Microfinance Impacts and SME'S: Evidence from Ayawaso West Municipality, Ghana

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Abstract : **SMEs' contribute to the Gross Domestic Product of Ghana through employment creation and paying of revenue .SMEs' contributions in terms of employing people in their businesses make them more productive, leading to poverty reduction. Despite SMEs' contributions to the economy's development, obtaining funding or credit from formal financial institutions such as banks to enable their operations is a big challenging for SMEs**

Microfinance institutions fill the financial gap to offer services such as credit and business training to maximize the impact of SMEs. The purpose of the research study was to assess the impact of Microfinance services on the performance of SMEs in Ayawaso West, Ghana, in terms of profitability, employment, and sales growth. A descriptive survey that employed a quantitative analysis was used for the study. A linear regressions was employed to analyse the data. The finding of the study showed microfinance services (loans and training) had a positive impact on the performance of SMEs. The study recommends that Microfinance institutions should design specific products and services such as loans and business training to make a positive impact on the performance of SMEs.

Keywords: **Microfinance; Small and Medium-sized Enterprises; microfinance loans; business training**

I. INTRODUCTION

Microfinance has gained international attention in recent years due to its importance in reducing poverty among the poor. Global microfinance is said to have begun in the nineteenth century (Kumra & Sharma, 2018). Mohammed Yunus is regarded as the forerunner of modern microfinance. In 1976, Mohammed Yunus introduced a microcredit scheme in Bangladesh which supported the poor (Kumra & Sharma, 2018).

There is evidence that microfinance contributes positively to the livelihoods of owners of SMEs by reducing poverty For instance, Schrawwat and Giri (2016) posited that microfinance contributes to poverty reduction among individual business owners in South Asia . Microfinance has been credited with job creation across the globe. Microfinance institutions' products and services support small enterprises to create more jobs for the unemployed (Noguei et al., 2020).

Microfinance services has a favourable impact on the performance of SMEs in the Ghanaian economy. Microfinance services, including lending and savings opportunities, have played important roles in the growth of businesses in Ghana (Anaman and Pobbi(2019). In Ghana, microfinance has a good influence on SMEs and the Ghanaian economy, consequently reducing poverty (Anaman and Pobbi (2019). Microfinance activities provide job opportunities and income for the poor, thereby reducing poverty and raising their standard of living (Gupta and Gupta, 2019). Microfinance, as an alternative financing strategy for the financially disadvantaged, gives credit and managerial skills to SMEs, allowing them to engage in economic activities and produce revenue to support their families and contribute to national development.

Small scale businesses are the lifeblood of the economy of both the developed and developing nations, and have a favourable impact on a country's GDP (Erdogan, 2019, Bashir and Ondigo, 2018). SMEs do not contribute to only economic growth; they also contribute to economic development. Undoubtedly, SMEs are key contributors to a country's economic growth and development (2020). A substantial portion of GDP is attributed to SMEs. It has been estimated that SMEs contribute almost 70% of Ghana's overall GDP (Ntiamoah et al., 2016).

SMEs create employment opportunities for the masses and provide avenues for raising national revenue. SMEs contribute to the nation by providing job opportunities and paying taxes (Augustine & Asiedu, 2017). Thus, SMEs' contributions in terms of employing people in their businesses make them more productive, leading to poverty reduction. This is consistent with the statement in the Bible that states that "all hard effort produces profit, but mere chatter causes poverty" (Proverbs 14:23 NIV). God expects all humans to work to receive positive returns to take care of themselves and the community or nation. Taxation is also a source of cash to the government of Ghana, to fundnational projects such as schools, hospitals, roads and many more, for the welfare of the citizens. Business enterprises such as SMEs pay taxes to support national development. This view is consistent with principle of paying of tax written in the bible, "This is why you pay taxes for the authorities are God's servants, who givetheir full time to governing. Give to everyone what you owe them: if you owe taxes, pay taxes, if revenue, then revenue, if respect, then respect, if honour, then honour" (Romans 1:6-7 NIV).

