures the bank have set for all the branches.”

Therefore, it was found that sometimes microenterprises who fulfil similar loan requirements still received lower or higher credit depending on the amount applied for. To understand the variations in loan size the bank was ready to give to microenterprises irrespective of their ability to provide or meet the same loan requirements, the respondents we quizzed on factors they consider most important when deciding on a microenterprise loan application. Most of the loans officers

interviewed agreed that group collateral was very important for deciding on a loan application from a microenterprise. Most clients of MFI's are not educated and do not keep any records of their business activities. Besides, a common view among the interviewees was that there are no credit bureaus to help them determine the credit rating of clients. It was therefore, obvious that in the absence of this information loan officers have to rely on groups guarantee and collateral as important determinants of loan decisions. This is what one of the Loan Officers (interviewee No.16) said:

“Due to the inability of microenterprises to secure physical collateral for loans often, the loan officer has to rely on presence of group collateral to approve a loan application.”

One other factor that influenced loan officers' decisions to approve or decline a loan request is the income performance of the beneficiary microenterprises. This is because there were some suggestions that where group collateral is absent the income performance of the beneficiary microenterprise is analysed to support the loans officer make an appropriate decision on a loan application.

Consistent with the loan repayment challenges that were identified with some microenterprises in the quantitative analysis, the respondents were asked to explain how a loan repayment period was determined by the MFI's. The first set of quantitative analysis in this context showed that loan repayment periods did not vary from one branch to the other; they were the same across all the bank branches of the MFI. However, the second set of qualitative evaluations and analysis provided results that suggest loan repayment periods varied based on products. For instance, group loans repayment periods were shorter (about two to six months) than individual loans (about six months to two years). This was because most group loan recipients are considered as moderately risky whilst, individual loan recipients are safe borrowers who have graduated from group lending. Therefore, one of the interviewees (No.14) argued that:

“If you give a loan to someone who has a high probability to default the best thing to do is not to let the loan stay long with the person. You find a way to collect it back quickly.”

Perhaps, this view expressed by one of the informants explains why the MFI have longer repayment period for her safe borrowers and shorter repayment periods for her moderately risky borrowers.

What was also interesting in these results was that the loan repayment periods appear to contribute to microenterprise development as identified in the questionnaire study. In most cases, the loan repayment periods and methods coincides with the cash flow of the financial activity of the business. The participants on the whole demonstrated that depending on the nature of the business they discuss the payment options and advice on a repayment approach that works for the microenterprise. This has given some of the microenterprises the opportunity to make repayments only at periods they are expected to have a positive cash flow. For example individual loans for agro-enterprises purposes are paid back after the crops are cultivated, harvested and sold. In fact, respondent No.12 stated that:

“Here in this bank when we are setting a repayment period we seriously consider the cash flow needs of our clients.”

Furthermore, given the loan interest constrain on microenterprises identified in the questionnaire analysis, the respondents were asked to explain how the MFI banks' charge their loan interest. The post hoc analysis and results revealed that loan interest in some cases, is charged against outstanding balance and in others it is a flat rate. Unfortunately, given the short gestation periods provided to begin repayment of group loans (two weeks from day of receiving the loan), some microenterprises default and, charges against the outstanding balance continue to increase.

The interviewees also described the loan monitoring and collection process of the MFI bank. Their accounts showed that loan monitoring and collection process is standardised across the MFI branches. Apart from reviews conducted on microenterprise beneficiaries by staff of the bank, all the branches also relied on peer assessment of client over-indebtedness from group members. Also, client contracts included covenants or the ability to demand payment of the loan when the conditions for payment have deteriorated or the precept of the original loan had been falsified. Furthermore, use of other mechanisms for loan collection including; savings, seized collateral, attorney collection, arbitration and court action are

implemented. Often, negotiations of reasonable repayment plans are adopted before seizing of assets through one of the above procedures. Also, the MFI bank's communication process appears to be adequate for addressing literacy constraints of the microenterprise clients. For example, it was reported that clients are given the opportunity to ask questions and receive information in the local language before signing contracts. Moreover, transparency is promoted through issuing of transaction receipts to clients and providing them with clear accurate account statements regularly. This has been strongly demonstrated in a statement made during interactions between the researcher and a loan officer (interviewee No.13).

"We read contracts out loud and sometimes we translate the information materials into the respective local language for the recipients to understand."

Consistent with the quantitative results, it was found from the qualitative study that the MFI used social networks to promote microenterprises development. Furthermore, training relevant to the trade of microenterprises was sometimes provided. However, training on conception and nurturing of business ideas, provision of debt counselling and training needs determination are absent for microenterprises.

Finally, to understand the future use and nature of microfinance in Ghana the respondents were quizzed on the use or provision of loans for consumption purposes. Two divergent and often conflicting discourses emerged from this question. A minority of the loan officers indicated that consumer loans support the microenterprise owners to improve their quality of life through providing for feeding sustenance, school fees and healthcare. Therefore, in their view it is important for the MFI to provide consumer products to clients that are desperate but cannot afford basic needs and are unable to raise credit from elsewhere. However, a majority of the loan officers consider consumer loans to be non-productive and create delinquency problems for both providers and recipients. It is generally argued that borrowers that experience high number of unpaid loans also encounter more indebtedness and move further down the bottom of the pyramid (Shastri, 2009). The interviewees argued that some credit recipients spent loans on food items and upon sensing they cannot pay back the loan they relocate to avoid the wrath of the MFI's. Moreover, high loan delinquency impacts negatively on cash flow performance of the MFI and constrains their ability to carry on lending.

One interviewee (No.16) explained that:

“I know of some MFI’s who use to give these consumer loans but as we speak now they have all collapsed.

It is therefore obvious from the results that loans given out for consumer purposes are risky for MFI sustainability. This is because the people who take the loans buy food and pay for hospital bills with the money. These kind of bills do not return any profit to the recipient to enable them pay back the loan.

5.3.8 Discussions

The size of a microenterprise in this study was determined based on the number of people employed by the microenterprise. Those with ≤ 3 employees were categorised as lower level microenterprises and those with more than 3 employees were also categorised as upper level microenterprises. From the quantitative results in **table 5.3** it was found that 63.4% of the total 134 microenterprises surveyed were lower level microenterprises. The remaining 36.6% are categorised as upper level microenterprises. According to Ghana’s National Board for Small Scale Industries (NBSSI) the number of employees for businesses categorised as microenterprises are within the limits of what this study has achieved. This study felt that at least up to three years of receiving the financial services microenterprises should begin to experience some impacts of the service. It was found that 50.38% of the microenterprises were three years old and 49.62% of them were more than three years old. The data on nature of business showed that 38.1% of microenterprises surveyed retailed cosmetics and cloths, 24.6% retailed food stuff and cooked food and the rest (37.3%) retailed other forms of groceries that are non-food items.

Findings of this research on types of trades practiced by microenterprises that benefit from MFI’s are consistent with Ahmed, et al. (2009) and; Rahman and Nie (2011), but differ from the reviewed literature that analysed microfinance use in developed countries (Kneiding and Tracey, 2009). One explanation of this study findings and Ahmed, et al. (2009) is that generally, market scrutiny and capital requirements for starting a microenterprise trade differ in rich and poor countries due to the level of economic development. Given the explicit link made by van Stel, et al. (2010) between capital and administrative requirements and; the ease of starting a business in a country and its economic performance. It was found that in Ghana

retail trades such as; body care products, food and other grocery businesses do not require strict market scrutiny and intensive capital to start. Thus, microenterprises that benefit from small loans preferred to trade in body care and food products due to the ease of business entry and available diversification opportunities. These findings support the observation and discourse that everywhere minimum capital requirements and administrative considerations impacts formation rate and diversification opportunities of small businesses (Djankov, 2009). Whereas, Liedholm and Mead (2013) suggests that even with limited access to capital, the relative low market entry barriers and scrutiny in poor countries provides microenterprises the opportunity to diversify, Bansal (2005) have argued that the competitive pressures and high business entry barriers that exist in developed countries may constrain microenterprise diversification opportunities. However, the implications are that the financial needs of microenterprises in poor countries such as Ghana are not met; and this constrains their ability to participate in competitive and profitable trades that require relatively high capital to start (Beck, et al. 2008). Also, lowering burdensome business entry requirements are positive to facilitate microenterprise diversification opportunities in developed countries.

Even more interesting, the study findings reveal that credit from MFI's improved the gross revenue and capital stock of microenterprises. These results are not surprising because they have strong circumstantial support from the analysed literature (Morris and Barnes, 2005; De Mel, et al., 2008 and; McKenzie and Woodruff, 2008). In an impact study conducted on recipients of three microfinance programs in Uganda, Morris and Barnes (2005) found results that suggest microenterprises sales increased after receiving loans and this improved their gross revenues. Similarly, a randomised study conducted using grants to generate shocks to capital stock for microenterprises in Sri Lanka, showed that average real return to capital in beneficiary enterprises stood at 4.6% to 5.3, which was considerable higher than market interest rates in Sri Lanka at the time (De Mel, et al. 2008). The Sri Lanka evidence therefore, support that there is positive return on the capital stock of microenterprises that were treated. Although the study did not directly analyse microfinance impact, Odell (2010a) have argued that the cash grants experiment targeted microenterprises. Therefore, similar research results may be obtained in areas where microfinance loans are provided to microbusinesses. For the economic

development implications that arise from the findings of this study therefore, it is important to strengthen MFI's to provide credits that will perform well for microenterprises development, and by extension impact positively on the general economy (Liedholm and Mead, 2013). However, such supports instruments should be targeted at transforming relationships between MFI's and microenterprises into reciprocal contracts; where MFI's sell financial services and clients buy and pay for them (Robinson, 2001). In this context, sustainability of MFI's liquidity position and availability of continuous support for microenterprises will depend on MFI's view on the provision of financial products; finance as charity or as a business (Armendáriz and Szafarz, 2011). Furthermore, Eckhardt and Shane (2003) prediction of the positive relationships between business environments and microenterprise performance has been confirmed by this study in Ghana. The study found that opportunities that were presented by the business environment were generally exploited to improve entrepreneurial activities depending on the risk attitude of the microenterprise (De Carolis and Saporito, 2006).

The positive relationships also found between training and microenterprises has policy implications for MFI's, donor agencies and governments interested in using microenterprise development as a long term strategy for economic growth. They have to understand and appreciate the positive impact of training on microenterprise performance to enable them create appropriate growth incentives for microbusiness. This is because other randomised experiments such as; Mano, et al. (2012) have equally demonstrated that business training improves microbusiness practice in Ghana. Similarly, Karlan and Valdivia (2011) conducted a control group experiment and observed a positive significant relationship existed between business knowledge of microfinance clientele and training. Therefore, there is sufficient basis to state that these results are verifiable and reliable. Often, however the underperformance of these microbusinesses is attributed to absence of credit and other business growth incentives that have no relationship to training and nurturing of business ideas (Fafchamps, et al. 2011). This should therefore, give concern to government and MFI's about the absence of pre-loan inductions and nurturing of business ideas for microenterprises found in this research study.

The positive associations found between savings services and microenterprise assets in this study are previously acknowledged by Ssewamala, et al. (2006). They found similar outcomes to support that positive association existed between active savings by microenterprise and assets performance in the United States. The similarity and significance of the two outcomes are that subsidized savings is a potentially viable strategy to reduce income inequality and to address the problem of inadequate capital for microenterprises. Moreover, Brannen (2010) analysis implies mixed method triangulation of microenterprise savings shows a consistence in results that can be used in different context. Brannen (2010) detected flaws of selection bias and other methodological errors in triangulation of microenterprise savings performance in Tanzania. Therefore, he used a mixed method triangulation to improve upon existing weaknesses of microenterprise saving evaluations and outcomes. He tested for the nature of relationships between savings services and development of income generating activities of microbusinesses. His conclusions are that participation in savings programs impacts positively on microenterprise activities. Therefore, the mixed method triangulation experiments in Tanzania and Ghana coupled with the common outcomes strengthens the use of MFI's savings for microenterprises development in countries with similar profiles.

This study found that resources microenterprises gain through social networks are similar to those in the reviewed literature (Tata and Prasad, 2008 and; Field, et al., 2010). Tata and Prasad (2008) and; Field, et al. (2010) identified a positive characteristic influence of gender on the performance and use of social network to improve microenterprises. For instance, Tata and Prasad (2008) configured a model based on relationship attributes to analyse how microenterprises utilised their collaborative relationships to gain access to resources to develop. Based on this model they conceptualised social capital relationships with microenterprise development on three dimensional levels namely; network diversity, network size and relationship strength. Analysis of the social capital configuration model showed microenterprises that utilises social networks experienced positive outcomes as a result of the resources they are able to obtain in the collaborative relationships they have developed over time. Most interestingly, they found that gender collaborations had a strong influence on the use and performance of social network resources. On their part, Field, et al. (2010) used a field experiment in India to randomly select poor

self-employed women with a view to test for unique barriers that constrained the growth and profitability of female-run microenterprises. They also found that absence of business networks impacted negatively on female-run microenterprise investments opportunities. All these interpretation cannot, of course, be directly supported by the result of this study. However, this study result has equally demonstrated reliability and the implications are that, generally, social capital has consistent pattern of strong and positive effect on microenterprises performance.

Contrary, a more broad study from Wahba and Zenou (2012) in Egypt found that even after controlling for the endogeneity of temporary migration, overseas returnees with less access to social capital were likely to start a business than non-migrants. These results are interesting outcomes considering the fact that the test suggested resource accumulated from abroad and experiences of overseas returnees support their entrepreneurial urge. Often, the entrepreneurial development literature (see: Shane 2003) view business conception as a good start for micro-entrepreneurs. However, factors such as social capital, training, credit and savings that can constrain or facilitate rate of growth of microenterprises are most engaged with in the literature. Therefore, the results found in investigating social capital and microenterprises in this study maybe provide more important relationships that will be used to improve microbusiness development.

5.4 Analysis of Characteristic Factors that Constrains the Capacity of Microfinance for Microenterprise Development

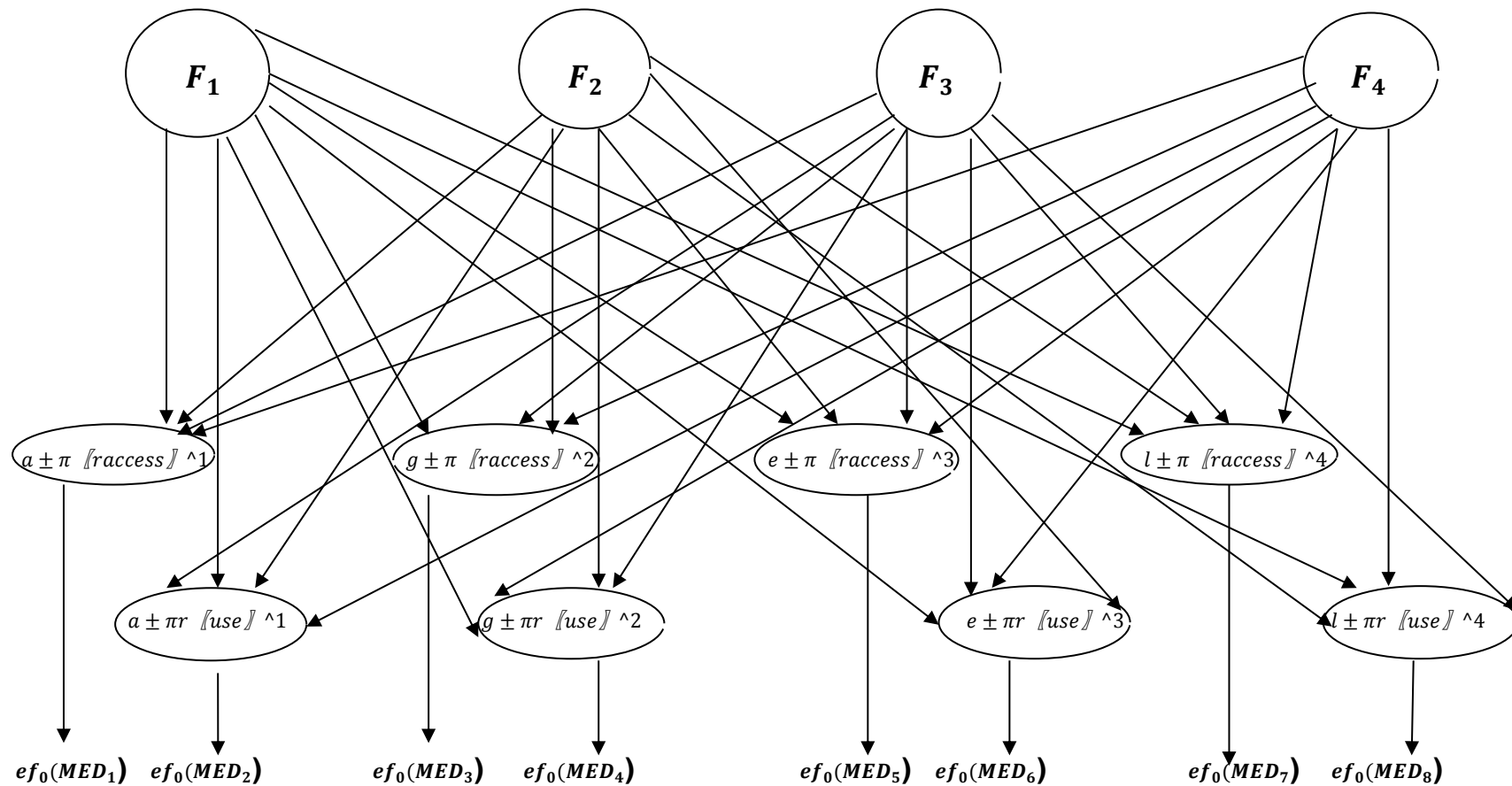
In view of the study objective (see 1.2.2) to analyse factors that constrain the capacity of microfinance for microenterprise development in Ghana, existing literature was critically examined in this context. As a result, one significant question that emerged from the microfinance and microenterprise literature analysis is; what characteristic factors constrain access and use of microfinance for microenterprise development in Ghana? Hypotheses (and null hypothesis) are generated based on the literature reviewed to help answer this research question in the analysis.

Quantitative data on proprietors of microenterprises was collected and analysed to ascertain the profile of micro-entrepreneurs and the microenterprises. Four characteristic variables from the questionnaire were analysed. These variables include; Age, gender, education and location of business. This helped to identify

conditions that may constrain or facilitate capacity of microfinance for microenterprise development. A chi-square test analysis is used to compare the emerging variances in the profiles to determine how each variant affects the capacity of microfinance for microenterprise development. To validate the accuracy of the findings, the researcher used corroborated evidence to proof similar study samples and characteristics have been reported in the literature. The outcomes of these triangulations supported the reliability and validated of the study results.

The factorial model below (Figure 5.2) is used to analyse the various factors that may constrain or facilitate the capacity of microfinance for microenterprise development.

Figure 5. 2: Schematic Analysis of Constraining and Facilitating Factors of Microfinance Capacity for Microenterprise Development



Source: Fieldwork data analysis, 2014.

5.4.1 Impact of Micro-entrepreneur's Age on access and use of Credit

Results from questionnaire survey

To test the function of age on access and use of microfinance credit by microenterprises, the diagram below (**Figure 5.3**) was modelled to represent the factor variables.

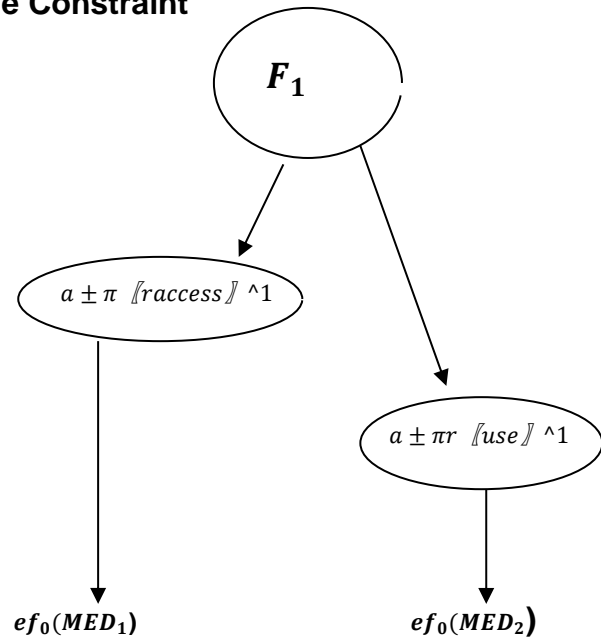
Figure 5. 3: Age Constraint

F_1 = Age

$\pi r \llbracket use \rrbracket ^1$ = Credit usage

$\pi \llbracket raccess \rrbracket ^1$ = access to credit.

$ef_0(MED_2)$ = Microenterprise development



Source: Field data analysis, 2014

- ◇ **H₀**: A micro-entrepreneur's age is not a good determinant for accessing credit
- ◇ **H₁**: A micro-entrepreneur's age is a good determinant for accessing credit

- ◇ **H₀**: A micro-entrepreneur's age is not a good determinant for credit utilisation (using experience as proxy)
- ◇ **H₁**: A micro-entrepreneur's age is a good determinant for credit utilisation

First, a one-way ANOVA test was conducted to determine if there are any associations between the age of the microenterprise owner and access to credit (whether age is a factor the MFI consider in determining a microenterprise access to credit and other financial services). Factor F_1 ; which is age of the financial service recipients and $\pi \llbracket raccess \rrbracket ^1$; which is the amount of credit accessed from the MFI were entered into SPSS for analysis. The one-way ANOVA conducted (**Table 5.9**) shows that the outcome of the analysis did not return a significant result (**0.074 < 0.05**). This suggests that the MFI did not take into account the age of the microenterprise owner to determine the amount of credit they could access.

Therefore, the test for the null hypothesis- H_0 : A micro-entrepreneur's age is not a good determinant for accessing credit-has being accepted in this study.

After finding insignificant associations between age and access to credit, Factor F_1 was analysed together with use of loans ($\pi r \llbracket use \rrbracket ^1$) using ANOVA test. The aim of the test was to determine the effect of age of microenterprise owner on the utilisation of the financial services they receive from MFI's. Again, from **Table 5.9**, the results of the ANOVA test showed that associations between age and credit use were insignificant ($0.072 < 0.05$). This explains that age did not influence how the microenterprises use the credit they receive from the MFI in terms of productive investments and profligates.

Table 5. 9: ANOVA Analysis

Parameters	Sum of Square s	Df	Mean Square	F	T-test Sig.
Age/ Access to Financial services	7.701	5	1.540	2.068	0.074
	95.351	128	.745		
Total	103.052	133			
Age/ financial Services utilisation	5.861	5	1.172	2.078	0.072
	72.198	128	.564		
Total	78.060	133			
Gender/ Access to Financial services	4.004	1	4.004	5.336	0.02
	99.048	132	.750		
Total	103.052	133			
Gender/ financial Services utilisation	.244	1	.244	.414	0.52
	77.816	132	.590		
Total	78.060	133			
Education/Access to Financial services	14.770	7	2.110	3.012	0.00
	88.282	126	.701		
Total	103.052	133			
Education/ Financial Services utilisation	8.678	7	1.240	2.251	0.03
	69.382	126	.551		
Total	78.060	133			

Source: Field data analysis, 2014.

The conclusions are that the null hypothesis has been accepted- H_0 : A micro-entrepreneur's age is not a good determinant for credit utilisation. Thus, from these outcomes it is possible to suggest that the function of age does not constrain $\pi [r_{access}]^1$ and $\pi r [use]^1$ in the $(ef_0(MED_2))$ process.

5.4.2 Impact of Micro-entrepreneur's Gender on access and use of Credit

The test of associations between gender and; access and use of MFI's products was analysed based on the schematic factorial model below (Figure 5.4).

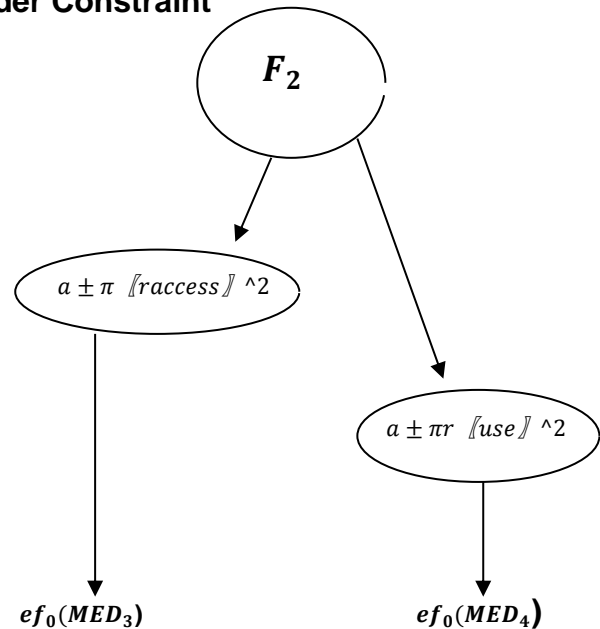
Figure 5. 4: Gender Constraint

F_2 = gender

$\pi r \llbracket use \rrbracket^2$ = Credit usage

$\pi \llbracket raccess \rrbracket^2$ = access to credit.

$ef_0(MED_4)$ = Microenterprise development



Source: Field data analysis, 2014

- ◇ H_0 : A micro-entrepreneur's gender is not a good determinant for accessing credit
- ◇ H_1 : A micro-entrepreneur's gender is a good determinant for accessing credit
- ◇ H_0 : A micro-entrepreneur's gender is a good determinant for credit utilisation
- ◇ H_1 : A micro-entrepreneur's gender is not a good determinant for credit utilisation

An association between gender and access to credit was tested using ANOVA analysis. Two variables; $\pi \llbracket raccess \rrbracket^2$ and F_2 were entered into the SPSS to explore relationships to this effect. The outcomes of the test showed that there is a statistically significant association between a microfinance recipient's gender and access to credit ($0.02 < 0.05$) (Table 5.9). Thus, the alternative to the null hypothesis has been accepted- H_1 : A micro-entrepreneur's gender is a good determinant for accessing credit. F_2 and $\pi r \llbracket use \rrbracket^2$ were then analysed to determine if the gender of a micro-entrepreneur influenced their use of credit. The results from table 5.9 showed that although, there is a positive association between gender and access to credit, associations between gender and credit usage are negative at 0.52

significance level. The null hypothesis that; H_1 : A micro-entrepreneur's gender is not a good determinant for credit utilisation- has been accepted.

At this point, mapping of the test results for the male and female micro-entrepreneurs revealed that whereas, the gender of a female microenterprise owner is a facilitating factor for accessing credit from the MFI's, the gender of a male micro-entrepreneur maybe a constraining factor for accessing credit to develop the microenterprise. However, since the results were negative between gender and credit utilisation, this shows that the F_2 function does not impact on $\pi r \llbracket use \rrbracket^2$ in the $(ef_0(MED_4))$ process.

5.4.3 Impact of Micro-entrepreneur's Level of Education on access and use of Credit

To predict the associated relationships between microfinance recipients' level of education and access to microfinance credit a test was conducted using ANOVA. At the same time, associations between microfinance recipients level of education and credit utilisation was also conducted using ANOVA. **Figure 5.5** is used to further support analyses of the themes identified in the responses in the context of recipients' levels of education and its impact on access to credit and credit utilisation.

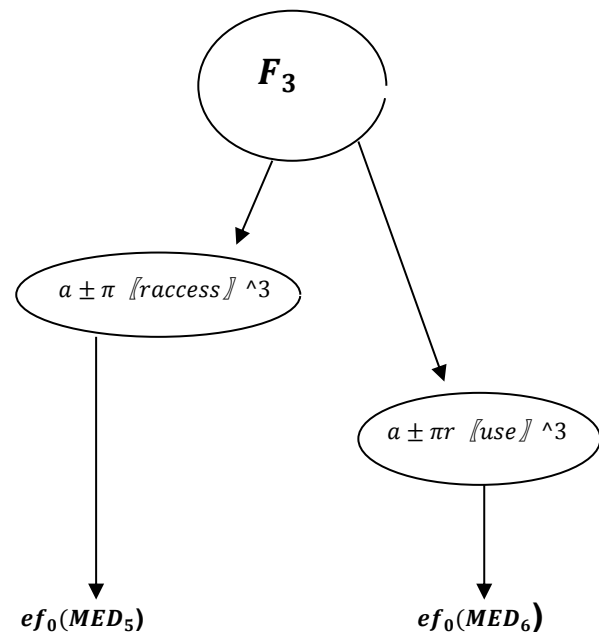
Figure 5. 5: Education Constraint

F_3 = Level of Education

$\pi r \llbracket use \rrbracket^3$ = Credit usage

$\pi \llbracket raccess \rrbracket^3$ = Access to credit.

$ef_0(MED_6)$ = Microenterprise development



Source: Field data analysis, 2014

- ◇ **H₀**: A micro-entrepreneur's level of education is a good determinant for access to credit
- ◇ **H₁**: A micro-entrepreneur's level of education is not a good determinant for access to credit
- ◇ **H₀**: A micro-entrepreneur's level of education is a good determinant for credit utilisation
- ◇ **H₁**: A micro-entrepreneur's level of education is not a good determinant for credit utilisation

Firstly, two variables; level of education (F_3) and access to credit ($\pi \llbracket r_{access} \rrbracket^3$) were analysed in SPSS to explore the nature and form of relationships between these variables. From the factorial and ANOVA analysis, the first set of results obtained demonstrates there is a positive association between level of education and access to financial services at **0.00** statistical significance (i.e. **0.00 < 0.05**) (**Table 5.9**). The associations revealed in this ANOVA analysis therefore, suggest that the alternative to the null hypothesis that; **H₀**: A micro-entrepreneur's level of education is a good determinant for access to credit-has been accepted. Secondly, level of education (F_3) and credit utilisation ($\pi r \llbracket use \rrbracket^3$) were entered in SPSS as variables to analyse and unearth existing relationships between level of education and credit utilisation. It can be seen from the results (**Table 5.9**) that the (F_3) and ($\pi r \llbracket use \rrbracket^3$) analysis reported a significant positive relationship between the two variables (**0.03 < 0.05**). Interestingly, this positive association also indicate that the alternative to the null hypotheses- **H₀**: A micro-entrepreneur's level of education is a good determinant for credit utilisation-has been accepted. From the two outcomes the dataset suggests that the F_3 function facilitates $\pi \llbracket r_{access} \rrbracket^3$ and ($\pi r \llbracket use \rrbracket^3$ in the ($ef_0(MED_6)$) process.

5.4.4 Impact of Microenterprise location on access and use of Credit

Regression analysis was used to measure the impact a microenterprise location had on its access to and use of microfinance. The analysis as illustrated in the factorial model below (**Figure 5.6**) tested the form and nature of relationships between the three stated variables.

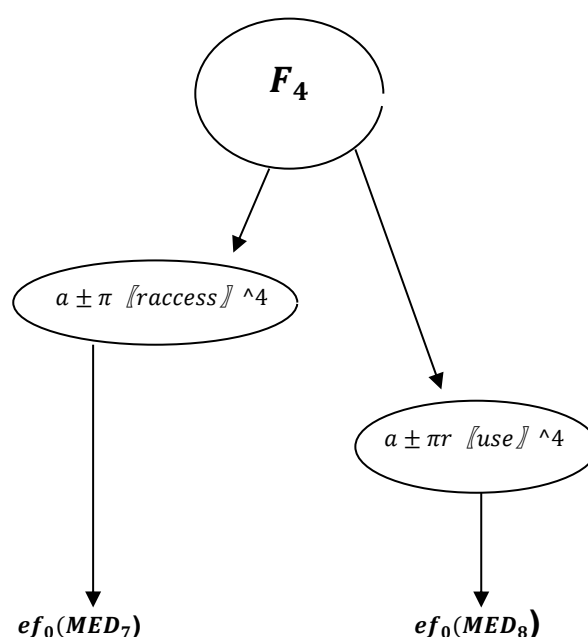
Figure 5. 6: Microenterprise Location Constraint

F_4 = Microenterprise location

$\pi r \llbracket use \rrbracket^4$ = Credit usage

$\pi \llbracket raccess \rrbracket^4$ = Access to credit.

$ef_0(MED_8)$ = Microenterprise development



Source: Field data analysis, 2014

- ◇ H_0 : A microenterprise location is a good determinant for access to credit
- ◇ H_1 : A microenterprise location is not a good determinant for access to credit
- ◇ H_0 : A microenterprise location is a good determinant for credit utilisation
- ◇ H_1 : A microenterprise location is not a good determinant for credit utilisation

Table 5. 10: Coefficients

What was the loan amount you accessed from the microfinance company		Standardized Coefficients	T	Sig.
B	Std. Error	Beta		
2.186	.197		11.113	.000
-.007	.089	-.007	-.079	.938
What did you use the loan for		Standardized Coefficients	T	Sig.
B	Std. Error	Beta		
1.697	.167		10.158	.000
-.196	.076	-.220	-2.586	.011

Source: Fieldwork data analysis, 2014

To assess the relationship between microenterprise location and its access to credit, F_4 and $\pi \llbracket raccess \rrbracket ^4$ were entered into SPSS for analysis. Outcomes of the regressions analysis shown in **table 5.10** indicates that relationship between F_4 and $\pi \llbracket raccess \rrbracket ^4$ are positively correlated (**0.00<0.05**). Following these outcomes, the microenterprise location (F_4) and credit usage ($\pi r \llbracket use \rrbracket ^4$) were then entered into SPSS and analysed to determine if similar positive relationships existed between these two variables too. The results from the second analysis as compared to the first are the same (**0.00<0.05**)(**Table 5.10**). It was determined that in the case of a microenterprise location`s impact on access to credit, the alternative to the null hypothesis was accepted- H_0 : A microenterprise location is a good determinant for access to credit. Similarly, the alternative to the null hypothesis for determining relationships between microenterprise location and use of credit was accepted- H_0 : A microenterprise location is a good determinant for credit utilisation. Therefore, the regression analysis suggests that the F_4 function facilitates $\pi \llbracket raccess \rrbracket ^4$ and ($\pi r \llbracket use \rrbracket ^4$ in the ($ef_0(MED_8)$) process.