Despite SMEs' contributions to the economy's development, obtaining funding or credit from formal financial institutions to enable their operations is a big challenging because of lack of proper financial statement and collateral, and the high risk involved with their operations (Okere, Kingsley & Lawrence, 2018). For that matter, microfinance is the panacea to the financial exclusion of SMEs. Microfinance fills the gap by assisting SMEs in obtaining credit and other services they need to run their businesses (Sultan & Masih, 2016).Small businesses in the Ayawaso West Municipality lack the necessary funding to operate and rely on microfinance institutions for growth and survival. However, the impact of the microfinance services (loans and business training) on the performance of SMEs have not been studied. As a result, it is necessary to assess the impact of microfinance services on SMEs' performance in Ayawaso West Municipality.

This study will be important to a variety of stakeholders in various ways. First, the study will help economic policymakers, such as the government and the Bank of Ghana to make regulations and policies that will provide a positive business atmosphere to maximize the performance and sustainability of SMEs. Second, the study will be beneficial to SMEs' management and employees. Thus, the study will provide practical knowledge on optimal business practices for financing and training, as well as their effects on business growth, profitability and survival. Third, the study will provide management of microfinance institutions with information that will aid them in designing tailor-made and creative products and services that will appeal to and be marketable to small businesses. Fourth, the study's findings will contribute to the literature on the influence of microfinance services, such as credit and training on the performance of SMEs, which will help academics and researchers.

Purpose of the Study

The purpose of the study is to assess the effects of microfinance on the performance of small and medium-sized businesses in Ayawaso West Municipality.

Objectives of the Research

The specific objectives of the research are as follows;

1. To evaluate the impact of microfinance loans on the performance of SMEs in Ayawaso West Municipal.
2. To determine the impact of business training on the performance of SMEs in the Ayawaso West Municipality.

Research Questions

The following research questions will be answered in the study

1. Is there a relationship between microfinance loans and the performance of SMEs in the Ayawaso West Municipal?
2. Is there a relationship between business training and the performance of SMEs in the Ayawaso West Municipal?

Hypotheses

The following are the null hypotheses for the study:

1. There is no relationship between microfinance loans and SMEs' performance in Ayawaso West Municipality
2. There is no relationship between business training and SMEs' performance in Ayawaso West Municipality

II. LITERATURE REVIEW

The study seeks to review the literature on studies that have been conducted by researchers on microfinance and Small and Medium-sized Enterprises

The Concept of Microfinance in Ghana

Microfinance was sensed in Ghana in the middle of the 20th Century. The Catholics were regarded as the pioneers of microfinance in contemporary Ghana (Mohammed, 2015). Microfinance services were initially rendered by credit unions in Ghana. The purpose of the credit union was to encourage savings among members who were farmers, traders, processors and non-agricultural entrepreneurs to carry out their businesses efficiently (Mohammed, 2015).

Rahman et al. (2015), define microfinance as the provision of funds, insurance, business training and advisory services to the poor who are not able to access funds from the mainstream financial institutions .The microfinance industry performs numerous functions in an economy. Microfinance institutions in Ghana are made up of variousenterprises that create jobs, eliminate poverty, finance businesses, encourage savings and investment for economic growth (Ussif & Ertugrul, 2020).

Ghana's microfinance sector is four-layered. Ghana's microfinance industry is made up of four types/groups of institutions: formal providers, semi-formal suppliers, informal suppliers, and public sector programmes (GSS, 2015). Microfinance has a favourable impact on SMEs, according to literature. For example, according to Awuah and Addaney (2016), microfinance services have a favourable impact on SMEs' income.

Ghana's Small and Medium–sized Enterprises

The definitions of SMEs are highly judgemental, subjective and fluid in nature. Different definitions have been given to SMEs by researchers and institutions (Abor, 2017). For instance, according to Agyapong, (2010), small businesses are enterprises that can employ a total of twenty-nine employees– small business comprises both the micro and small and medium enterprises. Micro businesses could employ a maximum of five (5) workers and must have fixed assets with (the exception of land and building) of value not greater than $10,000. Micro businesses employ six (6) to twenty–nine (29) workers or must have fixed assets with (the exception of land and building) of value not greater than $100,000 Medium-sized enterprises employ between 30 and 99 workers with a total assets (non- current) of value equal to $1m . The Regional Project on Enterprise Development Ghana (RPEDG) indicates that micro businesses employ less than five employees whiles small enterprises are those that employ between the range of 5 and 9 employees; medium enterprises also hire between 30 and 99 employees while large businesses have the strength to employ more than 100 employees (Abor, 2017).