5.4.5 Discussions

Microfinance plays a key role in the development of microenterprises in developing countries (Caudill, et al., 2009). Poverty alleviation is generally suggested as the key driver for MFI`s reach out to clients (Shastri, 2009). However, this research analysis of scope and nature of MFI`s credit decisions and various evidence gathered from some aspects of the microfinance literature, show that lender characteristics such as age, gender, level of formal education and location of a microenterprise may impede or facilitate its access and utilisation of MFI`s services (Hunt, 2002 and; Brett, 2006). Furthermore, interpretation of the research results supports earlier evidence of a lack of investment-financing for microenterprise from banks, largely due to absence of collateral. According to Karlan and Zinman (2011) the unmet credit demand of microenterprises made MFI`s to start a financial market system that is supported by social contracts to help overcome microenterprise access and credit utilisation problems. As argued by Ssendi and Anderson (2009) microenterprises lack collateral for bank credit thus, social collateral may be a major impetus to facilitate access and use of microfinance to spur microenterprise growth. Potentially indicating the wide growth trend of MFI`s identified in the findings of this research supports the

recent surge in MFI's to alleviate microbusinesses financing constraints (Hartarska and Nadolnyak, 2008).

More so, this experiment detected evidence that suggest level of education of a microfinance beneficiary can be useful in facilitating greater access and utilisation of microfinance. Especially, when using informal contract methodologies arrangements, as so can the business location of a microenterprise and presence of credit information sharing systems (Beck and Demirguc-Kunt, 2006). Similarly, Sanyal (2009) demonstrated that a lack of collateral and gender that impede microenterprise access and use of credit have improved through the use of social contract methodologies. Therefore, strong relationships identified between social contracts and leading factors that facilitate or constrained access and use of microfinance in the literature are similar to the findings in this study. Interestingly, consistent with other researches (Akoten, et al., 2006; Sanyal, 2009 and; Agier and Szafarz, 2013) the result of this study provides a wider scope to experiment lender characteristics that facilitates or impedes access and the productive utilisation of microfinance by microenterprises.

Giving the differences in cultural and social environments of MFI's operators, the role of factors and conditions that facilitate or constrain access and utilisation of microfinance may likewise, vary due to social and cultural context dynamics. For instance, the findings in this study showed that age is not a good determinant for providing or denying credit in Ghana. The data analysis also found no supporting relationships between microenterprises use of loans and age of the micro-entrepreneur. There are similarities between relationships found for age, access and credit utilisation, in this study and the credit-beneficiary age relationships described by (Blumberg and Letterie, 2008). Blumberg and Letterie (2008) found that age of a microenterprise owner does not affect the probability of denial or provision of credit from MFI's. Therefore, prior studies and outcomes (Van Bastelaer, 2002 and; Akoten, et al., 2006) that have noted the importance of age as a key driver for access and use of microfinance may be applicable to the context in which the age factor was analysed. Van Bastelaer (2002) found that in India although, social capital facilitated the poor's access to credit, repayments rates decreased as the age of the borrower increased. Using regression analysis, Akoten, et al. (2006) found adequate

evidence that suggest age of a micro-entrepreneur impacted credit access for microenterprises in garment clusters in Nairobi. This means that the severity of age as a constraint for access and use of credit is context specific. A comparison of the present findings and previous studies that have tested the impact of age on access and use of microfinance therefore, shows that age impact is relatively linked to the geographical and social context of a micro-entrepreneur. However, age is not an institutionalised determinant among MFI's for microenterprise access and utilisation of finance.

Kim, et al. (2006) earlier findings in the reviewed literature confirms the outcomes found in this study that shows a micro-entrepreneur's level of education is a good determinant for credit utilisation. Their analysis in the United States supports a statistically significant relationship existed between advance education and productive use of credit in enterprising activities. In their view therefore, microenterprises whose owners had advanced education gained significant advantage in their growth process. Similarly, Nunoo and Andoh (2011) found that microenterprise recipients of financial education in Ghana had positive relationships with use of financial products. In the same way, Fazoranti, et al. (2006) stochastic frontier production function results demonstrates that level of education constitutes a major determinant in the technical efficiency of microenterprises-this includes administration of borrowed funds and revenue generated through enterprising activities. However, some researchers have found that relationships between level of education and credit utilisation are either modest or negative (Simanowitz, 2003). It has been argued that limited impact exists between a micro-entrepreneurs level of education and credit utilisation, but rather using credit for domestic consumptions leads to microfinance profligates (Imai, et al., 2010). Against this background, Gokhale (2009b) suggested that profligates in microfinance are connected to inability of recipients to provide for their own consumption and health needs. Duvendack, et al. (2011) analysed impact of level of education on credit utilisation and reported limited relationships between education and credit use on the one hand, and significant positive relationships between least optimal microenterprise investment and domestic consumption. Interestingly, the above three studies, where relationships are found to be modest or negative between education and credit utilisation, are secondary researches. Given the obsolete nature of some secondary

data, it is difficult to construct a research base on this data that adequately examines micro-entrepreneurs education impact on credit utilisation (Hair Jr, et al., 2011). Thus, analysis and outcomes of this primary research that used qualitative and quantitative data and tools have covered a wide dimension that supports strong analysis and findings.

Findings of this study have also revealed that relationships between a microenterprise owner's level of education and access to credit are positively correlated. These outcomes corroborate a great deal of previous evaluations that demonstrated strong relationships existed between level of education and access to credit. For example, Kumar and Francisco (2005) triangulated MFI's credit data and identified recurring patterns that matched more educated managers with greater access to finance and less educated managers with limited access to finance. Similarly, McKenzie and Woodruff (2008) used a randomised experiment to test financing prospects for microenterprises. Analysis and outcomes of their test showed owners with more education were likely to report access to credit as a modest constrain. Moreover, Karlan and Valdivia (2011) found that education improves the managerial preparedness of microenterprises to access finance that spur their growth. The existing evidence of value of an owner's education on resource access thus, further strengthens the positive correlations identified between education and microenterprise finance in this research. Although findings have been somewhat consistent, Kim, et al. (2006) argued that high level education of a microenterprise owner reduces the incentive to apply for a loan but does not lead MFI's to deny or provide credit. This therefore, means that though education may improve credit utilisation it does not contribute to the prospects of access finance from MFI's. Comparison of the two researches showed that unlike this study which used a mixed method approach, Kim, et al. (2006) adopted a quantitative research approach for their study. The quantitative analysis thus, limited the ability of the research to capture the lived experiences of micro-entrepreneurs on characteristics that facilitate or constrain financing. This is because often, conducting a quantitative study alone fails to provide participants the opportunity to express their personal experience in their own lived way (Creswell, 2013).

This research have established positive connection between MFI's and their subjective preference for female microenterprise owners, but found negative

associations for gender and credit use. Similarly, De Mel, et al. (2009b) and; Coleman and Kariv (2013) found that gender has limited or no impact differences in ability, risk aversion and entrepreneurial attitude of microenterprises. Indeed, in the view of Saridakis, et al. (2014) gender-based explanations have exaggerated the importance of social factors in entrepreneurial choices made by women. Although, Pelger (2012) found that female-owned SME`s are less likely to invest, he concluded that the investment differences could not be entirely explained by firm or owner characteristics. However, Brana (2013) argued there is adequate evidence that support greater access to microfinance for females. Credit rationing studies conducted at the household level and based on response from MFI`s credit recipients presented similar bias preference for female micro-entrepreneurs (Fletschner, 2009 and; Calcagnini, et al., 2012). After examining and analysing a detailed database of credit activities for a MFI in Brazil, Agier and Szafarz (2013) identified a subjective gap in gender loan size. Other gender credit analysis outcomes and those found in this research show that effects of progressive institutional development and monitoring of MFI`s loan officers on gender bias are negative (Beck, et al., 2011; Agier and Szafarz, 2013 and; D'espallier, et al., 2013).

Findings of the current study show that location is a good determinant for both access and utilisation of microenterprise finance thus, the outcomes supports Shaw (2004) who argued that rural microenterprise ability to utilise credit to develop is constrained due to absence of lucrative markets and infrastructure. These observations are also consistent with Karnani (2007) who found that despite the large presence of MFI`s in poor countries, ability of microenterprise to increase productive investments and access credit still remains weak in rural areas of these poor countries. Furthermore, a previous study of small-business financing found evidence that indicate location of microenterprises may determine their loan application outcomes with MFI`s (Kim, 2006). Kuzilwa (2005) conducted a combined case study in Tanzania to assess the role of credit in generating microenterprises for a population often without credit information. He concluded that due to information asymmetry problems faced by MFI`s, location constitutes a major factor for determining microenterprise access to finance. Therefore, the overall results are consistent with positive location impact for urban microenterprises and negative impact for rural microenterprise access and use of finance.

5.5 Analysis of existing Models used by Microfinance Institutions in Ghana to Deliver Finance to Microenterprises

Results from questionnaire survey

To analyse the models used by MFI's to provide credit in Ghana, a questionnaire was used to collect data from the credit beneficiaries on loan methodologies. A descriptive analysis of the responses collected from the participants showed that major models used by MFI's are the individual lending and group guarantee models. The respondents were also asked to state the model that currently applied to them. The descriptive data in **Table A. 11** (appendix 1) shows that some 99 microenterprises (73.9 percent), which is over half the microenterprises that participated in the questionnaire survey, are operating the group guarantee model. The rest of the 26 microenterprises (19.4 percent) were found to be operating individual lending model. The descriptive results from the same **Table A. 11** (appendix 1) shows that 9 microenterprises, which is 6.7 percent of the 134 microenterprises surveyed operated other models either than the two traditional models used by MFI's in Ghana.

At this point the study wanted to measure the freedom and participation of microenterprise in the credit model selection process. Thus, microenterprises were asked to indicate their role and what informed their selection of models. Over three quarters (105 or 78. 4 percent) of the microenterprises stated that it was based on only that model the MFI agreed to provide finance to them (**Table A.12**). Another 16 microenterprises (11.9 percent) said they were made to choose their models and their decision was based on what model worked for the business. 8 microenterprises (6 percent) selected their models with help from family members and friends. The remaining 5, which constitutes 3.7 percent of the microenterprises surveyed selected their models with support from the MFI staff.

The microenterprises were also asked whether there is a relationship between credit interest rate and type of lending model. Whereas, 79.9 percent (107) of the microenterprise believed the type of model was a factor for determining interest rates, 20.1 percent (27) of the microenterprises believed it did not; they stated that interest rates are kept standard (**Table A.13**). The 107 microenterprises that said the

type of model impact interest rate were then asked to indicate which model attracts the most interest. **Table A.14** compares the results obtained from analysis of interest rates: 80 microenterprises (79.4 percent) thought operating the group guarantee model attracted higher interest rates whilst, the remaining 27 microenterprises (25.2 percent) said individual lending attracted much higher interest. Interestingly, a simple descriptive analysis of whether the model worked for the business showed that 86 microenterprises (64.2 percent) thought it did and, 48 microenterprises (35.8 percent) thought it didn't (**Table A.15**). At this point the microenterprises were then asked for their preference of lending models for future credit. **Table A.16** shows the breakdown of microenterprises according to their preference. 70 of the microenterprises (52.2 percent) surveyed prefer individual lending for future loans; 37 microenterprise (27.6 percent) prefer group lending for future loans; and 27 microenterprises (20.1 percent) prefer to borrow through other lending methods in the future.

5.5.1 Discussions

Outcomes of the above findings suggest that generally, MFI's in Ghana use group and individual lending mechanisms to provide credit to microenterprises. Perhaps, it is because individual and group lending methodologies strengthens borrowers' incentive for diligence (Giné, et al., 2010). In particular, group lending provides MFI's an efficient way to limit adverse impact of transactional cost on clients and exposure to risk that confront providers of microfinance (Dusuki, 2008b). It is encouraging to compare similarities in these current findings and those expressed by Hermes and Lensink (2007) in their analysis of information asymmetry in microfinance. They argued that often, group and individual lending mechanisms appeal to MFI's operating in areas such as Ghana. This is because most MFI's clients are subprime borrowers and constitutes a business risky portfolio. As a result, joint group liability approach is exploited by MFI's to solve problems of adverse selection and moral hazards through peers screening and monitoring. Whilst, individual lending improves MFI's ability to be more profitable and avert risk through charging high interest rates. What is surprising is that both studies found individual lending approach increasingly focus on wealthier clients, which perhaps defeats the aim of microfinance to provide credit to the poorest of the poor (Kirchgeorg and Winn, 2006).

There are some interesting studies that appear to undermine the role of group lending model in eliminating information asymmetry problems. For instance, Werner (2010) argued that active selection of joint liability contracts do not systematically increase cooperation as claimed. Furthermore, it is his view that repeat-lending based on repayment success in group lending impacts negatively on the efforts levels of the remaining members. Even more crucial is the fact that Sengupta and Aubuchon (2008) experiment detected newly formed groups of relative strangers lacked the social cohesion to enforce contract payments. Nonetheless, it appears these opposing findings do not necessarily diminish the appeal or constrain surge of group solidarity use in the microfinance development process. This is because Sengupta and Aubuchon (2008) and others (Columba, et al., 2010 and; Vasanthakumari, 2012) later admitted that innovation in group lending and dynamic incentives have enabled MFI's to successful lend to the poor that is ignored by traditional banks due to a lack of collateral. Against this background, Cassar and Wydick (2010) argued in support of the current study that although, group lending have perverse effects in places such as; India, Guatemala, Armenia, the Philippines and Kenya; group solidarity positively and significantly impacts microfinance loan contribution rates. Similarly, Schurmann and Johnston (2009) analysis of social exclusion theory in the context of microfinance provision showed mixed results. In some instances, it was found that group solidarity mitigates exclusionary processes to the advantage of group members whilst, in other cases it worsen social exclusionary processes to their disadvantage. Therefore, Hermes, et al. (2005) concluded that in group lending, oversight social problems often arise, but with a modest negative effect on group solidarity approach.

It was found that MFI's in Ghana use of group lending mechanism in loan disbursement is widespread compared to individual lending. In particular, this study revealed that where groups are allowed to form themselves, subprime and safe borrowers will sort themselves into relative homogenous groups, and this makes it easier for MFI's to lend (Guttman, 2008). The findings also show that appropriate parameter configurations such as homogenous group-formation in microfinance help lenders to identify and eliminate bad borrowers as pointed out by Chowdhury (2007). In the same way, group lending help group members to collect information on each other's economic activities and use of funds-information to which MFI's have limited

access to (Guttman, 2006). Therefore, credit market failure to overcome information asymmetry problems is eliminated. These results are also consistent with Mersland (2009) who found in a panel data analysis that outreach is higher with group lending than individual lending. Also, Bhole and Ogden (2010) demonstrated that if targeted penalties exist for individual group members, then group lending will present a better opportunity cost of capital. This is because increasing peer monitoring efficiency tools may have no effect on the group lending arrangements thus, will not be required and such associated cost will be eliminated.

Unfortunately, the current study findings supports that majority of microenterprises do not have control over the type of models they operate. Often, lending models are selected for microenterprises by MFI's as a conditions of credit-their capacity to decide and empowerment to develop is constrained by this action. This finding corroborates Onyuma (2008) and Jurik (2008) who found that micro-entrepreneurs and their microenterprises experience limited participation in decision making process. This impedes microenterprise capacity to choose credit and investments that work for them. Moreover, Kantor (2005) argued that lack of power and control are barriers that impede microenterprise growth-their absence hinders microenterprise ability to find and use their own resources. Therefore, in accordance with the present investigation, previous studies corroborate that limited decision making ability may decrease empowerment outcomes for microenterprises.

Results of the descriptive analysis further indicate that interest rates on loans varied depending on the model. Also, a positive relationship was found to exist between group guarantee lending mechanism and high microfinance interest in Ghana. According to Rahman and Rahim (2007) microfinance has a significant role to play in the development of microenterprise without charging interest. Therefore, a positive nexus between excessive interest and group lending approach may constrain this effort. Beside, these observations are consistent with Cheng (2007) who argued that the benefits of the Grameen group guarantee model was at variance with the increased borrowing cost micro-loan borrowers experienced in China as a result of its use. Furthermore, Rahman and Rahim (2007) found that group lending is constrained by high interest and a lack of scientific basis for loan pricing. Against this

background, it is generally concluded that group guarantee lending interest, sometimes as high as 300 percent is an unproductive practice (Belwal, et al., 2012).

Contrary to expectation this study have not been able to demonstrate that the major lending mechanism (group collateral) of MFI's in Ghana did not work for microenterprises. This is somewhat surprising results given the fact that the observed effects of absence of scientific loan pricing policy and high interest of group credit impacts negatively on microenterprises in other places (Guangwen, 2007; Bateman, 2010 and; Banerjee, et al., 2013). Thus, it is difficult to explain these findings in view of the barriers presented. However, such results may be related to the fact that MFI's are the only credit providers willing to offer microenterprises finance; which is better than none. Be as it may, the results agree with the findings of other studies. Sanyal (2009) and Duvendack, et al. (2011) have both demonstrated that MFI's group and individual lending have potential to promote economic activities for the less privileged. For instance, group lending contracts have limited the barriers of information asymmetry and absence of collateral for microenterprises to enter formal credit markets in some places (Hartarska and Nadolnyak, 2008 and; Sarangi, 2014).

5.6 Design of Conceptual Model for delivery of Microfinance for Microenterprise Development in Ghana

Results from face-to-face Interview

Consistent with the research objectives (see 1.2.2) data was collected from a control and treatment group through face-to-face interviews (see **Appendix B**) with the aim to design an eco-lending model that focus on establishing an interconnected system of market actors that can provide multiple financial services to microenterprises. Descriptive analysis procedures were followed to explore and present the profiles of the respondents. Afterwards, a content analysis was conducted to map the performance of control, treatment and randomly selected microenterprises that benefited from microfinance services.

The variables explored in this analysis include; products of beneficiaries, financial services, business skills, networks, markets and lending circles.

Analysis of the first face-to-face interviews shows that the compositions of the respondents are: control group (4); treatment group (4) and randomly selected microfinance beneficiaries (2). The control and treatment groups respondents are all based in Dome and Circle whilst, the randomly selected beneficiaries are found in Odorkor. Both the control (3 females out of a group of 4 beneficiaries) and treatment groups are dominated by females (3 females out of a group of 4 beneficiaries). The randomly selected microfinance beneficiaries are made of 1 male and 1 female. All 10 microfinance beneficiaries interviewed stated that they didn't receive any previous formal education or qualifications.

Though all of the interviewees indicated that their first microfinance credits were received in 2012, they were received at different times in this year. From the control group, 3 received the credit in May; the same month 2 of the treatment group received their credit. The remaining from the control (1) and treatment groups (2) received their first credit in July. Those that are randomly selected received their first credit in June of the same 2012. Distributions in terms of nature of business showed that both the control and treatment groups trade in similar products. The three major trades they are engaged in are; sewing (control group-1; treatment group-1); cloth retailing and cooked food (control group-2; treatment group-2; random beneficiaries-2); Sewing and cloths (control group-1; treatment group-1).

According to those from the treatment group they were provided with pre-credit inductions and trainings that enhanced their understanding of the nature of markets and product demands. This perspective expressed suggests that knowledge from the training supported the microenterprises in conducting feasibility analysis of various businesses before selecting their current trades. For instance, one of the informants (interviewee No.1) said this in support of his choice of current trade;

"The training I received from the credit provider gave me much better insight into the potential profitability of a sewing business that is why I am sewing."

Those from the control and randomly selected groups gave two major different responses that appear to be contrary to the replies from the treatment group. Firstly, four of them (control group-2 and random group-1) explained that they choose their trades based on previous positive experience they encountered with their engagement in the selected trade. Secondly, the remaining from the control (2) and

randomly selected (1) groups said it was because others are engaged in the same trade and are making profit out of it. It may be the case that majority of microenterprises benefit from pre-loan trainings however, in the absence of this training previous knowledge constitutes the basis for choosing a trade.

Measures identified in the qualitative data in terms of administrative procedures and profile checks for participating in credit schemes are generally embedded in the principle of social collateral. The approach of selecting members for their trustworthiness and ability to repay loans backed by intense pressure from the selector was an appropriate strategy that induced loan repayment. This is because all the microfinance users were found to have been recommended to the credit scheme by prominent leaders in the community. It is possible the reason for their recommendations to the credit scheme managers was purely based on trust and commitment. This was affirmed in one of the discussions that took place between the researcher and a beneficiary microenterprise (interviewee No.2).

“The elders have entrusted into my care women mobilisations activities in this area and I have never disappointed them so, they all trust me.”

Meanwhile, when the same question was posed to the control and randomly selected groups, their replies were different. Interviewees from both the control (3) and random (1) groups stated that they have established a positive credit profile with other credit providers in the past.

It appears a good repayment character was important in the loan provision process. This is because the microenterprises did not only depend on a good credit history to receive loans; they sometimes sort support from community leaders to endorse their loan applications. Abbink, et al. (2006) found that where a good repayment character is established often defaults rates are low. Similar findings have been observed during discussions with both the control and treated microenterprises in this study. Therefore, in the absence of group collateral nomination of loan applicants by community leaders becomes an additional strategy for providing individual loans to microenterprises. Indeed, there was a sense of dreadfulness and pressure among microfinance beneficiaries that are nominated by community leaders to repay the loan. Perhaps, these outcomes also reflect the argument that in a community setting with high level of social cohesion, pressures from peers and community leaders

becomes an appropriate strategy for enforcing loan repayment (Cassar and Wydick, 2010).

5.6.1 Pattern Matching

Results from questionnaire survey

A survey of both control and treatment group was conducted one and half years after receiving credit and set-up of microenterprises. Thus, the set of results predicted from the quantitative data in the context of group and differentiated lending is compared with the qualitative data results to determine the outcome relationships in the data set. **Table 5.11** below compares some microfinance services provided and their possible outcome impacts for microenterprises in a control and treatment group exercise. The experimental data shows loans and other services were provided to microenterprises in the treatment group in trenches whilst, those microenterprises in the control group received their credit and services in one go. From 1 to 6 months microenterprises in both treatment (Gh. Cedis 100-999) and control (Gh. Cedis 1,000-4,000) groups received their first loans. Capital stock and asset value of the treatment microenterprises was between (Gh. Cedis 100-999). Within the same 6 month period microenterprises in treatment group received between 1 to 3 training sessions, 1 savings account and were introduced to between 2 to 4 social networks by the MFI. The microenterprises within the control group were also provided with a single training, 1 savings account and were introduced to 1 social network by the MFI. Capital stock and asset value of the treatment microenterprises was between Gh. Cedis 1,000-4,000).

One year on the microenterprises in the treatment group again, each received loans ranging from between (Gh. Cedis 100-999). Their capital stock and asset value increased to between (Gh.Cedis 1,000-2500). Those in the control group received no credit, no training and were also not introduced to additional social networks by a MFI. Their capital stock and asset value decreased to between (Gh.cedis 1,000-3,000).

By one and half years, the capital stock and asset value of microenterprises in the treatment group had increased to between (Gh.cedis 1,500-3,000) whilst; those microenterprises in the control group experienced a decrease in capital stock and

asset value to between (Gh.cedis 1,000-2,000). The treatment group at this period again received between 1 to 3 training sessions and were each introduced to an additional social network by the MFI. None of these services was provided to microenterprises in the control groups at this point.

Table 5. 11: Descriptive Analysis of Credit Recipients Performance					
Groups		Treatment	Control	Treatment	Control
[capital stock] _{(i T1) [assets value] _{(i T2)		Range (Gh. cedis)	Range (Gh. cedis)	Capital Stock/Assets value (Gh. cedis)	Capital Stock/Assets value (Gh. cedis)
	Less than 6 months:				
	▪ Loan	100-999	1,000-4,000	100-1500	1,000-4,000
	▪ Training	1-3	1		
	▪ Social Network	2-4	1		
	▪ Savings	1	1		
	1 year on				
	▪ Loan	100-999	-----	1,000-2500	1,000-3,000
	▪ Training	1-3	-----		
	▪ Social Network	1	-----		
	▪ Savings	1	-----		
	1.5 years on				
	▪ Loan	100-999	-----	1,500-3000	1,000-2,000
	▪ Training	1-3	-----		
	▪ Social Network	1	-----		
	▪ Savings	-----	-----		

Source: Field data analysis, 2014

5.6.2 Discussions

Findings from this study indicate there is a limited positive relationship between group loans and both development of micro-entrepreneurs welfare and microenterprises in Ghana. These findings supports Giné, et al. (2010) who suggests MFI's group lending discourages spending on domestic expenditures and creates excessive pressure on microenterprise clients. It also confirms the view that micro-

entrepreneurs lack resources to cater for household expenses so, they sometimes use part of their loans to acquire household items that improve their quality of life (Agier and Szafarz, 2013). According to Reijonen and Komppula (2007) micro-entrepreneurs' perception and attitude of success shows that making a living is important, but going beyond that is not often seen to be of great concern. Therefore, Mahjabeen (2008) have argued that microfinance ability to improve welfare of micro-entrepreneurs creates a path to exit poverty. Shirazi and KHAN (2009) seem to agree with this view too; they argued that in some places microfinance have reduced poverty of up to 3.05 percent among micro-entrepreneurs within a short time. However, microenterprises are sometimes denied repeat loans by MFI's to discourage microfinance profligates. According to Alexander (2006) MFI's are willing to repeat a loan once a positive outcome is realised from direct investment of credit in economic activities. Against this background, Melzer (2011) argued that MFI's have created a trade-off between improved quality of life and quantity of investments. Therefore, Dichter, et al. (2007) concluded that MFI's credit terms and conditions impedes micro-entrepreneurs ability to pay important bills. Contrary to theoretical predictions, further evidence from the present study suggest that where microfinance is disbursed in trenches using a differentiated (or individual lending) approach, micro-entrepreneurs are able to meet consumptions and microenterprise development needs at the same time. Perhaps, sequential lending rules as argued by Cason, et al. (2012) provides similar empirical performance required to reduce poverty and develop microenterprises. Interestingly, Lehner (2009) predict that differentiated (or individual lending) and trench disbursement approach will gain more importance and their use will surge in the future to help solve microfinance profligate problems.

Analysis of optimal credit lending levels and group methodology over time by the current study therefore, failed to prove that microenterprises achieve significant gains. In particular, the one-off loans provided to microenterprise and "productive-use-of-credit" criteria followed by MFI's to select clients for repeat lending is not consistent with the needs of microenterprises (Bakhtiari, 2011). Furthermore, findings in the current study showed that individual lending outperforms group lending, and often microenterprises prefer the former. Outcomes of this comparison analysis are consistent with (Armendáriz de Aghion and Morduch, 2000). Therefore,

this study tries to develop the concept of an eco-lending approach that will help determine appropriate programs for microenterprise projects. Where; credit, social capital, training and savings are seen to be provided to microenterprises in uninterrupted trenches and at optimal lending levels that are suitable for their growth. Moreover, the conceptual framework provides a guide to anticipate the consumption needs challenges of micro-entrepreneurs that require microfinance attention to solve (Dellien, et al., 2005). Thus, this eco-lending approach will enable micro-entrepreneurs satisfy welfare needs whilst, accumulating their own capital and nurturing business ideas to develop microenterprises. For instance, continues training as proposed in the model will nurture business ideas, skills and capacity to develop a microenterprise. Also, the proposed addition of social networks over time, have the potential to create cooperative groups to promote trade among MFI's clients. Positive interactions of the cooperatives will improve resource allocation and provide market diversifications that stimulate local economic growth (Khandker, 2005). The co-operatives developed through social networks (**Figure 5.8**) may also constitute export committees that facilitate the microenterprises to export products and services outside the local economy. According to Alvarez (2004) export committees have often impacted positively on performance of small and microbusinesses. **Figure 5.7** further analyse the overall framework of the eco-lending system proposed, its sources of resources, investments patterns and the management process.

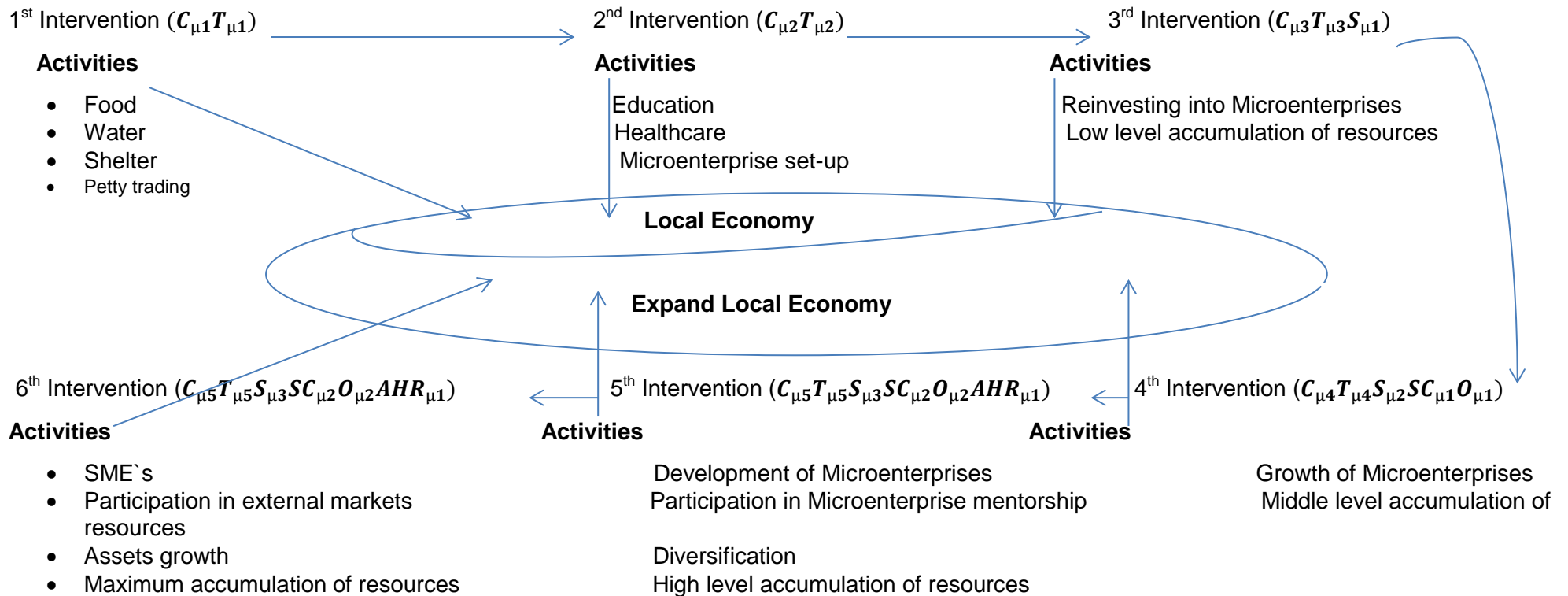
There are similarities between the model proposed by the current study and Ahlin and Jiang (2008) "graduate rate" approach, which they described as a rate at which the self-employed build up enough wealth to start up full-scale firms. More so, Kuzilwa (2005) have demonstrated that microenterprises that receive training and extension advice perform better than those that did not. Furthermore, Nawaz (2010) conducted a study and found that current MFI's services have limited impact on microenterprises. He concluded that to make microfinance an effective tool for microenterprise development; skills training, credit, education and other related services should be provided at continuous uninterrupted intervals. Hence, there is sufficient evidence that ground the model and supports that it has potential to meet the finance needs of microenterprises.

Figure 5. 7: Creating Ecosystem to Exit Poverty

Source: Author, 2014.

Ecosystem of Lending

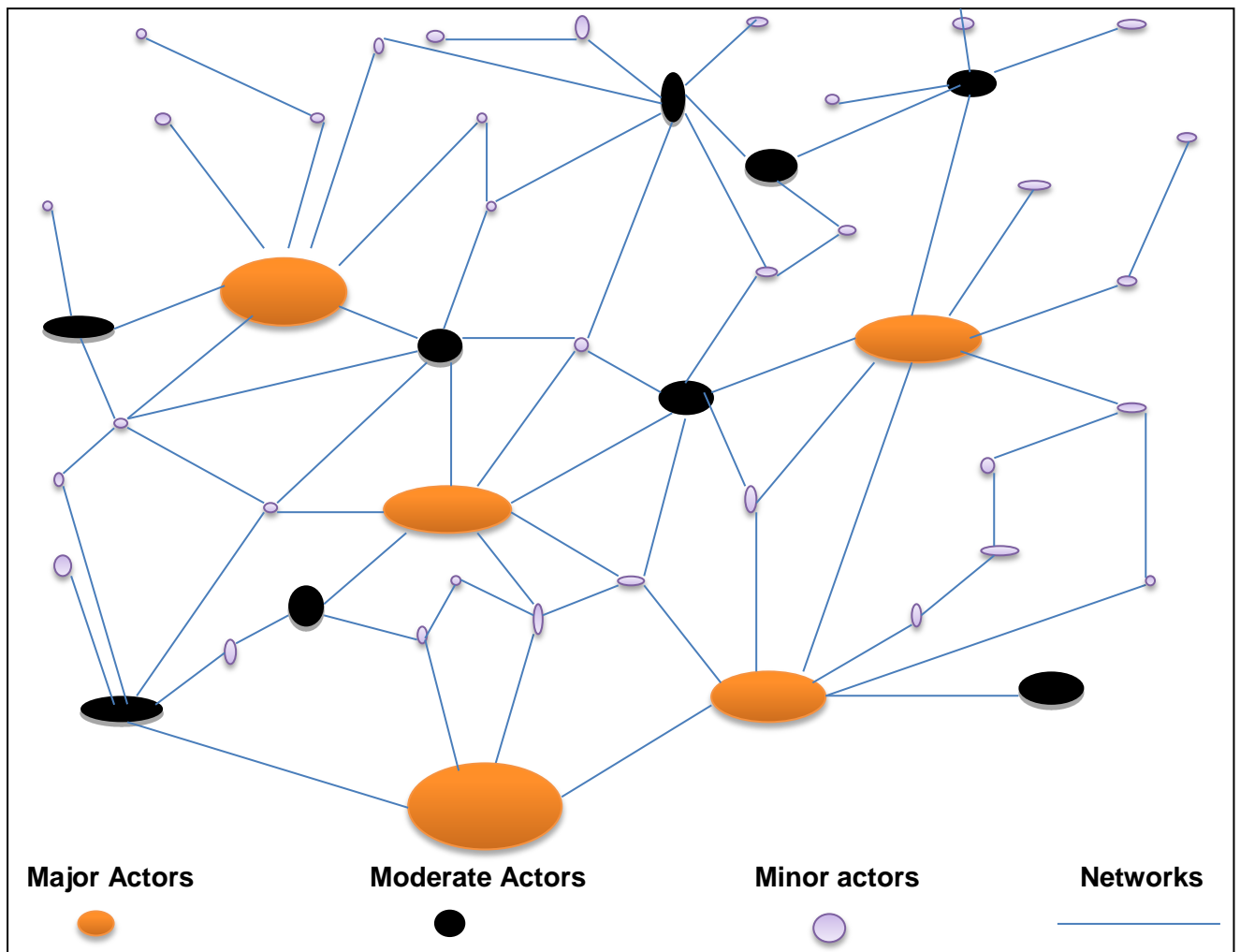
$$PP = \sum_{NFP=0(0)}^{FFPE} (C_{\mu neg} T_{\mu neg} S_{\mu neg} SC_{\mu neg} + O_{\mu neg} AHR_{\mu neg})$$



$$AP = \sum_{NFP=4(2)}^{FFEP} (C_{\mu POS} T_{\mu POS} S_{\mu POS} SC_{\mu POS} + O_{\mu POS} AHR_{\mu POS})$$

PP= Presence of Poverty FFPE= Factors Facilitating Poverty Exit NFP= Number of Factors Present C_{μ} = Credit T_{μ} = Training S_{μ} = Savings
 AP= Absence of Poverty SC_{μ} = Social Capital O_{μ} = Opportunities AHR_{μ} = Attitude to Risk neg = Negative pos = Positive

Figure 5. 8: Using Social Networks to Unlock Business Opportunities



Sources: Author, 2014.