Because of their vital contribution to economic growth and development in job creation, tax payment and improving the livelihoods of families, SMEs continue to be the driving force of nations' economies. SMEs are very instrumental in contribution to the economic growth and development of countries (Adekoa, 2020; Erdogan, 2019, Bashir & Ondigo, 2018). The contribution of Ghanaian SMEs to economic growth stands at 70% (Ntiamoah et al., 2016). SMEs contribute economic growth through job and revenue creation. SMEs also contribute to the nation's development by providing job opportunities and paying taxes (Augustine & Asiedu, 2017).

The impacts of Microfinance Loans on the Performance of SMEs

Because most of SMEs owners are not financially sound enough to spend personal savings on their enterprises, credit is a source of cash that they contract to invest in their businesses for growth and sustainability. SMEs secure microfinance loans are used for economic activities, as well as personal consumption (Sue-Lynn (2017). Operators of SMEs usually obtain funds for the purchase of assets and working capital. Microfinance loans, for example, are employed by SMEs to purchase production resources for the creation of commodities (Berkouwer and Dean, 2020). As a result, some SMEs use a portion of the loans from microfinance organisations to buy machinery or intangible assets for commercial purposes.

However, some SMEs owners do not put the microfinance loans they obtain into productive use, preferring to spend them for personal consumption. It has been established that some SME owners use microfinance loans for personal and family expenses (Breza and Kinnan, 2020). The loans obtained by some SMEs owners from microfinance organisations are used for non-productive purposes such as marriage, health concerns, school expenses, and other personal matters. This can derail the poverty alleviation intention of the concept of microfinance.

Review of Some Empirical Studies on SMEs

In a study conducted by Kibichii and Wafula (2020) on the effect of microfinance services on SMEs in Nairobi County, the findings demonstrated a positive association between loans and SMEs' success in sales, profitability, and employment creation. Furthermore, Cai et al.,(2020) opined that microfinance loans boosted SMEs' income levels while it also lowered poverty margins. Similarly, Monge (2016) revealed that microfinance loans improved SMEs' performance by increasing market share, sales, net profit, financial credibility and reduced liabilities. As a result, the loans that SMEs obtain from microfinance institutions serve as capital for them to engage in economic activities to turn the credit around for greater returns, growth, and sustainability (Augustine & Asiedu, 2017). However, cost of capital is suppressing the socio-economic prowess of the Ghanaian SMEs. For instance, according to Moscalu et al. (2019), high-interest rate, bank charges, fees associated with SME loans affect the performance and growth of their businesses negatively.

Review of Empirical Studies on the impact of Business Training and Performance of SMEs

Business training helps managers and employees of SMEs to acquire knowledge, skills, and behaviours that make them more efficient and effective at work. To be productive, managers of SMEs and employees require specialised training in critical areas of their operations (Al-Mamun et al., 2014). Workers become inefficient and unproductive due to a lack of training. In the Volta Region of Ghana, Atiase (2018) investigated the effects of microfinance services on SMEs performance .The finding of the study concluded that entrepreneurial training had a favourable association with SMEs' sales, profitability and job creation. Similarly, Gyasi et al., (2020), opined that there is a link between entrepreneurial training and SMEs' performance.

Therefore, entrepreneurial training and performance of SMEs are strongly positively related. Entrepreneurial training for small businesses has a favourable impact on their performance and long-term viability (Rambe & Makhalemele, 2015). SMEs that obtain capacity-building training like customer service, marketing strategy, financial management and excellent record-keeping are more likely to succeed in their enterprises (Elhadidi (2018). The provision of entrepreneurial training by microfinance institutions is positively related to economic growth and development. Furthermore, according to a study conducted by Dutta and Banerjee (2018), training and consulting services provided by microfinance institutions to enterprises lead to company growth, employment, and leading to poverty reduction. In spite of the numerous praises hurled at entrepreneurial training for its positive impact on the performance of SMEs, some studies are skeptical about its efficacy However, according to research by Kisaka and Mwewu (2014), Microfinance training services have no impact on small businesses in Kenya.

III. METHODOLOGY

The research used a questionnaire to collect data to investigate the relationship between microfinance services and the performance of SMEs. The study population comprised of all the SMEs and Microfinance Institutions in Ayawaso West Municipality. The researcher used a random sampling method to sample 200 respondents who were customers of selected Microfinance Institutions, such as Best Point Microfinance, and Springboard Microfinance for the study. Primary datain the form a well-structured questionnaire was employed to elicit positive and accurate answers from the respondents. The questionnaire instrument used a five-point Likert scale format (strongly agree, agree, neutral, disagree and strongly disagree and strongly disagree). According to each responded item of the questionnaire, the researcher categorised and entered the received responses in Microsoft Excel. To analyse the data, the coded replies were imported into SPSS 21. The data was analysed using standard deviation, mean. ANOVA and linear regression. The linear regression model is as follows:

$Y = \beta 0 + \beta 1X1 + \beta 2\ X2 + \varepsilon t$

Where:

Y= The dependent variable (Performance of SME)

X_1= Loans

X_2= Training

$\beta 0$ = intercept

$\beta\ 1$ = coefficient of Loans

$\beta\ 2$ = coefficient of Training

e= error term

IV. PRESENTATION OF ANALYSIS AND DISCUSSION

The results from the study were analysed in this section and discussed.

Characteristics of Respondents

The characteristics of the respondents have been presented below for analysis.

Table 1 : Ages of Respondents

Table 1 : Respondents Age Distribution				
Age	Frequency	Percentage	Valid Percentage	Cumulative Percentage
20 - 29 years	25	14.3	14.3	14.3
30 - 39 years	68	38.9	38.9	53.1
40 - 49 years	45	25.7	25.7	78.9
50 - 59 years	20	11.4	11.4	90.3
60 - 69 years	17	9.7	9.7	100.0
Total	175	100.0	100.0	

Source: Fieldwork, 2021

The results from table1 showed that sixty eight (68) respondents, representing 38.9% were between the ages of 30-39 years, whiles forty- five (45) respondents representing 25.7% were between 40-49 years. Again, twenty-five (25) respondents representing (14.3%) were also between 20-29 years, and twenty (20) respondents fell between 50-59 years. Furthermore, seventeen(17) respondents representing 9.7% were between 60-69 years. The results of the age distribution of the respondents indicated that majority of the youth (20-39 years), representing 53.2% were into SMEs since most of them did not get employment in the formal economy sector after school.

Table 2: Gender of Respondents

Gender	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Male	81	46.3	46.3	46.3
Female	94	53.7	53.7	100.0
Total	175	100.0	100.0	

Source: Fieldwork, 2021

The results from table 2 indicate that ninety-four respondents representing 53.7 % were females whiles eighty- one (81) respondents representing 46.3% were males. This is an indication that majority of the people in the informal sector are females and they contribute to the economy.

Table 3: Level of Education of Respondents

Level of Education	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Junior/Middle	41	23.4	23.4	23.4
Secondary	71	40.6	40.6	64.0
College	25	14.3	14.3	78.3
University	38	21.7	21.7	100.0
Total	175	100.0	100.0	

Source: Fieldwork, 2021

The researcher collected information on the educational background of the respondents, and the results are shown on table3. The results indicated that majority of the respondents, representing 40.6%, had secondary education. This was followed by 23.4% of the respondents who had Junior High /Middle school education. Thirty eight respondents, representing 21.7%, had university education and 14.3% of the respondents had college education.

Table 4 :Types of Business Activities of Respondents

Types of Business	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Manufacturing	32	18.3	18.3	18.3
Services	63	36.0	36.0	54.3
Trading	80	45.7	45.7	100.0
Total	175	100.0	100.0	

Source: Fieldwork, 2021

The results from table 4 represented the types of businesses the respondents were doing. Eighty (80) respondents, representing 45.7%, were into trading, whiles 36.0% of the respondents were into services and 18.3% of the respondents were also into the manufacturing business.

Table 5: Does MFI Services (loan and training) Affect Business Performance?