Network science theory as described by Lewis (2011) is an interaction process involving similar actors that aim to share unique capabilities. Thus, the social network analysis approached is applied to provide an understanding of various actors, roles and dynamics in this Ecosystem of Lending. **Figure 5.8** above is used to illustrate network of business communities, their interaction processes and exchange of capabilities. Often however, information asymmetry problems make it difficult to collect sufficient data that will help assess the credit worthiness of micro-entrepreneurs and their microenterprises. A technique that can be used in such a situation is snowballing; where a formal feature of an actor attracts a matching feature of another category actor (Aboh, 2004). The aim is to identify few key individuals that have been scrutinised by the community leaders and recommended base on trust to the microfinance provider. Over time, the microfinance providers

then build a network of clients based on the information the key individuals provide about these clients-joint liability does not apply here.

Some key questions are analysed by the credit provider to address envisaged challenges emerging from social network dynamics. For instance, what are the practices and patterns of existing social structures in the community; are they centralised or decentralised? An understanding of this question will enable the finance provider determine if these structures are adoptable or they can be disrupted and new ones formed. The finance provider at this stage has to identify the centralised actors in these social networks and to analyse them. It is important for them to know if these actors are connected to other individuals or networks that will provide them access to resources (individual actors, employees, financial services, skills training, political power). What is their role in the community? Are they major brokers and do they have power to disseminate information? Understanding these questions will help the credit providers focus on major actors and to determine their level of power and sources of power.

With this information, the finance provider will be able to create strategic social network relationships in the community based on trust. A spread of these network relationships in the community and beyond will enhance flow of information about products, prices, regulations and other market conditions. Influence and contacts of major actors within the networks will provide moderate and minor actors with access to new markets, finance, business advice and government support services. As shown in **figure 5.8** the actors are highly decentralised. Actors in close communities are more connected to each other than to their counterparts in distant communities. The significance of few major actors or brokers are highlighted to emphasis their role in the networks. Identification and analysis of major actors provides an understanding of the types, nature and extent of trade in the networks. The dynamics unearth will indicate how integrated the local economy is, what dependencies and market weaknesses exist and the role of each network in promoting economic activities that will lower poverty in the local economy. Moreover, this process will help to identify absence of important needs and particular markets in which investments are urgently required.

5.7 Future, Growth and obstacles to Microfinance and Microenterprise Performance in Ghana

Results from the questionnaire survey

The microenterprises were asked about the pressing problems they are currently confronted with. From the study results (**Table A.17**) many of them considered access to financial services (34.3 percent) and cost of production (28.4 percent) to be the most pressing challenges. Also, constraining factors such as; competition (15.7 percent); weak microfinance models (5.2 percent); lack of business networking (5.2 percent); lack of relevant employee skills (1.5 of percent) and lack of appropriate regulation (1.5 percent) to protect microenterprises were indicated. 8 percent of the microenterprises thought other indirect factors constituted a major challenge to the business.

Table A.18 shows that in spite of the MFI's model constrains majority of microenterprises (92 microenterprises or 68.7 percent) will still go to MFI's for extra finance to realise their growth ambitions. 28 of the microenterprises (20.9 percent) surveyed indicated that they will rely on commercial banks in the future for finance. The remaining microenterprises said they will rely on trade credit (6 microenterprises or 4.5 percent); shareholders (6 microenterprises or 4.5 percent) and family/friends (2 microenterprises or 1.5 percent) to finance their future projects. Thus, to predict the availability of the above forms of credit in the future, microenterprises were asked to indicate their opinion about the state of these credits in the future. Results of the analysed data (**Table A.19**) shows that 83. 6 percent (112) of microenterprises believed internal finance will improve; 14. 9 percent (20) believe internal finance will remain unchanged and 1.5 percent (2) believes internal source of finance will deteriorate in the future. On the state of microfinance (**Table A.20**); 63.4 percent (85) are of the opinion that microfinance will improve; 29.1 percent (39) believe microfinance will remain unchanged and 7.5 percent (10) are of the opinion that the prospects of microfinance will deteriorate in the future. The future state of commercial bank credit as indicated by microenterprises is illustrated as follows (**Table A.21**); commercial bank finance will improve (41.8 percent); commercial bank finance will remain the same (48.5 percent) and commercial bank finance will deteriorate (9.7 percent). The state of future trade credit is also anticipated by microenterprises to be as follows (**Table A.22**); 29.1 percent believes this credit will

improve; 57.5 percent believe it will remain the same and 13.4 percent are of the view that the state of trade credit will deteriorate in the future. The results in **Table A.23** shows that 35.8 percent (48) microenterprises think private funds from shareholders will improve in the future; 57.5 percent (77) microenterprises think shareholder funds will remain the same; and 6.7 percent (9) microenterprises think shareholder funds will deteriorate in the future. Finally, the state of family/friends funds in the future was predicted as follows (**Table A.24**); 35.1 percent (47) of microenterprises say this source of funds will improve; 48.5 percent (65) say these funds will remain the same; and 16.4 percent (22) say family/friends funds will deteriorate in the future.

To analyse the future finance ambition of the microenterprises, they were probed further to determine how much financing they will aim to obtain from the above stated sources in the future. **Table A.25** compares the experimental data of finance ambition of the microenterprises. 41 percent (55 microenterprises) will take between 1,000 to 4,999 Ghana cedis; 27.6 percent (37 microenterprises) will take between 5,000 to 9,999 Ghana cedis; 12.7 percent (17 microenterprises) will take less than 100 Ghana cedis; 11.2 percent (15 microenterprises) will take 10,000 Ghana cedis and above; and 7.5 percent (10 microenterprises) will take between 100 to 999 Ghana cedis. The microenterprises were then asked to determine what may constrain their access to the anticipated future finance. **Table A.26** provides the summary statistics of factors that may limit access to microenterprise finance in the future. Insufficient collateral was considered the most important limiting factor (54.5 percent) to future finance of microenterprises. The remaining microenterprises thought interest rates (32.1 percent); reduced control over the business (3 percent); absence of finance (3 percent) and other indirect factors (7.5 percent) will limit access to future micro-entrepreneurial finance.

With this in mind the respondents were asked to predict the growth rate of microenterprises in the next one to two years. It can be seen from **Table A.27** that microenterprises anticipate the following growth patterns; 81 of the microenterprises surveyed predict substantial growth; over 30% turnover per annum will be experienced; 43 microenterprises believe moderate growth; slightly below 30% turnover per annum will be experienced; 9 microenterprises believe growth will

remain the same; and 1 microenterprise believe negative microenterprises growth rate will be experienced in the future.

5.7.1 Discussions

This study found that access to finance and cost of production are major constraints for microenterprises future development. As mentioned in the literature review, Beck and Demirguc-Kunt (2006) identified a similar constraint of poor access to finance as cause for lack of growth in microenterprises. Moreover, Hutchinson and Xavier (2006) found that microenterprises face greater difficulty in accessing external finance to promote growth activities especially, in areas where the financial environment is not fully functional. Other studies in the reviewed literature have also reached similar conclusions. According to Heino (2006) microenterprise liquidity analysis, clear evidence of liquidity constraints that could impede microenterprise creation and growth exist in financial markets of poor countries. In the same way, Roy and Wheeler (2006) identified poor access to capital for microenterprises in urban French West Africa and thus, concluded that these impediments may persist unless broader economic barriers are addressed. Furthermore, there are similarities between the experiences of microenterprise cost traps drawn from analysis of this study and evaluations that identified cost impediments for microenterprise growth. According to McKenzie and Woodruff (2008) prevailing high production cost weakens microenterprise productivity and lowers its ability to overcome minimum-scale investments.

The result of this study indicates that most microenterprises will still rely on credit from MFI's in the future. There are however, other sources of credit such as; commercial banks, shareholder funds, family/friends and trade credits microenterprises aim to tap credit from but on a limited scale. Furthermore, the study results show majority of microenterprises are optimistic their ability to borrow larger sums of finance will improve in the future. The findings in this study to a large extent mirror the views of Mersland (2009) that MFI's supply of banking services to microenterprises will persist. Nonetheless, Midgley (2008) still remains sceptical about microfinance potential to provide microenterprises access to mainstream commercial credit without been incorporated into wider social development projects aimed at poverty reduction. Consistent with this view, this study found that lack of collateral remains

the major challenge to microenterprise access to financial services. A strong relationship between absence of collateral and lack of access to micro-entrepreneurial credit has been reported severally in the microfinance literature (Olaitan, 2006; Green, et al., 2006; Wenner, et al., 2007; Johnston and Morduch, 2008; Karlan and Zinman, 2009; Ssendi and Anderson, 2009 and; Ruddle, 2011).

Interestingly, this study findings confirm that in spite of microenterprises aim to increase MFI's services use in the future, microenterprises internal funds performance is expected to improve over other sources of entrepreneurial finance such as; MFI's credit; family/friends funds, trade credit and shareholder funds in the future. It is difficult to explain this result, but it might be that microenterprises are often optimistic and do not want to envisage reliance on other external sources of finance due to the negative effects that sometimes arise from external borrowing. As Berry, et al. (2001) argued microenterprises that are less reliant on formal or other credit are able to respond more quickly and flexible to sudden shocks than their larger counterparts. Nonetheless, the study outcome is consistent with one of the literatures analysed. Using data panel analysis Padachi (2006) demonstrated increasing trend in the working capital funds generated internally by 58 small manufacturing firms in Mauritius. Moreover, there is strong evidence from this study that suggest microenterprises performance and contribution to economic development will improve substantially in the future. Already, some interesting discussions have been developed in the reviewed literature that agrees with these findings. One of such strong similar discussion and conclusion is provided by Liedholm and Mead (2013) who argued that microenterprises contribution to employment and incomes in developing countries is positive and will experience increase over time.

5.8 Conclusion

Analysis and results of the questionnaire survey and face-to-face interviews show that microfinance impacts microenterprises positively. In particular, MFI's financial services improves microenterprise capital stock, sales revenue, assets and encourages entrepreneurial networking. Although, it is evident in this study that there are strong relationships between microfinance and microenterprises growth, high interest rates charged by existing MFI's weakens the relationship. Business training

and nurturing of business ideas are strengthen from participation in microfinance projects. These outcomes enhance microenterprises efficiency, innovation and support them to be competitive. Aside, gender of micro-entrepreneur, business location and level of education, no other characteristics factor was found that impacts microenterprise access to finance and credit utilisation. Group and individual lending mechanisms are the main models used by MFI`s to supply finance to microenterprises. However, most microenterprises prefer to use individual lending mechanism to avoid joint liability. The study results also provided evidence that suggest the state of microfinance will improve in the future and microenterprises will continue to use microfinance. However, microenterprises expect internal funds to improve over other source of entrepreneurial finance such as; microfinance, trade credit, shareholder funds and commercial bank credit in the future. The microenterprises are optimistic about their growth potential and believe that over time, their contribution to economic development will increase significantly. Finally, the quantitative and qualitative analysis helped to develop an ecosystem lending model that will facilitate the growth of microenterprises that are overlooked by banks.

CHAPTER 6

6.0 CONCLUSION: SUMMARY, FINDINGS, IMPLICATIONS, CONTRIBUTIONS AND LIMITATIONS

Introduction

This chapter provides a summary of findings, policy implications and recommendations reached in this research study. The rest of the chapter is organised as follows; (1) Summary; (2) Findings; (3) Contribution of Study; (4) Policy Implication; (5) Implications for further Research and (6) Limitation of Study.

6.1 Summary

This research collected quantitative and qualitative dataset from 134 microenterprises and 10 microenterprises respectively. Moreover, qualitative data collected from 9 loan officers of the MFI were used to corroborate the relationships outcomes between the provision of microfinance and microenterprise development. The main outcomes of the research findings suggest there is a positive relationship between MFI's services and a positive outcome for microenterprises projects in Ghana. Given the consistence of these results with other results in the microfinance literature that suggest microfinance aid microenterprise development and promote human dignity (Karnani, 2007) the study, concluded that the earnings realised from establishing the microenterprises are used by the poor to improve upon their economic growth, human dignity and wellbeing. Furthermore, the study argues that pre-loan induction, conception and nurturing of enterprise ideas and developing their self-esteem are critical for the success of microenterprise activity. However, it is the view of the investigation that MFI's are lacking behind on nurturing and providing pre-loan inductions to credit recipients. Furthermore, high interest rates charged by MFI's on small loans have negative impact on microenterprise activities and economic performance.

6.2 Findings

Based on the research questions the study collected and analysed relevant data to help achieve the research aim and objectives. Consequently, the following findings

were reached based on analysis of the quantitative and qualitative data collected from the microenterprises and microfinance institution:

6.2.1 Analysis of Relationships between provision of Microfinance and Microenterprises Development in Ghana

- a) With regard to the impact of microfinance on the capital stock of microenterprises, findings from the quantitative analysis show that microenterprises that benefited from the MFI credit experienced a positive return on their capital stock. Moreover, the quantitative analysis found a 95 percent chance that the change experienced in the capital stock of beneficiary microenterprises was as a result of the provision of the credit from the MFI's. Thus, this results shows that the positive capital stock experienced by the credit recipients was not due to chance. In which case, this study has found a positive relationship between small loans and improved microenterprise capital stock.
- b) In the case of the impact of MFI credit on microenterprises gross revenue, it was found from the quantitative results that small loans have the predicted positive effect on the gross revenue of microenterprises. The regression approached used in analysing the relationships between the credit and gross revenue variables found a perfect confidence level in the relationship. This shows that a 95 percent chance have been established that the identified associations between the variables are not due to chance. Given the significantly positive outcome, the study findings indicate a positive relationship between the provision of MFI credit and increase in the gross revenue of the beneficiary microenterprises. Furthermore, findings generated from results of the qualitative data analysis corroborate findings from the quantitative results. The qualitative findings in respect of microfinance impact on microenterprise development are that generally, microfinance improves performance of microenterprise assets.
- c) From the quantitative and qualitative results, training was found to produce a clear benefit for microenterprises. The ANOVA test used to assess the nature of associations between provision of business training and improved

performance of the beneficiary microenterprises produced significantly positive results. Likewise, the directed content analysis conducted on the qualitative data collected indicated positive results. In this context, this study's finding is that where the surveyed microenterprises are provided with business training by the MFI their performance improved. However, findings from the qualitative results show there is absence of pre-loan induction and nurturing of business ideas for microenterprises. The lack of these trainings may have affected the initial development stage of the microenterprises and caused them to slow their growth.

- d) Results from the quantitative Pearson correlations analysis determined that the associations between MFI's savings advice and the improved attitude of the selected microenterprises towards savings was positively correlated. Based on this outcome, this study's findings are that savings advice from the MFI has the potential to improve the savings ability of the microenterprises. However, it was also found that though the provision of MFI savings advice had the potential to improve savings for the microenterprises, absence of surplus resources constrained ability of the microenterprises to increase physical reserves. This was because other factors such as; high interest rates, poor performance of some beneficiary microenterprises and the MFI quick repayment methodology were found to have impeded their ability to generate surplus funds into their savings.
- e) From the quantitative and qualitative study results it was found that presence of social capital supported the microenterprises to improve their performance. In particular, social networks accessed by the microenterprises through introduction from the MFI helped them to improve terms and conditions of credit, gain access to new markets, acquired more and relevant business information, and representation for mediation and arbitrations. Moreover, it was found that these wealth of resources impacted positively on gross revenue and capital stock of the interviewed microenterprises. Thus, this study's findings are that social capital contributed to the increase in the gross revenues and capital stock of the beneficiary microenterprises.

- f) With regard to the microenterprises attitude towards risk and utilisation of opportunity, the results suggest that generally, positive attitude to risk improves performance of the microenterprises. In particular, positive attitude to risk supported some of the microenterprises to exploit rewarding opportunities that appeared to be risky. Therefore, the study findings are that the surveyed microenterprises positive contributed to risk facilitated recognition and opportunity utilisation. Moreover, presence of opportunity is relevant for development of the microenterprises. Unfortunately, the research found that there was severe absence of opportunity for the microenterprises to grow and even, the limited opportunities present couldn't be exploited by the microenterprises due to credit and other trade vulnerabilities.

6.2.2 Analysis of Characteristic Factors that Constrains the Capacity of Microfinance for Microenterprise Development

- a) Findings from the ANOVA analysis using the quantitative data showed that associations between age and loan size are negative. This means that the loans size the surveyed microenterprise could access has no relationship with age considerations. Also, it was shown in the same ANOVA analysis results that associations between age of the selected micro-entrepreneurs and credit utilisation are negative. In which case, age of a micro-entrepreneur does not dictate how the credit received from the MFI is used. The study findings are that age did not affect the decisions of the MFI in terms of the size of credit they provide to the selected microenterprises and likewise, age does not affect how the finance from the MFI is used by the microenterprise. Thus, age does not constrain use of microfinance for microenterprise development.
- b) With regard to gender, ANONA analysis conducted with the quantitative data found statistical significant association between female gender and access to credit and negative association between male gender and access to credit. This explains that the MFI loan decisions are influenced by gender of the microenterprise owner. This study finding therefore, is that opposed to the female gender, male gender constituted a barrier for use of microfinance to develop microenterprises own by male micro-entrepreneurs. However, it was found by the study that there was no positive correlation between gender and

credit utilisation. As a result, the use of credit and investment decisions of the selected microenterprises was not directly dependent on age of the micro-entrepreneur. Against this background, the study concluded its findings to be that age is not a characteristic constrain for the use of microfinance for microenterprise development.

- c) In the case of level of education, it was found in the quantitative analysis that relationships between a microenterprise owner`s level of education impacted positive on access to credit. This explains that the MFI takes the level of education of the micro-entrepreneur into consideration when make loan decisions. Furthermore, relationships found between level of education and credit utilisation are positive. This means that the level of a micro-entrepreneurs education will influence how they invest the credit the received from the MFI. Based on these outcomes, the research study findings show that relative to the level of education, in some cases level of education may facilitates use of microfinance for microenterprises development but in other cases it constrains use of microfinance for microenterprise development.
- d) Regression analysis of the quantitative data found that impact of location on access to credit and credit utilisation all produce positive results for existing relationships between them. This shows that the location of the microenterprises influenced the loan decisions of the MFI. More so, the location of the surveyed microenterprises dictated the type of investments they entered into with finance received from the MFI. Again based on these outcomes, the study findings are that relative to the microenterprise location, in some cases, location may facilitates use of microfinance for microenterprises development but in other cases, it constrains use of microfinance for microenterprise development.

6.2.3 Analysis of existing Models used by Microfinance Institutions in Ghana to Deliver Finance to Microenterprises

- a) Findings of the study (quantitative analysis) suggest that often group guarantee and individual lending methodologies are major lending mechanisms used by the MFI to provide finance to the microenterprises. In

particular, the group guarantee approach, which is the traditional lending model used by most microfinance practitioners is widespread in Ghana. This study concluded that based on the findings, group guarantee and individual lending models work for delivery of the MFI finance to microenterprises.

- b) Interestingly, analysis of the quantitative data found that most microenterprises prefer individual lending. It appears that whilst the group solidarity support the MFI to reduce lending risk, in the view of the less risky microenterprises it constrains their control over the composition of credit and terms of borrowings. Going forward, it was found that majority of the microenterprises will opt for a more independent approach of lending credit. In view of these outcomes, the study findings are that in comparison with group guarantee the microenterprises prefer individual lending methodology due to its flexibly terms and conditions of borrowing.
- c) Results of the quantitative analysis show that often, terms and conditions of the finance provides exclusive prerogative to the MFI to decide on a lending mechanism that will be used in the credit agreement. Moreover, where such an exclusive prerogative do not exist in the terms and conditions of the credit, owners of the microenterprises rely majorly on advice from the MFI loan officers, friends and family members to select a lending model. These findings are conclusive about the limited participation of the microenterprises in deciding what lending mechanism should apply to the finance obtained from the MFI.

6.2.4 Design of Conceptual Model for delivery of Microfinance for Microenterprise Development in Ghana

- a) In respect of alternative collateral to group solidarity, from the results of the quantitative and qualitative analysis this study found that traditional and religious leaders in rural communities where the MFI operated provided sponsorship that constituted social collateral for microenterprises to borrow. Especially, the outcomes from the study showed that micro-entrepreneurs that are recommended to the MFI to receive credit performed well and also enjoyed repeat loans due to the strong repayment profiles they are able to

build. Often, due to the trust relationship they want to improve upon with the traditional or religious leader that sponsored their loans the microenterprises are careful not to default in repayments. On this basis, the study findings are that traditional and religious leader sponsorship for microfinance loans constituted alternative social collateral to group guarantee and is efficient for microenterprise development.

- b) The quantitative and qualitative results show that the microenterprises that received individual finance from the MFI at predetermined optimal levels and consistent intervals performed well and also improved the quality of life of the microenterprise owner. In particular, the continued provision of pre-loan inductions training, business mentoring networking and savings in addition to the credit impacted positively on the selected microenterprises growth process. Against this background, the research study found that predetermined optimal levels of finance provided to the microenterprises based on differentiated lending mechanism are efficient for microenterprise development.
- c) Furthermore, both the quantitative and qualitative results showed that where social networks were developed and used by the microenterprises it enabled the microenterprises to bypass barriers that would have otherwise impeded their access to new markets, business information, training, improved credit terms and trade deals. Thus, this study finding is that social networks are effective to unlock business opportunities for microenterprises to grow.

6.2.5 Future, Growth and obstacles to Microfinance and Microenterprise Performance in Ghana

- a) The findings (quantitative results) of the study showed that the microenterprises surveyed are optimistic about their future performance outlook. In particular, they envisage increased internally generated funds and more reliance on internal source of credit for operation of the microenterprises. However, most of the microenterprises surveyed plan to continue to use microfinance products. In view of this, the current study has found that microfinance use for microenterprises development will persist.

- b) Furthermore, the quantitative results suggest that the selected microenterprises aim to increase the size of loans they request from the MFI in future loan applications. Taken this outcome into consideration the study found that it appears microfinance will support microenterprises to improve their conditions to make them attractive for credit providers to lend more money too.
- c) Finally, from the quantitative results it was found that though the microenterprises surveyed consider information asymmetry problems as presently challenging their access to finance, lack of collateral is mainly perceived as a factor to constrain access to banking services in the future. Thus, it is the finding of this research study that lack of collateral for the development of these microenterprises will persist.

6.3 Contribution of Study

Firstly, this research study has made a significant contribution to existing microfinance literature and knowledge through the development of a conceptual model (**Figure: 5.7**) that will enhance the use of microfinance for microenterprises growth. In particular, the model has the potential to help microenterprises use social networks to unlock business opportunities for their own growth. Also, it determines the MFI optimal lending levels and services that are suitable for microenterprise development.

Secondly, this research contribution in the area of microfinance is particularly important for designing tools that target specific development projects. For instance, contrary to existing microfinance studies that have analysed impact of microfinance on (microenterprises development, poverty and female empowerment) at the same time, this study has examined only the impact of microfinance on microenterprise development. This makes it easier to identify and isolate microfinance impact on small business and to improve their process of growth.

Thirdly, this study has found that there is a positive relationship between provision of microfinance and microenterprise development. This confirms the usefulness for the use of microfinance for microenterprise development as postulated by other earlier microfinance studies that were conducted in similar context.

Fourthly, often researches focused on microenterprise development in both rich and poor countries attribute microenterprise failure to absence of credit. However, the current study in Ghana have identified that lack of pre-loan inductions and training on nurturing of business ideas also contributes to microenterprise failure. Perhaps, these new outcomes are very important additions to the existing body of literature on factors impeding microenterprise development.

Fifthly, this study has made a significant methodological contribution by employing the use of mixed methods in conducting this impact study. This approach enhanced a triangulation of microfinance impact using both quantitative and qualitative tools in the data collection process. Moreover, this approach provided the opportunity to use quantitative analysis in determining the relationships between microfinance and microenterprises development, and qualitative analysis to explain the nature of the identified relationships. This is rare with most studies that have examined the impact of microfinance in Ghana and elsewhere often, they employ a single method approach-quantitative or qualitative method.

Finally, most rigorous researches on microfinance that we know of today are about the Bangladesh experience. Perhaps, it is due to the popularity of the development practice in this country. However, presence of microfinance practice has been reported in other developing countries too, and their impact should be analysed to widen our knowledge of microfinance. In this context, the current study have made a significant contribution to the microfinance knowledge, by examining how the Bangladesh experience is being replicated in other developing country.

6.4 Policy Implication

The research findings have shown that provision of microfinance improves microenterprise development. For the economic development implications that arise from the findings of this study therefore, it is important to strengthen MFI's to provide credits that will perform well for microenterprises development, and by extension impact positively on the general economy (Liedholm and Mead, 2013). However, such support instruments should be targeted at transforming relationships between MFI's and microenterprises into reciprocal contracts; where MFI's sell financial services and clients buy and pay for them (Robinson, 2001). In this context,

sustainability of MFI's liquidity position and availability of continuous support for microenterprises will depend on MFI's view on the provision of financial products; finance as charity or as a business (Armendáriz and Szafarz, 2011).

Findings of this study demonstrated that weak capital and administrative requirements and; the ease of starting a business in Ghana constrain its economic performance. The implications are that a business enabling environment for microenterprise growth is absent in Ghana; and this constrains microenterprise ability to participate in competitive and profitable trades that require relatively high capital to start (Beck, et al., 2008). Also, lowering burdensome business entry requirement that creates an enabling business environment is positive to facilitate microenterprise diversification opportunities in Ghana. Furthermore, Shane (2003) and; Eckhardt and Shane (2003) prediction of the positive relationships between business environments and microenterprise performance has been confirmed by the study in Ghana. The research investigation found that opportunities that were presented by the business environment were generally exploited to improve entrepreneurial activities depending on the risk attitude of the microenterprise (De Carolis and Saporito, 2006).

Finally, the positive relationships also found between training and microenterprises has policy implications for MFI's, donor agencies and governments interested in using microenterprise development as a long term strategy for economic growth. They have to understand and appreciate the positive impact of training on microenterprise performance to enable them create appropriate growth incentives for microbusiness. This is because other randomised experiments such as; (Mano, et al., 2012) have equally demonstrated that business training improves microbusiness practice in Ghana. Therefore, there is sufficient basis to state that these results are verifiable and reliable. Often, however the underperformance of these microbusinesses is associated with absence of credit and other business growth incentives that have no relationship to training and nurturing of business ideas (Fafchamps, et al., 2011). This should therefore, give concern to government and MFI's about the absence of pre-loan inductions and nurturing of business ideas for microenterprises found in this research study.

6.5 Implications for Further Research

The quantitative data used for this research was collected from only Accra; it is a business city with a high visibility of microenterprises. Activities of microfinance in Accra are wide and constitute a major source of credit for microenterprises in Ghana. However, observation and experience with other research suggest impact of microfinance on pro-poor programs may differ depending on the project location or activities the recipient is engaged in (McIntosh, 2008). Therefore, it will be important to conduct similar studies in the other nine regional capitals in Ghana to determine impact of microfinance activities in these different contexts too. Moreover, going forward, industry specific researches are important for the continued enhancing of microfinance use for microenterprise growth in Ghana. In this regard, it appears research collaborations between industry and academic institutions that combine resources from academia and practice will support a larger and more in-depth research. Furthermore, future investigations should replicate the current study in the form of a cross country analysis of microfinance impact on microenterprise development. This is because comparative studies have the potential to provide wide and in-depth results that can be generalised to other developing and developed country context.

Considering the fact that combined evaluation of microfinance impact effect is recurring in most studies, future researches should consider measuring for, for instance, the poverty and empowerment effects independently. This will enable them suggest more targeted policy tools for economic development (Karlan and Goldberg, 2007). Again, future researches should consider deriving effective models that will enable MFI provide loans at enhanced interest rates to microenterprises.

Also, the current research findings support that microfinance is experiencing a positive repayment trend in Ghana. However, it is possible these microenterprises borrow from multiple MFI's, using loans from one bank to repay loans that are due for payment with another bank. Therefore, a more in-depth research on microfinance repayments in Ghana is required to analyse credit transfer situations.

Although interpretations and outcomes of these results support that generally, microfinance profligate arises from external pressures on micro-entrepreneurs, it is important for future researches to further analyse the current Ghana outcomes. This

is because a recent study (Fafchamps, et al., 2014) carried out in some urban parts of Ghana randomly gave cash and in-kind grants to female and male run microenterprises, with a view to test the effect of these two streams of capital on the profitability of the microbusinesses. They found that in-kind grants' coming directly into the business sticks there, but cash does not due to its liquid nature. It is possible that microenterprises owners that use cash loans for non-productive activities do so due to a lack of self-control rather than external pressures. Thus, it will be interesting for future researches to examine contribution of lack of self-control in microfinance profligates.

6.6 Research Limitations

Firstly, budget, time and data constraints affected the number of microenterprise that could be contacted, the ability to adequately combine quantitative and qualitative data collection and analysis. Particularly, budget constraints affected the ability of the investigator to collect a large scale information from a suitable comparison group to compare outcomes. Taking a clue from other rigorous triangulations of microfinance impact (Karlan and Zinman, 2009 and; Cull, et al., 2010), adopting a comparison approach would have further strengthened the results of this research.

Secondly, quantitative data collected from the three business areas in Accra are uneven. This is because in areas where lower numbers of surveys are recorded challenges of lack of cooperation from MFI and microenterprises occurred.

Thirdly, it was found that microenterprises borrowed from more than one MFI and in other cases they benefited from other non-microfinance products. In some cases it is difficult to separate the impact of microfinance from the contribution of other benefits especially, where there is a potential for presence of unaccounted for variables in the observed impact.

Fourthly, it is possible that due to the presence of loan officers from the MFI and an outsider (the researcher) it was difficult for the microenterprises to provide adequate information. Moreover, information that reflects actual experience of the microenterprises may not have been disclosed due to issues of trust. The perception that any negative information provided about the MFI will impact negatively on their

ability to obtain future loans may have also influenced how the respondents answered the research questions.

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LIST OF APPENDICES

Appendix A: Output of SPSS Analysis

Table A.1: Descriptive Analysis of capital Stock

[[capital stock]] _(: T1) [[capital stock]] _(: T2)	Frequency	Percent	Valid Percent	Cumulative Percent
	Before After	Before After	Before After	Before After
Less than 99 GhC	24 13	19.9 9.7	17.9 9.7	17.9 9.7
100-999 Gh.C	60 38	44.8 28.4	44.8 28.4	62.7 38.1
1,000-4,999 Gh.C	35 61	26.1 45.5	26.1 45.5	88.8 83.6
5,000-9,999 Gh.C	12 15	9.0 11.2	9.0 11.2	97.8 94.8
10,000 Gh.C and above	3 7	2.2 5.2	2.2 5.2	100.0 100.0
Total	134 134	100.0 100.0	100.0 100.0	

Source: Field data analysis, 2014.

Tables A.2: If yes, why did you give up on saving

[[Savings attitude]] _(: T1),	Frequency	Percent	Valid Percent	Cumulative Percent
Valid I am not able to save because I have to pay my loan with most of the income	59	43.7	44.0	44.0
I am not able to save because I have to pay for domestic expenditures with most of the income	35	25.9	26.1	70.1
I am not able to save because I don't make enough profit from the business	34	25.2	25.4	95.5
Others	6	4.4	4.5	100.0
Total	134	100.00	100.0	

Source: Field data analysis, 2014.

Table A.3: Correlations of savings

		Have anyone from the bank ever offered you advice about how to save since you joined the scheme?	How has your response to question (44) influenced your attitude towards savings
Have anyone from the bank ever offered you advice about how to save since you joined the scheme?	Pearson Correlation Sig. (2-tailed) N	1 134	.224** .009 134
How has your response to question (44) influenced your attitude towards savings	Pearson Correlation Sig. (2-tailed) N	.224** .009 134	1 134

Source: Field data analysis, 2014. **. Correlation is significant at the 0.01 level (2-tailed).

Table A.4: Statistics

	What was your gross monthly revenue before collecting the loan	What is your gross monthly revenue now
N Valid	134	134
Missing	0	0
Mean	1.8582	2.3433

Source: Field data analysis, 2014.

Table A.5: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.442	.312		7.831	.000
	Did the microenterprise ever receive any form of training support from the microfinance provider	-.078	.233	-.029	-.334	.739

Source: Field data analysis, 2014.