Response		Frequency	Percentage	Valid Percentage	Cumulative Percentage
	Yes	153	87.4	87.4	87.4
	No	22	12.6	12.6	100.0
	Total	175	100.0	100.0	

Source: Fieldwork, 2021

The results from table 5 represented whether microfinance services, such as loans and training, affected small - scale businesses. Majority of the respondents, representing 87.4 %, responded "Yes", which meant the services of Microfinance Institutions (loans and training) affected their businesses. However, 12.6% of the respondents responded that the services of Microfinance Institutions (loans and training) did not affect their businesses.

Table 6: Effects of Loans on Performance of SMEs

	N	Mean	Std. Deviation	Variance
The Amount of loan received has helped me to improve my sales	175	3.68	1.313	1.725
The Amount of loan received increased the employment growth of my business	175	3.98	1.241	1.540
The loan received helps to increase my profit	175	4.01	1.229	1.511
Valid N (listwise)	175			

The results from table 6 indicated that a total number respondents representing a mean of 4.01 agreed that the amount of loan received had helped their businesses to increase profit , whiles a group of respondents representing a mean of 3.98 also agreed that the amount of loan they received increased employment. Again, a number of respondents representing a mean of 3.68 agreed that the amount of loan received from microfinance institutions helped increased sales of their products.

Table 7: Effects of Training on Performance of SMEs

	N	Mean	Std. Deviation	Variance
Training on marketing strategies increased sales of my product	175	3.75	1.288	1.658
Training has helped my business to expand and employ more workers	175	3.67	1.439	2.071
Training on financial management has improved the profitability of my business	175	4.11	1.093	1.194
Valid N (listwise)	175			

Source: Fieldwork, 2021

The results from the table7 showed the effects of training on the performance of SMEs. The majority of the respondents, with a mean of 4.11, indicated that business training on financial management increased the profit of the businesses and this was followed by training on marketing strategies, which increased sales with a mean of 3.75. Furthermore, the respondents revealed through their responses (mean=3.67) that training offered by the microfinance institutions on best business practices had a positive impact on the employment growth of the business.

Table8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.857[a]	.734	.731	.31501	.734	236.955	2	172	.000

a. Predictors: (Constant), Training, Loans

The results from table 8 showed that the R-square value of 0.734 and the adjusted R-square value of 0.731,were all closer to 1. It therefore explained that the model was good for the study. The R-Square value of 0.734 implied that about 73.4% changes in the performance of SMEs were explained by 73.4% changes in the independent variables (loans and training).

Table 9: Analysis of Variance

ANOVA[a]

Model		Sum of Squares	Do	Mean Square	F	Sig.
	Regression	47.027	2	23.514	236.955	.000[b]
	Residual	17.068	172	.099		
	Total	64.095	174			

a. Dependent Variable: Impact of Performance of SME

b. Predictors: (Constant), Training, Loans

Table 10 : Coefficients of Determination

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	2.858	.147		19.382	.000	2.567	3.149
	Loans	.016	.034	.018	.454	.650	-.052	.083
	Training	.417	.019	.854	21.596	.000	.379	.455

a. Dependent Variable: Performance of SME

The regression model is represented as:

$$Y = 2.858 + .016\,X_1 + 0.417X_2 + 0.147$$

Where:

Y= The dependent variable (Performance of SME)

X_1= Loans

X_2= Training

e= Error term

Analysing from the regression model $Y = 2.858 + .016\,X_1 + 0.417X_2 + 0.147$,

The intercept (2.858) means thatif all other independent variables are held constant, SMEs performance (Y) can be increased by 2.858.

The regression model indicates that microfinance services have a positive effect on the performance of SMEs. Thus, the performance of SMEs will increase by a factor of 0.16 in microfinance loans, and also by a factor of 0.417 in business training.