What is your gross monthly revenue now

Table A.6: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.439	.253		9.645	.000
	Did the microenterprise ever receive any form of training support from the microfinance provider	.238	.189	.109	1.254	.212

Source: Field data analysis, 2014.

Dependent Variable: What is your capital stock now

Table A.7: Introduction to business trade associations

	Frequency	Percent	Valid Percent	Cumulative Percent
The microfinance company	75	56.0	56.0	56.0
Friends/family	37	27.6	27.6	83.6
Joined on own accord	19	14.2	14.2	97.8
Others	3	2.2	2.2	100.0
Total	134	100.0	100.0	

Source: Field data analysis, 2014.

Table A.8: Has the membership to this trade association helped the
microenterprise in any way

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	130	97.0	97.0	97.0
	No	4	3.0	3.0	100.0
Total		134	100.0	100.0	

Source: Field data analysis, 2014.

Table A.9: If yes, in what way (kind of impact made on microbusiness by trade association)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Gained access to markets you couldn't have on your own	48	35.8	35.8	35.8
	Helped the microenterprise access loans with better conditions	49	36.6	36.6	72.4
	The trade association mediates for the microenterprise in terms of arbitrations	11	8.2	8.2	80.6
	Provide business information that is very helpful to the Microenterprise	15	11.2	11.2	91.8
	Others	4	3.0	3.0	94.8
	Microenterprise access to loans and business information	2	1.5	1.5	96.3
	Access to markets, mediates and business information	1	.7	.7	97.0
	Gained access to markets/ increase access loans with better conditions	1	.7	.7	97.8
	Gained access to markets/ increase access loans with better conditions & provision business information	3	2.2	2.2	100.0
	Total	134	100.0	100.0	

Source: Field data analysis, 2014.

Table A.10: Are all these models used by the bank in providing finance

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	134	100.0	100.0	100.0

Source: Field data analysis, 2014.

Table A.11: How did you receive your loan from the bank (was it through any of the following models)

	Frequency	Valid Percent	Percent	Cumulative Percent
Group Guarantees	99	73.9	73.9	73.9
Individual Banking	26	19.4	19.4	93.3
Others	9	6.7	6.7	100.0
Total	134	100.0	100.0	

Source: Field data analysis, 2014.

Table A.12: Did you choose the group guarantee model all by yourself

	Frequency	Valid Percent	Percent	Cumulative Percent
Yes, I chose it by myself because that will work for the business	16	11.9	11.9	11.9
Yes, I chose it because someone in the bank asked me to	5	3.7	3.7	15.7
Yes, I chose it with help from a family member/friend/others	8	6.0	6.0	21.6
No, the bank said it is the only way they can provide a loan to the business	105	78.4	78.4	100.0
Total	134	100.0	100.0	

Source: Field data analysis, 2014.

Table A.13: What is the interest members or groups pay on loan, is it kept standard or it differs depending on how you received the loan

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes, it depends on how you received the loan	107	79.9	79.9	79.9
No, it doesn't matter how you received it, it is a standard rate	27	20.1	20.1	100.0
Total	134	100.0	100.0	

Source: Field data analysis, 2014.

Table A.14: If yes, which one of these models attracts the most interest

	Frequency	Percent	Valid Percent	Cumulative Percent
Group Guarantees	80	74.8	74.8	74.8
Individual Banking	27	25.2	25.2	100.0
Total	107	100.0	100.0	

Source: Field data analysis, 2014.

Table A.15: Is the approach working for the business

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	86	64.2	64.2	64.2
No	48	35.8	35.8	100.0
Total	134	100.0	100.0	

Source: Field data analysis, 2014.

Table A.16: If you were to borrow again what will you prefer

	Frequency	Percent	Valid Percent	Cumulative Percent
Borrow through Group Guarantees	37	27.6	27.6	27.6
Borrow through Individual Banking	70	52.2	52.2	79.9
Borrow through other models	27	20.1	20.1	100.0
Total	134	100.0	100.0	

Source: Field data analysis, 2014.

Table A.17: What is the most pressing problem the business is currently facing

	Frequency	Percent	Valid Percent	Cumulative Percent
Access to finance/financial services	46	34.3	34.3	34.3
Relevant employees/employee skills	2	1.5	1.5	35.8
Cost of production	38	28.4	28.4	64.2
Competition	21	15.7	15.7	79.9
Regulations	2	1.5	1.5	81.3
Business networking	7	5.2	5.2	86.6
Microfinance models	7	5.2	5.2	91.8
Others	11	8.2	8.2	100.0
Total	134	100.0	100.0	

Source: Field data analysis, 2014.

Table A.18: If you need extra financing to realise your growth ambitions, what type of financing would you prefer most

	Frequency	Percent	Valid Percent	Cumulative Percent
Microfinance loans	92	68.7	68.7	68.7
Commercial bank loans	28	20.9	20.9	89.6
Trade credit	6	4.5	4.5	94.0
Shareholders	6	4.5	4.5	98.5
Family/friends	2	1.5	1.5	100.0
Total	134	100.0	100.0	

Source: Field data analysis, 2014.

Table A.19: In your opinion, will any of the following financing available to the business improve, deteriorate or remain unchanged over the next one to two years (State of future internal funds)

	Frequency	Percent	Valid Percent	Cumulative Percent
will deteriorate	2	1.5	1.5	1.5
will remain unchanged	20	14.9	14.9	16.4
Will improve	112	83.6	83.6	100.0
Total	134	100.0	100.0	

Source: Field data analysis, 2014.

Table A.20: In your opinion, will any of the following financing available to the business improve, deteriorate or remain unchanged over the next one to two years (State of future microfinance loans)

	Frequency	Percent	Valid Percent	Cumulative Percent
will deteriorate	10	7.5	7.5	7.5
will remain unchanged	39	29.1	29.1	36.6
Will improve	85	63.4	63.4	100.0
Total	134	100.0	100.0	

Source: Field data analysis, 2014.

Table A.21: In your opinion, will any of the following financing available to the business improve, deteriorate or remain unchanged over the next one to two years (State of future commercial bank loans)

	Frequency	Percent	Valid Percent	Cumulative Percent
will deteriorate	13	9.7	9.7	9.7
will remain unchanged	65	48.5	48.5	58.2
Will improve	56	41.8	41.8	100.0
Total	134	100.0	100.0	

Source: Field data analysis, 2014.

Table A.22: In your opinion, will any of the following financing available to the business improve, deteriorate or remain unchanged over the next one to two years (State of future trade credits)

	Frequency	Percent	Valid Percent	Cumulative Percent
will deteriorate	18	13.4	13.4	13.4
will remain unchanged	77	57.5	57.5	70.9
Will improve	39	29.1	29.1	100.0
Total	134	100.0	100.0	

Source: Field data analysis, 2014.

Table A.23: In your opinion, will any of the following financing available to the business improve, deteriorate or remain unchanged over the next one to two years (Future state of shareholder funds)

	Frequency	Percent	Valid Percent	Cumulative Percent
will deteriorate	9	6.7	6.7	6.7
will remain unchanged	77	57.5	57.5	64.2
Will improve	48	35.8	35.8	100.0
Total	134	100.0	100.0	

Source: Field data analysis, 2014.

Table A.24: In your opinion, will any of the following financing available to the business improve, deteriorate or remain unchanged over the next one to two years (Future state of family/friends funds)

	Frequency	Percent	Valid Percent	Cumulative Percent
will deteriorate	22	16.4	16.4	16.4
will remain unchanged	65	48.5	48.5	64.9
Will improve	47	35.1	35.1	100.0
Total	134	100.0	100.0	

Source: Field data analysis, 2014.

Table A.25: How much financing would you aim to obtain

	Frequency	Percent	Valid Percent	Cumulative Percent
Less than 100 Gh. Cedis	17	12.7	12.7	12.7
100-999 Gh. Cedis	10	7.5	7.5	20.1
1,000-4,999 Gh. Cedis	55	41.0	41.0	61.2
5000-9,999 Gh. Cedis	37	27.6	27.6	88.8
10,000 and above	15	11.2	11.2	100.0
Total	134	100.0	100.0	

Source: Field data analysis, 2014.

Table A.26: In your opinion, what is likely to be the most important limiting factor to get this financing

	Frequency	Percent	Valid Percent	Cumulative Percent
Insufficient collateral	73	54.5	54.5	54.5
Interest rates	43	32.1	32.1	86.6
Reduced control over the business	4	3.0	3.0	89.6
Financing not available at all	4	3.0	3.0	92.5
Other factors	10	7.5	7.5	100.0
Total	134	100.0	100.0	

Source: Field data analysis, 2014.

Table A.27: Considering the turnover over the next one to two years, by how much do you expect the business grow

	Frequency	Percent	Valid Percent	Cumulative Percent
Growth substantially-over 30% turnover per year	81	60.4	60.4	60.4
Grow moderately-below 30% turnover per year	43	32.1	32.1	92.5
Stay the same	9	6.7	6.7	99.3
Become small	1	.7	.7	100.0
Total	134	100.0	100.0	

Source: Field data analysis, 2014.

Appendix B: Questionnaire and Interview Guides

The Impact of Microfinance on Microenterprise Development in Ghana

B 1: Research Questionnaire-Microenterprise borrowers of MFI

My name is **Samuel Salia**. I am a doctoral student from Birmingham City University (UK) working on an independent research towards the award of Ph.D.

Purpose and Nature of this Study

The purpose is to study the impact of microfinance on microenterprise development in Ghana. The results can help improve financing of microenterprises in Ghana. I will approach 60 microenterprises in Ghana, and all responses will be anonymous. The survey is completely confidential and I will not mention you or your business by name.

Your participation in this research is voluntary and at any time you may choose not to answer a question or terminate the interview. Please feel free to answer any question in as much detail as you think appropriate. The survey will take approximately 60 minutes.

Do you have any questions in relation to this interview, please?

☐ Yes, I certify that the respondent agreed to participate

☐ No, the respondent chose not to participate

☐ Female Male ☐ Respondent No. (Interviewer to code)

Business Location:

Signature of Interviewer:

Date:

PART A: Profile of Microentrepreneur

1. What educational qualifications do you have?
 - (a) No educational qualifications (01)
 - (b) Junior High School Certificate (02)
 - (c) Senior High School Certificate (03)
 - (d) Business Certificate/Diploma (04)
 - (e) Professional Certificate (05)
 - (f) High National Diploma (06)
 - (g) University Degree (07)
 - (h) Other qualifications please state..... (08)
2. Have you received any practical training in any subject, including business, from the microfinance company?
 - (a) Yes (01)
 - (b) No (02)
3. If yes, please tick as appropriate
 - (a) Record Keeping (01)
 - (b) Budgeting and assessment of income and expenditure (02)
 - (c) Debt management and savings (03)
 - (d) Understanding of bank statements and charges (04)
 - (e) Business plan preparation (05)
 - (f) Entrepreneurial Skills (06)
 - (g) Other, please specify..... (07)
4. Can you tell me your age?
 - (a) Below 20 years (01)
 - (b) Between 20-30 years (02)
 - (c) Between 31-40 years (03)
 - (d) Between 41-50 years (04)
 - (e) Between 51-60 years (05)
 - (f) Above 61 years (06)
5. Can you tell me who else lives with you in your house?
 - (a) Live alone (01)
 - (b) Partner (02)
 - (c) Other adult 1 (03)
 - (d) Other adult 2 (04)
 - (e) Other adult 3 (05)
 - (f) Other adult above 3 (06)
 - (g) Child 1 (07)
 - (h) Child 2 (08)
 - (i) Child 3 (09)

- (j) Child above 3 (10)
6. Are you the main bread winner in the family?
- (a) Yes (01)
- (b) No (02)
- (c) No, but I contribute regularly to the family up-keep (03)
7. If yes, do you sometimes spend a substantial part of the money from the business on domestic expenditures when you could have reinvested it?
- (a) Yes (01)
- (b) No (02)
8. If yes, do you think your business would be doing better without these expenses?
- (a) Yes, my business would have expanded significantly (01)
- (b) Yes, my business would have made moderate progress (02)
- (c) No, I don't think it makes any difference (03)
9. Which of these options best describe your current position?
- (a) Single (01)
- (b) Married (02)
- (c) Divorced/Separated (03)
- (d) Widowed (04)
10. What educational qualifications does your partner have? (if married)
- (a) No educational qualifications (01)
- (b) Junior High School Certificate (02)
- (c) Senior High School Certificate (03)
- (d) Business Certificate/Diploma (04)
- (e) Professional Certificate (05)
- (f) High National Diploma (06)
- (g) University Degree (07)
- (h) Other qualifications please state..... (08)
11. What is your partner's occupation? (if married)
- (a) Self-employed, please state..... (01)
- (b) Peasant farmer (02)
- (c) Civil servant (03)
- (d) Private sector employee (04)
- (e) Retired (05)
12. Do you receive any business advice from your partner?
- (a) Yes (01)
- (b) No (02)

13. If yes, does it help?
- (a) Yes, his/her advice is very important for the business (01)
 - (b) Yes, but I still need some advice from other experts/ friends (02)
 - (c) No, it doesn't help (03)
14. What was your occupation before you started this business?
- (a) Self-employed, please state..... (01)
 - (b) Peasant farmer (02)
 - (c) Civil servant (03)
 - (d) Private sector employee (04)
 - (e) Retired (05)
15. Apart from this business, do you have any other sources of income?
- (a) None (01)
 - (b) Salary (02)
 - (c) Other, please specify..... (03)

PART B: Profile of Microenterprise

16. Please state the ownership status of the microenterprise
- (a) Owned personally (01)
 - (b) Jointly owned (02)
 - (c) Owned by someone else (03)
17. What were the main reason/events that prompted the start of the microenterprise?
- (a) Had access to loan facility (01)
 - (b) To earn an income (02)
 - (c) Other, please specify..... (03)
18. How long have you been operating?
- (a) Three years (01)
 - (b) Four years (02)
 - (c) Five years (03)
 - (d) Six years (04)
 - (e) Other, please specify..... (05)
19. Nature of Business
- (a) Retail or produce food stuff (01)
 - (b) Retail or produce cooked food (02)
 - (c) Manufacturing (03)
 - (d) Retail or produce body ware and cosmetics (04)
 - (e) Retail provisions (05)
 - (f) Other, please specify..... (06)
20. Is your business/company registered at the Registrar General?
- (a) Yes (01)
 - (b) No (02)
21. Did the microenterprise have permanent employees at the start of operations?
- (a) Yes (01)
 - (b) No (02)
22. If yes, how many?
- (a) 1-3 (01)
 - (b) 4-6
 - (c) 7-10 (02)
 - (d) More than 10 (03)
23. How many employees are there at present?
- (a) 1-3 (01)

- (b) 4-6
- (c) 7-10 (02)
- (d) More than 10 (03)

24. If there were no permanent employees, who assisted the microenterprise?

- (a) Casual employees (01)
- (b) No employees (02)
- (c) Family workers (03)
- (d) Other, please specify..... (04)

PART C: Credit and Savings

25. Are you a member of any microfinance institution?
- (a) Yes (01)
 - (b) No (02)
26. How long since you joined the microfinance scheme?
- (a) 3-5 years (01)
 - (b) 6-8 years (02)
 - (c) More than 8years (03)
27. What was the loan amount you received from the microfinance company?
- (a) Less than 100 Gh. Cedis (01)
 - (b) 100-999 Gh. Cedis (02)
 - (c) 1,000-4,999 Gh. Cedis (03)
 - (d) 5000-9,999 Gh. Cedis (04)
 - (e) 10,000 and above (05)
28. What did you use the loan for?
- (a) Invested in the business (01)
 - (b) Used for domestic consumption (02)
 - (c) For both the business and domestic consumption (03)
 - (d) Others please specify..... (04)
29. What was your capital before collecting the microfinance loan?
- (a) Less than 100 Gh Cedis (01)
 - (b) 100-999 Gh. Cedis (02)
 - (c) 1,000-4,999 Gh. Cedis (03)
 - (d) 5,000-9,999 Gh. Cedis (04)
 - (e) 10,000 and above (04)
30. What is your capital now?
- (a) Less than 100 Gh Cedis (01)
 - (b) 100-999 Gh. Cedis (01)
 - (f) 1,000-4,999 Gh. Cedis (02)
 - (g) 5,000-9,999 Gh. Cedis (03)
 - (h) 10,000 Gh. Cedis and above (04)
31. What was your gross monthly sale before collecting the loan?
- (a) 100-599 Gh. Cedis (01)
 - (b) 600-,999 Gh. Cedis (02)
 - (c) 1,000-1,499 Gh. Cedis (03)
 - (d) 15,000 Gh. Cedis and above (04)

32. What is your gross monthly sale now?
- (a) 100-599 Gh. Cedis (01)
 - (b) 600-999 Gh. Cedis (02)
 - (c) 1,000-1,499 Gh. Cedis (03)
 - (d) 15,000 Gh. Cedis and above (04)
33. What was the interest rate on the loan from the microfinance company?
- (a) Less than 10% (01)
 - (b) 10-20% APR (02)
 - (c) 21-30% APR (03)
 - (d) 31-40% APR (04)
 - (e) 41% APR and above (05)
34. How do you consider the interest rates charged on the loans as compared to other forms of credit?
- (a) Good (01)
 - (b) Not good (02)
 - (c) No difference (03)
35. What are some of the conditions for the loan? (Tick as much as possible that applies)
- (a) Opening of a savings accounts (01)
 - (b) Weekly repayment (02)
 - (c) Group guarantee (03)
 - (d) Acquire micro-insurance (04)
36. How do you consider the conditions compared to other loan conditions?
- (a) Not favourable (01)
 - (b) Favourable (02)
 - (c) Very favourable (03)
37. At the time of taking the loan did the bank provide you with any contract to sign/thumb print?
- (a) Yes (01)
 - (b) No (02)
38. If yes, did you understand the content of the contract?
- (a) Yes (01)
 - (b) No (02)
39. Do you know the penalty the bank will apply on you if you fail to pay the loan back?
- (a) Yes
 - (b) No

40. If yes, will the penalty normally be based on the contract you signed?
 (a) Yes (01)
 (b) No (02)
41. If no, how will the bank normal issue penalties?
 (a) The bank will take over my business (01)
 (b) The bank will take the savings in my account (02)
 (c) The bank will hand me over to the police (03)
 (d) The bank`s agent will detain me (04)
 (e) Other, please specify..... (05)
42. Can you tell me how you save your money
 (a) By lending money to family and friends as a way of saving (01)
 (b) By asking a family member or friend to look after your money (02)
 (c) By Saving the money at home on your own (03)
 (d) By depositing at a credit union (04)
 (e) By depositing in a savings account at a bank (05)
 (f) By reinvesting it back into the business (06)
 (g) Other, please state..... (07)
43. Do you have any savings accounts with the microfinance company?
 (a) Yes (01)
 (b) No (02)
44. Have anyone from the bank ever offered you advice about how to save since you joined the scheme?
 (a) Yes (01)
 (b) No (02)
45. How has your response to question (44) influenced your attitude towards savings?
 (a) for the better (01)
 (b) for the worse (02)
 (c) Not all (03)
46. Do you receive any interest on your savings?
 (a) Yes (01)
 (b) No (02)
47. If yes, is it helpful?
 (a) Yes (01)
 (b) No (02)
48. If you are not saving now, have you ever saved in the past?

- (a) Yes (01)
 (b) No (02)
49. If yes, why did you give up on saving?
 (a) I am not able to save because I have to pay my loan with most of the income (01)
 (b) I am not able to save because I have to pay for domestic expenditures with most of the income (02)
 (c) I am not able to save because I don't make enough profit from the business to enable me save (03)
 (d) Other, please specify..... (04)
 (04)
50. Have you ever tried to get a loan from a commercial bank and been refused?
 (a) Yes (01)
 (b) No (02)
51. If yes, how long was this?
 (a) Less than three years ago (01)
 (b) 3-5 years ago (02)
 (c) 6-8 years ago (03)
 (d) Above 8 years ago (04)
52. Why was this?
 (a) Due to a lack of collateral (01)
 (b) Due to lack of guarantors (02)
 (c) I didn't have a written business proposal (03)
 (d) The business sector I chose was not an area the bank was willing to loan out money to (04)
 (e) Amount requested was too small (05)
 (f) Amount requested was too large (06)
 (g) Other, please specify..... (07)
53. Do you think if you were to go for a loan from a commercial bank today you will be refused?
 (a) Yes, I don't meet the loan requirement(s) of commercial banks (01)
 (b) No, I now meet the loan requirement(s) of commercial banks (02)
54. Do you think this business have somehow improved upon your chances of getting a loan from commercial banks now?
 (a) Yes (01)
 (b) No (02)

55. Has the presence of microfinance companies made it easy now to get loans for business?

(a) Yes (01)

(b) No (02)

56. Please give your opinion on the following general aspects of your experience with the microfinance bank.

(a) The overall relationship

very good	fairly good	fairly satisfactory	fairly poor	very poor	N/A
5	4	3	2	1	0

(b) The quality of service provided

very good	fairly good	fairly satisfactory	fairly poor	very poor	N/A
5	4	3	2	1	0

(c) The fairness of bank charges

very good	fairly good	fairly satisfactory	fairly poor	very poor	N/A
5	4	3	2	1	0

PART D: Education and Training

57. Did any of your employees participate in training activities required to improve their job skills in the last three years or more?
- (a) Yes, regularly (01)
 - (b) Yes, one-off (02)
 - (c) No, did not do (03)
58. In your opinion, did your employees get the required skills development from the training?
- (a) Yes, all of them acquired skills relevant for the job (01)
 - (b) Yes, most of them acquired skills relevant for the job (02)
 - (c) Yes, but a few of them acquired skills relevant for the job (03)
 - (d) None of them acquired skills relevant for the job (04)
59. Did the microenterprise ever receive any form of training support from the microfinance provider?
- (a) Yes (01)
 - (b) No (02)
60. If yes, please tick as appropriate
- (a) Record Keeping (01)
 - (b) Budgeting and assessment of income and expenditure (02)
 - (c) Debt management and savings (03)
 - (d) Understanding of bank statements and charges (04)
 - (e) Business plan preparation (05)
 - (f) Entrepreneurial Skills (06)
 - (g) Other, please specify..... (07)
61. Was it helpful to the microenterprise?
- (a) Yes (01)
 - (b) No (02)
62. Do you think additional training is needed in your business to improve services or operations?
- (a) High need (01)
 - (b) Some need (02)
 - (c) No need (03)
 - (d) Not answered (04)
63. In addition to any training that was mentioned above, did your business carry out, in the past three years or more, any other informal activity which increased the competencies or knowledge of the employees?
- (a) Yes, regularly (01)

- (b) Yes, one-off (02)
- (c) Did not do (03)
- (d) Not answered (04)

64. In your opinion, did your employees get the required competencies and knowledge from the informal activity?

- (a) Yes, all of them acquired the necessary competencies and knowledge (01)
- (b) Yes, most of them acquired the necessary competencies and knowledge (02)
- (c) Yes, but a few of them acquired the necessary competencies and knowledge (03)
- (d) None of them acquired the necessary competencies and knowledge (04)

PART E: Social Capital

65. Is the microenterprise a member of any trade association?
(a) Yes (01)
(b) No (02)
66. If yes, who introduced the business to this trade association?
(a) The microfinance company (01)
(b) Friends/family (02)
(c) Joined on own accord (03)
(d) Other, please specify..... (04)
67. What is the membership strength of the trade association?
(a) 1-10 members (01)
(b) 11-20 members (02)
(c) 21-30 members (03)
(d) 31-40 members (04)
(e) 41 members and above (05)
68. Do you have regular meetings with other businesses in your trade association?
(a) Yes, regularly (01)
(b) Yes, but occasionally (02)
(c) No (03)
69. If yes, what type of things do you discuss with other entrepreneurs in these meetings?
(a) Children school (01)
(b) Business rates (02)
(c) Insurance (03)
(d) General advice on running a business (04)
(e) Identifying a good accountant/solicitor (05)
(f) Trading standards/legal matters (06)
(g) Health and safety matters (07)
(h) General conversation about the trade association (08)
(i) General conversation about friends (09)
(j) family and socialising (10)
(k) Polite conversation only (11)
(l) Other, please state..... (12)
70. Has the membership to this trade association helped the microenterprise in any way?
(a) Yes (01)
(b) No (02)

71. If yes, in what way? (tick as much as possible that applies)
- (a) Gained access to markets you couldn't have on your own (01)
 - (b) Helped the microenterprise access loans with better conditions (02)
 - (c) The trade association mediates for the microenterprise in terms of arbitrations (03)
 - (d) Provide business information that is very helpful to the microenterprise (04)
 - (e) Other, please specify..... (05)
72. Does the microfinance company organise any trade fairs/seminars or get-togethers that the microenterprise have ever been invited to?
- (a) Yes, regularly (01)
 - (b) Yes, but occasionally (02)
 - (c) No (03)
73. If yes, was it helpful to the business
- (a) Yes (01)
 - (b) No (02)

PART F: Microfinance Models

74. Does the bank provide loans to clients using any of these models (tick as much as possible that applies)
- a. Self-Help-Groups (01)
 - b. Group Guarantees (02)
 - c. Individual Banking (03)
 - d. Others (please specify)..... (04)
75. How did you receive your loan from the bank? Was it through any of the following models? (tick as much as possible that applies)
- a. Self-Help-Groups (01)
 - b. Group Guarantees (02)
 - c. Individual Banking (03)
 - d. Others (please specify)..... (04)
76. Did you choose the model all by yourself?
- a. Yes, I chose it by myself because that will work for the business (01)
 - b. Yes, I chose it because someone in the bank asked me to (02)
 - c. Yes, I chose it with help from a family member/friend/others (03)
 - d. No, the bank said it is the only way they can provide a loan to the business (04)
77. What is the interest members or groups pay on loan? Is it kept standard or it differs depending on how you received the loan?
- a. Yes, it depends on how you received the loan (01)
 - b. No, it doesn't matter how you received it, it is a standard rate (02)
78. If yes, which one of these models attracts the most interest?
- a. Self-Help-Groups (01)
 - b. Group Guarantees (02)
 - c. Individual Banking (03)
 - d. Others (please specify)..... (04)
79. Is the approach working for the business?
- a. Yes (01)
 - b. No (02)
80. If you were to borrow again what will you prefer?
- a. Borrow through Self-Help-Groups (01)
 - b. Borrow through Group Guarantees (02)
 - c. Borrow through Individual Banking (03)
 - d. Borrow through others (please specify)..... (04)

PART G: Future, Growth and obstacles to Growth

81. What is the most pressing problem the business is currently facing?
- (a) Access to finance/financial services (01)
 - (b) Relevant employees/employee skills (02)
 - (c) Cost of production (03)
 - (d) Competition (04)
 - (e) Regulations (05)
 - (f) Business networking (06)
 - (g) Microfinance models (07)
 - (h) Other, please specify..... (08)
82. Over the past three years or more, on the average, by how much did the business grow per year? (in terms of employees and turnover)
- (a) Over 30% per year (01)
 - (b) Less than 30% per year (02)
 - (c) No growth (03)
 - (d) Got smaller (04)
83. Considering the turnover over the next one to two years, by how much do you expect the business grow?
- (a) Growth substantially-over 30% turnover per year (01)
 - (b) Grow moderately-below 30% turnover per year (02)
 - (c) Stay the same (03)
 - (d) Become small (04)
84. If you need extra financing to realise your growth ambitions, what type of financing would you prefer most
- (a) Microfinance loans (01)
 - (b) Commercial bank loans (02)
 - (c) Trade credit (03)
 - (d) Shareholders (04)
 - (e) Family/friends (05)
 - (f) Other, please specify..... (06)
85. How much financing would you aim to obtain?
- (a) Less than 100 Gh. Cedis (01)
 - (b) 100-999 Gh. Cedis (02)
 - (c) 1,000-4,999 Gh. Cedis (03)
 - (d) 5000-9,999 Gh. Cedis (04)
 - (e) 10,000 and above (05)
86. In your opinion, what is likely to be the most important limiting factor to get this financing?

- (a) Insufficient collateral (01)
- (b) Interest rates (02)
- (c) Reduced control over the business (03)
- (d) Financing not available at all (04)
- (e) Other, please specify..... (05)

87. In your opinion, will any of the following financing available to the business improve, deteriorate or remain unchanged over the next one to two years?

(a) Internal funds

Will improve	will remain unchanged	will deteriorate
3	2	1

(b) Microfinance bank loans

Will improve	will remain unchanged	will deteriorate
3	2	1

(c) Commercial bank loans

Will improve	will remain unchanged	will deteriorate
3	2	1

(d) Trade credit

Will improve	will remain unchanged	will deteriorate
3	2	1

(e) Shareholders

Will improve	will remain unchanged	will deteriorate
3	2	1

(f) Family/friends

Will improve	will remain unchanged	will deteriorate
3	2	1

Thank you very much for your time and effort! This will benefit microenterprises in the future.

The Impact of Microfinance on Microenterprise Development in Ghana

B 3: Face to Face Interview Guide: Microenterprise borrowers of MFI

My name is **Samuel Salia**. I am a doctoral student from Birmingham City University (UK) working on an independent research towards the award of Ph.D.

Purpose and Nature of this Study

The purpose is to study the impact of microfinance on microenterprise development in Ghana. The results can help improve financing of microenterprises in Ghana. I will approach 10 microenterprises in Ghana, and all responses will be anonymous. The survey is completely confidential and I will not mention you or your business by name.

Your participation in this research is voluntary and at any time you may choose not to answer a question or terminate the interview. Please feel free to answer any question in as much detail as you think appropriate. The interview will take approximately 60 minutes.

Do you have any questions in relation to this interview, please?

☐ Yes, I certify that the respondent agreed to participate

☐ No, the respondent chose not to participate

☐ Female Male ☐ Respondent No. (Interviewer to code)

Business Location:

Signature of Interviewer:

Date:

1. When did you receive your first credit?
2. What administrative procedures or profile checks were completed by the credit provider for you to receive the finance?
3. How much credit did you receive the first time?
4. How much of this credit was spend directly on the business?
5. Did you spend any of the credit on other activities other than the business? If yes how did that benefit you and your family?
6. What kind of products do you trade in?
7. How is the business performing (please, focus on both financial and non-financial performance)
8. Are you receiving any other support from the credit provider? (Please, focus on training, coaching and nurturing of business ideas, business networks etc.)
9. How long did it take for you to receive your second credit, how much and did you have to go through any administrative procedures again to receive the credit?
10. How much of the second credit you received was directly invested into the business?
11. Have you been able to engage with other business that promotes activities that are helpful to the growth of your business?
12. What are some of the benefits you get from your business (Please, I am referring to financial and non-financial benefits)?
13. Please, if I may ask what assets do you have and what is the approximated value of these assets?
14. What major challenges are you and your business facing now?

Thank you very much for your time and effort! This will benefit microenterprises in the future.

The Impact of Microfinance on Microenterprise Development in Ghana

B 2: Face to Face Interview Guide-Microfinance Institution Loans officers

My name is **Samuel Salia**. I am a doctoral student from Birmingham City University (UK) working on an independent research towards the award of Ph.D.

Purpose and Nature of this Study

The purpose is to study the impact of microfinance on microenterprise development in Ghana. The results can help improve MFI's financing of microenterprises in Ghana. I will approach 9 Loans Officers in this MFI, and all responses will be anonymous. The interview is completely confidential and I will not mention you or this MFI by name.

Your participation in this research is voluntary and at any time you may choose not to answer a question or terminate the interview. Please feel free to answer any question in as much detail as you think appropriate. The interview will take approximately 60 minutes.

Do you have any questions in relation to this interview, please?

☐ Yes, I certify that the respondent agreed to participate

☐ No, the respondent chose not to participate

☐ Female Male ☐ Respondent No. (Interviewer to code)

Bank Location:

Signature of Interviewer:

Date:

1. How many years have you being working for Opportunity International Savings and Loans Limited-Ghana? (other profile of Loans Officer: age/marital status/level of education)
2. Please, walk me through your loan underwriting process (Please, focus on savings leverage factor, type/ amount of guarantee, repayment capacity, credit history, character of the individual, maximum and minimum amount loan to one person or group)
3. What do you consider most important when deciding on a microenterprise loan application?
4. How is a loan`s repayment period determined? (focus on whether loans repayment methods coincides with the cash flow of the financial activity or not)
5. How do you calculate your interest rate? (focus on whether interest is charged against outstanding balance or is a flat rate)
6. Please walk me through your loan monitoring and collection process (please, focus on dates of contract; written notice when sent to court; covenants or the ability to demand payment of the loan when the conditions for payment have deteriorated or the precept of the original loan had been falsified; how many days past before a loan is delinquent; is the entire loan balance included in the delinquency calculation of just the amount of payment that is late. Use of other mechanisms for loan collection including; savings, seized collateral, attorney collection, arbitration and court action. Peer assessment of the level of client over-indebtedness from group members and negotiation of reasonable repayment plans before seizing assets)
7. What do you think about loans for consumption purposes?

8. Do clients receive any training from the MFI? (focus on potential for assessing their debt capacity, conception and nurturing of business ideas. Determination of training needs, business training relevant to microenterprise trade and provision of debt counselling)
9. How the MFI communication address client literacy does constrains? (focus on reading contracts out loud, printings of material in local language, opportunities clients have to ask questions and receive information before signing contracts. Regular provision of transaction receipts to clients and clear accurate account statements)
10. Do you support microenterprise borrowers to connect with social networks? (focus, more on MFI efforts to establish and improve social network benefits for microenterprises)

Thank you very much for your time and effort! This will benefit microenterprises and MFI's in the future.

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B 5: Interview Record Sheet (Microenterprises)

Date and Time	Respondent's No.	Marital Status/Highest Level of Education	Microenterprise Location	Duration of Interview	Mode of Recording R- Audio/Visual M-Manually	Backup on Computer Y-Yes N-No

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B 5: Interview Record Sheet (Loan Officers)

Date and Time	Respondent's No.	Marital Status/Highest Level of Education	Designation/Bank Location	Duration of Interview	Mode of Recording R- Audio/Visual M-Manually	Backup on Computer Y-Yes N-No