IV. DISCUSSIONS OF RESULTS

The results of the study are discussed below

1. The effects of Microfinance loans on SMEs Performance

The coefficient of the microfinance loans of 0.016 from the regression model means that microfinance loans have a positive influence on the performance of SMEs. This means a unit increase in the loans is predicted to be accompanied by 0.016 units increase in the performance of SMEs. This could be explained that the amount of loan SMEs secure from a microfinance institution does increases profit, sales and employment. The finding of the study is supported by the finding of a study done by Kibichii and Wafula (2020) in Nairobi County which posited that there is a favourable association between loans and the impact of SMEs in terms of sales, growth, and employment. Similarly, the finding of the study was in agreement with Monge (2016) which revealed that microfinance loans improved SMEs' performance by increasing market share, sales, net profit, financial credibility and reduced liabilities.

Thus, since the finding from the study indicates that loans contribute positively to the performance of SMEs, the study rejects the null hypothesis which states that there is no relationship between microfinance loans and the performance of SMEs, and accepts the alternative hypothesis.

2. The effects of business training on the performance of SMEs

Again, the coefficient of the training of 0.417 means that business training and the performance of SMEs are directly related. This means a unit increase in the business training offered by microfinance institutions is predicted to be accompanied by 0.417 units increase in the performance of SMEs. The finding of this research is supported by Atiase (2018) which posited that entrepreneurial training had a positive association with SMEs' sales, profitability, and job creation. Similarly, the finding was consistent with Gyasiet al. (2020) who opined that business training has a positive effect on SMEs' performance.

Thus, the study rejected the null hypothesis and accepted the alternative hypothesis that indicated a favourable association between business training and the performance of SMEs.

V. CONCLUSION

SMEs have been hailed for their important roles in the economy of developing countries such as Ghana. Despite the numerous contributions SMEs make to the economy of nations, they face many challenges in their bid to access funds for business; hence financially excluded. Irrespective of SMEs' contributions to economic growth and development, obtaining funding or credit from a formal financial institution to carry out their operations is very difficult because of their inability to provide proper financial statements , security and perceived high risk involved with their operations (Okere, Kingsley & Lawrence, 2018). It is against this backdrop that microfinance is regarded as the panacea to the financial exclusion of SMEs. Microfinance fills the gap by assisting SMEs in obtaining credit and other services needed to run their businesses without recourse to security or collateral (Sultan & Masih, 2016).

Microfinance is a recommendable alternative source of funding for SMEs since a majority of SMEs are excluded from participating in borrowing from mainstream financial institution, such as commercial banks.

The main objective of the research was to assess how microfinance services affect the performance of SMEs in Ayawaso West Municipality. Two main null hypotheses were measured in the study.The study's findings indicated that the coefficient of microfinance loans of 0.016 from the regression model meant microfinance loans had a favourable effect on the performance of SMEs.Thus, since the finding from the study indicates that loans contribute positively to the performance of SMEs, the study rejects the null hypothesis which indicated that microfinance loans and the performance of SMEs have no relationship, and accepts the alternative hypothesis that indicated that microfinance loans has a positive influence on the performance of SMEs in Ayawaso West Municipality. The finding is consistent with the finding of Cai et al., (2020) that microfinance loans boosted SMEs' income levels while it also lowered poverty margins. Similarly, Monge (2016) revealed that microfinance loans improved SMEs' performance by increasing market share, sales, net profit, financial credibility and reduced liabilities.

The second hypothesis indicated that business training had no effect on the performance of SMEs in Ayawaso West Municipality**.** The findings of the study showed that the coefficient of the business training offered by the microfinance institution was 0.417, which meant business training and SMEs impact are positively related. The finding supports the findings of Asantewa (2015) and Dziwornu & Anagba (2018)that microfinance supports the clients a lot in improving their inherent qualities such as courage, self-confidence and the skills of literacy and book-keeping, which can lead to improvement in entrepreneurial performance.

Similarly, the finding was supported by Atiase (2018) which posited that entrepreneurial training had a positive association with SMEs' sales, profitability, and job creation.

VI. RECOMMENDATIONS

The researcher seeks to make few recommendations for the maintenance of practical business relationship between microfinance institutions and SMEs. The government should create an enabling environment in terms of policy formulation and implementation to enhance the operation of businesses in Ghana since both Microfinance Institutions and SMEs invariably contribute to the economy of Ghana. Again, microfinance services make a positive impact on SMEs, therefore microfinance institutions should design specific and tailor-made products and services such as loans and training programmes that will meet the demand and financial requirements of SMEs in order to enhance their performance.

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